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FINANCIAL MONITORING SERVICE OF GEORGIA
DECREE №7

Tbilisi January 24, 2012

On Approving the Regulation on Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia

Pursuant to paragraph 4 (c), Article 10 of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization" I Decree:

1. Approve the Regulation "On Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia".

2. Microfinance Organizations shall:

a) Ensure bringing into compliance internal regulations concerning financial monitoring with requirements of the Regulation "on Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia" prior to March 1, 2012;

b) Prior to December 31, 2012 ensure extension of requirements of Article 6 of the Regulation "on Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia" on those clients and their beneficial owners with whom the business relationship already exists for January 1st, 2012.

3. Microfinance Organizations which commence their operation from the effective date of this Decree shall submit within twenty days from the receipt of the License from the National Bank of Georgia the Form of Registration to the Financial Monitoring Service of Georgia in compliance with the procedure established under the Regulation on "Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia".

4. Regulation "on Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia" approved under the Decree #10 of the Head of the Financial Monitoring Service of Georgia of December 15, 2008 shall become null and void from the effective date of this Decree.

5. This Decree shall become effective upon promulgation.

M. Roinishvili

REGULATION

On Receiving, Systemizing and Processing the Information by Microfinance Organizations and Forwarding to the Financial Monitoring Service of Georgia

Article 1. General Provisions

1. The present Regulation has been developed on the basis of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", Law of Georgia "On Microfinance Organizations" and other relevant normative acts of Georgia

2. Requirements of this Regulation shall apply to Microfinance Organizations and their branches as well as branches of foreign Microfinance Organizations (representations) located in Georgia, Georgian resident and non-resident natural persons and legal entities, their representatives, representational offices and branches, agencies, institutions and organizations.

3. This Regulation shall regulate the principles and rules of carrying out financial monitoring for the purpose of facilitating the prevention of illicit income legalization and terrorism financing by the Microfinance Organizations, specifically, the terms and procedure for identifying the Microfinance Organization's clients and other relevant persons, and receiving, systemizing, processing and retaining the appropriate information, and submitting the information to the Financial Monitoring Service (hereinafter referred to as the Service), as well as the procedure for carrying out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction.

Article 2. Definition of Terms

For purposes of this Regulation, the following terms shall have the following meanings defined under the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization":

a) Illicit income – illicit or / and unjustified property possessed or owned by a person;

b) Legalization of illicit income – legalization of illicit income (acquisition, use, transfer or other action), as well as concealing or disguising its true origin, proprietor or owner, or/and property rights or attempt to commit such an action;

c) Property – property as considered under the Civil Code of Georgia: all property (movable as well as immovable) and immaterial property, which can be owned, used and disposed of by physical and legal persons;

d) Monitoring – identification by Microfinance Organization of persons defined under the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization"; recording, systemizing and processing the information on transactions (operations) subject to monitoring as well as on persons involved therein and forwarding to the Service in compliance with the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", this Regulation and other normative acts adopted on the basis of the Law;

e) Suspicious transaction – a transaction (regardless its amount and operation type) supported with reasonable grounds to suspect that it had been concluded or implemented for the purpose of legalizing illicit income or/and the property (including funds) on the basis of which the transaction had been concluded or implemented is the proceeds of criminal activity or/and the transaction had been concluded or implemented for the purpose of terrorism financing (person participating in the transaction or the transaction amount causes suspicion, or other reasons exist for considering transaction as suspicious), or any person involved in the transaction is on the list of terrorists or persons supporting terrorism, or / and is likely to be connected with them, or / and funds involved in the transaction may be related with or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism, or any involved person's legal or real address or place of residence is located in a non-cooperative zone or the transaction amount is transferred to or from such zone.

f) Unusual transaction - complex, unusually large transaction (operation) and/or unusual patterns of a transaction (operation) that does not have the visible economic (commercial) content or lacks lawful purpose, and/or is inconsistent with the ordinary business activity of a person involved therein;

g) Person – any resident or non-resident natural person and legal entity, as well as organizational formation considered under legislation, which does not represent a legal entity (non-registered union, partnership, partnership of apartment owners);

h) Client – any person, which applies to the Microfinance Organization for services defined under the Law of Georgia "on Microfinance Organizations" and / or uses such service;

i) Beneficial owner – natural person(s) representing an ultimate owner(s) or controlling person(s) of a person or / and a person on whose behalf the transaction (operation) is being conducted; beneficial owner of a business legal entity (as well as of an organizational formation (arrangement) not representing a legal entity, provided for in the Georgian legislation) shall be the direct or indirect ultimate owner, holder or / and controlling natural person(s) of 25% or more of such entity's share or voting stock, or natural person(s) otherwise exercising control over the governance of the business legal entity;

j) Control – exercising strong influence directly or indirectly, alone or in concert with others, through use of voting shares or otherwise;

k) Controlling person - Person exercising control;

l) Identification of a person – obtaining information on the person, which, when necessary, allows tracing such person and distinguishing from the other person;

m) Person involved in a transaction (operation) – all persons participating in transaction (operation), including parties of the transaction (operation), their representatives and agents, as well as third parties in whose favor transaction (operation) is concluded;

n) Non-cooperative or watch zone – a country or a part of the territory thereof defined by the National Bank of Georgia on the basis of proposition of the Service. The country or territory thereof shall be identified as such on the basis of the information provided by competent

international organization, or if the grounded supposition exists that in such zone weak mechanisms for controlling illicit income legalization are effective;

o) Suspicious zone –a country or a part of the territory thereof, identified as having weak mechanisms for controlling illicit income legalization, based on information available to the monitoring entity.

p) Competent international organizations - Council of Europe, Financial Action Task Force (FATF), and other organizations recognized as such by the International Community.

q) Shell bank – bank, physically not represented in the country where it is registered / licensed and on which control and supervision are not exercised.

r) Politically Exposed Person (PEP) - foreign citizen, who has been entrusted with prominent state (public) functions in a respective country or / and carries out significant public and political activities. The PEPs are as follows: the head of the state, the head of the government and members of the government, their deputies, senior official of government institution, a member of the parliament, a member of the supreme court, a member of the constitutional court, a senior military official, a member of the central (national) bank's council, an ambassador, a senior executive of state owned corporation, important political party (union) official and member of executive body of the political party (union), other prominent politician, his / her family members as well as persons having close business relations with him / her; a person shall be considered as a politically exposed during a year following his / her resignation from the foregoing positions.

s) Family member – a spouse of a politically exposed person (PEP), his / her parents, siblings, children (including step – children) and their spouses.

t) Person having close business relationship with the politically exposed person (PEP) – a natural person who owns or / and controls a share or voting stock of that legal entity, in which a share or voting stock is owned or / and controlled by the Politically Exposed Person (PEP); also, a person having other type of close business relationship with the Politically Exposed Person (PEP);

u) User Manual – Instruction for using of web-portal set on the official website of the FMS (www.fms.gov.ge);

w) Implementation of the transaction (operation) – Implementation of the transaction (including the registration of property) by the monitoring entity except for the monitoring entities listed in subparagraphs "f", "j" and "m" of Article 3 of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization.

Article 3. Transactions Subject to Monitoring

1. For purposes of this Regulation, subject to monitoring shall be a transaction implemented or concluded with Microfinance Organization by the person, related with activities defined for Microfinance Organizations under Article 4 of the Law of Georgia "on Microfinance Organizations", and / or series of transactions aimed at partition of the transaction (its amount), if one or both of the following provisions exist:

a) The amount of the transaction or series of transactions (operations) exceeds GEL 30,000 (or its equivalent in other currency) in case of cash as well as non - cash settlement;

b) Transaction is suspicious according to subparagraph (e), Article 2 of this Regulation;

2. Any transaction regardless its amount**,** other than transactions listed in this Article, shall be subject to monitoring, whether obtained legally or illegally, which may be related to or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism. The list of terrorists and persons supporting terrorism shall be published by the Service in the Legislative Herald of Georgia.

3. Subject to monitoring shall also be an attempt to conclude suspicious operation (transaction) or other fact (circumstance), which, according to the written instruction of the Financial Monitoring Service, may be related to legalization of illicit income or terrorism financing.

4. Microfinance Organization shall pay special attention to unusual transactions and transactions (operations) concluded / implemented through accounts in banks operating in watch or suspicious zone which do not have the visible economic (commercial) content or lack lawful purpose, ascertain the purpose and grounds of such transactions to the reasonable extent possible, and document obtained results in writing. In case of detecting the high risk of money laundering and terrorism financing, the Microfinance Organization is required to undertake enhanced procedures of identification and verification provided for by Article 6^1 of this Regulation which are commensurate with the risk identified. In such cases, the monitoring of business relationship must be enhanced in order to ascertain whether a transaction is unusual or suspicious.

5. For purposes of the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", Microfinance Organizations shall at own discretion determine principles for categorizing of transaction of business related person as unusual.

6. Pursuant to Paragraph 5, Article 5 of the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", the Service shall be entitled to define the list of specific transactions (operations) (or their features, such as scope of activities of transaction (operation), geographic area of their location (place of registration), subject of transaction (operation) and etc.), on which the Service shall be informed in accordance with the procedure defined under the present Regulation.

7. Microfinance Organization shall ensure fulfillment of requirements set under the present Regulation for operations (transactions) implemented by the other person (e.g. its agent) which is not registered in the Service in conformity with the legislation, when rendering services provided for in the Law of Georgia "on Microfinance Organizations" through the system of Microfinance Organization (including money remittance services)**.**

8. For the purpose of revealing suspicious, unusual and partitioned transactions (operations) the Microfinance Organization shall establish electronic database (system).

Article 4. Obligations of Microfinance Organizations with Respect to Implementation of Internal Control

1. Pursuant to Article 8 of the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", for the purpose of averting facts of illicit income legalization and terrorism financing the Microfinance Organization shall exercise internal control.

2. Main directions of internal control implementation shall include the following:

a) In cases defined under subparagraphs (a) – d), paragraph 1, Article 6 of this Regulation identification of clients of the Microfinance Organization, their representatives and agents, beneficial owner as well as of the third person if operation (transaction) is concluded in favor of such person (including the enhanced and simplified identification/verification procedures);

b) Exercising measures provided for in the present Regulation against Politically Exposed Persons (PEPs);

c) Analyzing the information obtained through identification and revealing operations (transactions) subject to monitoring;

d) Defining terms and procedures for exercising permanent monitoring of business relationships with the client in compliance with the procedure set under the present Regulation;

e) Recording, systemization and filing such information in a documentary form;

f) Submission of the information on transactions subject to monitoring to the Service in the reporting form;

f^1) Terms and procedure for carrying out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction;

g) Organizing trainings for employees of the Microfinance Organization on topics of preventing illicit income legalization and terrorism financing.

3. For the purpose of defining internal control rules and procedures, the Microfinance Organization shall develop internal regulation on the basis of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization and this Regulation that must be approved by the Microfinance Organization's Supervisory Council. The internal regulation shall provide the terms and procedure for the identification of the Microfinance Organization's (or its branches' and representative offices') clients, persons willing to establish the business relationship with the Microfinance Organization, their beneficial owners and other relevant persons; systemizing, analyzing and retaining the information obtained as a result of the identification process; identification of transactions (operations) subject to monitoring and submission of reporting forms to the Service; carrying out the instruction of the Service on the suspension of implementation of the transaction as prescribed under Article 11^1 of this Regulation. All employees of the Microfinance Organization shall be acquainted with the internal regulation.

4. Staff recruitment policy of the Microfinance Organization (covering investigation of employees' qualifications and reputation), as well as rules and procedures established by the internal regulation shall at maximum extent facilitate prevention of participation of Microfinance Organization's employees in the processes of illicit income legalization and terrorism financing.

Article 5. Functions and Obligations of the Employee in Charge of Monitoring

1. For the purpose of conducting monitoring process, the Microfinance Organization shall designate an employee (or special structural unit, based on size of Microfinance Organization) in charge of monitoring on the basis of appropriately legalized resolution.

2. Functions, authority and responsibility of the employee (special structural unit) in charge of monitoring shall be defined under the internal regulation of the Microfinance Organization, a well as under the relevant instruction if it is provided under the internal Charter of the Microfinance Organization.

3. Employee (special structural unit) in charge of monitoring shall follow the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", this Regulation, internal regulation of the Microfinance Organization, the Service guidelines as well as the relevant normative acts issued by the National Bank of Georgia

4. Employee (special structural unit) in charge of monitoring shall perform the following functions:

a) Organize the monitoring process and ensure performance of tasks defined under the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", this Regulation and internal regulation of the Microfinance Organization;

b) Analyze information (including identification details, information on operations (transactions)) received from various structural units of the Microfinance Organization; reveal operations (transactions) subject to monitoring; ensure completion (in case provided for in this Regulation certification with signature of hard copies of reporting forms) and submission to the Service in compliance with the procedure set under the internal Regulation of the Microfinance Organization; systemize and file information (documents) related to the monitoring process. Pursuant to the internal regulation of the Microfinance Organization, authority for making decision on considering operation (transaction) or persons involved therein as suspicious, submitting the respective reporting forms to the Service and completing (in case provided for in this Regulation the authority to sign hard copies of reporting forms) such forms may be granted to the employee in charge of monitoring (head of the special structural unit), as well as to the administrator of the Microfinance Organization who oversees monitoring related issues according to the internal regulation.

c) Consult other employees of the Microfinance Organization with respect to issues of preventing illicit income legalization and terrorism financing and organize special training programs; training process shall be regular to ensure timely acquaintance of employees with changes introduced to the Georgian legislation, internal regulation of Microfinance Organization as well as with new methods, techniques and trends of money laundering and terrorism financing;

d) Prepare and submit written report on the monitoring process to the management of the Microfinance Organization as well as elaboration and submission of proposals on internal regulation if necessary.

5. Position of the employee in charge of monitoring (head of structural unit) shall correspond to the senior hierarchy (management) level in the Microfinance Organization's organizational chart. Employee (or special structural unit) in charge of monitoring shall be granted authority to obtain any information from other employees of Microfinance Organization necessary for fulfillment of his/her functions and shall be obligated to ensure observance of confidentiality of any information related to his/her activities.

6. In performing functions related to monitoring, the employee (special structural unit) in charge of monitoring shall be subordinated and reporting only to the administrator of the Microfinance Organization, defined under the internal regulation.

Article 6. Obligations of Microfinance Organizations with respect to Identification and Registration of Identification Information (Documents)

1. Microfinance Organization shall identify the client (its representative and proxy, as well as the third person if the transaction is being concluded in favor of the third person) and take reasonable measures to verify their identity by means of reliable and independent source of information (documents) when:

a) Transaction (operation) amount exceeds GEL 3 000 (or its equivalent in other currency);

b) Domestic and cross-border operations executed through Funds (or value) transfer system or financial messaging network (transfers and money remittance) if the amount of the transaction exceeds GEL 1500 (or its equivalent in other currency);

c) Transaction represents a suspicious transaction according to Subparagraph (e) of Article 2 of this Regulation;

d) Doubts arise regarding the veracity and/or adequacy of previously obtained client identification data.

2. Microfinance Organization shall identify the beneficial owner of the client, as well as to undertake reasonable measures to verify his/her identity by means of reliable, independent source and be satisfied that it knows who the beneficial owner of the client is. Identification procedures similar to those used for natural persons shall be applied against beneficial owner.

3. In the course of the identification and/or verification of a person (its beneficial owner), the Microfinance Organization may rely on a third party/intermediary that carries out the identification and verification of a person in accordance with the FATF recommendations, keeps documents (their copies) as provided for by Article 10 of this Regulation, and is subject to the supervision and regulation as defined under the FATF recommendations. The Microfinance Organization shall be required to immediately obtain from a third party/intermediary the information related to the identification and verification of a client (its beneficial owner), as well as the purpose and intended nature of business relationship. Furthermore, the Microfinance Organization shall be required to undertake the necessary measures to ensure that it can access the identification data of a client (its beneficial owner) and other relevant documents related to the identification and verification of a client (its beneficial owner) held by a third party/intermediary immediately upon request. In such cases, the ultimate responsibility for identification and verification of a person in accordance with

the procedure provided for by this Regulation shall remain with the Microfinance Organization. The Microfinance Organization shall take into account the information available about the risk of illicit income legalization and terrorism financing in the host country of a third party/intermediary, when selecting a third party/intermediary.

4. Identification process shall be conducted in compliance with the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", this Regulation, normative acts issued by the National Bank of Georgia, the relevant internal regulation of the Microfinance Organization and guidelines and recommendations of the Financial Monitoring Service of Georgia.

5. For purposes of this Regulation, Microfinance Organization shall define themselves procedures required for identification of a person. In addition, they shall be entitled to request any other information or / and documents related with transaction (operation) and persons involved therein.

6. For the purpose of identifying the client (its representative or proxy, as well as the third person, if the transaction is being concluded in favor of the third person) and its beneficial owner in conformity with the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization" and the present Regulation, the Microfinance Organization shall be entitled to use the electronic databases of identification documents provided by State Services Development Agency – legal entity of public law at the Ministry of Justice of Georgia according to the procedure set by the Georgian legislation.

7. Identification and verification of each person as well as its beneficial owner and obtaining of other information as it is defined by this Article, shall take place before carrying out of a transaction or establishing of another type of a business relationship, as well as prior further continuation of the business relationship if legalization of illicit income or terrorism financing is suspected or if doubts exist about the veracity or adequacy of previously-obtained client identification data, except for cases provided under paragraph 3, Article 6^1 of this Regulation.
8. Microfinance Organizations shall be prohibited to establish relations with shell banks. They shall undertake prudential measures to identify:

a) Whether the person having business relationship with them (or the person they are establishing business relations with) belongs to the category of shell bank;

b) Whether the client has relations with the shell bank.

9. Microfinance Organization shall not be authorized to provide the client with services (including receipt or sending of money transfers, trade with foreign currency through bank notes, etc.) without preliminary identification of this person.

10. Microfinance Organization prior to commencement of business relations with the client shall ascertain nature and purpose of relations the client intends to establish, and perform ongoing scrutiny of relations between existing clients and the Microfinance Organization.

10^1. A Microfinance Organization shall be required to obtain the information about the nature of business activity, the ownership and control structure of a legal entity (including an organizational formation (arrangement) not registered as a legal entity) when undertaking identification and verification procedure.

10^2. A Microfinance Organization shall be required to undertake the appropriate measures for obtaining the information about the purpose and intended nature of business relationship with the client.

11. Despite the assumed suspicious nature and the amount of the operation (transaction), the Microfinance Organization shall not suspend implementation of the transaction (providing services to the person having the business relationship with the Microfinance Organization (client)), except for the following cases:

a) Person willing to establish business relationship or client can not be identified;

b) Any party of the transaction is on the list of terrorists or persons supporting terrorism;

c) Upon receipt of refusal of the management on establishing business relations with the person in the event provided for in subparagraph (a), paragraph (2), Article 7 of this Regulation;

d) Upon receipt of the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction as prescribed under Article 11^1 of this Regulation.

12. In cases indicated in subparagraphs (a) – (c), paragraph 11 of this Article, the Microfinance Organization shall be obligated not to serve the client (establish business relationship with the person) and shall immediately submit the respective reporting form, available materials and / or any other relevant information on operation (transaction) and persons participating therein to the Service.

13. The following information shall be obtained through the standard identification process:

a) in case of natural person:
- a.a) First name, last name;
- a.b) Citizenship;
- a.c) Date of birth;
- a.d) Place of residence;
- a.e) Number of ID (Passport) and citizen's personal number by ID (Passport);
- a.f) If the natural person is registered as a sole trader – the relevant registration date, number, registering authority, identification number of tax payer.

b) In case of legal entity:
- b.a) Full name;
- b.b) Business activity;
- b.c) Legal address (in case of the branch or representation the legal address of the head office also);
- b.d) Registering authority, date and number of registration;
- b.e) Identification number of tax payer;
- b.f) Identification details of persons authorized for management and representation (in conformance with subparagraph (a) of this Paragraph);

b.g) Identification details of the person representing a legal entity in a specific operation (transaction) subject to monitoring.

c) Organizational formation provided for in the legislation not representing a legal entity:
- c.a) Full name;
- c.b) Legal address;
- c.c) Legal act or other document, based on which the given organizational formation was established (is functioning);
- c.d) Identification number of tax payer;
- c.e) Identification details of persons authorized for management and representation (in conformance with Subparagraph (a) of this Paragraph);
- c.f) Identification details of the person representing organizational formation in a specific operation (transaction) subject to monitoring.

14. Documents necessary for identification process shall be:

a) if the natural person is Georgian citizen – a citizen identity card, or a citizen passport, or any other official document, which contains the relevant information and is equalized to them under the Georgian legislation; if the natural person is registered as sole trader – document confirming registration;

b) if the natural person is a foreign citizen – passport issued by the competent authority of the relevant State or other official document containing relevant data, equalized to the passport according to the Georgian legislation;

c) in case of resident legal entity (or organizational formation which does not represent a legal entity) – respective act as determined by the Georgian legislation on establishing the entity, as well as certificate of registration (excerpt from entrepreneurial or any other relevant register) and document confirming authority for representation of a legal entity;

d) in case of non-resident legal entity - foundation and registration documents issued by the competent authorities of foreign countries and document proving authority for representation of such entity shall be presented;.

15. Identification documents other than Citizen Identity Card and Passport or any other official document equalized with them under the Georgian legislation shall be used only in cases when the natural person can not have ID or Passport.

16. Microfinance Organization shall record country and authority, which issued documents presented for identification, as well as date of issuance and validity period thereof.

17. For documenting, systemizing and better examining identification details of the permanent clients of Microfinance Organization (persons that periodically apply to the Microfinance Organization for use of financial services) the Microfinance Organization shall use procedure of form (questionnaire) filling. In parallel with this process, the Microfinance Organization shall ensure setting up of the relevant electronic data base.

18. Procedure of form (questionnaire) filling shall also be allowed for identification of persons, that apply to the Microfinance Organization for implementing single financial operation (money transfers, foreign exchange trading and etc), or represent second or third persons (if operation (transaction) is implemented in favor of third person) involved in operation (transaction).

19. If documents (information) stored in or presented to the Microfinance Organization allow, in addition to the information listed in Subparagraphs (a) - (c), Paragraph 13 of this Article, the following details shall be documented:

a) In case of natural person:
a.a) Patronymic;
a.b) Place of birth;
a.c) Temporary (real) place of residence (in Georgia as well as abroad), if different from registered place of residence;
a.d) Main business activity and position held;
a.e) Bank account (accounts) details;
a.f) Tel/fax, e-mail.

b) In case of legal entity (or organizational formation not representing a legal entity):

b.a) Date of appointing persons authorized for management and representation;
b.b) Bank account (accounts) details

20. Microfinance Organization shall exercise permanent monitoring of business relationships with their clients that includes:

a) Maintaining current information and records relating to the client and its beneficial owner;

b) Updating periodically existing identification data and ensuring their conformity with current norms;

c) Scrutiny of transactions in order to establish that the conducted transaction is consistent with their knowledge of the client, client's business and personal activity or risk profile and where necessary the source of property (including funds).

21. Microfinance Organization shall be required to have the appropriate risk management system for the identification and verification of clients that may pose high risk of illicit income legalization and/or terrorism financing, and shall apply the enhanced identification and verification, and the enhanced monitoring procedure with respect to such clients as provided under Article 6^1 of this Regulation. The identification and verification procedure shall be carried out through the risk-based approach having regard to the type of the clients (the beneficial owners), their location (place of registration), geographic area or field of operation, as well as the nature and intensity of the business relationship, the type or size of transactions (operations) or products/services or other factors. A Microfinance Organization shall be required to define the appropriate criteria (risk-factors) through its internal regulations and assign the clients to the category of the high risk of illicit income legalization and/or terrorism financing.

21[1]. A Microfinance Organization shall be authorized to use the simplified identification and verification procedure as provided under Article 6[1] of this Regulation that is commensurate with the low risk of illicit income legalization and/or terrorism financing identified through the appropriate risk assessment by a Microfinance Organization. The use of the simplified procedure shall be prohibited when there is a suspicion of illicit income legalization and/or terrorism financing or in cases of the high risk of illicit income legalization and/or terrorism financing as provided under paragraph 21 of this Article. A Microfinance Organization shall be authorized to use the simplified procedure once the appropriate criteria (risk-factors) are defined through its internal regulations and the clients are assigned to the category of the low risk of illicit income legalization and/or terrorism financing.22. Microfinance Organization should pay special attention to any threats that may arise from new technologies, products and service that might favor anonymity during the service and take all measures, to prevent their use in legalization of illicit income and terrorism financing. Microfinance Organization should have in place such identification and verification policy and procedures that reduces the risks associated with non face to face service as it is considered under the Georgian legislation. Policy and procedures defined under this paragraph shall be used when establishing business relationship and when conducting permanent monitoring.

Article 6[1]. The enhanced and simplified| identification and verification procedure

1. A Microfinance Organization (authorized employee) shall be required, in addition to implementing the requirements provided under Article 6 of this Regulation, to apply the enhanced identification and verification procedure with respect to the client that may pose the high risk of illicit income legalization and terrorism financing, in particular to:

a) Verify the existing and/or obtain additional information about the client and the beneficial owner (income, assets and activity), and to ensure, where appropriate, the immediate access to such information;

b) Update the identification data of the client (the beneficial owner) more frequently and verify the authenticity of the documents submitted by the client;

c) Verify the existing and/or obtain additional information about the purpose and intended nature of the business relationship;

d) Take reasonable measures to obtain the information about the source of funds or wealth of the client (the beneficial owner);

e) Verify the existing and/or obtain additional information about the reasons and grounds for performed (intended) transactions (operations);

f) Obtain the approval of senior management to enter into and/or continue the business relationship;

g) Conduct the enhanced monitoring of the business relationship, which includes increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

2. A Microfinance Organization is authorized, in addition to implementing the requirements provided under the first paragraph of this Article, to carry out other measures and/or obtain additional information to ensure that the risk identified is effectively managed, including, by determining the expected type and size of future transactions (operations).

3**.** A Microfinance Organization is authorized, in cases provided under paragraph 21^1, Article 6 of this Regulation, to use the simplified identification and verification procedure that is commensurate with the low risk of illicit income legalization and terrorism financing, including to:

a) Verify the identity of the client and the beneficial owner after the establishment of the business relationship;

b) Reduce the frequency of updates of the identification data of the client and the beneficial owner;

c) Reduce the frequency of implementing the requirements provided under subparagraph "c", paragraph 20, Article 6 of this Regulation, based on the reasonable monetary threshold;

d) Establish the purpose and intended nature of the business relationship based on the information provided by the client about the transactions (operations) undertaken and/or the business relationship established.

4**.** A Microfinance Organization shall not be exempted from the obligation of obtaining the data provided under paragraph 13 of this Article, and verifying the identity of the client and the beneficial owner when applying the simplified identification and verification procedure in cases provided under paragraph 21^1, Article 6 of this Regulation. A Microfinance Organization shall be required, when applying the simplified identification and verification procedure, to obtain sufficient information for determining the reasonableness of assigning the client to the category of the low-risk of illicit income legalization and terrorism financing.

5. A Microfinance Organization shall define the enhanced and simplified identification and verification procedure through its internal regulations on the basis of the requirements provided under this Article.

Article 7. Obligations of Microfinance Organization with respect to Politically Exposed Persons (PEPs)

1. Microfinance organization shall identify whether a client or his / her beneficial owner belongs to the category of Politically Exposed Persons (PEPs).

2. If the client of the Microfinance Organization or / and his / her beneficial owner represents a Politically Exposed Person (PEP), in addition to the steps stipulated under the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", the Microfinance Organization (its authorized officer) shall take the following actions:

a) Obtain permission from the management of the Microfinance Organization to establish business relationship with such person;

b) Take reasonable measures to ascertain the origin of funds, property of such person;

c) Perform enhanced monitoring over its business relations with such person.

3. If the person (his / her beneficial owner) becomes Politically Exposed Person (PEP) after establishing business relations with the Microfinance Organization, the latter shall undertake measures provided for in paragraph 2 of this Article against such person upon availability of the aforementioned information.

4. Microfinance organization shall have respective procedures based on which it ensures obtaining respective information from the person having business relations with the Microfinance Organization, as well as from public sources or respective electronic databases for the purpose of ascertaining and verifying Politically Exposed Persons.

Article 8. Obligations of Microfinance Organizations with Respect to Record Identification Details in the Course of Implementing Money Remittances

1. When implementing operations considered under paragraph 1 (b), Article 6 of this Regulation, the Microfinance Organization shall record identification details of the person in a money transfer order (in the application form of instant money remittances).

2. When implementing domestic and cross-border money remittances the following information on the sender of the amount shall be recorded:

a) Name;

b) Account number (if applicable) or unique code of the person (if applicable);

c) Address (address may be replaced with: in case of natural person – with personal number according to ID / Passport or date and place of birth, identification code of tax payer).

3. Identification details noted in paragraph 2 of this Article shall be entered into the electronic document of the respective money remittance system so that after completion of transfer / money remittance operation, this information is transferred to the money receiving institution.

4. If full reflection of identification details stated in paragraph 2 of this Article in electronic form in the money remittance system is not technically feasible, the payer Microfinance Organization shall upon request provide the money receiving institution with additional identification details on the payer.

5. Reflection of information determined only under subparagraphs (a) and (b), paragraph 2 of this Article shall be permitted when implementing domestic transfers. In such case upon request (or in other cases provided for in legislation) of money receiving institution for full identification details of the payer, the payer shall provide requested information within three banking days.

Article 9. Obligations of Microfinance Organization to Record Information (Documents) on Transactions (Operations)

1. Pursuant to the paragraph 6, Article 6 of the Law of Georgia “on Facilitating the Prevention of Illicit Income Legalization”, the Microfinance Organization shall be obligated to record information (documents) on transaction and / or operation.

2. Requirement for recording information on transaction (operation) shall apply to transactions concluded and implemented by the Microfinance Organization as well as operations and transactions implemented on the basis of the client’s order and transactions representing ground for implementing operation.

3. When recording information on operation, the Microfinance Organization shall depict the following information:

a) Content of operation (e.g. send/receive remittance etc);

b) Date of implementation of operation as well as amount and currency in which operation is implemented;

c) Identification details of a person based on whose order the Microfinance Organization implements operation (person conducting operation);

d) Second party to the operation (if such) and its bank account details;

e) Identification details of the person who is acting on behalf of the Microfinance Organization’s client (representative, proxy), as well as content, issuer, date of issuance and period of validity of power of attorney or procuration, person certifying power of attorney or procuration (e.g. notary), date and place of certification;

f) If transaction is implemented in favor of the third person – identification details of such person;

g) Basis for operation implementation - if information exists.

4. In the course of recording information on transaction between Microfinance Organization and the client, as well as on the transaction which represents the basis for implementation of transaction (operation), the Microfinance Organization shall document the following information:

a) Type of transaction (e.g. acquisition, usufruct, rent, lease etc.);

b) Subject of transaction (specific item, property or incorporeal right, which represents a subject of transaction, or service, work that shall be performed according to the transaction);

c) Form of transaction (e.g. written or verbal agreement);

d) Purpose of transaction (e.g. getting profit, charity, payment of debt etc.);

e) Identification details of persons involved in a transaction (including their representatives and proxies);

f) Date and place of concluding transaction as well as validity period;

g) Amount and currency in which transaction shall be implemented;

h) In case transaction is subject to registration (certification) – name of the registering authority, registration date, place and number (e.g. in the event of notarization).

5. For the purpose of documenting, systemizing and filing the information indicated in paragraph 3 and 4 of this Article, the Microfinance Organization shall develop the relevant system.

6. Identification details of those persons that do not represent the Microfinance Organization's clients (persons having business relationship with the Microfinance Organization), shall be recorded on the basis of submitted information (documents available to the Microfinance Organization). The Microfinance Organization shall not request additionally from the client submission of identification documents on the other party of the transaction.

Article 10. Obligations of Microfinance Organizations to Keep Information (Documents) on Transaction (Operation)

1. Microfinance Organization shall be required to keep the information (documents) about a client (its beneficial owner) as provided for by Articles 6 and 6^1 of this Regulation (including information submitted in accordance with the procedure defined in paragraph 6, Article 6 of this Regulation) as well as business correspondence and written notes as provided under paragraph 4, Article 3 of this Regulation in electronic or material form for at least 6 years from the moment of terminating business relationship with a client unless the respective supervisory or other competent authority requests retention of such information (documents) for a longer period and/or a longer period for keeping such information (documents) is provided for by the Georgian legislation. In addition, information recorded electronically (respective databases and etc.) as well as documentary information (documents) shall be retained for the aforementioned period.

1^1. Microfinance Organization shall be required to keep the information (documents) on a transaction (operation) (both international and local) for at least 6 years from the moment of concluding or implementing a transaction, except for the information (documents) provided for by the first paragraph of this Article, unless the respective supervisory or other competent authority requests the retention of such information for a longer period and/or a longer period for keeping such information (documents) is provided for by the Georgian legislation.
2. Information (documents) on operations (transactions), including those presented for the identification of a person, shall be kept in their original form, and where impracticable, a copy of such information (documents) confirmed by a notary or authorized employee shall be maintained. For the purpose of complying with this requirement the Microfinance Organization shall designate the employee (employees) authorized under the internal regulation or the relevant legal act to certify copies. The copy shall be certified in a way that it is clear who and when certified the copy. Information submitted according to the procedure provided for in paragraph 6, Article 6 of this Regulation for identification of the client and information verified by the Microfinance Organization does not require a notarization (certification).

3. In addition to the information indicated in paragraph 1 of this Article, subject to retention for the period of six years (if a requirement of retaining for a longer period is not set by the respective

supervisory authority) shall be reporting forms (electronic or documentary form) submitted to the Service pursuant to Article 11 of this Regulation. When retaining reporting forms electronically the Microfinance Organization shall observe security measures. Responsibility for retaining the reporting forms in an electronic format shall be determined by the Microfinance Organization's internal regulation. Also, hard copies of reports retained in the Microfinance Organization shall be certified with the signature of an employee, who is authorized under the internal regulation of the Microfinance Organization, and if it is provided for by the internal regulation of the Microfinance Organization, with the Microfinance Organization's seal.

4. The information (documents) retained in the Microfinance Organization shall fully reflect the implemented operation and / or transaction and persons involved therein. In addition, information shall be recorded, systemized and filed in a way, that when needed (timely submission to the supervision authorities as well as necessity to use as evidence in criminal cases) it can be found and retrieved in a shortest period of time.

5. Documents (information) shall be retained in a way that it is accessible by persons authorized under internal regulation and effective legislation.

Article 11. Obligations of Microfinance Organizations to Present Reporting Forms on Operations (Transactions) Subject to Monitoring

1. If the Microfinance Organization has suspicion regarding authenticity of identification data or identification of the client is not possible to be carried our or the transaction (operation) considered under Article 3 of this Regulation is present, it shall be obligated to send a notice to the Financial Monitoring Service of Georgia about this fact according to the rule and procedure set under the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization" and the present Regulation.

1^1. The reporting form shall not be submitted to the Financial Monitoring Service of Georgia on a transaction (operation) concluded and/or implemented by the Microfinance Organization with a commercial bank or an international financial institution, except for transactions concluded with a person registered in the watch or suspicious zone. The reporting form shall not be also submitted on transactions (operations) related to the investment by the Microfinance Organization in the government securities.

2. Submission of the notice to the Financial Monitoring Service of Georgia shall imply completing and forwarding by the Microfinance Organization of respective reporting form on transaction as well as confirmation of its submission by the Service according to the procedure set by the present Regulation. Notices submitted to the Financial Monitoring Service of Georgia shall be compiled through the web portal of the FMS of Georgia. Report shall be completed and submitted to the Service according to the User Manual published on the website of the FMS. Confirmation of receiving of information by the FMS means to assign electronically, through the web portal status "confirmed" to the report.

3. Reporting forms shall be submitted to the FMS in an electronic form (online form) pursuant to the procedure defined under paragraph 6 of this Article. Hard copies of reporting forms to the Financial Monitoring Service of Georgia shall be submitted according to the procedure defined under this Regulation only if reporting forms are technically impossible to be sent in an electronic format.

4. The following time periods shall be set for submission of reporting forms to the Financial Monitoring Service of Georgia:

a) If the amount of transaction (operation) or series of transactions (operations) aimed at partition exceeds GEL 30 000 or its equivalent in other currency, the report shall be submitted no later than five working days from the moment of implementing operation or concluding transaction (or from the moment of receiving information on such transaction (operation), or series of transactions (operations));

b) If the operation (transaction) or identification data is considered as suspicious - the report shall be submitted on the day of origination of supposition;

c) If any person involved in the operation (transaction) is on the list of terrorists or persons supporting terrorism, or / and is likely to be connected with them or / and funds involved therein may be related to or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism, the report shall be submitted on the day the information is received. In addition, in the latter case all relevant materials and documents available to the Microfinance Organization along with the reporting form shall be forwarded to the Financial Monitoring Service of Georgia.

5. In exceptional case provided for in paragraph 3 of this Article hard copy of the reporting form (as well as attached materials if necessary) shall be submitted to the Service in a sealed envelope by the authorized employee of the Microfinance Organization, or by post as a registered mail. Name and address of the sender - Microfinance Organization shall be written on the envelope, as well as the addressee – "Financial Monitoring Service of Georgia". Delivery address: 2 Sanapiro St., Tbilisi 0105, Georgia. The envelope shall be marked as confidential.

6. Reporting Forms as well as other confidential information on operations (transactions) subject to monitoring shall be submitted to the FMS in electronic form through the relevant web shell and/ or web service of the web portal set on the official website of the FMS of Georgia (www.fms.gov.ge)

7. Decision on completion of the reporting form and submission to the Service shall be made by the responsible employee of the Microfinance Organization, who, according to the resolution of the Microfinance Organization, is in charge of monitoring. Only those employees of Microfinance Organization shall be entitled to fill reporting forms that are granted the respective authority under the internal Regulation.

8. Reporting form sent to the Service shall be subject to retaining by the Microfinance Organization for the period defined under Article 10 of the present Regulation. In the event of sending hard copy of the form it is to be printed in two copies, each is to be certified with the signature of the employee designated under the internal regulation of the Microfinance Organization and if provided in the internal regulation, by the seal of the Microfinance Organization. One copy of the report is to be sent to the Service, while the other copy is to be retained at the Microfinance Organization and be archived in conformity with the procedure and period defined under the Article 10 of this Regulation.

9. Reporting form shall be filled completely. The Microfinance Organization shall maintain register of reporting forms submitted to the Service, according to the procedure defined under the internal regulation.

10. In the event of revealing suspicious operation (transaction) and submitting related reporting form to the Service, the Microfinance Organization shall be obligated to indicate grounds of suspicion and to focus special attention on other operations (transactions), implemented by persons involved in this particular operation (transaction).

11. Pursuant to subparagraph (a), paragraph 4, Article 10 of the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", the Service shall be authorized to request additional information from the Microfinance Organization and available documents (including confidential) in relation to any transaction and persons involved therein, including those transactions on which reporting forms have not been presented to the Service. The Microfinance Organization shall be obligated to submit requested information (documents) to the Service no later than two working days from the moment of receiving the request.

12. If the Microfinance Organization reveals (or becomes available) any additional information, with respect to the relevant transaction or parties thereof, after the report is submitted, it shall forward this information to the Service immediately. Also, the additional information shall contain number and submission date of the reporting form, to which the information should be added. Additional information on transaction subject to monitoring shall be presented according to the procedure as it is defined under the User Manual.

13. The Microfinance Organization shall strictly observe confidentiality of information related to form completion and submission to the Service. In case of suspicion regarding the transaction or parties thereof, and in the event of completion of the reporting form and submission to the Service, the Microfinance Organization shall not inform persons involved in the relevant transaction, their representatives and proxies and any other persons. The employee of the Microfinance Organization, who reveals suspicious transaction or completes the reporting form, shall disclose this information only to those employees that are authorized to keep such information according to the internal regulation of the Microfinance Organization.

Article 11^1. The instruction of the Financial Monitoring Service on the suspension of implementation of the transaction (operation)

1. The Head of the Financial Monitoring Service shall be authorized, if the transaction is believed to be suspicious and irrespective of the amount of funds, to issue the written instruction to the Microfinance Organization on the suspension of implementation of the transaction (operation) or any other related transaction (operation) for no more than 72 hours (non-working days and public holidays shall not be considered in the time limit). The case materials shall be immediately disseminated to the respective authorities of the Chief Prosecutor's Service, the Ministry of Internal Affairs and/or the State Security Service of Georgia.

2. The Head of the Financial Monitoring Service or the person designated therein shall be authorized, in case of urgency, to verbally (directly or through electronic means) or in writing through electronic means issue the instruction referred to in paragraph 1 of this Article that shall be confirmed by the written instruction of the Head of the Financial Monitoring Service and handed

over to the Microfinance Organization in the next 24 hours (non-working days and public holidays shall not be considered in the time limit). If within this time limit the written instruction is not handed over to the Microfinance Organization the instruction of the Financial Monitoring Service shall not be observed. The protocol shall be drawn up as provided for by subparagraph 3 of this Article when the instruction referred to in this paragraph is issued.

3. The protocol shall be drawn up separately by the Financial Monitoring Service of Georgia on the one hand and the authorized employee of the Microfinance Organization on the other hand immediately upon the issuance of the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction as prescribed under subparagraph 2 of this Article. The protocol shall include:

a) First name, last name and the position of the issuer of the instruction (authorized employee of the Financial Monitoring Service) and the recipient (authorized employee of the Microfinance Organization);

b) Exact time of issuance/receipt of the instruction (specifying the hour and minute);

c) The form of issuance/receipt of the instruction (verbal, including through means of electronic communication, or written, including through electronic mail or other means of electronic communication);

d) The substance of the instruction, including the data enabling the identification of the transaction (transactions) and/or the person carrying out the transaction (transactions);

e) The period of the suspension of implementation of the transaction;

f) The confirmation of the receipt of the instruction by the Microfinance Organization's authorized employee;

g) The exact time and date of drawing up the protocol;

h) The signature of authorized employees of the Financial Monitoring Service and the Microfinance Organization.

4. The Microfinance Organization shall be required to immediately confirm the receipt of the instruction referred to in paragraphs 1 and 2 of this Article to the Financial Monitoring Service through the same means used to communicate the instruction, and to undertake all necessary measures for its implementation. The confirmation of the receipt of the instruction on the suspension of implementation of the transaction under paragraph 2 of this Article shall be included in the protocol referred to in paragraph 3 of this Article.

5. The time limit referred to in paragraph 1 of this Article shall start to run from the moment of receipt by the Microfinance Organization of the written instruction issued by the Head of the Financial Monitoring Service, or the instruction issued by the Head of the Financial Monitoring Service or the designated person as provided by paragraph 2 of this Article.

6. The instruction referred to in paragraphs 1 and 2 of this Article can be revoked before the expiry of the time limit provided for in paragraph 1 of this Article if the suspicious nature of the transaction could not be ascertained or if this is required for the interests of investigation based on the written request of the respective authorities of the Chief Prosecutor's Service, the Ministry of Internal Affairs or the State Security Service of Georgia. The Financial Monitoring Service shall immediately notify the Microfinance Organization about the revocation of the instruction through the procedure referred to in paragraph 2 of this Article, which shall be confirmed by the written instruction of the Head of the Financial Monitoring Service and handed over to the Microfinance Organization in the next 24 hours. The Microfinance Organization shall be required to immediately confirm the receipt of the notice on the revocation of the instruction referred to in paragraphs 1 and 2 of this Article to the Financial Monitoring service through the same means used to communicate the notice.

7. The Microfinance Organization shall be required to keep the written instructions of the Head of the Financial Monitoring Service (including written instructions issued through electronic means) referred to in paragraphs 1 and 2 of this Article for no less than 6 years unless the respective supervisory authority requests to keep the instructions for a longer period. The protocols referred to in paragraph 3 of this Article shall also be retained for 6 years.

8. The Microfinance Organization shall be required to designate an employee (employees) based on formal decision who shall be authorized: to receive/accept the instruction on the suspension of implementation of the transaction issued by the Head of the Financial Monitoring Service or the person designated therein as provided for by paragraphs 1 and 2 of this Article and the instruction revocation notice; to confirm the receipt of the instruction on the suspension of implementation of the transaction and the instruction revocation notice to the Financial Monitoring Service; to draw up the protocol referred to in paragraph 3 of this Article and undertake all necessary measures for the implementation of the instruction on the suspension of implementation of the transaction.

9. The senior management and employees (both fixed and unspecified term employees) of the Microfinance Organization shall not be authorized to notify the parties to a transaction or other persons about the implementation of measures provided for by this Article.

Article 12. Obligation of Microfinance Organization to Submit the Form of Registration to the FMS

1. For the purpose of systemization and analysis of the information received by the Financial Monitoring Service of Georgia, on operations (transactions) subject to monitoring and pursuant to the subparagraph "a", paragraph 5, Article 10 of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", the Financial Monitoring Service of Georgia shall establish an electronic database. For inputting the information to the database on each Microfinance Organization, Microfinance Organization shall submit the Form of Registration to the Financial Monitoring Service of Georgia" through the relevant web shell of the web portal set on the official website of the FMS of Georgia (www.fms.gov.ge). The Form of Registration shall be considered as submitted only after sending the relevant electronic message by the FMS. Hard copies of reporting forms to the Financial Monitoring Service of Georgia shall be submitted only if reporting forms are technically impossible to be sent in an electronic format according to the procedure defined under this Regulation.

2. In case of change of any information (as well as replacement of the employee in charge of monitoring) in the Form of Registration submitted to the FMS, the Microfinance Organization shall present not later than three working days from the moment the relevant change have taken place completed form with renewed information to the Financial Monitoring Service of Georgia according to the procedure set under paragraph 1 of this Article.

Article 13. Responsibilities Related to Monitoring

1. The National Bank of Georgia shall supervise compliance of the Microfinance Organization with norms and requirements of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization" and this Regulation.

2. For violation of norms and requirements of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization" and this Regulation, the sanctions, according to the procedure and amount set by the National Bank of Georgia, shall be used against the Microfinance Organization.