Money Laundering and Terrorism Financing Risk Assessment Of Georgia

Report

2023

Table of Content

Introduction ..... **Error! Bookmark not defined.**

Legal and Institutional Framework 6

Money Laundering Risk 266

Terrorism Financing Risk 47

Legal Entities 59

New Services and Delivery Channels 64

Banking Sector 72

Non-Bank Financial Services 87

Non-Financial Services 117

Chapter I

INTRODUCTION

1.1 Context

Georgia is situated in the Eastern Europe, at the crossroads of Europe and Asia sharing territorial borders with Armenia, Azerbaijan, Turkey and Russia. Due to its geographical location, Georgia is an important transport corridor linking Central Asia to Europe. The area of the country is 69,700 km^2, however, the central government of Georgia cannot exercise an effective control over 20% of the territory that is occupied by Russia.

The population figures are 3.7 million in Georgia according to 2014 general population census results. Georgia has ethnic and religious diversity1. During 2022, 125 thousand immigrants from other countries entered Georgia2. Citizens of 95 countries can enter the territory of Georgia without a visa. The number of international visitors made up 3.9 million in 2022, and since 2017 citizens of Georgia have been using the opportunity of visa-free travel to the EU/Schengen countries.

Georgia has small but growing economy. Georgia's average annual economic growth was 4.2% during the last 10 years. In 2022, GDP per capita constituted 19,5 thousand GEL. The European Union is the top trading partner for Georgia. In 2022, the other major trading partners, in terms of total trade turnover, were Turkey (14,6%), Russia (13%), China (9.7%), Azerbaijan (6.8%) and the USA (6.7%)[3]. Georgia is not international or regional financial center. Financial activity made up 3,7% of the total output of economy in 2022[4].

Georgia is a parliamentary republic. The Parliament of Georgia is the supreme representative body exercising legislative power with mixed electoral system. The Prime-Minister is the head of the central government. The constitution is the supreme law of the State. International treaties unless they come into conflict with the Constitution of Georgia have precedence over domestic normative acts. In addition, Georgia belongs to the continental European legal system, although there are various Anglo-Saxon legal elements in the legislation[5]. Georgia's judicial system include common courts[6] and the Constitutional court. The criminal prosecution body in the country is the Prosecutor's Office being independent from different branches of government.

Georgia is a responsible player in the international architecture combating money laundering and terrorism financing. Under the Association Agreement with the European Union, Georgia has undertaken the obligation to approximate its legislation with the EU law including prevention, detection and suppression

[1]According to Geostat data, ethnic groups: Georgians 86.8%, Azerbaijanis 7.2%, Armenians 4.5%, and Russians 0.7%; Orthodox Christians 83.4%, Muslims 10.7% and 2.9% confessors of the Armenian Apostolic Church.
[2]Data from the Government Commission on Migration: Any person is considered an immigrant if she/he has been in the territory of Georgia for at least 183 days in the last 12 months.
[3]Geostat data.
[4]*Ibid.*
[5]For example, the Jury Trial Court.
[6]The District (city) Court, Court of Appeal and Supreme Court.

of money laundering and terrorism financing. Georgia also participates in the activities by MONEYVAL- the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures. MONEYVAL analyses the levels of compliance of the countries with the Financial Action Task Force (FATF) standards, one of the fundamental requirements of which is the assessment of money laundering and terrorism financing risks.

In 2019, the Parliament of Georgia adopted the Law *on Facilitating the Prevention of Money Laundering and Terrorism Financing* and a year earlier, the National Bank of Georgia (NBG) adopted the Regulation on *Information Accompanying the Transfer of Funds*[7]. By doing so, legal and institutional mechanisms for combating money laundering and terrorism financing have significantly improved in the country and become consistent with the FATF recommendations. In 2019, the first assessment of the money laundering and terrorism financing risks was also carried out[8].

1.2 Purpose, Methodology and Priorities

Money Laundering and Terrorism Financing Risks Assesment Report (hereinafter referred to as *Risk Assessment Report* was prepared according to FATF standards[9] plus considering the experiences and best practices of other countries. The Risk Assessment Report aims to raise awareness with competent authorities as well as private sector about money laundering and terrorism financing risks in Georgia. In particular, the main findings of the report will contribute to determination of priorities, proportionate risks and effective alignment of resources by authorities responsible. The information included in the present report will also help all accountable entities[10] to identify and manage money laundering and terrorism financing risks related with their activities.

Preparation of the Risk Assessment Report 2023 was led by the council acting under the Government of Georgia chaired by the Head of Financial Monitoring Service of Georgia (see subchapter 2.1.). A working group was formed in the frames of the council consisting of the representatives of all authorities responsible[11]. The function of the mentioned working group was to prepare a draft for Risk Assesment Report for which thematic subgroups staffed with practicing experts were created. The risk assesment working group regarded the risk as a combination of *threat, vulnerability and damage*. A threat is a person or a group of people, object or activity capable of causing danger (e.g. criminal group, criminal scheme). Vulnerability means a circumstance that can be misused (e.g. geographical location of a country, legislative gaps, anonymity of financial services). Damage is a negative result, that can be occur to a country as a whole, to a certain sector of economy or a group of people.

[7]Order №253/04 by the President of the National Bank of Georgia.

8Money Laundering and Terrorism Financing Risk Assessment Report and Action Plan in Georgia" approved by the Decree No. 2257 of the Government of Georgia dated October 30, 2019.

[9]FATF Guidance on National Money Laundering and Terrorism Financing Risk Assessment.

[10]Financial institutions and representatives of non-financial businesses/profession as defined by the Law of Georgia on Facilitating the Prevention of Money Laundering and Terrorism Financing.

[11]Ministry of Finance of Georgia, Revenue Service of Georgia, Prosecutor's Office of Georgia, Ministry of Internal Affairs of Georgia, State Security Council of Georgia, State Security Service of Georgia, Ministry of Economy and Sustainable Development of Georgia, Ministry of Justice of Georgia, National Agency of Public Registry, Financial Monitoring Service of Georgia, National Bank of Georgia, Insurance State Supervision Service of Georgia, Service for Accounting, Reporting and Audit Supervision Service and Georgian Bar Association.

Risk Assesment Report consists of two main parts: risk assesment of money laundering and terrorism financing at the national level[12] and sectoral level[13]. The money laundering risk was rated as medium while terrorism financing risk was rated as *low* at the national level. Risk assesment process was carried out in several stages: preliminary risk-factors[14] were identified by thematic subgroups at the first stage; in the second stage thematic subgroups provided in-depth analysis of the nature, source and scale of the risk-factors based on multi-faceted statistical data and analysis. For example, *modus operandi*method used in money laundering activities was studied. At the third stage, a working group discussedabout the weight of risk-factors and probability of risk materialising degree; then the level of risk in each thematic profiles was determined by consesus[15].

Risk Level According to Sectors		
Sector	**Money Laundering Risk**	**Terrorism financing risk**
Financial services		
Banking sector	medium-low	medium-low
Payment service providers	medium	medium-low
Microfinance organizations	medium	low
Currency exchange points	medium	low
Brokerage companies	medium-low	low
Securities registrars	medium-low	low
Lending entities	medium-low	low
Leasing services	medium-low	low
Insurance sector	low	low
Credit unions	low	low
Investment funds	low	low
Non-financial services		
Gambling business	medium-low	low
Real estate market	medium	low
Precious metal and stone trading	medium	low
Law offices	medium-low	low
Notary services	low	low
Accounting and auditing services	low	low

All levels of risks given in the present Risk Assesment Report are so called *residual risks*[16]which were determined by considering the effectiveness of the legal and institutionl framework at the national level, as well as the quality of compliance control systems by sectors. The thematic profiles of the report are interrelated and impact the level of each risk. For instance, while assesing risk level in different sectors, all risks identified at the national level were taken into account by the working group. Similarly, chapters on

[12]Chapters II, III, IV, V andVI.
[13]Chapters VII, VIII and IX.
[14]Certain threat or vulnerability is a primary source or driving element of money laundering or terrorism financing risk
[15]High, medium-high, medium, medium-low or low.
[16]The ultimate risk calculated by considering relevant mitigants (risk reducing factors).

legal entities and new methods of payment focus on vulnerability. However, when assesing risk level, threat analysis given in the other parts of the present report were taken into account. Apart from that, the territories of Georgia occupied by Russia in the Risk Assesment Report are considered as risk-factor in the context of combating terrorism. Influence of the situation on the occupied territories on the financial system of Georgia is insignificant.

Considering the key findings of the Risk AssesSment Report, priority tasks were also identified by the working group the implementation of which shall promote effective management of money laundering and terrorism financing risks in the country. These priority tasks shall be reflected in the State Strategy and Action Plan for Combating Money Laundering and Terrorism Financing[17].

Chapter II

LEGAL AND INSTITUTIONAL FRAMEWORK

2.1 Policy and Coordination

From 2013 an Interagency Council worked under the Government of Georgia chaired by the Minister of the Finance of Georgia and composed of the heads of all competent state structures[18]. Council was tasked to eliminate all shortcomings identified by the *Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism* (Moneyval) during the assesment of Georgia in 2012. In 2014, upon the submission of the Council, the Government of Georgia approved the 3-year *Strategy and Action Plan for Combating Money Laundering and Terrorism Financing*. Both documents, the Strategy and the Action Plan embraced tightening preventive measures, introduction of risk-based supervision in the financial sector and improvement of cash decleration at the border[19]. At the end of 2015, Moneyval confirmed the effectiveness of the reforms undertaken and released the country from the so called obligation of further reporting/following-up process.

In 2019, the Council was replaced by the Interagency Commission with the function to identify, analyze and assess money laundering and terrorism financing risks in the country, as well as to coordinate appropriate measures for managing the identified risks. The Commission periodically develops and submits a Risk Assessment Report and an Action Plan to the Government of Georgia for approval. In addition, the

[17]Resolution No. 135 of the Government of Georgia dated as of April 4, 2023 on the *2013-2016 Strategy for the Prevention, Detection and Suppression of Money Laundering and Terrorism Financing as well as Prevention of Financing of the Proliferation of Weapons of Mass Destruction* and on the approval of the *2013-2016 Action Plan for the Implementation of the 2013-2016 Strategy for the Prevention, Detection and Suppression of Money Laundering and Terrorism Financing as well as Prevention of Financing of the Proliferation of Weapons of Mass Destruction.*

[18] Resolution of the Government of Georgia No. 352 on the *Creation of the Interagency Council Developing the Strategy and the Action Plan against Money Laundering and Terrorism Financing and Coordinating its Implementation and Approval of its Statute.*

19Resolution of the Gvernment of Georgia №236 on Approval of the *Strategy and the Action Plan for Combatting Money Laundering and Terrorism Financing.*

Commission provides monitoring of the implementation of the Action Plan and collects important statistical data and other information to control over the effectiveness of money laundering and terrorism financing countemeasures.

The main objective of the Interagency Standing Commission, established on September 14, 2018 by the resolution of the Government of Georgia #469, is to develop and monitor the implementation of the National Strategy and the Action Plan for the fight against terrorism; the commission coordinates the work in combating terrorism, defines the country's counter-terrorism policy and unified efforts. The commission consists of 21 members, namely, heads of ministries and other agencies (ministers/heads of agencies) involved in the counter-terrorist efforts[20]. The commission is chaired by the Head of the State Security Service of Georgia (hereinafter – SSSG). The commission monitors the implementation of the National Counter-Terrorism Strategy and the corresponding Action Plan of Georgia. Accordingly, the state agencies involved in the fight against terrorism, while fulfilling the goals and objectives set by the strategy and the action plan, are accountable to the mentioned commission. The members of the commission meets at least once a year; relevant thematic working groups are formed in order to promote its activities.

It is worth noting that with the joint efforts of the state agencies of Georgia, the biggest share of the tasks stipulated by the National Strategy of Georgia on Combating Terrorism (2019-2021) and its Action Plan was successfully implemented, which was positively evaluated by the commission.

According to the decree N124 of the Government of Georgia dated as of January 25, 2022, the new National Counter-Terrorism Strategy of Georgia (2022-2026) and its Action Plan were approved. The strategy is a policy document on complex efforts to be implemented by Georgia in the field of fighting against terrorism and violent extremism. The strategy is based on seven main profiles: collection and analysis of information related to terrorism and violent extremism, prevention, protection, preparedness, prosecution, development of legal framework and international cooperation. Additionally, in the context of counter-terrorism efforts, the document focuses on the importance of interagency coordination, international cooperation, and civil sector involvement.

National Counter-Terrorism Strategy of Georgia (2022-2026) and its Action Plan were developed under the leadership of the State Security Service with the involvement and in close coordination with all state agencies being players in the fight against terrorism and violent extremism. The draft strategy was submitted

20 The interagency standing commission includes: (at the level of ministers and heads of state agencies): the State Security Service; (the leading agency in the field of combating terrorism);the Administration of Government; the Ministry of Defence; the Ministry of Justice; the General Prosecutor's Office; the Ministry of Internal Affairs; the Ministry of Foreign Affairs; the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs; the Ministry of Education and Science; the Ministry of Culture, Sports and Youth; the Office of the State Minister for Reconciliation and Civil Equality; the Ministry of Economy and Sustainable Development; the Ministry of Finance; the Financial Monitoring Service; the Ministry of Environment and Agriculture; the Ministry of Regional Development and Infrastructure; the State Agency for Religious Affairs; the Special State Protection Service; the Intelligence Service; the Office of the National Security Council; the National Bank.

to the non-governmental sector and relevant parliamentary committees for their opinion. Their recommendations were duly reflected in the document.

The Strategy and the corresponding Action Plan are based on the national legislation of Georgia, international obligations undertaken by the country and various strategic documents, including Money Laundering and Terrorism Financing Risk Assessment in Georgia 2014-2019, FATF recommendations and the Moneyval report 2020 on Georgia.

Prevention of financing of terrorism and violent extremist organizations/groups is defined as one of the priorities in the National Counter-Terrorism Strategy of Georgia. Therefore, special attention is paid to the fight against the financing of terrorism, which includes work on identifying cases of financing of terrorism and violent extremism, controlling over illegal money entering the country from abroad, improving and strengthening the remittance system and preventing the movement of cash and securities bypassing custom control at the border or in an unauthorized manner. The Action Plan defines the specific measures corresponding to the goals and objectives provided by the Strategy, responsible state structures and the deadlines for their implementation.

2.2 Prevention

In accordance with the terms of the Georgian Legislation, representatives of financial sectors and designated non-financial businesses/professions (hereinafter referred to as *accountable entities*) have to prevent misuse of their services with the purpose of money laundering or terrorism financing. A list of accountable entities[21]is in compliance with FATF recommendations with minor changes. Trust and corporate service providers[22] plus real estate agents are not accountable as their service is limited in Georgia (see subchapters 5.4. and .9.2). The National Agency of Public Registry[23] carrying out the registration of ownership rights to real estate, is deemed to be accountable in the field of purchase and sale of a property. The Revenue Service[24]is accountable for registering and controlling movement of cash and securities at the custom of Georgian border (see subchapter 3.2.6). In 2020, an investment fund was defined as an accountable entity, and in 2022 - a virtual asset service provider also became deemed to be accountable.

Accountable entities[25]	Quantity[26]	year[27]
Commercial banks	15	2004

[21]Accountable entities are defined on the basis of the law of Georgia *on Facilitating the Prevention of Money Laundering and Terrorism Financing.*
[22]Trust and corporate services, as defined by the FATF, include services related to the creation of legal entities and trusts, nominal ownership and their management.
[23]A legal entity under public law operating in the sphere of governance of the Ministry of Justice of Georgia.
[24]A legal entity under public law within the sphere of governance of the Ministry of Finance of Georgia.
[25]Data of supervisory structures.
[26]A number of accountable entities is given as of December 31, 2022.
[27]Date of designation as an accountable entity.

Microfinance organizations	36	2008
Payment services providers	30	2015
Brokerage companies	9	2008
Credit unions	1	2004
Lending entities	176	2019
Currency exchange points	511	2004
Securities registrars	3	2008
Investment funds	5	2020
Insurance companies	18	2004
Non-state pension scheme founders	4	2004
Insurance/reinsurance brokers	19	2019
Leasing companies	--[28]	2013
Casinos	34	2004
Entities organizing lotteries, gambling	425	2004
People engaged in precious metal and stone trading	--[29]	2004
Notaries	289	2004
Auditors	439	2012
Audit companies	264	2012
Certified accountants	921	2019[30]
Accounting companies/ professional service accountants	--[31]	2022
Lawyers	4,940	2014
Law offices	379	2019

According to FATF recommendations, all responsible entities[32]are required to carry out a whole range of measures:

- Assess and manage money laundering and terrorism financing risks related to their businesses and clients and introduction of new products and service delivery channels;
- Identifying clients and beneficial owners[33], studying their activities, detecting their unusual and illegal transactions;
- Determining the origin of property of high-risk clients and implementing other types of enhanced preventive measures against them[34];
- Introducing and implementing compliance control system, which should include continuous training of employees and independent audit function[35].

[28]Leasing is an unregulated service and the exact number of business entities engaged in this activity is unknown.
[29]Trading precious metals/stones is an unregulated business and the exact number of business entities engaged in this field is unknown.
[30]Until 2019, persons performing accounting activities were defined as accountable entities.
[31]Currently, a register of accounting ccompanies and accountants providing professional services is under formation process.
[32]The National Public Registry Agency and the Revenue Service implement preventive measures in a limited form, taking into account the nature and goals of their own activities.
[33]Beneficial owner is a person who ultimatly owns or controls client or on whose behalf the transaction is completed. In the case of a legal entity, the beneficial owner is a person who directly or indirectly owns 25% of the equity or voting shares or otherwise exercises ultimate control over the legal entity.
[34]Enhanced preventive measures include more frequent updating of identification data of clients and beneficial owners, obtaining additional information about the purpose and basis of transactions, enhanced monitoring of business relationships, etc.
[35]The compliance control system refers to the internal control policy, rules, systems and mechanisms that ensure compliance of activities by the accountable entities with anti-money laundering and anti-terrorism financing legislation.

2.3 Supervision

Each group of accountable entities have its supervisory structure responsible for meeting with the requirements of anti-money laundering and terrorism financing legislation[36].The largest part of financial sector is supervised by the National Bank of Georgia (hereinafter referred to as NBG). Since 2015, the NBG has started full-fledged risk-based supervision with the method of remote and on-site inspections. NBG determines the risk profile of each financial institution[37] and evaluates the effectiveness of compliance control system, which forms the basis of the annual supervisory plan[38]. A financial institution carrying an increased risk and the compliance control system of which is characterized by substantial deficiencies is subject to the intensive supervision of the NBG[39]. Since 2019 the NBG has started supervising the financial groups as well.

Supervisors	Accountable entities
The National Bank of Georgia	Commercial banks; Microfinance organizations; Payment services providers; Brokerage companies; Credit unions; Lending entities; Currency exchange points; Securities registrars; Virtual asset service providers; Investment funds.
Insurance State Supervision Service of Georgia	Insurance companies; Insurance/reinsurance brokers; Non-state pension scheme founders.
Ministry of Finance of Georgia	Leasing companies; People engaged in precious metal and stone trading; Casinos and other entities organizing lotteries, gambling; Revenue service.
Ministry of Justice of Georgia	notaries; National Agency of Public Registry.
Service for Accounting, Reporting and Auditing Supervision	Auditors/Audit companies; Certified accountants, accounting companies and accountants providing professional services.

[36]Law of Georgia *on Facilitating the Prevention of Money Laundering and Terrorism Financing and subordinate normative acts* adopted on its basis.

[37]Risk profile of a financial institution is established both through remote monitoring and taking into account the results of on-site inspections.

[38]NBG supervisory plan provides the information regarding type, frequency and intensity of inspections of each financial institution.

[39]Intensive supervision of NBG includes a quarterly review of the risk profile offinancial institution, an on-site inspection once every 2 years and a complex inspection once every 5 years, as well as determining corrective measures and monitoring their implementation.

Georgian Bar Association	lawyers/law offices

Since 2017 the compliance criteria for the owner, administrator and beneficial owner of a significant share (10%) of the financial institution has became much more stringent.NBG checks their criminal records, reputation and source of assets. All these factors may serve as grounds for refusing of granting[40]a licence orregistering[41]of a financial institution. NBG is authorized to apply a number of supervisory measures or sanctions depending on severity of violations detected while inspection[42]. In 2019-2022 monetary penalties for commercial banks increased significantly. Apart from that, the rule for publicizing violations committed by a financial institution was defined in order to further increase deterrent of NBG sanctions in 2019. Supervision of accountable entities in non-financial sector and especially in gambling businesses still remains a challenge. Casinos are inspected in the frames of general permit conditions and the inspection is mainly limited to compliance control policy and the submission of notifications to the Financial Monitoring Service (see subchapter 8.1).

2.4 Suspicious transactions

Accountable entities must report to Financial Monitoring Service of Georgia (hereinafter referred to as FMS) on suspicious transactions. Transaction is suspicious if there is a reasonable ground that it was prepared, concluded or carried out on the basis of property obtained by breaking laws or is linked with the income generated by criminal activity or related to terrorism financing and money laundering. It is not necessary to have undoubted knowledge that the crime has been committed to satisfy the standard of reasonable suspicion, although a mere hypothetical condition is not sufficient either. MS must be notified if, after examining a combination of unusual circumstances related to the client and/or transactions, the accountable entity will come to the conclusion that a crime of money laundering or terrorism financing may have occurred.

The authorized employee of accountable entity, independently and without any permission, shall make a decision on sending a notification to FMS about a suspicious transaction. Lawyers are not required to send such notification if it contradicts with the principles of their professional secrecy. Audits and certified accountants are also free from such obligation when giving a legal advice to clients or representing them in administrative proceedings, investigative bodies and courts. It is forbidden to disclose the fact of notifying FMS about suspicious transaction. However, accountable entities may exchange such information with one another or share it with similar entities of other countries in order to ensure money laundering and terrorism financing risks management.

2.5 Financial Monitoring

FMS studies all notifications provided by accountable entities regarding suspicious transactions and if it decides that the transactions is related to money laundering, terrorism financing and other kind of criminal

[40]A commercial bank, brokerage company and non-bank depository institution - credit union requireNBG licensing.
[41]A microfinance organization, a payment service provider, a lending entity, a currency exchange point, an investment fund and a virtual asset service provider need to be registered in NBG.
[42]e.g. imposing a monetary penalty on the financial institution or its administrator, restricting transactions, prohibiting the distribution of profits, banning salary increase or giving bonuses, and suspending the authority of the administrator.

activity, FMS sends all documents to the investigative bodies. FMS institutionally[43]and financially[44]is independent structure authorized to obtain any information from accountable entities and public institutions. Since 2015, it has also been authorized to ask its accountable entities suspend suspicious transactions for 72 hours or block accounts to prevent/eliminate money laundering and terrorism financing[45].

Reports on Suspicious Transactions[46]
(number)

Year	2018	2019	2020	2021	2022
Commercial banks[47]	583	684	668	588	684
National Agency of Public Registry	107	43	49	4	16
Microfinance organizations	80	112	71	70	95
Money transfer providers	12	--	--	--	--
Leasing companies	10	0	0	0	0
Brokerage companies	4	0	2	3	5
Organizers of lotteries, gambling (excluding casinos)	1	304	306	40	18
Securities registrars	6	11	2	0	2
Notaries	3	1	0	0	0
Payment services providers	21	44	25	14	11
Insurance companies, non-state pension scheme founders, insurance/reinsurance brokers	2	3	0	3	2
Currency exchange points	8	14	2	3	3
Lending entities[48]	--	--	--	9	2
Lawyers, law offices	0	0	0	0	0
Credit unions	0	0	0	0	0
Investment funds[49]	--	--	--	0	0
Casinos	0	1	10	1	0
People engaged in precious metal and stone trading;	0	0	0	0	0
Auditors/audit companies, accountants/accounting companies	0	0	0	0	0
Total	837	1,217	1,135	731	804

[43]The state control related requirements of the Article 11, Law of Georgia on *Legal Entities under Public Law,* do not apply to FMS. Therefore, only the court has right to suspend/cancel the decision of the head of FMS.
[44]FMS budget can not be reduced without prior agreement with the head of FMS.
[45]In 2019-2022, FMS used its authority 23 times.
[46]According to FMS data, virtual asset service providers have been registered as accountable entities since 2023, and therefore, reports on suspicious transactions sent by them to FMS have not been included yet in the above table.
[47]Commercial banks send more than 65% of suspicious transaction reports to FMS.
[48]Lending services entities/providers have been registrered as accountable entities since 2021.
[49]Investment funds have registered as accountable entities since 2021.

Thanks to the development of compliance control system in the financial sector, the number of notifications provided to the FMS has been decreased in recent years, however the quality has increased. Online casinos, payment service providers and currency exchange points have started reporting suspicious transactions due to the efforts of FMS and its supervisory structures. In addition to suspicious transactions, accountable entities provide FMS with automatic notifications about certain types of high-risk transactions (for example, banking operations performed with cash) that exceed a predetermined monetary limit[50]. As of 2019 the types of automatic notifications have been drastically reduced[51] allowing accountable entities to optimize costs and improve systems for detecting suspicious transactions.

Cases sent by FMS to investigative bodies and Launched Investigations
[52]

(Number)

Year	Notifications on Suspicious Transactions [53]	Cases[54]	Money Laundering Investigation [55]	Terrorism Financing Investigation
2022	804	96 (125)	86	0
2021	731	82 (125)	54	0
2020	1,135	85 (156)	49	1
2019	1,217	128 (150)	88	1

Accountable entities provide FMS with online and automatic notifications about suspicious transactions. In recent years, FMS analytical software has been improved. In particular, a special profile is created for all figures mentioned in the notifications sent to FMS about suspicious transactions. Mentioned profile allows to collect and keep all bank accounts of these persons and their transactions with identification data and all other details attached to the notification. Moreover, in 2019 a new data storage was created in FMS enabling to get all historical data transferred in a structured and tidied manner.

Although the number of reports of suspicious transactions has been decreasing in recent years, the number of cases sent by the FMS to investigative bodies has remained stable from year to year. The same applies to the number of notifications used in cases. It shows that the quality of FMS analytical activities as well as notifications provided by accountable entities has been improved. In recent years, the FMS has raised the standard of selection of cases to be sent to investigative bodies, which has led to an increase in the number of investigations launched by law enforcement agencies on cases received from the FMS. In 2019-2022, out

[50]Such transactions and monetary limits are determined by FMS subordinate normative acts.
[51]In 2019 before adopting the Law of Georgia on Facilitating Prevention of Money Laundering and Terrorism Financing commercial banks had to send automatic notifications to FMS about 20 types of transactions.
[52] FMS data.
[53]Parentheses indicate notifications related to possible terrorismfinancing.
[54]Parentheses indicate cases sent to the investigation bodies regarding possible terrorism financing.
[55]Statistics include all investigations launched by all investigating bodies based on cases received from FMS.

of 47 cases[56] received from FMS on possible financing of terrorism and possible violation of the international sanctions regime, the State Security Service started an investigation on only 9 cases[57]. The main reason is being especially cautious from the side of FMS and the use of a relatively low standard when filtering notifications related to possible terrorism financing. As a result, FMS sends more than 90% of such notifications to SSSG.

2.6 Criminalization of Money Laundering

Money laundering is criminalized in Georgia by Article 194 of the Criminal Code of Georgia and means giving legal form to illicit and/or undocumented property (use, purchase, possession, conversion, transfer or other actions in connection with property)in order to conceal its illegal and/or undocumented origin or to assist another person in evading liability, as well as concealing or disguising its genuine nature, source of origin, location, dislocation, movement, title and/or other rights related to.

Illicit property means the property obtained unlawfully and as well as income generated from this property, share (interest) when the person, the person's family member, close relative or related person have acquired it by illegal means. The legislation of Georgia does not impose any restrictions regarding the predicate crime and fully takes into account the requirements of the Palermo[58]and Vienna Conventions[59]. All crimes are predicate crimes of money laundering[60]and therefore, the object of money laundering can be any property obtained through criminal activities (regardless property value). As for undocumented property, according to the legislation, property, as well as income, or shares (interest) generated from this property shall be considered undocumented if the person, the person's family member, close relative or related person does not have the documents confirming that it has been acquired by legal means or has been obtained by the monetary resources gained from the alienation of the illicit property.

Conviction of a person for money laundering does not require conviction for committing a predicate offence. Money laundering shall be punished by imprisonment for a term of three to twelve years. Apart from money laundering, the legislation prohibits the use, acquisition, possession or sale of property acquired through the legalisation of criminal or illegal income61. In particular, according to articles 186 and 194[1] of the Criminal Code of Georgia, it is punishable to use, purchase, possess or sale property acquired through the legalisation of criminal or illegal income with prior knowledge.

2.7 Criminalization of Terrorism Financing

Terrorism financing is criminalized under the UN Convention on the Suppression of Terrorism Financing. A person commits a terrorism financing crime if he performs one of the following actions:

[56]47 cases sent by FMS to SSSG unclude 51 notifications of suspicious transactions related to the possible financing of terrorism and possible violations of the regime of international sanctions..

[57]The number of launched investigations includes the sum of both the launching a new investigation based on the information sent by the FMS and the addition of case materials to the current investigation.

[58]The United National Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988.

[59]The United Nations Convention against Transnational Organized Crime, 2000.

[60]Predicate offence is an offence whose proceeds may become the object of any of the money-laundering offences,

[61]Articles 186 and 194[1] of the Criminal Code.

- Collecting/supplying funds or other property in the knowledge that they will or may be fully or partly used by a terrorist or terrorist organization and/or for carrying out terrorist activities and/or committing any of the crimes provided in the articles[62]144, 227, 227^1, 227^2, 227^3, 229, 230, 231, $231^1$and $231^2$of the Criminal Code of Georgia (regardless of whether this crime has been committed);
- Rendering services to terrorist or terrorist organization;
- Providing a terrorist with secret place and shelter;
- Providing terrorist or terrorist organizations with some resources or other material support.

Terrorism includes all those actions and activities that are punishable by Chapter XXXVIII (terrorism) of the Criminal Code of Georgia. Terrorism financing is punishable regardless of whether the collection/supply of property was made for a specific terrorist act or not. It is also punishable to finance travel or attempted travel abroad for the purpose of carrying out, preparing or participating in a terrorist activity or training. Property intended for terrorism financing can be acquired both illegally and legally. Financing terrorism is a particularly serious crime and shall be punished by imprisonment for a term of ten to twenty years or life imprisonment.

2.8. Confiscation and Coercive Measures

Legilastion of Georgia gives a thorough explanation about the grounds and purposes of seizing property. In particular, Article 151 of the Criminal Procedure Code of Georgia envisages the possibility of seizing property to ensure its possible confiscation. The court makes a decision on seizing property based on the grounded petition. However, in case of emergency, if there is a reasonable suspicion that the property will be hidden or destroyed, the prosecutor has right to issue an order of seizure which later shall be confirmed by a judge. Seizure may be placed on the property of both the accused directly and the person materially responsible for his/her action and/or the person associated with him/her. Legislation also gives possibility for equivalent property seizure. Accordingly, if it is not possible to find the property obtained by breaking law at the stage of the investigation, then the property with the equivalent value of this property may be seized.

Seizure of property is also used for the preparation of crimes or other particularly grave crimes under the Articles[63]323, 330 and 331^1 of the Criminal Code of Georgia as well as for ensuring their prevention based on sufficient evidence that this property will be used for commmiting a crime.The court can also seize a property based on sufficient evidence that it is a racketeered, corruptive property[64]of a person being a member of *the world of thieves/thief in law* or convicted of a crime under Article 194, Part 3, Subsection "C" of the Criminal Code of Georgia. Moreover, property may be seized in order to avoid a new crime, protect a property from destruction or damage or prevent the concealment, alienation or expenditure of

[62]to take hostage; unlawful possession of aircraft or watercraft and/or railway rolling stock;creating a danger to the navigation of the watercraft; unlawful possession, destruction or damage of a stationary platform creating a danger to the aircraft; explosion; Illegal handling of nuclear material or equipment, radioactive waste, radioactive substances; seizing nuclear material, radioactive substance or other source of ionizing radiation; unlawful demand for nuclear material; threat of unlawful possession or use of nuclear material.

[63]Terrorist offences.

[64]Especially the laundering of large amount of money.

property and ensure the seizure of property; if there is a reasonable suspicion that a crime has been committed against this property and/or there is a reasonable suspicion that this property was obtained by illegal means.The property of persons associated with terrorism is subject to administrative confiscation, based on the UN Security Council Resolutions (see subchapter 4.3).

Legislation of Georgia allows confiscation in favor of the state by both criminal and civil procedures.The object/instrument of a crime, objects intended for commitng a crime or/and a property obtainedby criminal activies thereof shall be confiscated from accused or convicted person according to Criminal Procedure Code. In particular, confiscation of the object/instrument of a crime or object intended for commiting a crime means the confiscation of the property of the accused or convicted person under his/her ownership or legal possession, used for commiting intended crime or intended for that purpose, free of charge in favor of the state. Confiscation of the property obtained by criminal activity is a free of charge confiscation of a property (all things and intangible property, as well as legal documents giving rights to property) acquired by breaking law as well as any kind of income generated from this property or of equivalent value in favor to the state. Such property is confiscated regardless of whether it is in possession of the accused or convicted person or of the third party. Confiscation is also possible without conviction, if the accused dies or is incapable.

According to Civil Proedure, confiscation applies to the racketeered property, illicit and undocumented property of a person convicted of money laundering or terrorism financing, an official, a member of *the world of thieves/thief in law,* a human trafficker or a person facilitating the distribution of narcotic drugs and his family members, close relatives or persons associated with him/her. The standard of proof necessary to prove the illegality of property is relatively low and does not require link between the property and a particular offence in civil proceeding. In case of undocumented property the burden of proof is reversed and the defendant must present evidence to the court regarding the legal origin of his property.

2.9 Investigation and Criminal Prosecution

The General Prosecutor's Office of Georgia is responsible for money laundering investigation and the State Security Service of Georgia investigatesterrorism financing[65]. The General Prosecutor's Office of Georgia ensures effective investigation and criminal prosecution of money laundering through creation a special unit called as the Anti-Money Laundering Division. The mentioned division is staffed with experienced and high qualified people having multi-faceted investigative powers and are equipped with all necessary resources to make them perform their functions effectively.

The fight against money laundering in Georgia is complex. Considering that the money laundering is a genuine side effect of a crime driven by a motivation of material benefit, all law enforcement structures together with the General Prosecutor's Office participate in the process of its detection and criminal prosecution. On the recommendation of the Prosecutor General of Georgia dated August 4, 2015 and the guidelines 2022on the conduction of parallel financial investigations, investigating bodiesshould conduct

[65]Order N3 of the Prosecutor General of Georgia of August 23, 2019 on determining the investigative and territorial investigative sub-location of criminal cases.

proactive parallel financial investigations regarding the crimes motivated by material benefit to ensure detection/seizure of assets acquired by illegal means and associated money laundering crime.

Investigation[66] (cases)				
Year	**2019**	**2020**	**2021**	**2022**
Money laundering	28	59	56	101
Terrorism Financing	2	2	0	0

Basically, FMS analysis, parallel financial investigation and the information obtained as a result of international cooperation were the main sources for law enforcement bodies to launch an investigation related to money laundering. In particular, 116 cases (48%) were based on the information provided by FMS out of 244 money laundering investigations launched in 2019-2022; parallel financial investigation became the basis for investigation in 52 cases (21%); the investigation was started based on the petitions and proper analysis of the received information obtained during their execution within the framework of legal assistance in 19 cases (8%); 57 cases (23%) were based on operational information obtained by the investigating bodies, statements, notifications or publicly disseminated information; in 2019-2022, 1 of the 4 cases regarding terrorism financing was investigated based on the information received from FMS.

The Prosecutor's Office of Georgia carries out the procedural leadership of the investigation and conducts criminal prosecution. Money laundering investigation and criminal prosecution are priority tasks of the current Action Plan 2022-2027 and also, Action Plan 2017-2021 of the Prosecutor's Office of Georgia. For this purpose, the continuous professional training program for prosecutors in the field of money laundering investigations and criminal prosecution is under implementation phase. In parallel with training courses, permanent mechanisms for monitoring crimes motivated by receiving material benefits and analyzing money laundering risks have been established; and in the light of modern challenges, the practice of using artificial intelligence has been introduced in the investigation process. The Prosecutor's Office of Georgia regularly carries out different types of activities including parallel financial investigations, search and seizure of property obtained through criminal activity, and improvement of international and interagency cooperation to ensure effective anti-money laundering policy.

Criminal Prosecution and Conviction for Money Laundering[67] (cases,persons)				
Year	**2019**	**2020**	**2021**	**2022**
Prosecution[68]	17 (42)	17 (47)	35 (97)	38 (110)

[66]Data of the General Prosecutor's Office of Georgia and SSSG.
[67]Data of the General Prosecutor's Office of Georgia.
[68]Parentheses enclosesthe number of individuals and legal entities against whom criminal prosecution was carried out.

Conviction[69]	8 (10)	5 (10)	13 (32)	19 (60)

Data of recent years shows that the indicator of money laundering detection and criminal investigations (including launching investigation and prosecution as a result of parallel financial investigation) has significantly increased and that, confirms the effectiveness of activities conducted by Prosecutor's Office of Georgia and other investigative bodies. In 2019-2022, 45 money laundering cases were convicted and totally 94 individuals and 18 legal entities were convicted for the said crime. On the other hand, the indicator of terrorism financing investigation has decreased (no prosecutions were carried out in 2019-2022), which reflects a tendency to reducing terrorism financing risks in Georgia and the region.

Taking into account the recommendations given in the report 2020 provided by Moneyval about Georgia, for increasing the indicator of money laundering investigations and prosecution (to achieve the long-term goals of increasing the efficiency of parallel financial investigations and improving the detection of money laundering crimes), the following measures foreseen by the Strategy and Action Plan 2022-2027 of the Prosecutor's Office of Georgia were undertaken:

- In order to effectively conduct parallel financial investigations, guidelines were developed and training courses for investigators and prosecutors have begun for effectively conducting parallel financial investigation;
- The guidelines included an appropriate mechanism for detecting money laundering crimes based on petitions in the frames of legal assistance;
- Based on the petition received within the framework of legal assistance, training courses designed for investigators nad prosecutors have begun in the field of detecting money laundering crimes;
- Based on the court decision, relevant mechanisms have been created to ensure unified statistics of confiscated property;
- The predicate crimes of money laundering have been defined in articles and, accordingly, the production of centralized statistics is provided.

The following steps are planned to be taken as per to the Strategy and Action Plan 2022-2027 of the Prosecutor's Office of Georgia:

- Training courses for investigators and prosecutors on criminal prosecution and confiscation of property of equivalent value and instrument of a crime of legal entities;
- Developing recommendations on the issues of applying to the court in order to confiscate the undocumented property in terms of civil rights owned by a person convicted of the crime of money laundering;
- Within the framework of the permanent interagency working group, the current confiscation practice of property will be reviewed in case of urgent necessity and unified approach will be developed for effective use of the said mechanism.

[69]Parentheses encloses the physical and legal quantities, whose judgment was carried out.

In the Report 2020 on Georgia, Moneyval called on the country to have an extensive use of confiscation mechanisms against unlawful property, equivalent value property and instrument of crime. As per the mentioned recommendation, the Prosecutor's Office of Georgia and other investigative bodies have significantly increased the effectiveness of the use of criminal mechanisms for searching, seizing, confiscating of equivalent property, property acquired by criminal activities and instrument of crime in the field money laundering. As a result, the value of the property obtained through criminal means, seized and confiscated for money laundering and predicate crimes, returned to the victims and confiscated free of charge for the benefit of the state has significantly increased. In particular, in 2019-2022 assets approx. in amount of 647,5 million GEL were seized and confiscated (finances, real and movable property etc.). Assets worth of 90.6 million GEL were confiscated in the same period (including the return to the victim).

Seizure/Impounding/Confiscation and compensation of damages[70] (value of property[71])				
Year	**2019**	**2020**	**2021**	**2022**
Seizure (million GEL)	107.8	95.3	185.5	258.9
Confiscation (million GEL)	2.4	6.1	20.6	61.5

One of the important structural subdivisions of the Investigative Service of the Ministry of Finance of Georgia, the Statistical Accounting, Asset Management and Analytical Division, has been assigned an additional function - recording and systematization of information on seized/removed property within the framework of criminal cases in the service. Timely processing of data on confiscated assets by the division will lead to effective management of these assets and minimize the risks of significant reduction in their value, which in turn will increase the possibility of successful confiscation.

2.10 Interagency and Public-Private Cooperation

Several mechanisms allow investigating bodies, FMS and supervisory structures to cooperate and exchange information among one another. In 2013, Memorandum of Understanding was signed on Improving Effectiveness of Interagency Cooperation in the Law Enforcement Field[72], which envisages the establishment of joint investigative teams to combat money laundering and terrorism financing. In addition, based on the Memorandum, FMS has a direct access to the databases of the Ministry of Internal Affairs and

[70]Data of the General Prosecutor's Office of Georgia.
[71]In the case of foreign currency, its equivalent in GEL is calculated
[72]A Memorandum of Understanding was signed between FMS, the General Prosecutor's Office of Georgia, the Ministry of Internal Affairs of Georgia and the investigative service of the Ministry of Finance of Georgia. In 2015, SSSG became a member of the memorandum.

the Revenue Service and is provided with information on the decisions of the cases sent to the investigation bodies. FMS has also concluded Memorandum of Understanding with supervising bodies which provide FMS with all information on breaches detected while inspecting accountable entities. The FMS, in its turn, before the inspection, informs the supervisors about possible violations of the legislation by the accountable entities identified by FMS during performing its duties.

In 2018, a permanent work-analytical platform was created with the participation of FMS, investigative bodies and accountable entities (within the Action Plan 2017-2021 of the General Prosecutor's Office of Georgia) to support improvement of coordination and cooperation between the Prosecutor's Office of Georgia and other competitive bodies in the field of money laundering. The purpose of this platform is to generalize the accumulated experience based on the review of practical examples, analyze money laundering typologies common in Georgia, identify the high risk spheres and find ways to mitigate risks together with accountable entities.

In 2021, a public-private dialogue platform related to terrorism and violent extremism was formed with the cooperation of the Georgian Center for Strategy and Development (GCSD) and SSSG. The platform members are the state agencies and eight thematic non-governmental organizations[73] of the interagency standing commission for developing and monitoring the implementation of the National Strategy for the fight against terrorism and the relevant Action Plan. The purpose of the platform is sharing knowledge and experience gained in the field of prevention of violent extremism and fight against terrorism in the state and civil sectors and support coordination between the state and non-governmental structures. Platform meetings are held twice a year.

Other forms of public-private cooperation include developing of indicators of suspicious transactions and sharing information on criminal schemes with accountable entities[74]. Likewise, the National Bank of Georgia carries out training courses and holds consultation[75], developes guidelines and provides recommendations to financial institutions on high-risk clients, products and means of service delivery through a special portal. Based on submission by NBG, the President of NBG approves a list of high-risk jurisdictions headed by accountable entities[76].

In 2019-2022 the NBG gave a number of instructions to financial sector to ensure compliance with international sanctions to mitigate risks related to high-risk countries identified by the Financial Action Task Force (FATF) (e.g. prohibited operations, enhanced preventive measures, documentation supporting transactions, determination of origin of the good). The NBG also approved the Rule for Electronic

[73]Georgian Center for Strategy and Development (GCSD),The Georgian Foundation for Strategic and International Studies (GFSIS), Georgian Institute of Politics (GIP), The Institute for Development of the Freedom of Information, Georgian Reforms Association (GRASS), Democracy Research Institute(DRI), Social Justice Center and Geocase.
[74]The most common criminal schemes are also described in the annual activity reports of FMS which are published publicly.
[75]Annual Supervisory Plan of NBG ensures thematic training courses. The NBG also meets with the management of high risk financial institutions to discuss the effectiveness of control systems and risk management measures once a year.
[76]Jurisdictions, anti-money laundering and anti-terrorist financing legal and institutional systems of which are clearly inconsistent with international standards:: https://www.fms.gov.ge/geo/page/watch-zones

Implementation of Preventive Measures by the Accountable Entities[77] defining the necessary rules and procedures for the electronic identification of customers to reduce risks. In the same period, the NBG adopted the rule for determining beneficial owners and verifying their identities by accountable entities and updated the guidelines on the implementation of preventive measures and establishment of the identities of the beneficial owners[78]. In addition, the NBG developed guidelines for warning signs and typologies for the detection of money laundering and terrorism financing. Similarly, in 2022, the State Insurance Supervision Service issued methodical recommendations for risk management and guidelines for determining beneficial owners for its supervised entities.

In 2022, the amendments made to the Law of Georgia on *Facilitating the Prevention of Money Laundering and Terrorism Finances* significantly improved cooperation mechanisms between FMS and investigating bodies. In particular, along with other investigating bodies, the Investigative Service of the Ministry of Finance of Georgia was given the right to receive confidential information/documentation from FMS for achieving the goals of investigation. Besides, the limited application of individual articleswas cancelled implying the only possibility of obtaining information/documentation from FMS for the purposes of ongoing investigations based on the Articles 194, 1941 and 3311 of the Criminal Code and Chapter XXXIII[79]. Therefore, nowadays, all investigating bodes are capable of receiving confidential information/documentation from FMS in order to investigate any crime under the Criminal Code of Georgia. In 2020-2022, the Prosecutor's Office of Georgia, SSSG and Investigating Service of the Ministry of Finance asked for confidential information and documentation 20 times from FMS.

2.11. International Cooperation

Money laundering and financing terrorism are transnational crimes and an effective combating against them requires a close international cooperation in the field of justice. Georgia has ratified 34 multilateral international treaties and signed 8 bilateral interstate treaties regulating legal assistance issues. Georgia also can provide a legal assistance to another country on the basis of individual agreement or[80] principle of reciprocity. Such assistance includes searching, recovering, seizure and confiscation of property, also monitoring of bank transactions and other measures needed for seeking property subject to confiscation. In urgent cases while there is a threat of concealment or damage of property, these measures can be taken even before receiving formal petition from the competent body of other country.

In recent years the number of petitions for legal assistance on money laundering cases sent/received by the Office of the General Prosecutor of Georgia has increased. On the other hand, the rate of similar petitions on terrorism financing cases has decreased indicating the reduction of terrorism financing risks in Georgia and the countries of the region.

Legal Assistance Petitions[81] on Money Laundering Cases
(Quantity)

Year	2019	2020	2021	2022
Sent Petition	13	13	44	42
Satisfied Petition	10	10	25	13
Received Petition	6	19	26	19
Satisfied Petition	3	13	14	7

Legal Assistance Petitions[82] on Terrorism Financing Cases
(Quantity)

Year	2019	2020	2021	2022
Sent Petition	1	0	0	0
Satisfied Petition	1	0	0	0
Received Petition	1	1	1	0
Satisfied Petition	1	0	1	0

On September 29, 2022 the Office of the General Prosecutor of Georgia signed a corresponding agreement with the European Public Prosecutor's Office on the basis of which Georgia acknowledged the relevance of the international treaties concluded in the frames of UN and Council of Europe in the process of cooperation with the European Public Prosecutor's Office. This agreement will strengthen Georgia's effort in the field of combating transnational crime. In addition, in 2019 Georgia and EUROJUST has concluded an agreement of cooperation, which has enhanced Georgian-European Union cooperation mechanism in the field of

77Rulefor *Electronic Implementation of Preventive Measures by the Accountable Entity* approved by the NBG President's Order No. 48/04 of March 30, 2021.

[78] *Rule for Examining the Client's Ownership and Control Structure and Identifying and Verifying the Beneficial Owner by an Accountable Entity* -approved by the NBG President's Order No. 189/04 dated October 21, 2020.

[79]Drug crime.

[80] Written agreement concluded in connection with a specific case.

[81]Data of the Office of the General Prosecutor of Georgia. Statistics includes sent, received and satisfied petitions on the cases of money laundering.

[82]Data of the Office of the General Prosecutor of Georgia. Statistics includes sent, received and satisfied petitions on terrorism financing cases.

combating transnational crime. After signing the mentioned agreement, the Office of the General Prosecutor of Georgia with the involvement of Georgian Liaison Prosecutor appointed at EUROJUST, effectively cooperates with EUROJUST member countries. An example of this is large-scale events conducted simultaneously on the territories of different countries within the framework of international investigation groups created with the support of EUROJUST, with the involvement of representatives of the Georgian Prosecutor's Office and competent agencies of foreign countries, as a result of which a number of transnational criminal groups were identified.

International cooperation in the field of law enforcement includes exchange of operative information[83] and conducting operational-investigative measures on the territory of Georgia[84] based on the referral of investigative bodies of other states. In order to promote law enforcement cooperation, Georgia has signed 34 bilateral interstate agreements on combating crime, and 18 police attachés have been assigned to 32 countries[85]. An agreement of operative and strategic cooperation was signed between Georgia and Europol in 2017, which significantly accelerated the process of exchange of operative information with EU member states. In 2018 a Memorandum of Understanding on secure communication network and a liaison agreement was also signed with Europol. Liaison officers are assigned in Europol and NATO. Furthermore, since 2012, the Office of the General Prosecutor of Georgia has been participating in the CARIN network[86] as an observer and exchanging information with the property recovery offices on the search of property acquired through criminal activities. In 2018 the Office of the General Prosecutor of Georgia has presented a contact person to the European Commission responsible for cooperation with the EU Property Recovery Service.
The Investigative Service of the Ministry of Finance of Georgia also participates in the CARIN network and similarly exchanges information with property recovery offices for the purpose of tracing criminally obtained property. At the current stage, two contact persons from the investigative service are responsible for the cooperation with the property recovery offices.

CARIN

Received/Completed Requests on Information Exchange[87]

(Quantity)

Year	2019	2020	2021	2022
Sent	6	14	6	6
Satisfied	3	8	4	3

[83] For example, with the help of Interpol, liaison officers and police attaches, as well as other bilateral secure communication and diplomatic networks.

[84] For example, placement of operational worker or transboundary visual control.

[85] A person assigned abroad by MIA, whose function is to promote exchange of operative or other information abour crime. Some of the police attachés are accredited in other countries too. For example, Police attaché in Poland is accredited as well in Lithuania, Lietuva and Estonia. Police attaché in Sweden at the same time is accredited in Denmark, Finland and Norway. Police attaché in Austria is accredited in Hungary too.

[86] International network aimed at promoting cooperation between countries in the field of searching property acquired through criminal activities.

[87] Data of the Office of the General Prosecutor of Georgia. Statistics includes sent, received and satisfied petitions in money laundering cases.

Received	0	3	5	6
Satisfied	0	3	5	6

Georgia has concluded the agreements with 24 countries, the European Union and NATO. It is of great importance for SSSG to intensify international cooperation with the relevant agencies of partner countries. In order to exchange information, secure networks, as well as the networks of police/security attachés within the format of regional organizations are widely used (including Interpol, Europol). In addition, Georgia is a member of the Council of Europe's Counter-Terrorism Supervisory Board.

Consultations are currently underway between the SSSG and the Europol on signing an agreement about the exchange and protection of classified information. In December 2022, on the initiative of SSSG, Georgia became the member of the Europol counter-terrorism analysis projects - Check the Web (CTW), Terrorist Finance Tracking Program (TFTP), Travellers and the Europol Counter-Terrorism Joint Liaison Team (CT JLT) and important steps were taken to launch the Europol Counter-Terrorism Secure Information Exchange Network Application (CT SIENA).

In fighting against terrorism Georgia is actively collaborating with the international organizations (NATO, EU, UN, Council of Europe and OSCE) and involved in different multilateral formats and initiatives. At expert level Georgia is intensely involved in the Global Coalition against Daesh and different working groups established within its frames (groups working on fighting against "Daesh" financing, against foreign terrorist fighters and communications working groups), plenary sessions of the Council of Europe Committee on Counter-Terrorrism (CDCT) and meetings of related working groups, as well as in the meetings of groups working in the frames of the Interpol and the Organization for Democracy and Economic Development (GUAM). In the frames of additional minute of the Convention of the Council of Europe on the "Prevention of Terrorism" Georgia has determined a person 24/7, who is actively involved in the working of the mentioned network.

FMS has been the member of Egmont Group[88] since 2004 and exchanging operative information with similar services[89] of other countries through its secure communication network. FMS is also authorized to provide non-member countries of Egmont with information. FMS does not need to conclude an agreement on information exchange, though it has signed 42 Memorandums of Understanding with the services of countries, which are not able to share confidential data in other way. In 2019-2022 FMS received 286 requests from 62 countries on providing information, which were satisfied averagely in 13 days. Within the same period FMS sent 245 requests on submission of information in 74 countries and by own initiative, provided foreign partners with operative information 66 times. FMS is authorized, at the request of similar

[88] Union of the Financial Intelligence Services of 158 jurisdiction worldwide.

[89] Financial Intelligence (Monitoring) Services responsible for receiving, analysing and if needed, giving confidential information related to the possible cases of money laundering and terrorism financing to the investigative bodies.

service of another country, to instruct accountable people to suspend suspicious transactions or block accounts.[90]

Requests on Submission of Information Sent/Received/Completed by FMS[91] (Quantity)				
Year	Sent Request	Received Request	Completed Request	Sent Information
2022	43	77	33	76
2021	79	90	69	90
2020	71	67	64	67
2019	52	52	46	52

NBG exchanges information with the financial sector supervisory bodies of other countries to review suitability criteria for administrators, significant shareholders (10%) and beneficial owners of financial institutions and conduct group-level supervision. NBG can exchange confidential information on the basis of bilateral agreements signed with the supervisor of the financial sector of all the countries in which the headquarters[92] or subsidiary companies[93] of commercial banks licensed in Georgia are placed. International cooperation of other supervisors is limited to membership of professional associations and sharing supervisory experience [94].

2.12 Summary

Legislation of Georgia and institutional framework are compatible with FATF standards. In recent years, the effectiveness of obtaining, processing and using operative information on the cases of money laundering and terrorism financing by FMS and investigative bodies has increased substantially. There are effective mechanisms of interagency and international cooperation in the field of justice and law enforcement. A number of tools are functioning for promoting public-private cooperation. In addition, the competent authorities have sufficient resources to perform their functions. Completed risk-based supervision is carried out on financial sector. However, supervision of the non-financial sector remains a challenge. Considering these circumstances, the effectiveness of the legal and institutional system of Georgia in the field of prevention, detection and suppression of money laundering and terrorism financing has been evaluated as **average-high.**

Chapter III

[90] In 2019-2022 FMS used this authority 23 times in total, including 2 times as per request of the similar services of another countries.
[91] FMS data.
[92] Germany, Azerbaijan, Kazakhsatan, Turkey, China, Uzbekistan and Zambia.
[93] Belarus.
[94] The Insurance State Supervision Service of Georgia is a member of the International Association of Insurance Supervisors; Service for Accounting, Reporting and Auditing Supervision is a member of the International Forum of Independent Audit Regulators.

MONEY LAUNDERING RISK

3.1 Predicate Crimes

The conclusions drawn in the process of studying predicate crimes of money laundering, as well as the ways and methods of money laundering are based on the results of the reports sent to FMS by the accountable persons about suspicious transactions and the outcomes' analysis of the investigation, prosecution and conviction of the cases of crimes motivated by material benefits and money laundering. At the same time, geographic risk factors and regional challenges were taken into account.

Theft was the most common among crimes motivated by material benefits in the reporting period. Also, common crimes include fraud, tax evasion and cybercrimes. However, the vast majority of thefts is of a petty nature and is not related to the receipt of substantial income.

Common Crimes Motivated by Material Benefits
(Investigation)

Crime	2019	2020	2021	2022
Theft[95]	20,047	17,315	15,680	13,260
Fraud[96]	1,655	1,410	1,394	1,141
Tax Evasion[97]	106	163	729	1,457
Cybercrime[98]	107	144	545	709
Corruption[99]	377	317	272	315

Fraud is the main predicate crime in money laundering investigations. Between 2019 and 2022, fraud was the predicate crime in 83 cases at the beginning of investigation. At the same time, the cases of autonomous money laundering makes up a significant share of investigations, when at the beginning of investigation the alleged source of illegal income is not identified.

Predicate Crimes of Money Laundering Investigations
(Cases)

[95] Criminal Code, Article 177.
[96] Criminal Code, Article 180.
[97] Criminal Code, Article 218.
[98] Criminal Code, Articles 284/2/d -285/2/d – 286/3/d - 286[1].
[99] Criminal Code, Articles 164[1] - 182/2/d - 220 – 221 – 332 (except 3/b/c) – 333 (except 3/b/c) – 337 – 338 – 339 – 339[1] – 340 – 341 – 342 – 355.

Predicate Crime	2019	2020	2021	2022
Unknown Predicate	6	32	34	59
Fraud[100]	14	14	16	39
Making, Selling or Using a Fake Credit/Debit Card[101]	0	9	1	0
Property Damage by Deceit[102]	0	6	0	0
Illegal Business Activity[103]	4	3	1	4
Tax Evasion[104]	0	2	1	4
Use of Subsoil without a License[105]	0	2	1	0
Selling Drugs[106]	0	1	1	0
Embezzlement/Peculation[107]	0	0	1	2
Violation of Rule Related to the Movement of Goods at the Border Customs [108]	0	0	1	0
Membership of Thieves World, Being Thief in Law[109]	0	1	0	0
Tampering Computer Data or/and Damaging Computer System Aimed at Receiving Financial Benefit[110]	0	0	0	2
Theft[111]	2	0	0	1
Bribery[112]	1	0	0	0
Trafficking of Minors[113]	1	0	0	0

Like investigation, fraud was the main predicate crime in money laundering cases in criminal prosecutions. Similarly, the autonomous money laundering prosecution rate is high.

Criminal Prosecution Predicate Crimes on Money Laundering
(Cases, Individuals[114])

[100] Criminal Code, Article 180.
[101] Criminal Code, Article 210.
[102] Criminal Code, Article 185.
[103] Criminal Code, Article 192.
[104] Criminal Code, Article 218.
[105] Criminal Code, Article 299.
[106] Criminal Code, Article 260.
[107] Criminal Code, Article 182.
[108] Criminal Code, Article 214.
[109] Criminal Code, Article 223[1].
[110] Criminal Code, Article 286[1].
[111] Criminal Code, Article 177.
[112] Criminal Code, Article 338.
[113] Criminal Code, Article 255.
[114] Data in the brackets show the number of individuals and legal entities against whom criminal prosecution was carried out.

Predicate Crime	2019	2020	2021	2022
Fraud[115]	5 (12)	5 (13)	20 (42)	19 (67)
Unknown Predicate	1 (2)	3 (5)	3 (32)	4 (28)
Making, Selling or Using a Fake Credit/Debit Card [116]	4 (14)	1 (6)	4 (7)	3 (4)
Property Damage by Deceit[117]	4 (7)	4 (13)	0	1 (1)
Illegal Business Activity[118]	0	2 (7)	1 (1)	4 (6)
Embezzlement or Peculation[119]	0	0	3 (8)	2 (2)
Knowingly Purchasing or Selling the Property Acquired through Criminal Activity[120]	0	0	2 (4)	3 (4)
Selling Drugs[121]	0	2 (6)	0	2 (2)
Use of Subsoil without a License[122]	0	1 (2)	1 (3)	0
Unauthorized Access to the Computer System[123]	0	1 (2)	0	0
Bribery[124]	0	0	1 (2)	0
Promoting Prostitution[125]	0	0	1 (1)	0
Membership of Thieves World, Being Thief in Law[126]	0	0	0	1 (1)
Facilitating Illegal Stay of Georgian Citizen in the Foreign Country[127]	0	0	1 (1)	0
Trafficking of Minors[128]	1 (3)	0	0	0
Theft[129]	1 (3)	0	0	0
Commercial Bribery[130]	1 (1)	0	0	0

3.1.1 Fraud

According to the legislation of Georgia, it is criminalized to take a possession of other person's thing or property right by deception for the purpose of illegal appropriation. The maximum penalty for fraud is up to 10 years imprisonment. In 2019-2022 investigation has started in 5,600 alleged cases of fraud[131], and in

[115] Criminal Code, Article 180.
[116] Criminal Code, Article 210.
[117] Criminal Code, Article 185.
[118] Criminal Code, Article 192.
[119] Criminal Code, Article 182.
[120] Criminal Code, Article 186.
[121] Criminal Code, Article 260.
[122] Criminal Code, Article 299.
[123] Criminal Code, Article 284.
[124] Criminal Code, Article 338.
[125] Criminal Code, Article 254.
[126] Criminal Code, Article 223[1].
[127] Criminal Code, Article 344[2].
[128] Criminal Code, Article 143[2].
[129] Criminal Code, Article 177.
[130] Criminal Code, Article 221.
[131] Data of the Office of the General Prosecutor: 2019 – 1,655, 2020 – 1,410, 2021 – 1,394, 2022 – 1,141.

the same period criminal prosecution[132] was carried out against 3,004 persons on fraud charges. The statistics of investigation and prosecution of fraud cases do not show a sharp increase/decrease in recent years. Most of the registered fraud crimes are the variaties of classic frauds – acquiring private or state property using fake documents under false condition of supplying goods or delivering services.

In 2019-2022, fraud was the predicate crime in the majority of money laundering cases. In particular, fraud was identified as a predicate crime in 83 out of 244 money laundering investigations and in 49 out of 107 money laundering prosecutions. In these cases frauds committed using mass communication methods and transnational frauds take significant place, when illegally acquired funds are accumulated in the banking sector, on the bank accounts of the so called shell companies[133] or related individuals and legal entities.

There are many ways to commit the crime of fraud. In particular, in the analysis carried out by the FMS, including the messages received from the accountable persons in 2019-2022, covers fraud types such as: pretending to be a legitimate company[134], the so called romance scam[135], investment fraud, personal use of charitable donations, insurance and loan fraud. In recent years, increasing trend of investment fraud through the so called boiler rooms (call centers) has been observed. In this case, specially created call centers contact potential victims and try to persuade them to invest money in fraudulent schemes (for example, buying virtual currency, binary options, forex trading). Call centers are mainly financed by the so called shell companies[136] registered in other countries. The mentioned centers claim on their websites that their activities are: marketing, market research or online advertising services. The costs of call centers are limited to the purchase of services from communication companies (including the so called VoIP services), the purchase of communication equipment (for example, computers, headsets) and the payment of salaries and bonuses to employees.

In response to this trend, investigative bodies of Georgia conducted large-scale measures within the framework of the international investigative team created with the support of Eurojust. In 2021-2022, criminal prosecution for this crime has been initiated against 63 persons. As part of the ongoing investigations, in the same years, possibly criminally acquired property, worth approximately 86.7 million GEL was attached: finances, movable and immovable estate and virtual assets.

Threat level – the main predicate of money laundering in Georgia is a fraud. There are various methods to commit crime. Frequently, fraud is international crime which makes it difficult to identify criminals and collect evidences. However, combating fraud is actively conducted. Considering this circumstances, the threat of money laundering derived from fraud has been evaluated as **average-high**.

3.1.2 Cybercrime

[132] Data of the Office of the General Prosecutor. Criminal prosecution: 2019 – 509, 2020 – 425, 2021 – 986, 2022 – 1,084.
[133] Legal entity, which essentially functions as money passer and does not conduct real business activities.
[134] For example, using a name similar to that of a vendor of pandemic fighting products (and making fake websites and documents).
[135] Fake up identity and conduct a romance fraud accompanied by requests for financial support or other forms of manipulation.
[136] Legal entity which essentially functions as money passer and does not conduct real business activities.

Georgian legislation criminalizes unauthorized access to the computer system and other crimes defined by the Convention of the Council of Europe on "Cybercrime" (Budapest Convention) [137]. In 2021, significant amendments were made to the Criminal Code of Georgia, which made such actions punishable as tampering computer data and/or computer systems aimed at financial gain[138] and creating fake official computer data[139]. In 2020-2022, 5,994 alleged facts[140] of cybercrime were detected, for which 634 persons[141] were detained. Out of this within 2021-2022 1739 alleged cases of cybercrime motivated by receiving material benefits were revealed and criminal prosecution has started against 236 persons[142]. These data indicate that the rate of cybercrime detection and prosecution of perpetrators has been increasing in recent years.

In 2019-2022, the trend of previous years continued and cybercrimes committed in Georgia, which were accompanied by the receipt of illegal income, mainly included the so called spam[143], hacking[144], phishing[145], carding[146]. These crimes were not characterized by technological complexity or the large amount of money. Illegal income was sometimes transferred to a bank or online casino's accounts. In some cases, funds transfered to online casino's accounts were lost with accomplices and then there were attempts to withdraw those funds to bank accounts. In the case of phishing and carding, the use of data of illegally appropriated payment cards was carried out in various trade establishments (e.g. hotel, workshop, restaurant). However, through parallel financial investigation conducted on the alleged facts of cybercrime motivated by receiving material benefits, the frequent facts of money laundering are not detected. Cybercrime methods are expected to be improved as technology continues to evolve.

In 2021, approximately 76% of the population of Georgia used the internet, and this data has been steadily increasing[147] in recent years. E-commerce penetration and online banking is increasing. Analysis of practices also reveals that criminals use powerful digital, technological and intellectual resources to manipulate through computer systems. Consequently, threats derived from cybercrimes are increasing.

A Specialized Unit (Division) of Combating Cybercrime under the Central Criminal Police Department in MIA operates to detect, suppress and prevent illegal acts carried out in the cyberspace. As per request of the Convention, 24/7 national contact point functions in the mentioned unit conducting exchange of information related to the international cybercrime with the relevant law enforcement services of the Convention member countries.

[137] Georgia ratified Budapest Convention in 2012.
[138] Criminal Code, Article 286[1].
[139] Criminal Code, Article 286[2].
[140] Crimes defined in Chapter XXXV of the Criminal Code of Georgia includes only cases related to the receipt of material income.
[141] In 2019 – 128 persons, in 2020 - 139 persons; in 2021 - 163 persons; in 2022 - 204 persons.
[142] Data of 2021 are presented only for the period of May-December.
[143] Opening an internet link or an attached document in a mass e-mail causing infection of the computer system to be infected by the malware.
[144] For example, unauthorized access to online casino accounts, system of quick payment machines or the electronic trading platform.
[145] Deceiving the victim on a fake web page similar to the real one and by capturing personal data, unauthorized access to his/her computer system.
[146] Cloning of payment card or capture card data in other way.
[147] Data of UN International Telecommunication Union (ITU).

In order to strengthen the fight against cybercrime, in 2020 a Specialized Unit for Combating Cybercrime was established under Tbilisi Police Department of MIA. The creation of similar units is being considered in regional police departments too. In addition, the sub-unit for Computer-Digital Forensics operates in the Ministry of Internal Affairs aimed at collecting digital evidence.

In 2020, in cooperation with Europol and Interpol, the representatives of the Central Criminal Police Department of the Ministry of Internal Affairs participated in the international police operation involving law enforcement agencies of 16 countries. As a result of this operation, 20 members of criminal network, including Georgian citizens, were detained, who, according to the instructions of cybercriminals were laundering illegal income of tens of millions of euros. This operation was preceded by a complex investigation in the European and American countries.

In regard to tighten criminal policy against cybercrime, it is of noting that in 2021 the Parliament of Georgia has approved a draft law initiated by MIA, according to which articles were added to the Criminal Code of Georgia which defines responsibility for tampering computer data/system aimed at receiving financial benefit and for creating a fake official computer data.

Furthermore, as a result of cooperation between MIA and representatives of private sector, in accordance with the identified trends of crime, the mechanisms for protecting bank and gambling accounts were improved resulting a drastic reduction in number of cybercrime cases committed through the above noted methods in 2021.

Cybercrime[148]		
Year	Registration	Opened
2019	1,806	98
2020	2,143	206
2021	1,114	219
2022	931	351
Sum	**5,994**	**874**

In 2022, in response to the growing statistics of crimes committed using computer systems, the Cybercrime Division was established in the Office of the General Prosecutor of Georgia. Unlike the special units of the Ministry of Internal Affairs, the goal of the Cybercrime Division of the Office of the General Prosecutor is to reveal the facts of cybercrimes related to and directly under the investigative subordination of the Office of the General Prosecutor, respond quickly to the reports of cybercrimes and conduct effective investigation and criminal prosecution of cybercrimes. In the same period, a digital laboratory equipped with special software and technical equipment was created, which significantly increased the capabilities of the Office of the General Prosecutor in the field of combating cybercrime.

In addition, a Computer Emergency Response Team (CERT) operates in the LEPL Digital Governance Agency that conducts monitoring of cyberspace and minimization of damage in the frames of the competence provided by the law. In 2011, CERT gained international recognition for detecting and tracing

[148] Criminal law, Articles 284-286[2] (Chapter XXXV).

the source of a virus designed for cyber espionage. To promote public-private collaboration, CERT also hosts a cybersecurity forum and information sessions on emerging threats.

Computer Emergency Response Team under the LEPL Operative-Technical Agency of Georgia (CERT.OTA.GOV.GE) carries out handling of incidents against information security in Georgian cyberspace, other activities regarding and related to the coordination of information security in compliance with the competence defined by the legislation of Georgia.

In order to effectively respond to the threats of cybercrime, the Government of Georgia approved the 2021-2024 National Cybersecurity Strategy and its Action Plan[149] developed by considering the best international practices. A special chapter in the strategy is referred to cybercrime and the following priority directions are defined: (i) development of cyberculture for information society and organizations and strengthening capabilities to deal with threats and incidents in cyberspace; (ii) sustainability of cybersecurity governance system and strengthening public-private cooperation; (iii) development of cyber capabilities with powerful human resources and appropriate technical support; (iv) strengthening the role of Georgia as a safe and secure country in the field of cybersecurity.

High rate of financial-economic crimes committed using computer technologies conditioned the creation of a new sub-unit under the Investigation Department of the Investigation Service of the Ministry of Finance of Georgia – Division of Combating Financial-Economic Crimes Consisting of Cybercomponent. The main function of the noted division is to identify and analyze the types and methods of committing crimes consisting of cybercomponents subject to investigation of the service, conduct operative-searching activities aimed at detection-suppression of crimes committed using cybercomponent subject to investigation of the service and carry out a full-scale investigation. In addition, effort of investigation service will be addressed to the prevention, detection and suppression of crimes committed by using virtual assets in the financial-economic field.

Threat level - the amount of cybercrime origin illegal income in Georgia is relatively small. Current institutional mechanisms aimed at combating cybercrime are functioning effectively. Investigative authorities have well studied the ways of committing crimes and successfully cooperate with competent bodies of other countries. However, public awareness of cybersecurity issues is still low. Effectively dealing with the growing cybercrime requires further development of the material and technical base of investigative bodies. Considering these circumstances, the threat of money laundering derived from cybercrime has been assessed as **medium**.

3.1.3 Illegal Drug Trafficking

According to the legislation of Georgia, crimes related to illegal drug trafficking are criminalized and severely punished, and in the presence of aggravating circumstances, a person may be sentenced to life imprisonment. In 2021, significant amendments were made in the Criminal Code of Georgia, and punishments for illegal trade of drugs, its analogue, precursor and new psychoactive substances were

[149] Resolution No.482 of the Government of Georgia dated September 30, 2021.

tightened[150]. The fight against illegal drug trafficking is a priority of the country, and the benefits provided by the law in relation to persons involved in this crime are used in rare cases - in special cooperation with the investigation. In addition, the civil procedure regarding confiscation of property applies to persons convicted of drug trade, their family members, close relatives and other related persons.

As a result of the work carried out by the investigative bodies in recent years, there is a trend of decreasing drug-related crime. In 2019-2022, 19,211 alleged facts[151] of drug-related crimes were recorded. Criminal prosecution has been initiated against 15,993 persons[152]. At the same time, the rate of criminal prosecution against drug dealers is stable on a high level (9-10%) indicating the effectiveness of the fight against drug-related crime. In 2019-2022, 523 drug dealers were prosecuted[153]. Multifaceted payment methods are used for illegal drug trafficking - depositing cash into bank accounts including through fast payment machines, electronic money transfer, etc.

Common drugs in Georgia include heroin, buprenorphine and new psychoactive substances manufactured outside the country. The ways of bringing them to the territory of Georgia (land, air and sea), methods and countries of origin (Middle Eastern and European states) are well studied and documented. In the post-pandemic period, an increase is observed in the cases of cocaine transit detection and seizure of this narcotic drug on the basis of cooperation with investigative bodies of other countries.

Narcotic Drugs and Psychotropic Substances Seized from Illegal Circulation[154]
(Gram/Pill)

Type	2018	2019	2020	2021	2022
Marijuana and Hashish	71,119	245,313	156,802	154 ,762	65,986
Cannabis (Hemp Plant)	1,097,208	2,573,013	1,885,020	2,342,435	166,562
Heroin	10,935	6,320	29,520	7,646	5,670
Buprenorphine	12,662 (ამპ)	30,350 (ამპ)	7,237 (ამპ)	5,012 (ამპ)	6,110 (ამპ)
Cocaine	4,400	1,150	35	2,434	8,085
Codeine	5,988	87	60	24	9
Morphine	148	109	80	6	7
Other Drugs	24,187	55,588	22,875	74,133	56,178
Psychotropic Substances	928	1,641	1,064	1,032	782
New Psychoactive Substances	689	4,780	1,922	25,550	109

In recent years, through the parallel financial investigation on cases of illegal drug trafficking, it became possible to reveal the facts of money laundering by drug dealers and initiate criminal prosecution. In particular, in 2020, 2 drug dealers were prosecuted, whose property worth 308,000 GEL was confiscated due

[150] Criminal Code, Articles 260 and 261.
[151] Data of the Office of the General Prosecutor: 2019 – 6,415, 2020 – 3452, 2021 – 3,873, 2022 – 5,471 alleged facts.
[152] Data of the Office of the General Prosecutor: 2019 – 5,141, 2020 – 2,953, 2021 – 3,319, 2022 – 4,580 persons.
[153] Data of MIA: 2019 – 114, 2020 – 71, 2021 – 136, 2022 – 202 persons.
[154] Data of the Office of the General Prosecutor. The table shows the net weight of narcotic drugs determined by the expertise and not the seized amount. Net weight determination is based on the fact that criminal prosecution is carried out according to the net weight and not the total amount.

to court decision; In 2021 4 drug dealers were prosecuted, whose property worth 119,500 GEL was confiscated; In 2022 1 drug dealer was prosecuted, whose property worth 77,600 GEL was confiscated due to court decision.

In order to combat drug-related crime the Investigation Service of the Ministry of Finance of Georgia carries out the detection of cases of the so called "pharmacy drug addiction" on a regular basis. The service detected tens of pharmacies illegally selling psychotropic medications. Particularly, in 2021-2022 50 cases of the so called "pharmacy drug addiction" were detected and criminal prosecution has started against 109 persons.

The geographical location of Georgia is a risk factor in terms of international drug transit. Since 2014, there has been operating a drug transit prevention group monitoring cargoes entering the country and transport companies to detect drug trafficking. All the main routes of drug transit through Georgia have been studied and documented. Container control program has been implemented since 2012. In particular, three container control groups created by the United Nations Office on Drugs and Crime (UNODC) and the World Customs Organization (WCO) operate to detect the facts of smuggling of narcotic drugs, psychoactive substances and precursors. The mentioned groups consist of the employees of the Central Criminal Police Department of the Ministry of Internal Affairs and the Patrol Police Department, as well as the Tax and Customs Policy Department and the Investigation Service of the Ministry of Finance of Georgia. The purpose of these groups is to detect and inspect high-risk contraband cargo including precursors during air, sea and land shipments. As a result of successful international cooperation, in 2020, 3 citizens of Bulgaria were detained, who brought about 40 kg heroin from Iran to Georgia using the transit road of Armenia. Seizure of these narcotic drugs conducted in Batumi.

Over the last years, the increase in international cargo traffic has made Georgia a more favorable state for drug traffickers. In order to deal with this challenge, a special structural unit has been created in the Ministry of Internal Affairs. In 2019-2022, 238 people were prosecuted[155] throughout the country for illegally importing narcotic and psychotropic substances in Georgia.

In February 2023, the Inter-agency Coordinating Council on Combating Drug Abuse approved the National Strategy on Combating Drug Abuse for 2023-2030 and the accompanying Action Plan for 2023-2024. The Action Plan describes a four-pillar approach, which in turn derives from the above-mentioned drug policy strategy, and aims at reducing medical, social and economic damage caused by the illegal circulation of drugs in the country. In 2020, within the framework of the Inter-agency Coordinating Council on Combating Drug Abuse, by the order of the Minister of Justice, the National Center for Drug Abuse Monitoring has also established which has been conducting monitoring of drug situation in the country including illegal consumption and circulation of psychoactive substances. In order to plan effective interventions for improving drug situation, the center uses evidence-based methodologies and conducts thematic research.

The National Center for Drug Abuse Monitoring is accountable to the Interagency Council. Center cooperates with various state institutions and non-governmental organizations and partner international

[155] Data of the Office of General Prosecutor: in 2019 - 121 persons, in 2020 - 37 persons, in 2021 - 26 persons, in 2022 - 54 persons. The figure for 2020-2021 was affected by the pandemic, when movement across the border was restricted.

organizations. The center has started active work since March 2020 in cooperation with the European Monitoring Center for Drugs and Drug Addiction (EMCDDA).

Aimed at studying the prevalence and characteristics of drug use, the Center has conducted various surveys including the General Population Surveys (GPS)[156] (2022), the Wastewater Analysis (WWA)[157] (2021), the European Web Survey on Drugs (EWSD)[158] (2021) and a survey of medical facilities[159] (2021). The center's reports provide analysis of the important information to support the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia to make evidence-based decisions in order to adapt treatment and harm reduction programs and allocate funds appropriately.

In 2017, the types and measures of punishment provided for sowing, growing and cultivating cannabis for personal consumption in various volumes were abolished[160]. In the same year, the use of the narcotic drug marijuana was decriminalized[161], and since 2018, the consumption of up to 5 grams of marijuana in private space was allowed[162]. In order to assess the impact of these changes on the level of demand for drugs, in 2020, the organization "Alternative Georgia" conducted a study, according to which, one year after the legislative changes, no significant changes in the distribution and consumption of cannabis were detected[163]. Nevertheless, it is important that similar studies are systematically conducted to examine the effects of relaxing legislative requirements.

Threat level – geographic location of Georgia is a risk factor in regard to narcotransit. However, detection of facts related to illegal circulation of drugs and financial investigation in parallel is conducted effectively preconditioned by interagency coordination, monitoring of current situation and effective mechanisms of international cooperation in the field of combating drug-related crime. Thus, the threat of money laundering derived from illegal circulation of drugs was assessed as **average-low**.

3.1.4 Tax Evasion

According to the legislation of Georgia intentional tax evasion is criminalized implying non-payment of the tax charged to the entrepreneur. The initial limit of criminal responsibility is an unpaid tax that exceeds

[156] The study examined the prevalence of tobacco, alcohol, narcotic drugs, gambling, and psychotropic medications among the population aged 18-64 (cannabis use 4.6% (range 4.0 to 5.3); prevalence of other illegal drugs - from 0 to 1%).

[157] As a result of the survey methamphetamine consumption was revealed in Tbilisi, Rustavi and Gardabani (9 mg/day/per 1000 inhabitant).

[158] Survey has identified risk behaviors associated with drug use that need to be addressed in terms of adapting treatment programs and harm reduction. In addition, the mainly used ways of distribution of narcotic drugs were identified.

[159] The purpose of this study was to obtain detailed information about specific drug services and harm reduction programs for drug users. As a result of the study, challenges were identified in regard to treatment and harm reduction institutions in 2019. In particular, treatment programs and harm reduction services are not available in all regions, and harm reduction organizations cannot study the unique number of drug users. In addition, the main challenge remains the lack of long-term residential type rehabilitation programs. Only one organization in the country (13 beds) provides the noted service.

[160] The decision of the Constitutional Court of Georgia of July 14, 2017 (No. 1/9/701,722,725), which abolished the use of imprisonment for illegal sowing, growing or cultivation of up to 151 grams of cannabis for personal consumption, and the prescribed measure of punishment for the illegal sowing, growing or cultivation of cannabis for personal consumption of up to 266 grams (imprisonment from 6 to 12 years).

[161] The decision of the Constitutional Court of Georgia of November 30, 2017 (No. 1/13/732), which has executed on November 30, 2018.

[162] The decision of the Constitutional Court of Georgia of July 30, 2018 (No. 1/3/1282), which has executed on November 30, 2018.

[163] Report of 2020 on drug situation.

100,000 GEL. However, the liability becomes heavier if the unpaid tax is more than 150,000 GEL. The statute of limitations for tax audits is 3 years, and in case of payment of tax debt within 45 days, the person is released from responsibility.

In 2020-2022 2,349 alleged cases of tax evasion were detected. Investigation statistics is increasing. If in 2020 investigation of tax evasion has started on 163 facts, and in 2021 – on 729 facts, in 2022 investigation has started on 1457 cases. Analysis of the revealed facts shows that tax evasion crimes mostly imply reducing taxable turnover by falsifying tax returns, violating accounting rules, artificial increase of deductible expenses, and reducing earned profit. Complex tax evasion schemes involving corporate structures set up in offshore financial centers are rare. The reason for the less complex nature of tax crime is the simple tax system and effective tax administration in Georgia.

Statistics of criminal prosecution have also increased – in 2020 13 persons were charged with tax evasion, in 2021 - 38 persons, and in 2022 - 167 persons. The volume of compensated damages is impressive - in 2020 - about 25 million GEL, in 2021 – more than 70 million GEL; in 2022 - about 120 million GEL. Considering the damage caused to the state budget, the fight against this crime was defined as a priority direction. Crime detection measures were strengthened, criminal justice policy was tightened, and summary (procedural) decisions were made in the shortest time possible. These circumstances led to a substantial increase in the statistics of initiated investigations and criminal prosecutions.

In the investigation of the facts of legalization of illegal income received in the form of unpaid taxes, there are certain hindering circumstances including: (i) Registration of enterprises on behalf of fictitious, socially disadvantaged persons or individuals living on uncontrolled territory, who do not conduct accounting documentation and evade investigation after committing a crime; (ii) Tax disputes underway in court for years, after completion of which it becomes difficult to identify the recipients of financial benefits and illegal assets obtained by committed crimes. In order to response the mentioned problems it is planned to initiate a special package for legislation amendments implying perfection of legal norms to cover any possible detection of tax evasion, reforming the stages of tax disputes, flexible limitation periods and improving measures to ensure the fulfillment of tax obligations.

The size of the so called informal economy is still a challenge, it has been decreasing in recent years as a result of improvements in state governance and the regulatory environment, though it is still big. The National Statistics Office of Georgia (hereafter - "Sakstat") studies the volume of unobserved economy in Georgia including the hidden, illegal, informal and production in households carried out for personal consumption. In particular, in accordance with the EUROSTAT classification, the unobserved economy study conducted by Saxstat consists of such components as the underground economy (legal activity carried out by an unregistered entrepreneur), illegal production, registered enterprises beyond statistical observation, etc. According to Saxstat data, in 2022 the volume of the unobserved economy in the gross domestic product of Georgia made up 13.1%.

Meanwhile, according to the surveys[164] carried out by the International Monetary Fund (IMF), one of the most successful tax reforms in the world was implemented in Georgia. In particular, in 2004-2015, the number of taxes (from 21 to 6) and rates were drastically reduced, with the introduction of modern technologies (e.g. electronic declarations) opportunities for corruption were eliminated and tax mobilization was significantly improved. As a result, the country's tax revenues grew from 12% to 25% of GDP, and increased tenfold in nominal terms. In recent years, aimed to further simplifying the tax system, a distributed profit tax[165] was introduced. Revenue service applies risk management automated system for tax administration. Particularly, selection for inspection of tax and customs declarations is conducted due to preliminary defined risk factors. As a result, in recent years, a volume of finances mobilized in the state budget of Georgia has significantly increased (in 2019 - 11,4 billion GEL; in 2020 – 11 billion GEL [166]; in 2021 - 13,4 billion GEL; in 2022 - 17.4 billion GEL), and in 2018-2022 as a result of tax audits the amount accrued made up 5.04 billion GEL[167].

An important part of countries in the region is characterized by a high level of tax evasion and illegal financial flows. In 2011, Georgia became a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes[168]. In 2016, the Global Forum assessed Georgia's cooperation with other countries in the field of taxes as compatible with the standard of "Exchange of Information on Request" (EOIR). For tax purposes, information can be exchanged with 103 jurisdictions including major trading partners and EU member states[169].

In 2016, Georgia also joined the Tax Base Erosion and Profit Shifting (BEPS) inclusive platform. In 2017 within the framework of BEPS, the preferential tax regimes in the country were evaluated as non-harmful tax practices. Currently in Georgia there are 4 types of preferential tax regimes: international financial company, special trading company, free industrial zone enterprise and virtual zone entity (IT companies). As of 2022, totally, 71 international companies, 497 free industrial zone enterprises, 226 special trading companies and 1204 virtual zone entities are registered. Such companies apply certain exemptions for VAT, import, property and profit taxes. In 2022, urnover of international companies amounted to about 914 million GEL, of free industrial zone enterprises - 195 million GEL, of special trading companies - 499 million GEL and of virtual zone entities – 98 million GEL.

Based on legislative amendments adopted in 2022, financial institutions were obliged to implement the procedures stipulated by the OECD Common Reporting Standard (CRS) and provide information on financial reports to the Revenue Service, which in turn will share this information to the competent

[164] Fiscal Monitor 2019 and State Fund Management 2018.
[165] Taxation of business profits only in case of dividends' distribution.
[166] Reduction in revenue in 2020 is conditioned by pandemic.
[167] Of this, 2.44 billion GEL was charged as a fine.
[168] A union created on the basis of the Organization for Economic Co-operation and Development (OECD) including 150 member countries.
[169] In 2011, Georgia joined the International Convention "On Mutual Administrative Assistance in Tax Matters". Georgia has also signed treaties with 55 countries on avoidance double taxation, and agreements with 3 countries on mutual administrative assistance and information exchange in tax matters.

authorities of other countries. Implementation of CRS will significantly contribute to the fight against tax evasion.

Threat level – tax evasion facts are increasing promoted with the volume of informal economy and relatively high level of tax evasion and illicit financial flows in the countries of the region. On the other hand, fighting against the noted crime is the priority of investigative bodies which is proved by the significant increase in the rate of investigation and criminal prosecution. Georgia conducts an intensive cooperation with other countries in the field of taxes and it will be deepened in the future with the introduction of CRS. Furthermore, it is a small probability of using preferential tax regimes operating in the country for aggressive tax planning. Considering these circumstances, due to tax evasion the risk of money laundering was assessed as **average**.

3.1.5 Organized Crime

According to Georgian legislation, membership in the "World of Thieves" is punishable by 7 to 10 years imprisonment, and being a "Thief in Law" - by 9 to 15 years imprisonment. In 2018, the legal mechanisms to fight against the "World of Thieves" were significantly strengthened. The concept of membership in the "World of Thieves"[170] and the circle of related crimes[171] expanded. The National Strategy and the Action Plan for Combating Organized Crime of 2021-2024 envisages improving coordination between investigative bodies and reducing the volume of the economic benefits illegally obtained by "Thieves in Law" and members of the "World of Thieves".

In 2021-2022, 133 alleged cases of crime related to the "World of Thieves" were observed. In 2019-2022 criminal prosecution has started in 61 criminal cases related to the "World of Thieves" against 272[172] persons. Out of this, 16 "thieves in law" [173] were accused and the charges presented against 256 persons included the facts[174] of membership, support and addressing the "World of Thieves".

The majority of prosecuted cases were related to illegal receipt of material benefits[175]. The methods of committing crime were mainly manifested in demanding payment of money through discussion according to the "Thieves" rule, as well as in extortion of money by intimidation and threatening. The Office of the General Prosecutor of Georgia conducts a strict criminal policy on cases of the mentioned category and the preferentials provided by the legislation are applied in exceptional cases - while special cooperation with the investigation. Parallel financial investigation conducts the study of property, which may have been acquired as a result of the criminal activities of the members of the criminal underworld.

[170] Passive membership in the "World of Thieves" became punishable for which it is enough to express the will to commit a crime without conducting activities.
[171] Participation in the so called "Thieves" meeting, support of activities of the "World of Thieves" and addressing the "Thief in Law" became punishable.
[172] Data of the Office of the General Prosecutor. Criminal prosecution was conducted against 54 persons in 14 cases in 2020, against 95 persons in 15 cases in 2021, and against 85 persons in 17 cases in 2022.
[173] Data of the Office of the General Prosecutor. Criminal prosecution was conducted against 54 persons in 14 cases in 2020, against 95 persons in 15 cases in 2021, and against 85 persons in 17 cases in 2022.
[174] Data of the Office of the General Prosecutor. The number of people charged: in 2020 - 49, in 2021 - 93 and in 2022 - 79.
[175] Criminal Code, Articles 223^1, 223^2, 223^3 and 223^4.

The “World of Thieves” is a criminal union popular in post-Soviet countries, which is managed by informal rules - the "Thieves' Code". In its modern form the criminal underworld was established in the Gulag system in the 1930s, and was especially powerful in Georgia in the 1990s and early 2000s. Within this period, the weakness and corruption of state institutions was creating a good ground for the organized crime. In 2005, membership in the criminal underworld and being a “Thief in Law” became punishable and subject to civil forfeiture. The new approach was based on the so called US Anti-Mafia Legislation of Rico and Italy. As a result of the intensive fight against the criminal underworld, organized crime has drastically decreased. The absolute majority of “Thieves in Law” left Georgia. In the World Economic Forum's “Global Competitiveness Index” of 2019 measuring the impact of organized crime on business, Georgia ranks N25. According to the study, racketeering and extortion of business entities by organized crime groups in the country is rare.

A side effect of the successful fight against the criminal underworld within the country was sheltering of the members of Georgian criminal groups in other countries. They are most active in several EU countries and are mostly engaged in robbery of residential apartments and commercial facilities. There were no facts observed in Georgia of bringing the property obtained in this way and the income received from it. The law enforcement structures of other countries did not inform the investigation bodies and FMS of Georgia about the noted practice either. In 2021, with the direct participation of the police attachés of the Ministry of Internal Affairs of Georgia, 13 joint operations were conducted in EU member states, which resulted in the arrest of 90 Georgian citizens and 4 “Thieves in Law”, which is one of the examples of successful cooperation in the field of fighting transnational organized crime.

Threat level - Georgia has achieved significant success in the fight against the criminal underworld, which is conditioned by the effective legal tools and investigative methods needed to fight organized crime. As a result, the level of organized crime in the country is low. At the same time, investigative bodies effectively cooperate with law enforcement agencies of other countries to identify criminal groups of Georgian origin. There were no facts of laundering illegal income by these groups in Georgia. Considering these circumstances, the threat of money laundering from organized crime was assessed as **average-low**.

3.1.6 Corruption

Georgian legislation criminalizes all types of corruption crimes (e.g. giving/offering bribe, abuse of official authority, influence peddling, receiving a gift prohibited by law). It is punishable both to give a bribe and offer/promise a bribe. Bribe taking is also a completed crime from the moment a bribe is demanded or offered/promised. The minimum punishment for bribery is 6 years imprisonment. The bribe payer can be sentenced to imprisonment for up to 3 years even if there are no aggravating circumstances. The severity of the punishment is an incentive by the bribe payer to cooperate with the investigation, which helps to open complex cases. The civil rule of property confiscation is applied to a person convicted of a corruption crime, his/her family members, close relatives and related persons (see subchapter 2.8).

Investigative bodies implement a strict criminal policy in relation to corruption crimes. The investigation of corruption crimes is simultaneously the competence of the Office of the General Prosecutor of Georgia, the State Security Service of Georgia and the Investigation Service of the Ministry of Finance of Georgia. Such diversification of the fight against corruption increases the possibility of detecting crime and

contributes to the effectiveness of investigation. In 2020-2022 investigations started on 904 cases[176] of corruption crimes, and criminal prosecution was carried out against 695 persons[177] in 432 cases. Most of the sentenced persons are employees of local self-government bodies, mostly middle and low-ranking officials.

Georgia has made significant progress in the fight against corruption as a result of the targeted efforts of investigative bodies and public administration reform. In the 2022 Transparency International "Corruption Perceptions Index" measuring the level of corruption in the countries, Georgia ranks N41, which is the best result in the Eastern Europe and Central Asia region. Aimed at fighting against corruption, among the reforms carried out in recent years, it is worth noting the introduction of a system for monitoring property declarations of officials and their family members. Moreover, the legal instruments for the protection of whistleblowers were improved, the transparency of public procurement was increased and accountable persons were tasked to determine the legal origin of the property of local politically active persons.

In order to increase the effectiveness of the fight against corruption, the Corruption Prevention Service of the Anti-corruption Agency under the SSSG carries out the analysis of corruption risks, identification of vulnerable areas and planning/implementation of preventive measures in the public service structures. In particular, the Corruption Prevention Service is actively working with public officials on anti-corruption measures to raise their awareness, and to this end, in 2021-2022, it held regular information meetings with relevant target groups. In particular, in the frames of the project funded by the EU[178], by the support of the Council of Europe, information meetings (8 meetings) were planned and implemented aimed at raising awareness of the representatives of state and local governmental bodies. In the frames of the mentioned meetings, totally 223 public employees were trained both in Tbilisi and in different regions of Georgia (Kakheti, Imereti, Adjara, Guria, Samtskhe-Javakheti, Shida Kartli). The Corruption Prevention Service also analyzes international practice and participates in the so called preparation of technical documents on corruption prevention issues[179]. Within the frames of the project of thr EU and the Council of Europe the following technical documents were elaborated with the envolvement of international expert: “Sharing Best Practice Applied by the Relevant Anti-Corruption Law Enforcement Bodies Aimed at Preventing Corruption in Public Sector” and the training guideline: “Prevention of Corruption in Public Sector”.

The Office of the General Prosecutor of Georgia is working on the structural reform aimed at strenghtening Specialised Anti-Corruption Unit operating under the Prosecutor’s Office. A big part of the countries in the region is characterized with a quite high level of corruption and illegal financial flows. Thus, financial institutions are regularly updated with the information about the corruption risk factors[180].

[176] Data of the Office of the General Prosecutor. Investigation has started in 317 cases in 2020, 272 cases in 2021, and 315 cases in 2022.

[177] Data of the Office of the General Prosecutor. Criminal Prosecution was conducted in 109 cases against 230 individuals in 2020, in 120 cases against 197 individuals in 2021, and in 203 cases against 268 individuals in 2022.

[178] Project of the EU and the Council of Europe “Partnership for Good Governance” (PGG II): “Improvement of Corruption, Money Laundering and Terrorism Financing Combat and Prevention Systems in Georgia”.

[179] For example, “The Best Practice Applied by Anti-Corruption Law Enforcement Bodies Aimed at Preventing Corruption in Public Sector”.

[180] "Guideline of Illegal Income Legalization and Terrorism Financing Risk Assessment" approved by the NBG President's order N82/04 of May 7, 2019.

Threat level – corruption level in Georgia is low and rarely is presented as money laundering predicate crime. A severe criminal policy is carried out against corruption and an intense fighting is conducted against corruption crimes. However, in the countries of the region a high level of corruption and illegal financial flows is an essential threat. Considering the noted circumstances, due to corruption money laundering threat is evaluated as **average-low**.

3.1.7 Human Trafficking

According to the legislation of Georgia any types of trafficking is criminalized including sexual and labor exploitation and the use of victim service. Imprisonment with the term from 7 to 20 years is defined as punishment for trafficking. In the case of trafficking of minors the punishment may be defined as life imprisonment.

In 2019-2022 71 alleged cases of trafficking[181] were detected, among them criminal prosecution has started in 42 cases[182]. Victims are both Georgian and other countries' citizens. They were promised well-paid jobs, though then their freedom was restricted, their passports were taken away and they were forced to do various activities. Most of the cases of trafficking had a transnational nature - the victims were brought to Georgia by deception for the purpose of sexual exploitation or they were taken to several countries of the Near East for forced labor.

In the 2022 report of the US State Department on human trafficking, Georgia maintains place in the so called first basket, which is an indication of high effectiveness of the fight against trafficking. Trafficking is characterized by a high rate of non-reporting, since it is one of the most covert crimes. Therefore, proactive detection of trafficking is particularly important. 6 mobile groups have been created in the Ministry of Internal Affairs, and a joint working group of prosecutors and investigators operates in Adjara, who inspect places with a risk of trafficking[183]. In addition, Labor Inspection Service provides information to the Ministry of Internal Affairs about any cases, when some labor exploitation signs are detected while inspecting an enterprise. In 2021-2023 Labor Inspection Service sent 5 cases of labor exploitation to the Central Criminal Police Department in the Ministry of Internal Affairs. In the process of crime identification the Labor Inspection Service plays a special role proved by the fact that in the period of 2019-2022 years it conducted primary or secondary inspection of 832 enterprises.

Aimed at imroving fight against trafficking the Interagency Coordinating Council for Combating Human Trafficking operates in Georgia, which conducts measures against human trafficking and the 2023-2024 Action Plan of which includes raising public awareness on trafficking crimes, improving investigation mechanisms in trafficking crimes and strenghtening interagency cooperation.[184]

[181] Crimes defined in the Articles 143^1 and 143^2 of the Criminal Code.

[182] Data of the Ministry of Justice. Investigation has started in 19 cases in 2019, in 15 cases in 2020, in 17 cases in 2021, in 16 cases in 2022.

[183] Mobile groups carried out inspection of: 70 risk objects and 239 persons in 2020 and 100 risk objects and 393 persons in 2021..

[184] Coordinating Council is chaired by the Minister of Justice, and the Council consists of the representatives of both competent state bodies and local non-governmental and international organizations.

Legislation of Georgia acknowledges two status in relation to the trafficking crimes: victim of trafficking and person affected by trafficking. The status of victim of trafficking is granted to a person by the permanent group operating in the frames of the Interagency Coordinating Council for combating human trafficking, and the status of affected person of trafficking is granted by the Prosecutor based on a resolution in compliance with Criminal Procedure Code. The victim and the affected person uses the same right status and services. In 2019-2022 46 persons were granted the status of the victim of trafficking and the trafficking affected persons[185] covering medical examination, psychological and legal assistance, placement in a shelter and receiving monetary compensation.

Threat level – in Georgia the facts of human trafficking are small in number and legislation meets international standards. There are effective mechanisms for trafficking identification and prevention, protection of victims and interagency cooperation. Considering these circumstances due to human trafficking the threat of money laundering was evaluated as l**ow**.

3.2 Ways and Methods of Money Laundering

The analysis of the ways and methods of money laundering is based on both the practice of investigative bodies and the analysis conducted by FMS including messages received in 2019-2022 by the accountable people on suspicious transactions and information shared by the Financial Intelligence

Services of other countries.

3.2.1 Bank Accounts

Bank accounts is a common way of money laundering. Suspicious transactions sent in FMS either in quantity or in terms of money amount are mainly related to depositing money into a bank account and then cashing it out or transferring. Bank accounts are opened both by the perpetrators of the predicate crime and their family members, accomplices and third parties. Corporate bank accounts are often used in complex money laundering schemes during the so called layering. Layering refers to a chain of financial transactions that serves to conceal the true source of money origin and often takes the form of numerous cross-border money transfers[186].

Criminally obtained money from the banking system of another country to Georgia, the so called depositing into a shell company's[187] bank account and transferring it to another jurisdiction based on false documentation is a common method of money laundering using bank accounts. The declared activities of such companies are consulting or investment services, trading with goods, foreign currency or binary options, marketing, software, etc. Depositing funds is carried out for various false purposes - loan payment, cost of goods or services. Deposited funds are quickly transferred to other countries and often go through the accounts of dozens of legal entities and individuals.

[185] Status granting rate according to the data of the Ministry of Justice of Georgia in years: in 2019 - 29 individuals; in 2020 - 6 individuals; in 2021 - 8 individuals; in 2022 - 3 individuals.

[186] "Layering" is an intermediate phase characteristic for complex money laundering schemes, which takes place between the placement of illegal income in the financial system and integration into the formal economy.

[187] Legal entity, which functions as money passer and does not conduct real business activities.

The international dimension peculiar to this scheme means that the success of the investigation depends on the pace of cooperation with other countries. Detection and investigation of facts, when funds are transferred from other countries to the account of a fictitious legal entity and then quickly transferred abroad are related with many difficulties. However, through the strict supervision carried out by the NBG, commercial banks are better able to detect the abuse of their services, and as a result, the volume of suspicious transactions has significantly decreased.

3.2.2 Legal Entities

The use of legal entities is comfortable for concealing a real source of illegal income and final beneficiary. Cross-border movement of large amounts of money under the cover of legitimate business activity, causes a less suspicion. Fictitious legal entities and complex corporate structures including companies established in different jurisdictions, make it difficult to identify criminals behind them[188].

A legal entity is involved in the significant part of both money laundering and predicate crime cases related to large amounts of money. In the practice of FMS and investigative bodies, limited liability company (hereinafter - "LLC") was mostly used for the purpose of money laundering. LLC is easy to create and has a number of advantages compared to other legal entities (see sub-chapter 5.3). Therefore, fictitious companies are registered in this organizational-legal form. Similar fictitious companies are often used in the stages of placement and layering illegal incomes.

In 2019-2022, enterprises registered in free industrial zones are no longer observed in messages about suspicious transactions sent to FMS. Also, it is rare for companies to be involved in suspicious transactions that are handled by corporate service providers. During the pandemic, when the fraud cases related to the purchase of hygiene and personal protection things were increased, legal entities with similar names as legitimate companies and newly created or existing intermediary companies were used, which did not have experience in the field of medical service. In this case, Georgia, as a rule, performed the function of a transit country. However, attempts to launder money through companies within the country (e.g. legalization of appropriated state property) were also detected.

In compliance with the recommendations of MONEYVAL 2020 Report on Georgia, the Office of the General Prosecutor of Georgia and other investigative bodies pay a special attention to the identification of legal entities in the process of money laundering and conduction of effective criminal prosecution against them. Only in 2022 criminal prosecution has started against 27 individuals which essentially exceeds the data of previous years[189]. This rate, on the one hand, indicates the active use of legal entities in the schemes of money laundering and on the other hand confirms the increase in effectiveness of investigation in regard to bringing legal entities to justice. In addition, the assessment of the "Warsaw Convention"[190] Committee of the Council of Europe was published in 2022 according to which Georgia had completely introduced

[188] In 2012 legal entities in corporate clients of commercial banks in Georgia, beneficial owner of which is registered in the so called offshore zone or high-risk jurisdiction, made up approximately 1%.

[189] Data of the Office of the General Prosecutor. Criminal prosecution has started against 2 companies in 2020, and against 16 companies in 2021.

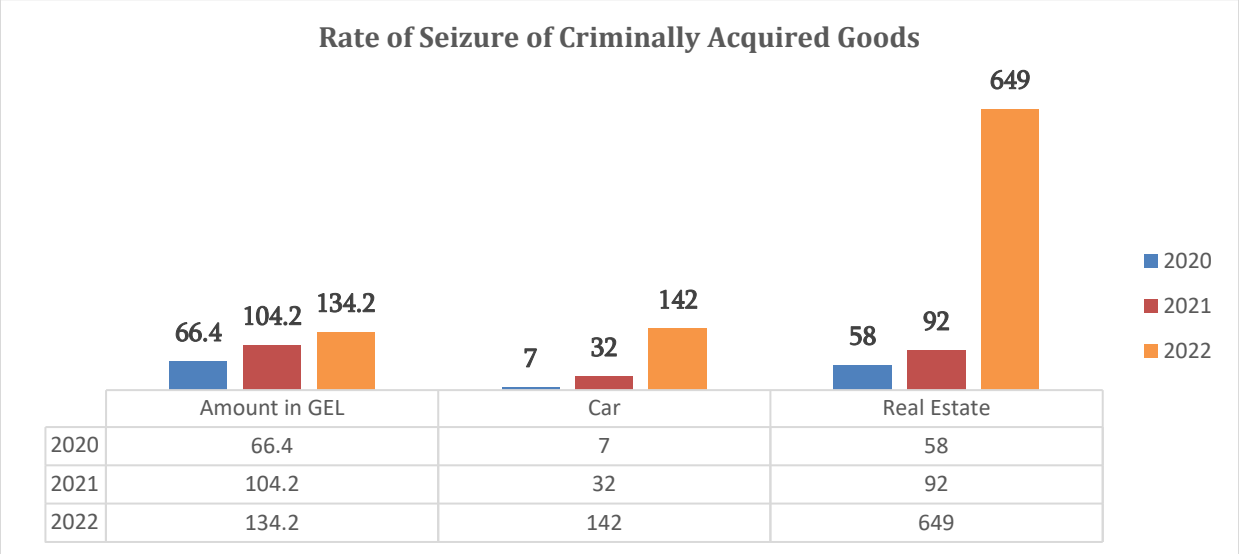
[190] Council of Europe Convention on"Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism".

requirements of convention on "laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism" in relation to responsibilities of companies committed in money laundering cases. To this end the effectiveness of the current system in Georgia is significantly increased over the last years.

3.2.3 Real Estate

The market of real estate in Georgia is increasing. Registration of property right on real estate without a compulsory participation of a notary is available in 4 working days or through accelerated rule (see subchapter 9.3). Moreover, investment of illegally acquired income in real estate is one of the common methods of money laundering.

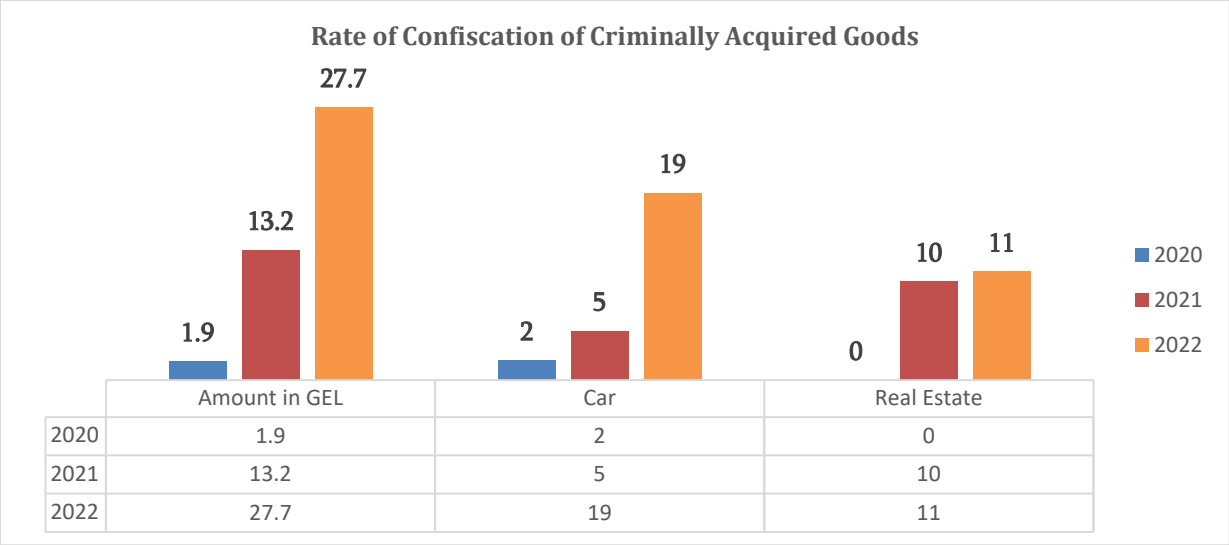
At the request of the Office of the General Prosecutor of Georgia, in the process of investigating money laundering cases 980 units of movable and immovable property with approximate cost – 305 million GEL were seized in 2020-2022.



	Amount in GEL	Car	Real Estate
2020	66.4	7	58
2021	104.2	32	92
2022	134.2	142	649

Note: amounts in diagram is shown in millions.

In addition, within 2020-2022 in money laundering cases 21 units of real estate, which approximately cost 9.6 million GEL were subject to confiscation by the Office of the General Prosecutor of Georgia.



	Amount in GEL	Car	Real Estate
2020	1.9	2	0
2021	13.2	5	10
2022	27.7	19	11

Note: amounts in diagram is shown in millions.

3.2.4 Cash

Cash is the main means of payment in Georgia. Cash transactions is substantial in financial sector (see subchapter 7.3.). However, the volume of non-cash payments has been significantly increased in recent years[191]. In terms of financial inclusion, Georgia has also experienced a serious progress.[192]. A number of bank account holders has been increased comparing to 2017 (61%) and reached 70% in 2021. In case of predicate offences illicit proceeds are sometimes generated in the form of cash (e.g. drug trafficking). Besides, cash is easily convertible, difficult to trace and anonymous. Therefore, the cash can be used in various forms in laundering of proceeds of any predicate crime. Cash is also a convenient way for movement of illicit income or its integration into the formal economy bypassing the financial system. Cashing out and spending or laundering funds obtained through fraud and cybercrime is a common practice.

Fast payment machines spread in Georgia allow users to deposit cash in the electronic wallet or bank account. Due to the remote nature of the service and the difficulty of establishing the identity of the depositor, the machines were vulnerable for the placement of funds obtained by criminal means in the financial system. However, new anti-money laundering and terrorism financing legislation[193] has remarkably restricted circulation of anonymous electronic money. In particular, when carrying out a transaction through fast payment machines all depositors/payers must be verified, and the amount of money must not exceed a predetermined limit, which is an effective mechanism for preventing misuse of such machines. Transfer of cash over 30,000 GEL to the customs border of Georgia is a subject to declaration.

[191] According to NBG payment card statistics, in December 2022, the volume/quantity of payment transactions performed by payment cards (POS terminal and e-commerce) in trade/service facilities increased 3 times compared to December 2018.
[192] World Bank Report 2021 on *Financial Inclusion in Europe and Central Asia.*
[193] Law of Georgia on *Facilitating the Prevention of Money Laundering and Terrorism Financing* and *Regulation on Information Accompanying the Transfer of Funds* approved by the order of the President of NBG No. 253/04.

From 2015 decleration rule was extended to the companies and to the transfer of cash through mail consignment; the declaration also icludes information about the origin, purpose, sender/receiver of the amount194. In 2019, it was clarified that the declaration should also include a detailed description of the activities of the person transferring cash across the border, and in the case of a citizen of another country - the planned duration of stay in Georgia and the residential address.

In 2019-2022, mostly US dollars were transferred across the border, and the people bringing cash were mostly citizens of Georgia and neighboring countries (Russia, Azerbaijan, Armenia). The Revenue Service, through an automated risk management system, detects the facts of bypassing customs control or secretly transferring cash across the border[195]. Such facts and all declarations made at the border are reported to FMS.

Cases of Violations of Decleration Rules and Imposed Sanctions /Forfeited Cash[196]		
Year	Violations[197]	Fine/Confiscation[198]
2022	269	5.13 (mln)
2021	216	53.13 (mln)
2020	66	1.61 (mln)
2019	331	1.77 (mln)

According to the analysis conducted by FMS including notifications about suspicious transactions in 2019-2022, there were some cases when non-resident individuals used the citizens of Georgia to place cash on bank accounts and transfer money abroad or cash out at ATMs. Georgian citizens who were used as third parties (so-called money mules) did not have sufficient information about the purpose of the transactions and the real owner of the funds, and some stated about the receipt of commissions from unknown persons.

In 2020 the Prosecutor's Office of Georgia revealed the activities of an organized criminal group, whose members brought cash into Georgia bypassed border control in 2016-2020; the money was deposited in the bank accounts of legal entities created to disguise prohibited activities, and later, the money was transferred abroad[199]. Totally, more than 100,000,000 GEL cash was placed in the accounts of the companies for further laundering. As a result of an effective investigation by the Prosecutor's Office of Georgia, the criminal group ceased its activities, and 13 individuals and 13 companies were convicted.

3.2.7 Virtual Assets

Worldwide the use of virtual assets for money laundering has been increased. High quality anonymity, high speed of transactions and international dimension, difficulty of traceability and heterogeneous regulation at

[194] Instructions on the Movement and Clearance of Goods in the Customs Territory of Georgia approved by Order No. 257 of the Minister of Finance of Georgia on August 29, 2019.
[195] Inspection of individuals and transport means on the basis of predetermined risk factors.
[196] Data of Revenue Service.
[197] Customs Code, Article 169.
[198] In the case of foreign currency, its equivalent in GEL is calculated.
[199] https://pog.gov.ge/news/saqarTvelos-generalurma-prokuraturam-jgufis-mier-gansakuTrebiT-didi-odenobiT-ukanono-shemosavlis-le

international level increase the risks related to virtual assets. Despite the fact that money laundering through virtual assets is not widespread yet in Georgia (no criminal prosecution has been launched for the fact of money laundering using virtual assets) it is important to have threats arising from these assets determined in advance and take appropriate measures.

In 2022, a special group formed in the Prosecutor's Office of Georgia developed the guidelines on the seizure of virtual assets. The reason was the popularization of virtual assets in recent years and the facts of their use in criminal activities. Therefore, the need for effective mechanisms for the search/seizure of virtual assets by investigative bodies has been put on the agenda. The procedures provided in the manual will ensure the seizure of illegally obtained virtual assets in the possession of third parties are recovered for investigative purposes.

In 2022, the Prosecutor's Office of Georgia for the first time searched and removed virtual assets in amount of 1.5 million GEL allegedly obtained through criminal means, which is an unprecedented case. Notifications sents to FMS show that illegal proceeds acquired from various predicate crimes can also be directed to the purchase of virtual assets, the purpose of which is to cover the source of the illegal origin. For example, in 2019-2022, notifications received from accountable entities identified individuals engaged in trading in virtual assets as recipients of funds allegedly obtained through investment fraud and cybercrime (including phishing).

3.3 Summary

Fraud is the main source of illicit proceeds in Georgia. Bank acounts are the common instruments for money laundering. Legal entities are often represented in compex criminal schemes. However, the overall level of crime is low in Georgia due to effective legal and institutional mechanisms to combat crime. Considering these circumstances, the money laundering risk was assessed as **medium**.

Chapter IV

TERRORISM FINANCING RISK

4.1 Combating Terrorism

Combating terrorism is a priority of the Government of Georgia. Georgia became an active member of the Global Coalition Against Daesh from the outset, and its steadfast participation in multinational operations significantly contributes to the safeguarding of global peace and security. The Government of Georgia approved the National Counterterrorism Strategy and Action Plan for the period of 2022-2026[200], which substitutes the previously active "National Strategy of Georgia on Fight Against terrorism" and the

[200] Decree of the Government of Georgia №124, of January 22, 2022, "On Approval of National Counterterrorism Strategy of Georgia (2022-2026)". The Strategy encompasses seven key directions and, in the context of combating terrorism, underscores the significance of activities such as information gathering and analysis pertaining to terrorism, prevention, protection, preparedness, prosecution, legislative framework development and international cooperation. The objective of the strategy is to define joint actions of the state, international partners, private sector and civil society towards responding to threats posed by terrorist organizations, extremist groups and their individual adherents.

corresponding Action Plan for 2019-2021. In terms of developing legislation aimed at combating terrorism, Georgia took significant steps. It is noteworthy that Georgia is one of the first countries, among the United Nations member states, to have fully implemented, in 2015, United Nations Security Council Resolution 2178 (2014) concerning the criminalization of activities related to the travel of the so-called Foreign Terrorist Fighters[201].

Collective effort of Georgia's state bodies is required to safeguard the country from terroristic threats. The primary entity within the state's unified system for combating terrorism is the State Security Service of Georgia (hereafter referred to as the "SSSG"), which ensures detection, prevention and suppression of terrorism offences, inter alia terrorism financing, through specialized and operational-investigative activities, while gathering and systematizing information on the activities of foreign states and international terrorist organizations. To ensure the effective implementation of counterterrorism measures, a structural unit of SSSG, the Counterterrorism Center, coordinates the activities of entities responsible for combating terrorism. The Counterterrorism Center possesses necessary resources[202] and high level of expertise to combat terrorism and terrorism financing offences[203]. In accordance with the contemporary terrorism threats and challenges, the requalification of the Counterterrorism Center's staff (investigators, analysts, operative staff, etc.) takes place systemically through various learning programs, which are facilitated by the SSSG directly, as well as by the partner countries and international organizations[204].

Entities directly responsible for combating terrorism, as well as other state bodies, are obligated to provide the Counterterrorism Center any information related to terrorism. Based on the objectives of counterterrorism activities, it is obligatory for the entities responsible for combating terrorism to comply with the instructions and demands of the Counterterrorism Center[205]. Simultaneously, the Head of the SSSG leads the Operational Headquarter of Extreme Situation Management, the function of which is managing counterterrorism operations and extreme situations resulting from terrorist activities[206]. For the purpose of effective implementation of the United Nations Security Council Resolution 2396 (2017), in 2021, the

[201] As a result of legislative amendments, criminal liability has been imposed on actions such as crossing or attempting to cross the state border of Georgia with the intent of participating in execution of a terrorist activity, its preparation, or in similar activities or terrorist trainings.

[202] The 2020 Moneyval report on Georgia positively evaluated the capabilities of competent state entities in Georgia for combating terrorism financing. More specifically, according to the report, the relevant departments of the General Prosecutor's Office and the SSSG are equipped with adequate resources for the purposes of combatting terrorism and terrorism financing. The personnel are properly requalified and possesses knowledge, professionalism and an impressive level of commitment to their professional duties. They are vested with extensive legal authorities to obtain information and engage in close cooperation with other agencies, such as the police, customs and financial monitoring services.

[203] The 2020 Moneyval report on Georgia positively evaluated the steps undertaken by Georgia towards investigating and prosecuting of terrorism financing. More specifically, according to the report, the SSSG investigators and supervising prosecutors of the General Prosecutor's Office possess high level of knowledge regarding various types of terrorism financing and terrorism offences, and they conducted concurrent financial investigation on cases potentially linked to terrorism.

[204] For example, the staff of the Counterterrorism Center took part in training courses related to investigating terrorism and terrorism-related offenses, as well as prosecution topics, as part of the joint program of the Council of Europe and the European Union "Partnership for Good Governance" (PGG II)

[205] Resolution of the Government of Georgia №254 "on Approval of the Rules of Organizing Counterterrorist Activities in the Country and of Coordinating the Activities of the Subjects in the Fight against Terrorism".

[206] Resolution of the Government of Georgia №662 "on Approval of the Rules of Organization and Activities of the Operational Headquarter of Extreme Situation Management".

Government of Georgia issued a Resolution which obligates international air carriers to provide Advance Passenger Information (API) and Passenger Name Record (PNR) to the LEPL Operative-Technical Agency of the SSG without any cost or charge, for the purposes of improving border control, as well as prevention, detection investigation or prosecution of terrorism and other grave felonies[207].

The Law of Georgia "On the Legal Status of Aliens and Stateless Persons", The Law of Georgia "On International Protection" and other applicable legal and sublegal acts are also noteworthy, as they impose appropriate restrictions on the entry and the granting of relevant legal status to foreign individuals whose presence poses a threat to Georgia's state security and/or public order (for instance, when there is information that, with a high degree of probability, indicates an individual's connection with terrorist and/or extremist organizations).

Although Georgia is not included in the list of countries with a high risk of terrorist attacks[208], the processes developing in the region exert a significant influence on the country. The ongoing processes in the Northern Caucasus, the Middle East, and Central Asia have intermittently engendered different types of risks for Georgia. Accordingly, the geographical proximity of Georgia to the conflict zones, where "Daesh" and other terrorist organizations such as "Al Qaeda" are active, poses an ongoing challenge. In the context of terroristic threats, the territories occupied by the Russian Federation and the prevailing uncontrolled conditions therein continue to pose an ongoing challenge to Georgia as well.

In 2019-2022, investigations[209] into 21 cases pertaining to terrorism (including four cases concerning terrorism financing) resulted in the prosecution of five citizens of Georgia for their membership of terrorist organizations[210], while two citizens of Georgia were prosecuted for their membership in a foreign terrorist organization and involvement in activities facilitating terrorism[211]. Five of these individuals joined a terrorist organization with intentions to travel to Syria and participate in the terrorist activities of "Daesh", while the remaining two individuals were engaged in combat in Syria. Although concurrent financial investigations were conducted on all these cases, prosecutions for terrorism financing were not pursued due to insufficient incriminating evidence and the absence of actionable offenses. It is noteworthy that in such cases, concurrent financial investigations are carried out not only against individuals in direct relation to the offence but also against individuals who are connected to the offence, who potentially may have become the sources of funding.

The phenomenon of "Foreign Terrorist Fighter", which emerged during the conflicts in Syria and Iraq, reaffirmed to the contemporary world the significance of effectively safeguarding borders in the context of combating terrorism. Georgia exchanges operational information with other countries to prevent transit of

[207] Resolution of the Government of Georgia №384, of July 27, 2021, "On Approval of the Procedure for Transferring, Processing, Storing and Destroying Advance Passenger Information and Passenger Name Records by Air Carriers".

[208] According to the 2023 report of the "Global Terrorism Index" (which analyzes the existing condition of terrorism around the world as of December 31, 2022), Georgia, in the context of terrorism, is among the low-risk countries and (alongside with several dozen safe countries) ranks as 93rd in terms of assessing the influence of terrorism over different countries in the world, which implies an index of zero terrorism incidents in the country.

[209] Investigations initiated on the basis of offences stipulated by Chapter XXXVII (Terrorism) of the Criminal Code of Georgia.

[210] Article 327 of the Criminal Code of Georgia.

[211] Article 328 of the Criminal Code of Georgia.

Foreign Terrorist Fighters through its jurisdiction (see subsection 2.11). It is noteworthy, that as a result of the efforts of the SSSG and other relevant state entities, transit of individuals from Georgia who intend to become terrorist organization members has been suppressed and is no longer detected. Counterterrorism screening by the SSSG has significantly reduced the instances of individuals related to terrorism entering Georgia and attempts to recruit others or exploit the country's territory as a transit route. Despite these circumstances, similar to other countries, certain challenges still persist. To avoid threats of the entry of individuals linked to terrorism onto the territory of Georgia, movements at the state customs and border-crossing checkpoints are strictly controlled. Starting from 2018, all customs checkpoints have live access to INTERPOL's FIND network system, which consolidates several databases (for example wanted persons (Nominals), stolen travel documents (SLTD) and vehicles (SMV)) and is characterized by the swiftness of its search functions. Subject to supervision are routes and channels that could potentially be used for illegal entry into the country's territory. Georgia has taken significant steps towards implementation of the United Nations Security Council Resolution 2396 (2017) and, from the beginning of 2022, the Advance Passenger Information (API) and Passenger Name Record (PNR) system has been enacted. Additionally, with the support of the United States, the European Union and NATO, Georgia has further enhanced border security, including in the direction of improving its capability to supervise the green border and the maritime space. Considering the complex legislative, law enforcement and border security activities, Georgia is not an expedient location for terrorist activities. Furthermore, Georgia is not considered an attractive territory for the transit of the so-called Foreign terrorist Fighters and, during the last few years, not a single instance of Georgian citizens traveling to Syria and Iraq has been detected.

Potential return of Georgian terrorists to the country remains a challenge[212]. Similar to other countries, the utilization of the internet by "Daesh" for radicalization and recruitment purposes remains a valid potential threat. In the event of their return to Georgia or the existence of evidence confirming the affiliation of specific individuals with terrorism, legal measures will be implemented, including for detection of such individuals at the state border. From this perspective, cooperation and close connections are important with partner countries with whom competent Georgian entities engage in systemic information exchange.

Explosive devices, munitions, as well as chemical, biological, radioactive and nuclear materials/substances may also become objects of interests for terrorists and extremists. In 2021, The Coordination Council on Combating Chemical, Biological, Radioactive and Nuclear (hereafter referred to as "CBRN") Threats, led by the SSSG, approved National CBRN Threat Reduction Strategy for years 2021-2030 and the Action Plan for 2021-2023. All customs checkpoints in the country are equipped with effective radiation control systems (detectors). In 2019-2022, three cases of illegal handling of nuclear or radioactive materials were detected, leading to prosecution of seven individuals[213].

4.2 Methods and Means of Financing Terrorism

[212] 2 individuals returning to Georgia have been detained over the reporting period.

[213] https://ssg.gov.ge/news/784/saqartvelos-saxelmtsifo-usafrtxoebis-samsaxuris-antikorufciuli-saagentosa-da-kontrdazvervis-departamentis-tanamshromlebma-radiaqtiuri-nivtierebebis-ukanono-shedzena-shenaxvisa-da-12-mln-ashsh-dolarad--gasaghebis-mcdelobis-faqtze-sami-piri-daakaves

In international practice, methods similar to money laundering are employed to obtain, store and transfer funds for the purpose of financing terrorism. The distinction lies in motivation – terrorism financing instead of personal gain. Detecting terrorism financing and gathering corresponding evidence is challenging, as it often involves funds derived from legitimate activities and typically requires relatively small amounts of money. At the same time, terrorism financing encompasses not only the support of actual terrorist attacks, but also the funding of non-violent aspects of terrorist activities, such as covering living expenses of terrorist group members, travel and training costs, as well as expenses related to propaganda and other organizational activities. It is noteworthy that in recent times, the use of virtual assets for the purpose of terrorist activities has been detected in international practice

In 2019-2022, investigations were initiated regarding four instances of terrorist financing. In both cases, suspicious financial transactions involving foreign citizens were identified. One of the cases involved the cash withdrawal of funds transferred from another country, during which negative information regarding individuals linked to the transaction was discovered. The investigation into this case is currently ongoing to gather evidence and information substantiating the offence. In other cases, no indications of terrorism financing were detected, however potential indications of other financial offences were identified in two other cases. Concurrent financial investigation was conducted as part of the investigation into other offenses related to terrorism. However, no evidence was found indicating the reception of funds through bank operations from third parties and/or other countries, provision of services, provision of hideouts for terrorists, or provision of resources or other material support by the individuals connected to the offense. Individuals involved in proven terrorist offenses were acting through self-financing, utilizing minimal funds.

Notifications regarding terrorism financing received by the SSSG from the FMS primarily pertain to suspicious banking transactions (including remittances) and individuals flagged with negative information in international databases. The SSSG undertakes relevant operational-search measures in response to each notification received from the FMS and, if necessary, initiates investigative proceedings. Over the period of 2019-2022, the SSSG initiated an investigation into two cases based on the notifications from the FMS. Of these, no confirmed connection to terrorism was established in one case, however indications of another offense were detected. As a result, one individual was prosecuted for the use/purchase of a forged official document and the illegal crossing of the state border[214]. Investigation for terrorism financing is ongoing for the second case. Additionally, seven notifications received from the FMS over the period of 2020-2022 were appended to one of the ongoing criminal cases, eleven notifications were written off (investigations were not initiated), and three notifications were referred to other authorities in accordance with the substantive jurisdiction[215]. Over the period of 2019-2022, new methods and means for perpetrating the terrorism financing were identified.

Financial institutions are systematically provided with information regarding indicators of terrorism financing. Given the threats of terrorism, particular emphasis is placed on regions neighboring to conflict

[214] Article 362 and Article 344 of the Criminal Code of Georgia.
[215] See subchapter 2.5.

zones where terrorist groups are active, as well as on financial transfers, ATM cash withdrawals, and the support of radicalized individuals abroad disguised as charitable donations or the purchase of goods and services. On the customs border of Georgia, no instances of cash being transported for the purpose of financing terrorism were detected. Furthermore, the transportation of over GEL 30,000 in cash across the state border is subject to declaration. Notifications are forwarded to the FMS regarding instances of attempts to transport cash under false pretenses or in circumvention of customs control (see subchapter 3.2.6). No instances of social media platforms being utilized for terrorism financing or fundraising purposes have been identified.

NBG conducts monitoring of unauthorized provision of payment services through public sources and inspections. Prepaid (non-identified) cards issued within Georgia are impossible to use in other countries, thereby reducing the threat of cross-border fund transfer, through such means, to finance terrorism. Financial institutions are also informed about the utilization of loans and new payment instruments for terrorism financing based on experiences from foreign jurisdictions. The financial institutions are also informed, drawing on the experience of other countries, regarding the methods by which credits or emerging payment mechanisms may be employed for the purposes of terrorism financing. The level of alignment between banks' compliance control systems and the legal framework for combating money laundering and terrorism financing is significant (see Chapter VII). Furthermore, the heightened stringency of supervision by NBG in recent years has resulted in notable improvements in corporate governance culture and risk management within non-bank financial institutions (see Chapter VIII)

4.3 United Nations Security Council Sanctions

The government commission responsible for the implementation of United Nations Security Council Resolutions (hereinafter referred to as "the Commission") serves as the central coordinating body for engaging with the committees of the United Nations Security Council and other relevant units of the United Nations in relation to the prevention, detection, and suppression of terrorism financing and the financing of the proliferation of weapons of mass destruction. The Commission, headed by the Ministry of Justice, consolidates all relevant state entities within its mandate. The Commission is empowered to create thematic working groups and operates in two main directions: (i) Coordinating and supervising implementation of United Nations Security Council's sanctions pertaining to terrorism financing and/or the proliferation of weapons of mass destruction and (ii) formulating the roster of individuals linked to terrorism and terrorism financing offences based on the referrals from competent state entities, and in accordance with the United Nations Security Council Resolutions 1373 (2001).

On March 30, 2021, amendments were made to the Law of Georgia "On Facilitating the Prevention of Money Laundering and the Financing of Terrorism" and the Administrative Procedure Code of Georgia to enable immediate enforcement of sanctions related to modifications in the list of sanctioned individuals and entities published by the United Nations Security Council. Following this amendment, the judiciary branch no longer plays a role in the national-level enforcement processes concerning individuals sanctioned by the United Nations Security Council[216]. More specifically, any amendments to the list of sanctioned individuals

[216] Clause 1, Article 41 of the Law of Georgia "On Facilitating the Prevention of Money Laundering and the Financing of Terrorism".

and entities (including additions, removals, or changes to individual data) automatically apply, and are mandatory to be complied with, within the territory of Georgia from the moment of their publishing on the webpage of the relevant sanctions committee. Simultaneously, the secretariat of the Commission promptly provides the information on the changes made to the list of sanctioned individuals and entities to the supervisory entities, with the aim of informing the responsible individuals and facilitating the necessary supervisory activities.

The secretariat of the Commission has also developed a manual for the implementation of United Nations Security Council sanctions, which aims to inform supervisory entities and responsible individuals about the established international practices for implementing the requirements of the United Nations sanctions. The development of the manual was carried out in close coordination with supervisory entities and responsible individuals. To coordinate the effective implementation of changes in the list of sanctioned individuals and entities, the Commission receives reports from supervisory entities on the compliance of relevant processes by the individuals under their supervision with the requirements imposed by UN sanctions. These reports indicate that financial institutions have implemented compliance control systems that involve conducting thorough checks on their clients and client transactions against international databases, including the United Nations' list of sanctioned individuals and entities. In the event of a match, these systems have the capability to block transactions. In parallel, significant changes have occurred in non-financial sector, wherein a publicly accessible list of sanctioned individuals and entities is utilized.

In accordance with the legislative amendments implemented in 2021, the Commission has been granted the authority to determine the inclusion of individuals in a domestic list of sanctioned individuals and entities based on referrals received from competent entities of Georgia or other countries, in accordance with United Nations Security Council Resolution 1373 (2001), without the need for court involvement. The sanctioned individual has the right to appeal the decision of the Commission concerning their inclusion in the domestic list of sanctioned individuals and entities. Furthermore, the Commission is authorized to submit a request to the relevant United Nations committees for the inclusion of specific natural persons or legal entities in the list of sanctioned individuals and entities. Simultaneously, the Commission is authorized to make decisions regarding the partial or complete unfreezing of assets belonging to sanctioned individuals and entities, in accordance with the protocols established by relevant United Nations Security Council Resolutions.

In 2022, the secretariat of the Commission developed a manual for the establishment a domestic list of sanctioned individuals and entities and, subsequently, based on the referral from the SSSG the Commission made a decision to include four natural persons in the list of sanctioned individuals and entities. During the same period, in May 2022, a working group was established in the frames of the Commission, which will consist of 16 entities and thematic institutions and work on the United Nations Security Council Resolutions related to the prevention of the financing of the proliferation of weapons of mass destruction.

To enhance the alignment of the current framework for implementing sanctions prescribed by the United Nations Security Council Resolutions with the FATF standards, the Ministry of Justice of Georgia, in its capacity as the chair entity of the Commission, has formulated a set of legislative amendments. These

amendments encompass proposed legislative changes to the Law of Georgia "On Facilitating the Prevention of Money Laundering the Financing of Terrorism" and the Law of Georgia "On Enforcement Proceedings"[217].

4.4 non-profit organizations

The purpose of the non-profit organizations review is to identify specific types or subtypes of these organizations that pose a heightened risk in terms of terrorism financing and to evaluate the proportionality and effectiveness of the current risk mitigation measures that are targeted towards these organizations. As of 2022, there are more than 30 thousand registered non-profit organizations[218]. The history of non-profit organizations in Georgia began in the 1990s. Following the dissolution of the Soviet Union, one of the priorities of international donor organizations has been providing assistance to civil society organizations and, through these means, enhancing democratic governance of Georgia. Accessibility to funding and simplified registration procedures have created conditions for the creation of thousands of non-profit organizations. However, at present, up to 25 thousand non-profit organizations are inactive[219] due to a small fraction of such organizations being able to achieve financial sustainability within the financial model prevailing in Georgia.

Types of Non-Profit Organizations

In Georgia, a non-profit organization is registered in only one organizational-legal form: a non-commercial legal entity. A religious association that has historical connections to Georgia or represents a religion recognized within the member states of the Council of Europe may be registered as a religious organization. However, regardless of the type of registration, religious organizations are subject to the applicable legislation governing non-profit organizations.

Non-profit legal entity may be granted the status of a charitable organization if it has engaged in charitable activities for a minimum period of one year[220]. Additional tax incentives are extended to charitable activities. Non-profit legal entities may adopt a membership-based structure, wherein the founders are registered in the Public Registry. The registration of new members is carried out in accordance with the organization's bylaws.

A non-profit legal entity is established solely for the purpose of pursuing non-commercial objectives. Any entrepreneurial activities undertaken by such entity must be of an auxiliary nature. The distribution of profits derived from such activities to founders, members, and executives is prohibited. The aggregate turnover of non-profit organizations over the period of 2019-2021 reached GEL 537 million. 79% of the turnover was generated by entities engaged in the fields of education, healthcare, social services, entertainment/leisure, and art[221]. As a result, these organizations constitute the majority of economic

[217] The proposed legislative changes were given positive appraisal at the session of the Commission of April 26, 2023. Furthermore, the new statute of the Commission was approved by the Government of Georgia on June 5, 2023

[218] Of these, 185 are branches of foreign non-profit organizations, and 73 are religious organizations.

[219] A study by Civil Society Institute, 2020.

[220] The Revenue Service of Georgia is responsible for granting the status of a charitable organization.

[221] GeoStat data.

activity. At the same time, among the top ten non-profit organizations there are four entities established by the state, four universities and two medical establishments.

Income Sources and Volume

According to latest studies, more than 95% of income of non-profit organizations is derived from international grant assistance[222]. In 2020, the overseas development assistance (ODA) allocated to Georgia just for democratic governance, rule of law and justice reached GEL 2.8 billion[223]. The largest donors are the United States Agency for International Development (USAID) and the European Union. A substantial portion of their aid is allocated for the work by civil society organizations. With few exceptions, non-profit organizations do not receive funding from international development agencies based in Asia and the Middle East.

Alternative sources of income for non-profit organizations are limited. Membership fees represent a source of income for only a limited number of non-profit organizations (for example associations, professional unions). Certain tax stimuli exist for philanthropic activities: donations are deducted from taxable income, provided they do not exceed 10% of the deductible income. Despite this, according to latest studies, only 3% of the population actively makes donations. Cooperation with businesses is minimal. According to the 2021 World Giving Index Report Georgia is ranked 104th among 119 countries. The state has been vested with the authority to provide grants since 2009, and since then, the number of state entities authorized to issue grants has considerably increased[224]. Despite substantial growth in budgetary grants in recent periods, their share in the total income of non-profit organizations remains minimal.

Internal Control and Transparency

On one hand, dependence of non-profit organizations on international donor organizations poses a significant challenge to their sustainability. The lack of institutional funding, the dynamic nature of donor priorities, and the high level of competition result in only a portion of well-established organizations achieving financial sustainability. Many organizations cease to function after a specific period of time. On the other hand, the absolute majority of functional organizations have implemented adequate internal control systems as per the requirements of donors. More specifically, regular internal and external audits are conducted, and a gradual adoption of international standards for transparency and reporting (for example HAP, SPHERE, InterAction PVO) is taking place. Transparency of the activities of charitable organizations is further ensured by the legislative requirement that their financial and programmatic reports be publicly available.

Geographical Scope of Activities

The absolute majority of functional non-profit organizations primarily operate in Tbilisi and focus on thematic areas such as human rights, education, children and public governance. In Georgian territories

[222] The "2021 Civil Society Organization Sustainability Index", USAID.
[223] External Aid in Georgia report 2020 by the Government of Georgia.
[224] Grants may be issued by the ministries and legal entities of public law that are authorized to do so under the legislation of Georgia. Grants exceeding GEL 50,000 may only be issued with the consent of the Government of Georgia.

occupied by Russia, a special procedure is in place for obtaining consent and ensuring accountability on project implementation, which establishes conditions to ensure transparency in the activities of organizations operating in these regions[225]. The activities of regional and local organizations are primarily focused on providing educational, social and healthcare services to vulnerable groups (for example children, youth, women). Some non-profit organizations carry out such activities in several vulnerable communities, members of which have previously traveled to Syria and Iraq participate in armed conflict. Religious organizations predominantly comprise various Christian denominations[226] and, in addition to promoting their faith, focus on addressing social issues and undertaking philanthropic activities.

None of the registered non-profit organizations in Georgia, whether humanitarian or otherwise, are conducting their activities in conflict zones or neighboring regions with documented cases of activities by terrorist groups. Several of the 130 organizations with charitable organization status are affiliated with well-known international networks (such as Oxfam, Caritas, Catharsis). Some of their offices in Georgia have a regional mandate and carry out projects in other South Caucasus countries as well.

Increased Risk of Terrorism Financing

The risk of terrorism financing in Georgia is low. In the last years, the Individuals involved in proven terrorist offenses were acting through self-financing, utilizing minimal funds. Additionally, no non-profit organizations endorsing terrorist ideologies were detected, nor were there any organizations engaging in fundraising or managing funds or donations for the purpose of terrorism, taking part in terrorist recruitments, or having any other connections terrorist organizations (such as, for example, transportation or logistical support).

Notwithstanding these circumstances, and in alignment with the FATF standards, in addition to the assessment of the practices of the FMS and investigative authorities, the analysis of international experience was conducted, in order to identify non-profit organizations that carry a heightened risk of terrorism financing.

According to the FATF reports[227], there exists a correlation between the typology and geographic extent of the operations conducted by non-profit organizations on the one hand, and, on the other hand, the level of risk associated with their exploitation for the facilitation of terrorism financing. More specifically, the non-profit organizations carrying a heightened risk are those organizations the activities of which are:

- Connected to the provision of educational, social or healthcare services, as opposed to organizations activities of which are primarily connected to societally active pursuits such as sports, recreational, art, cultural, research activities, advocacy, etc.

[225] The Office of the State Minister of Georgia for Reconciliation and Civic Equality is the designated authority responsible for granting permits for project implementation.
[226] Data by the Revenue Service. The other associations include Muslim, Yazidi, Jewish, and Followers of Krishna associations
[227] The 2015 report by FATF on "Best Practices on Combating the Abuse of Non-Profit Organizations" (Recommendation №8); The 2014 report by FATF on "Risk of Terrorist Abuse in Non-Profit Organizations".

- Undertaken in conflict zones or their neighboring regions, or in geographic areas where there is no ongoing armed conflict but where the local population is targeted by terrorists seeking assistance and/or refuge

Consequently, the analysis of the practice of the FMS and investigative authorities was conducted, which included instances of heightened risks of the abuse of non-profit organizations. It was found that the practice of the FMS and investigative authorities largely aligns with the conclusions of the FATF reports and the instances of heightened risks are associated with non-profit organizations (especially charitable organizations), which work on improving living conditions of the population and improving their accessibility to healthcare services and education in the vulnerable communities, members of which have been targeted in the past for the purpose of terrorist fighter recruitment, and maybe targeted in future as well.

Risk Mitigation

In relation to the non-profit organizations with heightened risk, currently, in Georgia, there exist mechanisms for reducing the risk of terrorism financing which, on one hand, exclude the possibility of disproportional intervention in the activities of non-profit organization but, on the other hand, ensure that the abuse of non-profit organizations is prevented. These mechanisms encompass risk-based monitoring, gathering relevant information, and conducting effective investigations.

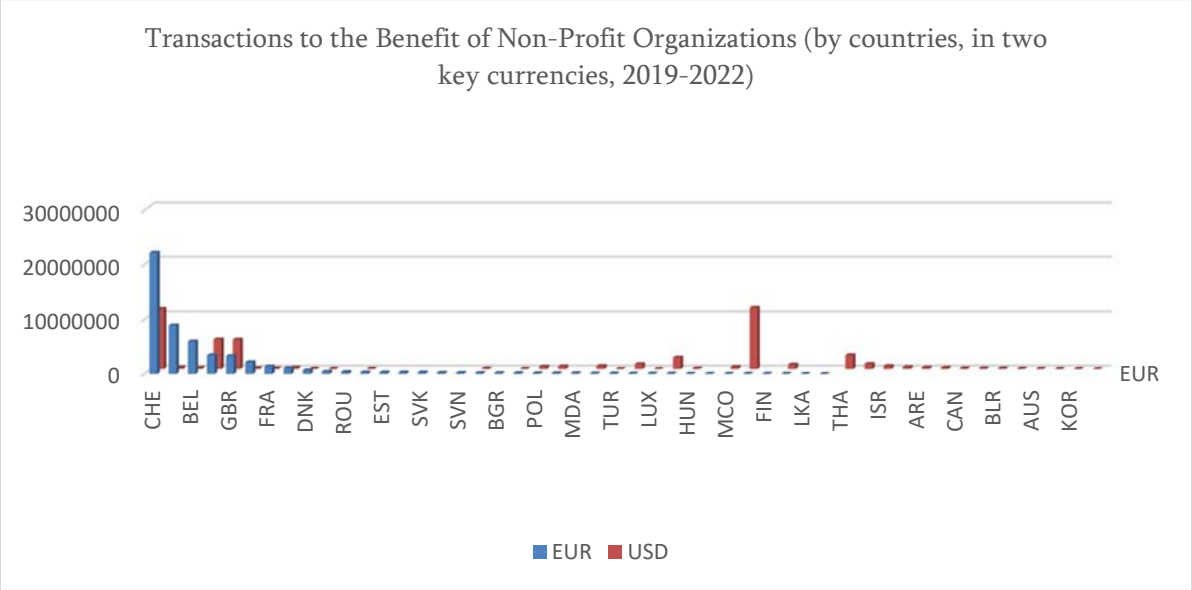
During the registration process of a legal entity, the Public Registry verifies if its founder (partner), director, and representative are included in the United Nations list of individuals associated with terrorism. In recent years, there have been several instances of what is commonly referred to as "false positive matches", where certain identification data of an individual from a non-profit organization coincided with the data of an individual associated with terrorism, however it was subsequently revealed that the match was accidental[228]. In such a case, the information is urgently provided to the SSSG and the FMS for further clarification.

Non-profit legal entity which has been granted the status of a charitable organization annually presents its programmatic and financial reports to the Revenue Service. This procedure aims to control the compliance of the legal entity's activities with the charitable purposes. In addition, each charitable organization publicly discloses its activities and financial reporting. Since 2007, 61 non-profit legal entities have had their charitable organization status revoked, primarily due to their failure to timely submit their programmatic and financial reports to the Revenue Service.

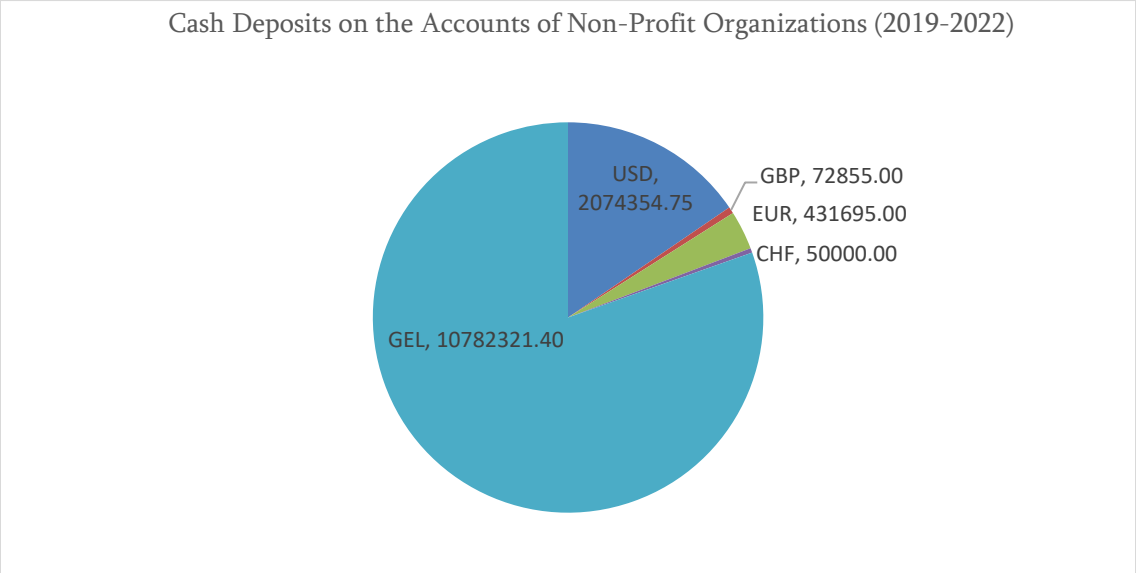
The existing legislation against money laundering and terrorism financing requires the banks to send notifications to the FMS on specific transactions with heightened risk[229]. In addition to other transactions, the FMS must be provided with the information pertaining to international transactions of inflow/outflow, which exceed GEL 50,000 in case of non-profit legal entities and GEL 10,000 in case of charitable organizations. In parallel, based on the regulations by the NBG, the financial institutions are tasked with

[228] However, the match was connected to the founding partner of an entrepreneurial/commercial entity.
[229] Order №1 of the Head of FMS of 2020 "On Approval of the Rule on Record-keeping, Storage and Reporting of the Information on the Transaction by Obliged Entity to the Financial Monitoring Service of Georgia".

enhanced preventive measures towards non-profit organizations, including charitable organizations, both during the establishment of business relations, as well as in the transaction monitoring process.[230]



The FMS and investigative authorities have never detected potential connections of non-profit organizations with terrorism financing or other types of terrorism offences. The FMS conducts analysis of transactions and cash operations conducted for the benefit of the non-profit organizations. All organizations on whose bank accounts there have been comparatively large volumes of cash operations conducted are engaged in legitimate activities, primarily in the healthcare sector.



[230] Order №82/04 of the President of the National Bank of Georgia "On Approval of the Risk Assessment Guidelines for Legalization of Illegal Income and Financing of Terrorism".

4.5 Summary

In Georgia, there are functioning legal and institutional mechanisms for combating terrorism. The threat of Foreign Terrorist Fighters using Georgian territory as a transit corridor is under efficient control. Appropriate counterterrorist measures are undertaken against Georgian citizens who are members of terrorist organizations. Self-financing for the purpose of reimbursement of travel expenses related to terrorism constitutes a criminal method in cases associated with terrorism. The United Nations Security Council's list of sanctioned individuals and entities has been granted direct operational authority within the territory of Georgia. Furthermore, the enforcement mechanism of United Nations Security Council Resolution 1373 (2001) has been substantially improved, resulting in the inclusion of four individuals in the domestic list of sanctioned individuals and entities. The geographic scope of activities of non-profit organizations does not include conflict zones where terrorist organizations are active. No organizations supporting terrorist ideology or engaged in fundraising for terrorism have been detected in Georgia. At the same time, an adequate monitoring mechanisms exist to reduce the terrorism financing risks related to non-profit organizations with heightened levels of risks. Considering these circumstances, the risk of terrorism financing in Georgia has been assessed as **Low**.

Chapter V

LEGAL ENTITIES

5.1 Registration System

The registration of legal entities is conducted by the National Agency of Public Registry (hereafter referred to as the "Public Registry"). According to the World Bank Doing Business 2020 report[231], the business registration system operating in Georgia is one of the most effective systems in the world. Registration can be completed within a single business day, at over 700 designated service points across the country, including authorized banks and notaries. Information on registration procedures and sample registration documents are available on the Public Registry's website. Additionally, the Ministry of Justice of Georgia

[231] https://www.doingbusiness.org/content/dam/doingBusiness/country/g/georgia/GEO.pdf

has approved templates of standard statutes for companies[232], which are publicly available on the website of Georgia's Legislative Herald. Registration costs only GEL 200. Furthermore, indicating the amount of capital in the registration forms is mandatory only for joint stock companies, while notarial attestation for a registration form is not necessary. A branch is not a legal person, however, establishing a branch of a foreign legal entity in Georgia requires registration in the Public Registry.

Legal Entities/Branches Registered in Georgia[233]

Legal Status	Amount
Limited Liability Company (LLC)	328,608
Joint Stock Company (JSC)	3,053
General Partnership	2,867
Limited Partnership	157
Cooperative	5,621
Non-Profit/Non-Entrepreneurial (Non-Commercial) Legal Entity	30,427
Religious Organization	56
Branch of a Foreign Entrepreneurial Legal Person	1,903
Branch of a Foreign Non-Profit/Non-Entrepreneurial (Non-Commercial) Legal Entity	203
Total	372,895

A legal entity is considered established from the moment of its registration with the Public Registry. Registration of the legal entity with the Public Registry automatically entails its registration for taxation purposes. In 2022, the Public Registry rejected applications for the registration of legal entities and amendment of registration data 4,528 times, primarily due to the applicants' failure to rectify erroneous registration forms in a timely manner. A legal entity's registration is cancelled in case of its liquidation[234]. Currently, approximately 216 thousand legal entities registered in Georgia (59% of total) are inactive[235]. The reasons for this are the simplified process of legal entity registration and low operational expenses, as well as the relatively complicated liquidation process. Furthermore, as of year ended 2022, there were only 5 thousand inactive banks accounts that remained open at commercial banks[236], and no instances of sale-purchase activities involving inactive (so-called 'shelf[237]) legal entities were detected.

5.2 Access to Information

[232] Order №791 of the Minister of Justice of Georgia, of November 29, 2021, "On Approval of Standard Statutes of Companies"
[233] Public Registry data as of 2022
[234] Over the period of 2019-2022, 867 legal entity registrations were cancelled on the grounds of their liquidation.
[235] Data by the Revenue Service. LLPs (183,591) and non-profit legal entities (22,581) account for the largest shares of inactive legal entities
[236] Data by NBG. A bank account is considered inactive when no transaction has occurred for more than one year.
[237] „Shelf company" is set up with the purpose of its sale in future. Purchase of such company represents the means to avoid complicated and time-consuming legal entity registration procedures in certain countries.

The registration data and documents pertaining to legal entities, as recorded by the Public Registry, are accessible without charge[238]. The Public Registry website provides a versatile search engine, allowing simplified retrieval of relevant data and scanned documents. The electronic documents obtained through these means, along with their printed copies, hold equivalent legal force. As a result, high level of quality of the Public Registry's online services ensures popularity of its website. In 2022 alone, the number of visitors on the website exceeded 15 million.

In addition to other relevant data, the Public Registry documents the following data on all legal entities:

- Name, legal form and address;
- Identification data of founders/partners[239];
- Partners' equity participation[240];
- Identification data of directors/representatives;
- Governing body and decision-making procedures.

Furthermore, the Public Registry documents the following data on non-profit legal entities:

- Purpose of activities;
- Procedures for admission and termination of membership;
- Liquidation/reorganization regulations and the authorized to make decisions

Any modifications to the abovementioned registration data (for example, sale of shares in an LLC) acquire legal validity upon their registration with the Public Registry. Therefore, the registration data of legal entities within the Public Registry is always up-to-date and reliable.

A joint stock company, characterized by having over 50 shareholders or publicly issued securities, manages Share Registry through the Securities Registrar. The Share Registry maintains a comprehensive record of the company's shareholders, along with details regarding the quantity and class of shares held by shareholders. The transfer of share ownership is recorded solely through the entry recorded in the Share Registry, ensuring the accuracy of the information maintained by the Securities Registrar. The Share Registry does not document voting rights. However, each common share corresponds to a single vote during the General Meeting of shareholders, and any other regulations of vote allocation are outlined in the Charter, which can be accessed through the Public Registry. NBG and the FMS, upon request, have prompt access to the data registered by the registrars. Currently, three registrars are licensed by NBG and maintain 937 joint stock companies as of 2022. All remaining joint stock companies independently register their shareholders. Shares of joint stock companies are classified as securities, which are exclusively issued in non-material, nominal form. Consequently, shares exist as entries in the Shareholder Registry rather than physical paper documents.

[238] The registration data and scanned founding documentation of a legal entity can be accessed via the Public Registry website: https://enreg.reestri.gov.ge/main.php?m=new_index

[239] For joint stock companies and cooperatives, only information related to the founding shareholders and cooperative shareholders needs to be submitted.

[240] Shares of partners at LLCs and Limited Partnerships

Cooperatives maintain their own shareholder registries. In the case of agricultural cooperatives, the maintenance of the cooperative shareholder registry follows the procedure established by the Order of the Minister of Environmental Protection and Agriculture of Georgia[241]. Specifically, the registry records the name, surname, quantity, value/type of shares for each shareholder. Correspondingly, similar information is registered for affiliated members and their respective contributions (except for the type and date of additional contributions). Any modifications to the abovementioned data must be registered within a period of one week. Furthermore, a non-bank depository institution, specifically a credit union, which is deemed an obligated entity, must be registered in the legal structure of a cooperative. NBG and the FMS, upon request, have prompt access to the data pertaining to the identity and cash contributions of new members of credit unions. Currently, only one credit union is registered with NBG.

Members of membership-based non-profit legal entities are not recorded within the Public Registry. Non-profit legal entity which has been granted the status of a charitable organization annually presents its programmatic and financial reports to the Revenue Service. This procedure aims to control the compliance of the legal entity's activities with the charitable purposes. In addition, each charitable organization publicly discloses its activities and financial reporting. The Revenue Service maintains a publicly available registry of charitable organizations[242]. Currently, 130 non-profit legal entities possess the status of charitable organizations.

Beneficial owners of legal entities are not recorded in the Public Registry, but the obligated entities are obliged to identify them. Despite this, it is possible to ascertain beneficial owners of legal entities based on the Public Registry data, when the partners/founders of the legal entity are natural persons or other legal entities registered in Georgia. Additionally, only 2% of legal entities among the clients of commercial banks have a relatively complex ownership/control structure[243]. The level of conformity of banks' compliance control systems with anti-money laundering and anti-terrorism financing legislation is significantly high (see Chapter VII). Securities Registrars are also obligated entities and are required to identify the beneficial owners of joint stock companies. Only commercial banks and securities market intermediaries (e.g., brokerage companies) can be nominee shareholders. Nominee shareholders, which are provided with special accounts, maintain sub-registry of shares. A registrar may obtain information on the shareholders recorded in the sub-registry. Upon request, the FMS and NBG have prompt access to the data kept by the nominee shareholders.

5.3 Types of Legal Entities

In Georgia, legal entities can be categorized into two primary groups: entrepreneurial and non-entrepreneurial. Despite certain shared characteristics, these two groups substantially differ from each other. The absolute majority of entrepreneurial legal entities involved in money laundering cases is registered limited liability company (referred to as "LLC"). LLC serves as the most common legal structure

[241] Order №2-16 of the Minister of Environmental Protection and Agriculture of Georgia "On Approval of Rules for Maintaining Registry on Members of Agricultural Cooperatives"

[242] Registry of Charitable Organizations https://www.rs.ge/CharityOrganization

[243] Data by NBG as of 2022. NBG considers the ownership/control structure of a legal person as relatively complex when it requires the examination of two or more legal persons in order to establish its beneficial owner.

for entrepreneurial endeavors. Its capital is divided into shares, the transfer of which does not necessitate notarial attestation, and both natural and legal persons may be appointed as directors. LLCs account for 90% of the total turnover of all business entities[244]. The popularity of the LLC, in comparison to other legal entities, can be attributed to its less stringent requirements and relatively lower costs involved in its establishment and management:

- The LLC may be established by only one partner, while the establishment of a general partnership, limited partnership, or cooperative requires at least two partners/founders;
- The liability of partners to creditors in an LLC is limited to the property of the LLC itself. In contrast, in a general partnership and limited partnership, partners are personally liable with their own property.
- The statute of an LLC can regulate most key management issues. On the other hand, the activities of a joint stock company are subject to more complex procedures prescribed by the law[245].

A non-profit legal entity is established solely for the purpose of pursuing non-commercial objectives. Any entrepreneurial activities undertaken by such entity must be of an auxiliary nature. The distribution of profits derived from such activities to founders, members, and executives is prohibited. A religious association that has historical connections to Georgia or represents a religion recognized within the member states of the Council of Europe may be registered as a religious organization. Religious organizations are subject to the applicable legislation governing non-profit organizations, despite the fact that they are registered as legal entities of public law[246]. Non-profit legal entity may be granted the status of a charitable organization if it has engaged in charitable activities for a minimum period of one year[247]. Additional tax incentives are extended to charitable activities. Since 2007, 61 non-profit legal entities have had their charitable organization status revoked, primarily due to their failure to timely submit their programmatic and financial reports to the Revenue Service.

5.4 Corporate Service Providers

The activities of corporate service providers are limited in Georgia, due to several circumstances. In Georgia, registration of legal entities does not necessitate involvement of so-called 'professional intermediaries'[248]. In parallel, the practice of nominee shareholding is authorized exclusively for joint stock companies, and a nominee shareholder can only be a securities market intermediary regulated by NBG (see subchapter 5.2). The institution of nominee directors is not developed in Georgia. The legislation does not provide exceptions to the director's obligation to consistently act in the best interests of the legal person. The director is accountable for the harm caused as a result of their culpable failure to fulfill their duties in accordance with the duty of good faith.

[244] Data by GeoStat

[245] The legislation provides detailed regulations on convening the general meeting, decision-making processes, establishment and functioning of the Supervisory Board, amendment of voting rights, acquisition of controlling shares, and other issues.

[246] A legal entity of public law is the designated legal form for public agencies that operate under state control while independently engaging in social, educational, cultural, or other public activities.

[247] The Revenue Service of Georgia is responsible for granting the status of a charitable organization.

[248] In certain jurisdictions, the registration of a legal entity is conducted by a designated "registered agent" who is responsible for registering the beneficial owners of the legal entity as well.

Georgia is not a signatory to the Hague Convention on the Law Applicable to Trusts and on their Recognition. The legal framework in Georgia does not acknowledge the concept of "split ownership"[249], which is a characteristic feature of common law trusts (hereafter referred to as the 'trust') or similar arrangements[250] found in continental Europe. Therefore, the legal framework in Georgia, in contrast to trusts, lacks the ability to protect the trustor's interests pertaining to safeguarding entrusted property against third parties. The entrusted property (such as shares of an LLC) are transferred to the trustee in an absolute ownership, thereby rendering the trustor unable to seek restitution of the disposed property in cases conflicting with their interests[251]. Consequently, the utilization of the trusted property institution for property disposition or investment purposes is infrequent in Georgia. Nevertheless, Resident individuals have the ability to act as trustees for a trust that holds a legal entity registered in Georgia but is governed by the legislation of another country. In such instances, if a trust engages in economic activities[252] within Georgia, it is obligated to comply with the local tax laws and regulations. At the same time, as of 2022, The ownership/control structure of a mere 0.1% of corporate customers at commercial banks involved nominee ownership/management or a trust arrangement.

5.5 Summary

Effective mechanisms are in place to obtain accurate and current information regarding the identities of directors and beneficial owners of legal entities. The activities of corporate service providers are limited in their scope. Despite these circumstances, legal entities often become the means for money laundering. LLCs are most frequently involved with cases of money laundering, primarily because of their simplified registration and management procedures. Other types of legal entities are characterized with lower level of vulnerability towards such activities. Considering these circumstances, the risk of money laundering by legal entities has been assessed ad **Mid-High**, while the risk of terrorism financing has been assessed as **Low.**

Chapter VI

NEW SERVICES AND DELIVERY CHANNELS

6.1 General Overview

In parallel to traditional payment instruments, development of remote service channels continues in Georgia, which enable customers conduct transactions using various electronic means, including different pay boxes (self-service terminals) to perform payment operations and open bank accounts remotely. Services related to virtual assets also include heightened risk. Considering high level of anonymity, swiftness of

[249] On one hand, as the formal-legal property of the trustee (at law) and, on the other hand, recognized on the basis of the principle of fairness, the property of the trustor (in equity)

[250] Such as fideicomiso, treuhand, fiducie

[251] The exception is an immoral transaction, where both the trustee and their counterparty have conspired to act against the interests of the trustor.

[252] Depositing money into a commercial bank deposit/account by a natural person does not count as an economic activity

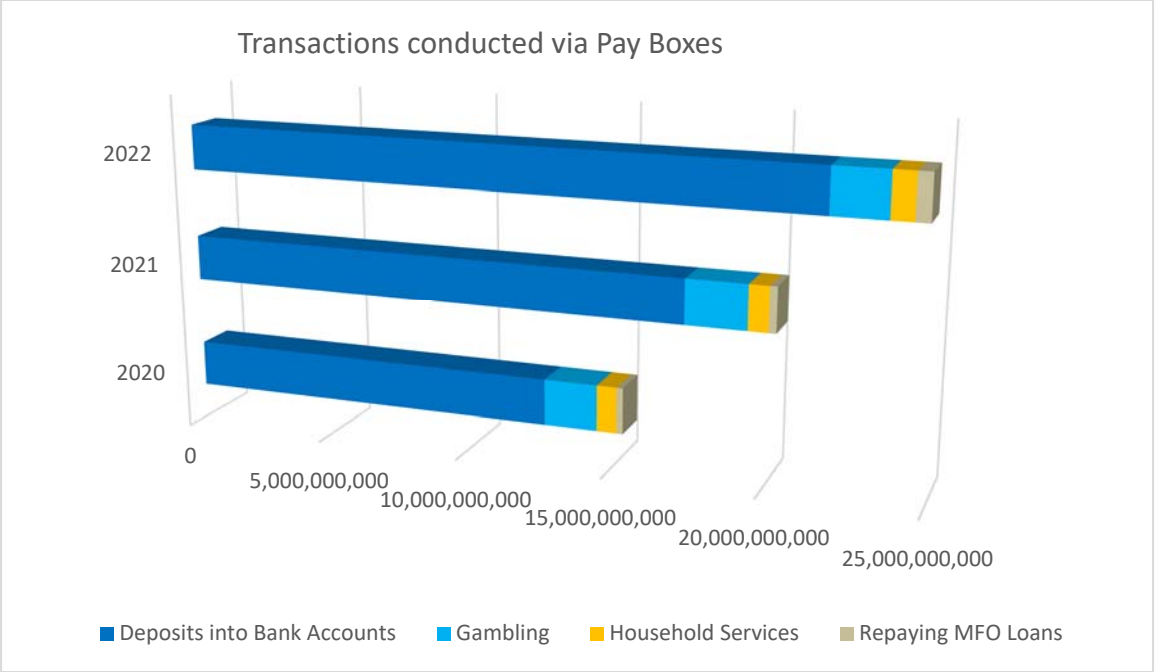
transactions, international dimension, difficulty of traceability and other signs, utilization of virtual assets may be expeditious for illegal activities. Additional risks are brought about upon by the non-uniform standards of regulation on international level and the constantly changing nature of the virtual asset market itself. A further obstacle to effectively mitigating these risks is that, to this day, the so-called "Travel Rules" [253] have not been implemented, which would ensure access to information on the parties involved in a transaction during its execution. Another challenge is the so-called "Unhosted Wallets" [254] allowing for the storage of virtual assets beyond regulated and/or centralized platforms, which complicates the identification of the parties involved in a transaction and complicates implementation of supervisory measures and investigative activities.

6.2 Pay Boxes

Pay Box network allows customers to conduct various operations using cash. Over the period of 2020-2022, the volume of operations conducted through pay boxes reached GEL 64.7 billion (average amount of one operation was GEL 112), of which 80% were related to depositing cash into bank accounts active in Georgia, 9% were associated with gambling (charging online deposits), 3% were related to household utility fees, 1% were used for repaying loans at microfinance organizations. In 2021, operations conducted through pay boxes experienced a 33% increase compared to the previous year. This growth was primarily driven by the limitations imposed on in-person service provision by banks during the pandemic and the heightened demand for remotely depositing cash into bank accounts.

[253] The rules for the exchange of information that accompanies the transfer and/or receipt of virtual asset by the virtual asset service provider

[254] A wallet for storing virtual asset keys, which exists beyond centralized platforms



Provision of services in remote form (particularly online deposit charging at casinos), to some extent, increases the vulnerability of pay boxes. However, from 2019, adequate control mechanisms have been implemented in terms of pay box services and cash operations are permitted only after the verification the identification of the sender (independent of the volume of the operation) and other necessary preventive measures for one-off operations are carried out. More specifically, with participation of NBG, a sender identification system was developed, which encompasses identification of the sender and screening against the United Nations sanctioned individuals and entities list, based on commercial banks. Low amount limits are imposed on pay box operations, while appropriate transaction monitoring processes are implemented at financial institutions to detect attempts of breaking up larger operations into smaller pieces. The efficiency of these mechanisms is assessed through on-site inspections by NBG. The results of the inspections demonstrated that the mechanism functions efficiently and significantly decreases risks connected with service provision through pay boxes.

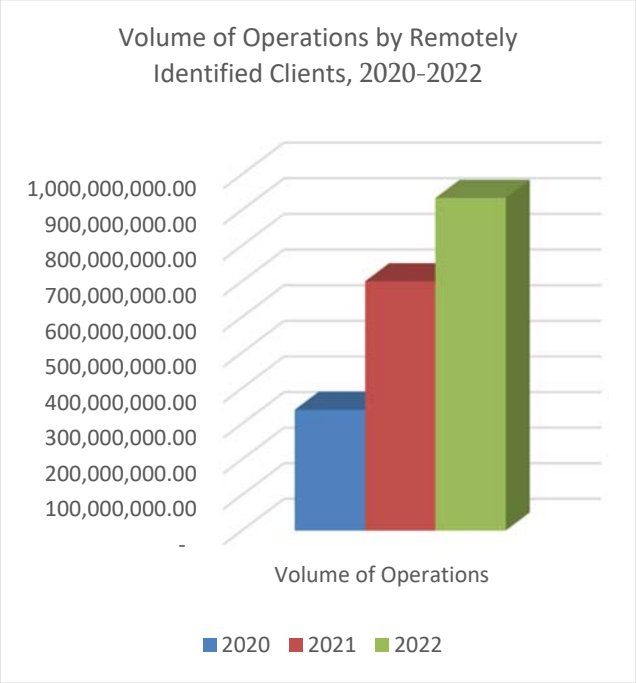
6.3 Remote Identification

During the pandemic, the process of remotely opening accounts has become especially prevalent. In 2021, NBG approved a special regulation[255], which enables natural persons and legal entities to open bank accounts using electronic means or receive other types of services from financial institutions. For the purpose of risk mitigation, this regulation incorporates a whole of set of limitations and technical standards. More specifically, technical standards encompass the so-called "Liveness Checks" of a natural person, live verification of the authenticity of identification documents, biometric data, etc.

[255] Order №48/04 of the President of the National Bank of Georgia, of March 30, 2021, "On Approval of the Rule of Electronic Implementation of Preventive Measures by an Accountable Person".

During the remote identification procedure, obligated entities are required to implement the same preventive measures that they would typically carry out during in-person communication with clients. Furthermore, for the purpose of reducing geographic risks, there are restrictions for conducting international transaction operations with high-risk jurisdictions and offshore zones. The remote identification process if prohibited for the citizens of high-risk jurisdictions or offshore zones. For the purpose of reducing risks connected to legal entities, there is an additional prohibition on remotely opening accounts for those companies whose activities are connected to virtual assets, FOREX, gambling business or free industrial zone. Additionally, remote identification is permitted only in cases where the legal entities are registered in Georgia or in other countries with lower risk.



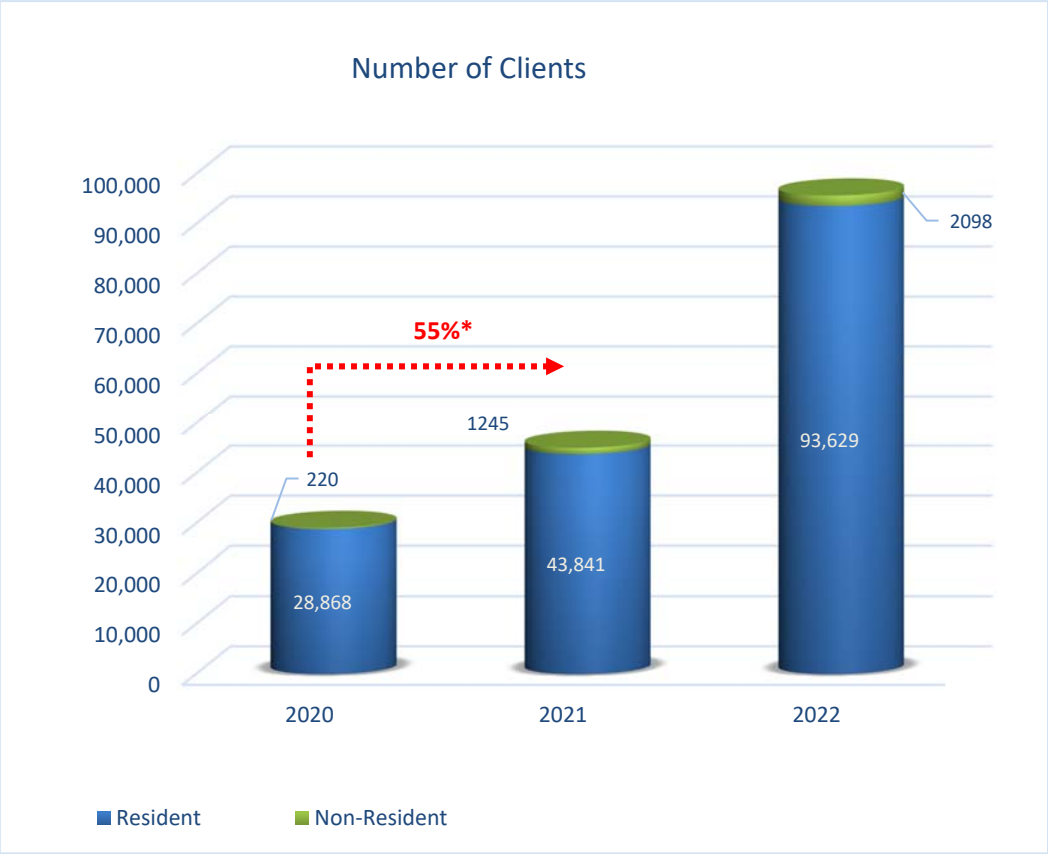


Over the period of 2020-2022, through remote identification, working relations were established with approximately 243,000 entities (of which 97% are resident natural persons). The total volume of their operations over this period made up to GEL 2 billion.

The remote identification process must be approved by NBG. To date, NBG issued such permits to 21 obligated entities (of these, 11 commercial banks, 5 payment service providers and 5 microfinance organizations). However, as of December 31, 2022, the remote identification process has been fully implemented only by 3 payment service providers and 8 commercial banks. The remaining financial institutions use remote identification only for filling out applications and the final identification/verification of clients is still implemented in-person.

6.4 Virtual Assets

Over the period of 2020-2022, Virtual Asset Service Provider (hereafter referred to as "VASP") activities did not fall under the regulation and supervision of NBG. However, companies operating on the market offered customers services connected to virtual assets. Over the period of 2020-2022, a significant growth was detected both in the number of their clients, as well as in the transaction volume (see below). As of 2022, the number of VASP clients exceeded 90 thousand, of which 99,7%, while 98% were residents of Georgia[256].

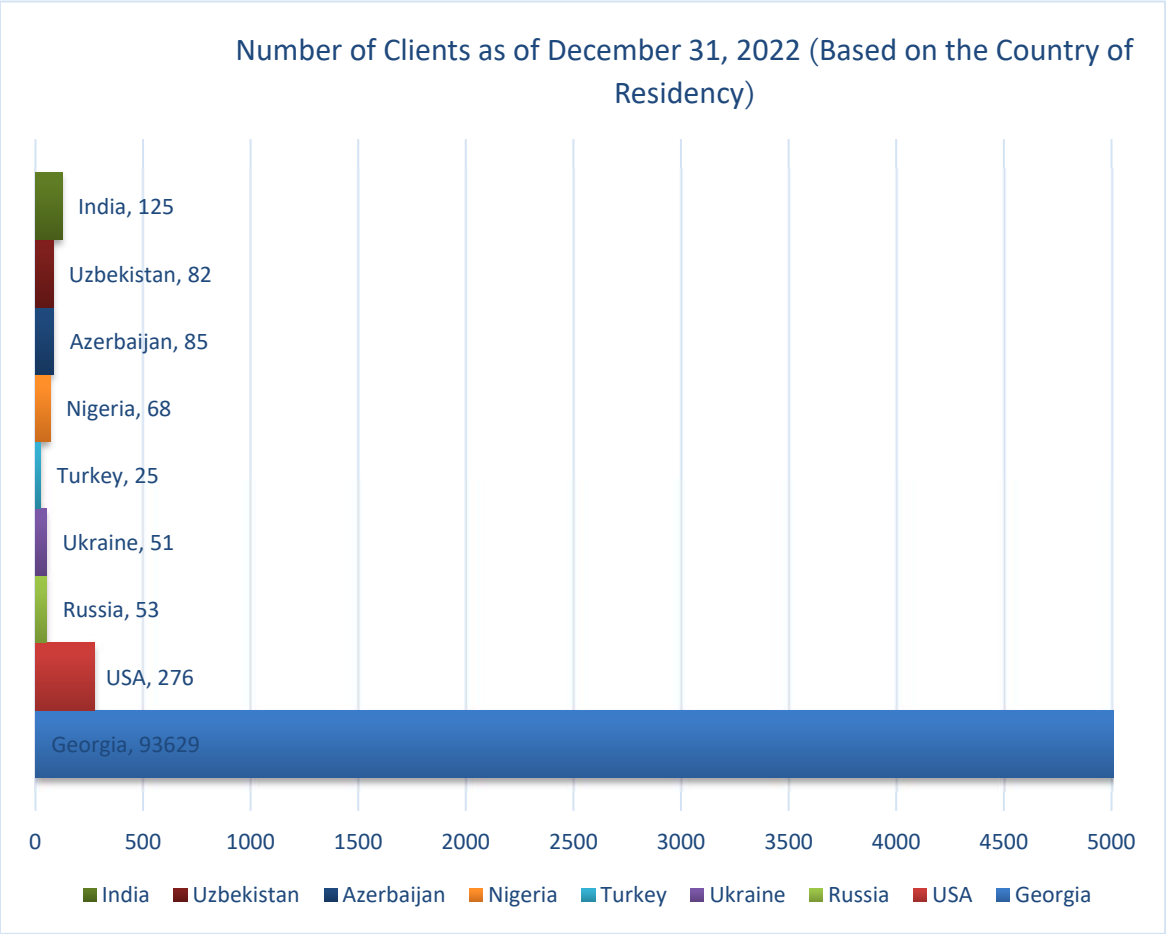


** Growth of total number of clients is represented in %*

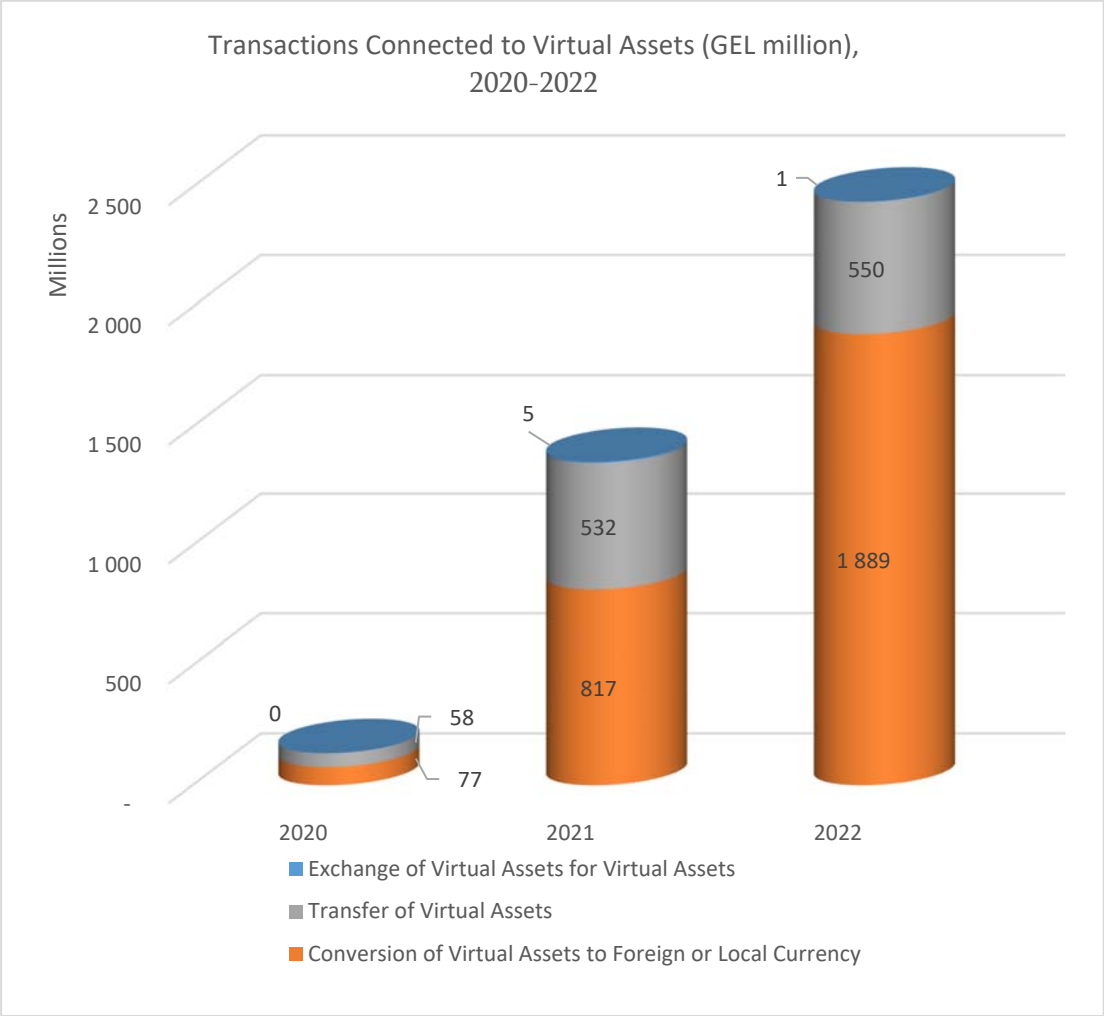
In the beginning of 2022, there was a sharp increase in the number of clients who were citizens/residents of Russia and Belarus among the clients of the two largest VASPs. However, the amount of these clients made up only 1% of total clients. It is noteworthy, that according to the data as of December 31, 2022, the active accounts of citizens/residents of Russia and Belarus have been closed in accordance to the sanctions of the European Union against the Russian Federation, which included restrictions on operations connected to virtual assets[257].

[256] Statistics by two of the largest VASPs on the market. It should be noted, that one entity may have wallets simultaneously with several VASPs.

[257] The Council of the European Union Regulation №833/2014: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02014R0833-20230427&qid=1686039191793



With the growth of the total number of clients, over the period of 2020-2022, the volume of transactions by the two largest VASPs active on the market also increased and, as of December 31, 2022, reached a total of almost GEL 2,5 billion. The VASP sector is growing, however, the types of services they offer are still limited and mostly revolve around exchange/transfer of virtual assets.



It is noteworthy, that over the period of 2020-2022, two largest VASPs utilized only the following channels for receipt/sending operations with clients: payment cards, bank transfers and/or electronic wallets. However, cash risks are also prevalent in the VASP sector, which is primarily caused by the existence of special self-service machines enabling conducting cash operations with virtual assets (purchase/exchange). Over the period of 2020-2022, in the absence of supervision, such self-service option was vulnerable from the perspective of illegal activities.

In 2022, as the volume of money transfers from Russia to Georgia increased, it was observed that a significant portion of these funds were directed to wallets associated with VASPs operating in Georgia (withdrawing a money transfer to a bank account and, afterwards, transfer to the virtual asset wallet using local bank transfer or payment card). The analysis of this trend conducted by NBG identified a trend in which the senders of the funds from Russia and their recipients in Georgia often operated on behalf of other entities, and the so-called Crypto Arbitrage was taking place[258]. More specifically, money transfer providers

[258] Profiting from currency exchange differences using virtual assets.

operating in Russia offered customers the opportunity to convert Russian Rubles to US Dollars at a preferential exchange rate (the exchange rate in Russia was significantly higher during that period). The funds received in Georgia were transferred for the purpose of purchasing virtual assets. Finally, the virtual assets were subsequently cashed out in Russia. By repeating this process multiple times, significant profits were gained. In the second half of 2022 this trend witnessed a decrease, caused by measures implemented by commercial banks on one hand (monetary limitations on transfers from Russia, allowing of withdrawal only in GEL, identification of sources of funding, etc.) and, on the other hand, by the sanctions imposed by the European Union, which restricted virtual asset transactions for citizens of Russia.

It is important to note, that two largest VASPs operating on Georgian market have implemented compliance control systems and are actively implementing preventive measures towards clients, checking against the sanctions and PEPs lists and implementing other risk mitigation measures (such as transaction limits, restriction of high-risk countries, restriction of the so-called privacy coins). Additionally, they monitor transactions using special blockchain technologies. Further, these VASPs also identify suspicious transactions and send them to the FMS (despite the fact that they are not obligated to provide information to the FMS until 2023).The findings of the investigative authorities pertaining to the facts of using virtual assets for criminal activities, indicate the vulnerability of VASPs towards predicated offences (such as fraud, drug trade), as well as their abuse for money laundering.

A regulatory and supervisory framework for VASPs, which fully takes into consideration FATF recommendations, was established through legislative amendments implemented in 2022. Starting from July 1, 2023, the FMS will commence registering VASPs and supervising their activities, which will be the main driver of risk reduction in this sector. For the purpose of carrying out the supervision, NBG already created a special division within its structure.

6.5 Summary

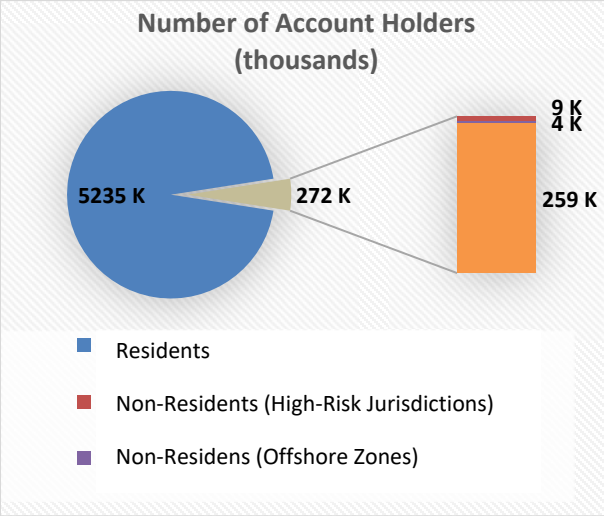
Substantial volumes of cash operations are carried out through pay boxes. These channels allow for charging electronic wallets in other countries. However, only properly verified entities (with active accounts in one of Georgian banks) can conduct operations via pay boxes, while the low monetary limitations in place significantly reduce the risks associated with the misuse of these pay boxes. For the purpose of mitigating risks associated with remote identification, the dedicated regulation by NBG introduces a whole set of limitations and strict standards pertaining to the technology used in the identification process. At the same time, the number of accounts opened through remote identification is low and their absolute majority is held by resident natural persons of Georgia. The virtual asset sector in Georgia is growing. Despite the fact that the large VASPs operating on the market have implemented compliance control systems, lack of supervision causes increased risks in this sector. Considering these circumstances, money laundering risks connected to new services and service provision channels have been evaluated as **Medium,** while terrorism financing risks have been evaluated as **Mid-Low**.

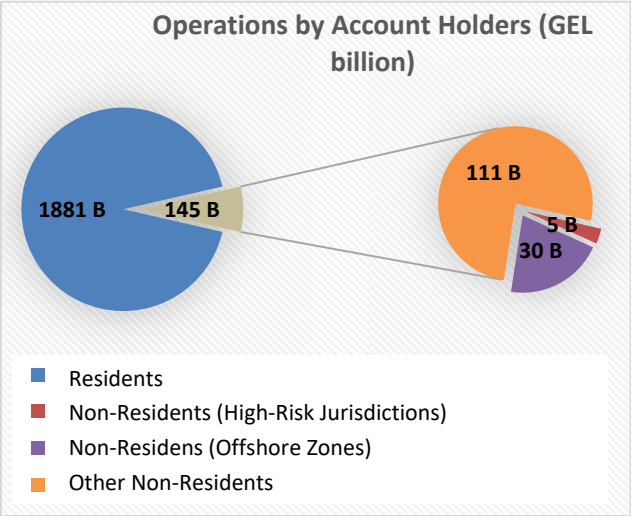
Chapter VII

BANKING SECTOR

7.1 General Overview

As of 2022, the ratio of banking sector assets to GDP stood at 98%, while the ratio of financial sector assets to total assets (excluding NBG) was 96%. These figures demonstrate the dominant position of the banking sector in the economy. The total asset value of commercial banks is characterized by a positive growth trend (with an average growth rate of 15% over the past four years) and, as of the year ended 2022, reached GEL 71 million.





As of 2022, there are 15 commercial banks operating in Georgia. The share of non-resident shareholders accounts for 87.8% of the assets and 87.4% of the equity of commercial banks.

Head enterprises and/or largest shareholders[259], in addition to residents of Georgia, include residents of the United Kingdom, Netherlands, Germany, China, Kazakhstan, Azerbaijan, United Arab Emirates and Turkey. Two of the largest commercial banks are listed on London Stock Exchange. It is noteworthy, that at the end of 2022, the first virtual bank license was issued (however, the bank in question is currently operating in a test mode and has not commenced serving clients).

To approximate with the European Union standards, the requirements for licensing commercial banks and assessing the suitability of administrators and shareholders were aligned with the Capital Requirements Directive (CRD) of the European Union for regulating activities and prudent behavior of credit institutions active in the EU. These changes are significant both in the context of the fulfilling the requirements stipulated by the Georgia-EU Association Agreement, as well as in the context of Georgia becoming a

[259] direct stockholders, not beneficial owners

member of the Single Euro Payment Area (SEPA). Following these legislative changes, NBG updated relevant regulatory acts, amending the regulations for licensing of commercial banks and for assessing suitability of administrators, and approved new provisions pertaining to acquisition of significant shareholding positions. Consequently, new criteria have been introduced to assess the suitability of administrators, such as sufficient time to duly fulfill their duties and independence of judgement. Moreover, there have been changes to the permissible number of concurrently held positions[260] and the acquisition of shareholding positions exceeding 10%, 20%, 30%, and 50%, or constituting a controlling interest, is now subject to the approval by NBG. In addition, professional competence will be evaluated as a suitability criteria. In instances when the purchase of shares in a commercial banks confers the right to appoint an administrator, when approving the purchase, it will be necessary to review the criteria determining suitability of the potential administrator.

7.2 Clients

As of 2022, 10 million account holders[261] are registered in the banking sector, of which 97% are residents, who, simultaneously, account for 94% of total amount of transactions. The share of residents of high-risk jurisdiction is 0.2%, while the share of residents of offshore zones[262] is 0.1%. In the banking sector, non-resident clients, (particularly those from high-risk jurisdictions and offshore zones), are regarded as a category presenting a heightened level of risk. This assessment stems from the complex nature of verifying the necessary information required for implementing preventive measures (hereafter, "Know Your Customer" (KYC)). Simultaneously, over the period of 2020-2022, significant-volume transactions have primarily been conducted by non-resident entities (mostly legal entities).

The portion of active account holders from high-risk jurisdictions represents 0.2% of the total number of account holders (mostly natural persons[263]). The top 5 countries of origin for these account holders are: Iran, Nigeria, Iraq, Pakistan and Yemen. The volume of operations by the residents of these countries accounts for 0.2%[264] of total transaction (GEL 5 billion[265]). Commercial banks implement enhanced preventive measures concerning residents from high-risk jurisdictions, including enhanced restrictions or numerical limits on international transactions. The banks also mostly offer to carry out operations in local currency, which is an effective way of reducing risks. At the same time, a majority of citizens from high-risk jurisdictions who hold accounts in Georgia possess a residence permit and/or engage in business activities within the country.

[260] A single position is considered positions held within one group and positions in enterprise/enterprises which own a significant shareholding position within a bank

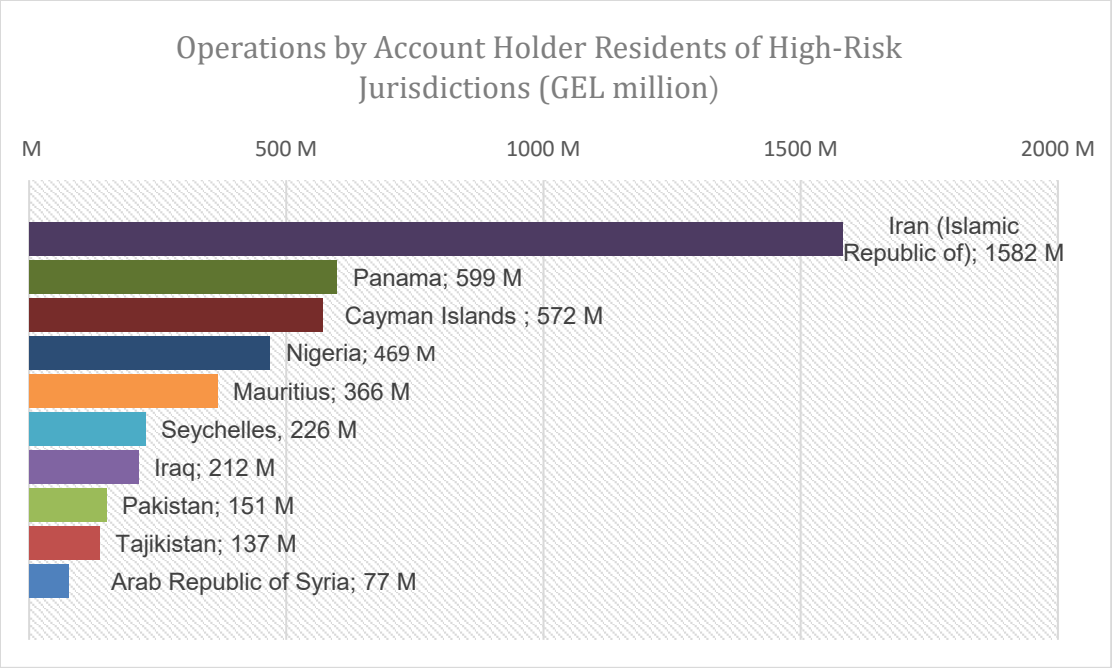
[261] Aggregate data of all banks as of 2022. It should be noted, that one person may have accounts in more than one bank.

[262] NBG determines the list of offshore zones, which currently includes 50 jurisdictions.

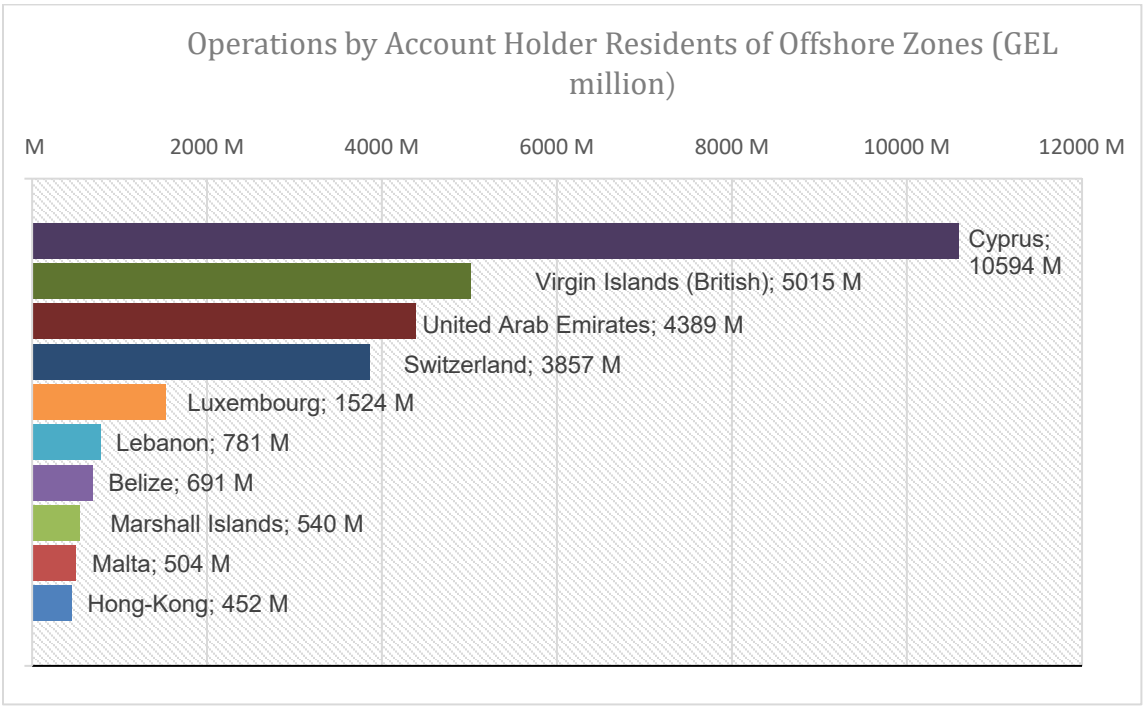
[263] 99.6%.

[264] 68% of these transactions are cashless

[265] Aggregate data of 2020-2022.



As of year ended 2022, natural persons account for the largest portion of high-risk jurisdiction residents also in terms of the volume of assets held (69%). Residents of high-risk jurisdictions represent 2% of the total notifications on suspicious transactions sent to the FMS (mostly citizens of Nigeria, Tajikistan, Iran, Columbia and Pakistan). The main reasons for these notifications are suspicions of fraud or concerns regarding the unknown sources of funds.



The portion of active account holders from offshore zones jurisdictions represents 0.07% of the total number of account holders (mostly natural persons[266]). The top 5 countries of origin for these account holders are: Lebanon, Ireland, Switzerland, United Arab Emirates and Cyprus. The amount of operations by the residents of these countries accounts for 2%[267] of total transactions (GEL 30 billion[268]). Residents of offshore zones represent 1% of the total notifications on suspicious transactions sent to the FMS (mostly citizens of Cyprus, Lebanon, the British Virgin Islands, Liechtenstein and Hong-Kong). The main reasons for these notifications are suspicions of layering, existing negative information on contrahens, and concerns regarding the unknown sources of funds.

During the on-site inspections of commercial banks by NBG, certain shortcomings were identified in the assessment and management risks related to high-risk jurisdictions and offshore zones. However, these shortcomings were not of consequential importance.

The portion of other non-resident[269] active account holders[270] represents 5% of the total number of account holders (mostly natural persons[271]). The top 5 countries of origin for these account holders are: Russian Federation, Ukraine, India, Belarus and Turkey. The amount of operations by the residents of these countries constitutes 5.5% of total transaction value. The largest share of transactions is attributed to the non-residents of Russian Federation, the United Kingdom, the United States of America, Israel and Turkey. It is noteworthy, that the citizens of the Russian Federation, Ukraine, Israel, Turkey and the United Kingdom account for the largest portion of total notifications on suspicious transactions sent to the FMS. The main reasons for these notifications are suspicions of fraud, cybercrime and evasion of taxes, or concerns regarding the unknown sources of funds.

In addition to non-residents, carries of heightened risk are considered resident companies which are, in various ways, affiliated with non-resident entities (such as a parent company registered in an offshore zone). One of the forms of affiliation include the presence of another country's resident natural person or legal entity in the shareholding structure of a company registered in Georgia. It is noteworthy, that such clients account for 17% of the total transaction volume of account holders (circa GEL 340 billion[272]).

The threat of frequent use of legal entities for money laundering remains persistent. Over the period of 2020-2022, 46% of frozen bank accounts belonged to legal entities. As of 2022, 6 thousand clients[273] of commercial banks have complicated shareholding structure[274]. Transactions of such companies are meaningful, amounting to GEL 363 billion over the period of 2020-2022, which accounts for 18% of all transactions[275].

[266] 93%.
[267] 96% of these operations are cashless.
[268] Aggregate data of 2020-2022.
[269] Except for offshore zones and high-risk jurisdictions.
[270] Clients which have conducted at least one operation in 2022
[271] 99.8%.
[272] Aggregate data of 2020-2022.
[273] 0.01% of all account holder clients.
[274] Complex structure refers to a situation when there are two or more levels in the vertical ownership chain.
[275] Aggregate data of 2020-2022.

The practice of NBG demonstrates that companies with complex shareholding structures pose a heightened risk due to the challenges involved in tracing the origins of beneficial owners and the sources of funding. In some cases, shareholding structures of these companies may include legal entities registered in countries with inadequate corporate transparency mechanisms. Over the period of 2020-2022, the on-site inspection of commercial banks by NBG unveiled that almost 17% of the studied legal entities were companies with complex shareholding structures. In 15% of the clients studied, shortcomings were identified specifically related to the processes used to identify the beneficial owners, however these shortcomings were not of consequential importance[276]. Consequently, it has been determined that the banking sector adequately tackles the challenges associated with tracing identity beneficial owners.

The volume of operations by clients engaged in high-risk activities reached GEL 220 billion (11% of total transactions)[277]. Of these, 30% (GEL 66 million) is attributed to high-income entities[278], 12% (GEL 26 million) - to entities to entities involved in mining of raw oil, natural gas and/or producers of oil products and 9% (GEL 19 billion) – to gambling businesses.

Among the high-risk products, e-commerce stands out, with clients (merchants) conducting operations of GEL 16 billion through e-commerce over the period of 2020-2022. Characteristics of e-commerce (such as provision of remote services, difficulty of double-checking activities) make transaction monitoring a challenge for the obliged entities. As a result, NBG gives special attention to services provided through e-commerce during on-site inspections. Additionally, in 2020, NBG implemented provisions for card-based instruments[279] which helped address relationships between acquirers and entities involved in card-based operations (such as sub-acquirers, trade platform organizers). These provisions encompass important aspects of this relationship, including risk mitigation associated with providing acquiring services to foreign merchants. In addition, 99% of the clients utilizing e-commerce are resident merchants, of which 40% are traders of various household goods. With regards to non-resident merchants (whose volume of operations makes up just 0.1% of total value of operations), their primary activities include trading clothes, footwear and textile, as well as food & beverage services. Consequently, it has been determined that risk mitigation of e-commerce services is carried out effectively.

Over the period of 2020-2022, operations by Politically Engaged Persons (hereafter referred to as "PEP") reached GEL 7 billion. The volume of these operations makes up only 2% of operations conducted by clients engaged in high-risk activities, while in terms of amount of transaction, they represent 5% of total. The majority of these entities possess various types of deposit accounts and also employ different systems for both cash and cashless money transfers[280]. Of these, non-resident clients account to only 10% (primarily residents of Azerbaijan, Russian Federation, Slovakia, Sweden and Italy). Majority of operations (81%) were

[276] In all of these cases, commercial banks had traced identities of beneficial owners. The shortcomings were primarily related to the quality of documentation acquired by the banks to identify the beneficial owners.
[277] Aggregate data of 2020-2022.
[278] High-income entities are defined as those with an account balance of at least GEL 1 million
[279] Order №155/04 of the President of NBG, of September 2020, "On Approval of the Regulation on Card-based Instrument"
[280] In 2021, the volume of operations by PEPs increased as a result of issuance-sale of obligations of a financial institution whose beneficial owners are the PEPs themselves. Shares of this financial institution are traded on the London Stock Exchange and the process of issuance of its obligations is characterized by high level of transparency.

conducted by resident PEPs. In Georgia, there is an active electronic system for officials' asset declaration, which is monitored by the Civil Service Bureau. This system facilitates mitigation of risks connected with local PEPs. It is noteworthy, that over the period of 2020-2022 only isolated shortcomings were identified during on-site inspections.

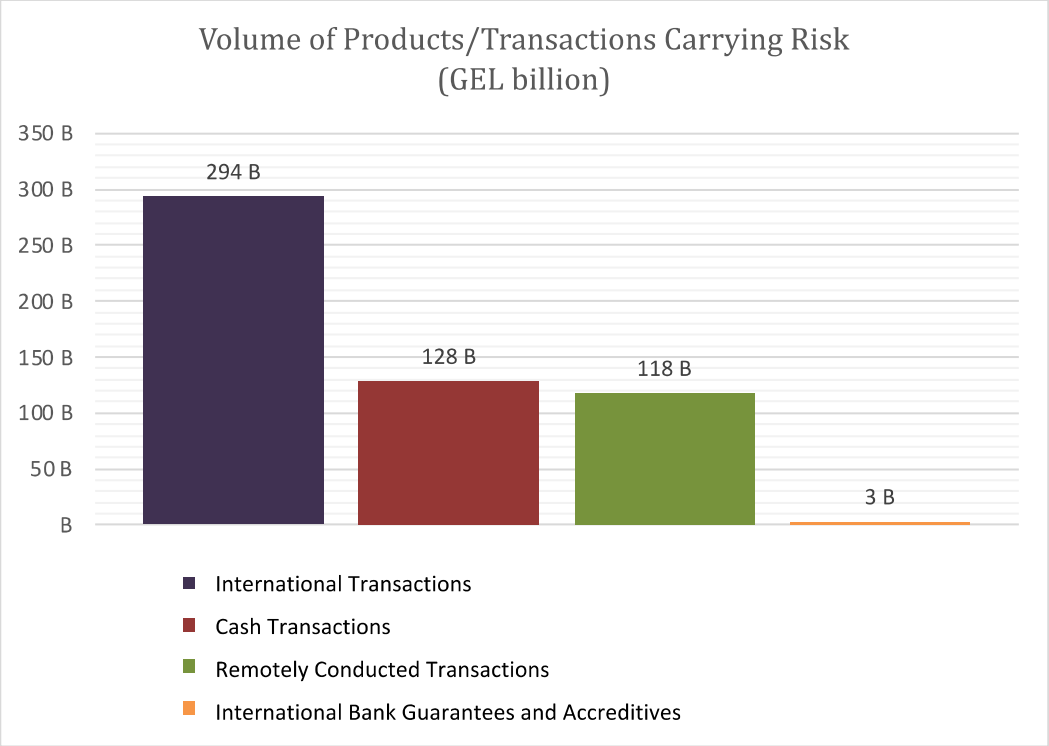
In the banking system, it is possible to receive specific types of services without the requirement of opening an account (for example, currency exchange, money transfers). As of 2022, 555 thousand clients who do not have active account have been detected in the banking system, which makes up 5% of total clients registered with banks. Residents account for the majority of the clients without an active account both numerically (73%), as well as in terms of the volume of conducted operations (88%). Operations conducted by residents of high-risk jurisdictions without an active account for 1% of total operations (primarily residents of Iran, Tajikistan and Nigeria), while residents of offshore zones account for 0.14% (primarily residents of Lebanon, Kuwait and Philippines). It is noteworthy, that on the basis the legislative amendments of 2019, a monetary limitation on identification/verification of the clients was lifted, which has significantly reduced the risks connected with conducting operations without opening an account.

Over the period of 2020-2022, no cases of asset freezing involving sanctioned individuals and entities in accordance with the United Nations Security Council Resolutions were detected in the banking sector. Based on written directives from the FMS, transactions were blocked in the cases pertaining to 26 clients (citizens of Georgia, Russian Federation, the United Kingdom, India and Cyprus). The FMS directives concerned cases of fraud, tax evasion and potential connections to organized crime.

Over the period of 2020-2022, around 21% of the notifications submitted to the FMS by by commercial banks regarding suspicious transactions were subsequently forwarded to the investigative authorities for further examination. This circumstance indicates that, in comparison to the previous period, the quality of notifications has significantly improved in recent years. The supervisory practice of NBG demonstrates, that banks have implemented adequate control mechanisms, and the detection and examination of suspicious/uncommon operations are carried out efficiently. There were only isolated cases detected of commercials banks not having a timely or sufficient reaction on notable indicators.

7.3 Products/Services

Commercial banks offer diverse range of products to their clients. The products are provided to clients through both face-to-face interactions and remote channels. Over the period of 2020-2022, the turnover of commercial banks is characterized by a positive growth trend, while the share of products/operations carrying risk makes up 11%. The basis for identifying products as high-risk are supervisory practice, information requested from commercial banks and experience of investigative authorities.



Cash transactions encompass operations such as currency exchange, depositing cash into accounts (including through pay boxes) and withdrawing cash from ATMs located outside of the country. In this grouping, the most significant in terms of size are operations involving depositing cash into accounts, which represents a challenge in terms of identifying the source of funds. During the on-site inspection of commercial banks by NBG it was identified that, in several cases, the banks had not implemented sufficient measures to identify the source of funds. However, in comparison to the previous periods, cash control mechanisms (including a risk-based approach for examining the source of funding) have significantly improved, which has been facilitated by NBG's special attention to this issue.

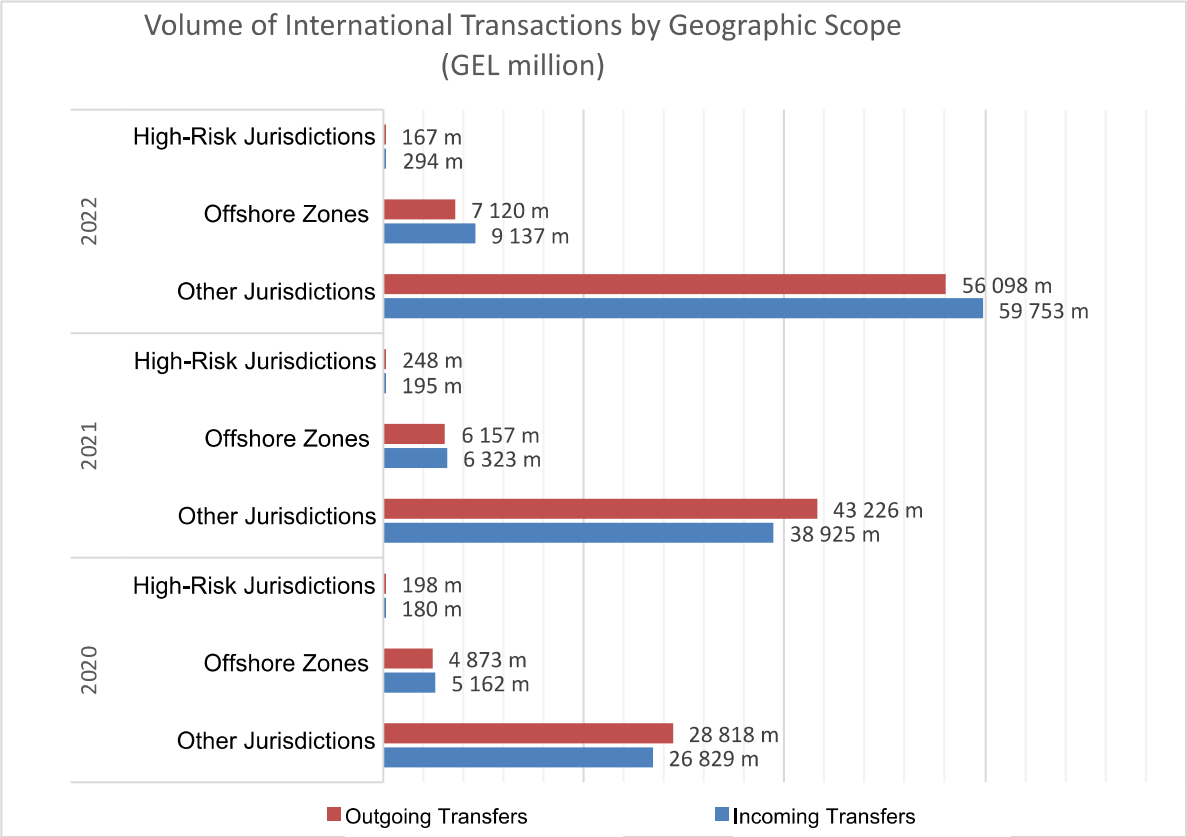
The volume of operations for depositing cash into accounts by non-resident entities exceeded their cash withdrawal operations by 31%[281]. However, the opposite was true specifically in the case of residents of high-risk jurisdictions and offshore zones, where the volume of withdrawal operations has exceeded their cash depositing operations by 47%. According to NBG data, residents primarily deposit cash into their accounts for the purpose of conducting money transfers for importing goods from countries with which Georgia maintains close economic relations (for example Turkey, Azerbaijan, China, the United States of America).

Over the period of 2020-2022, the volume of international transactions by clients of commercial banks accounted for 39% of total incoming and outgoing transfer operations[282]. International transactions frequently feature in notifications regarding suspicious transactions that commercial banks submit to the

[281] In case of residents, the volume of operations for depositing cash into accounts exceeded their cash withdrawal operations by 59%.

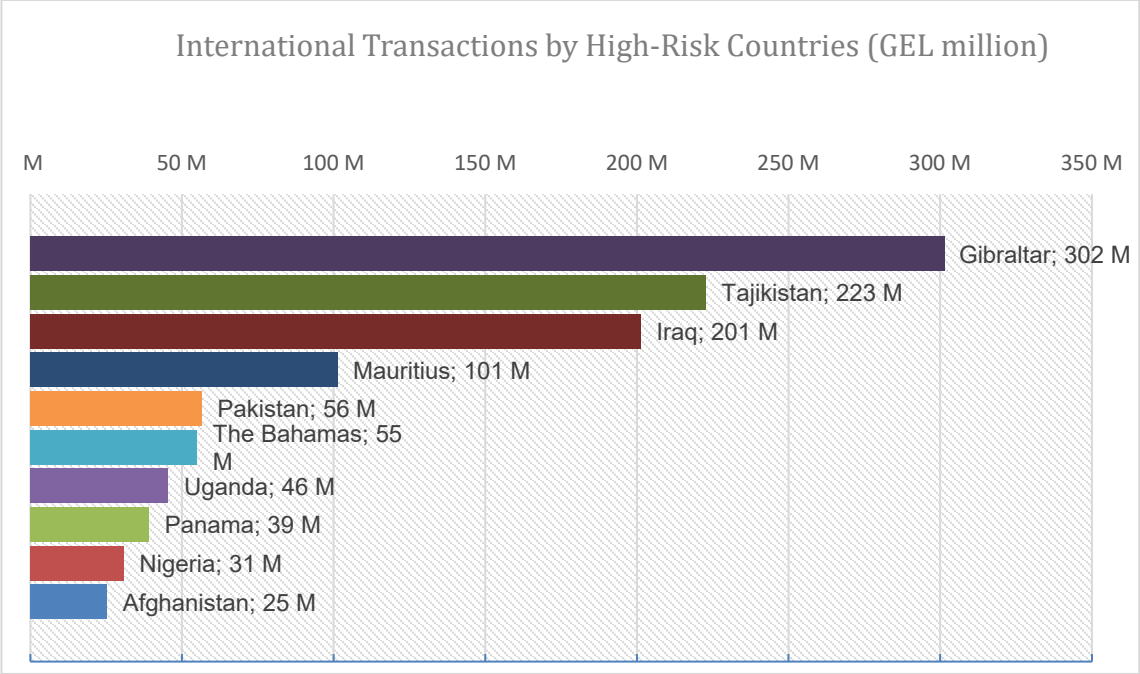
[282] The data includes money transfers as well.

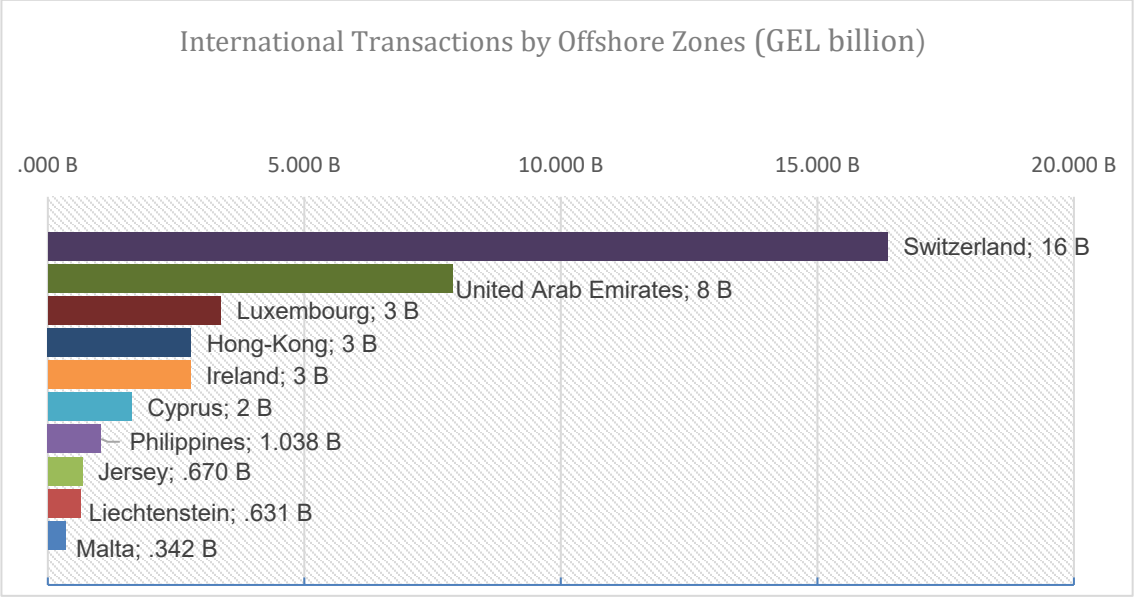
FMS and represent a vulnerable product, considering the transnational character of money laundering and terrorism financing offence.



It is noteworthy that 97% of international transactions are conducted through the SWIFT system, while 3% are conducted through money transfer systems. The volume of operations connected to high-risk jurisdictions accounts for 0.4% of international transactions, while the volume of operations connected to offshore zones accounts for 13%.

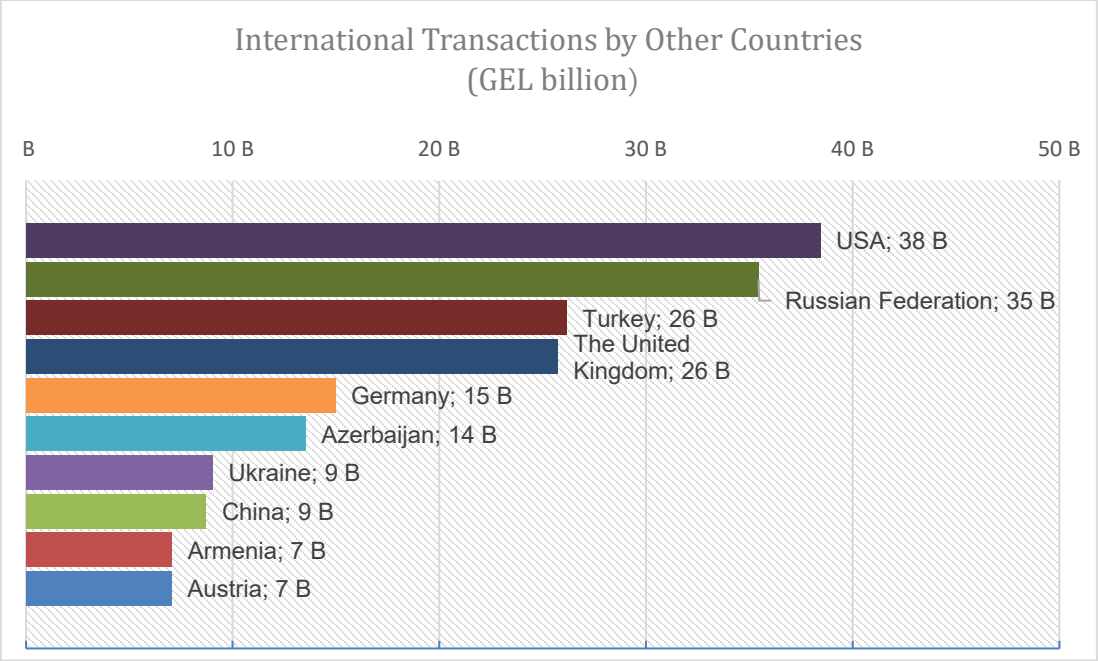
To manage risks connected to high-risk jurisdictions, in 2022, a provision was developed with involvement of NBG and commercial banks, which outlines strict terms and conditions (such as restricted transactions, documentation requirements, origins of the products) for conducting transactions with specific countries, for the purpose of enforcing international sanctions (including those against Iran) and reducing risks. Conformity to these requirements is mandatory for all commercial banks. Also, in 2021, NBG has issued a directive to financial institutions, instructing them to implement enhanced preventive measures concerning entities/transactions connected to Afghanistan, and developed a list of required information and documentation.





Significant portion of international transaction is made up by other countries[283] - 86%. In this case, the majority of these countries are those with whom Georgia maintains close economic relations and/or where there is a large number of Georgian immigrants (for example the United States of America, Russian Federation, Turkey, the United Kingdom, Germany).

[283] Except for offshore zones, high-risk jurisdictions and Georgia.



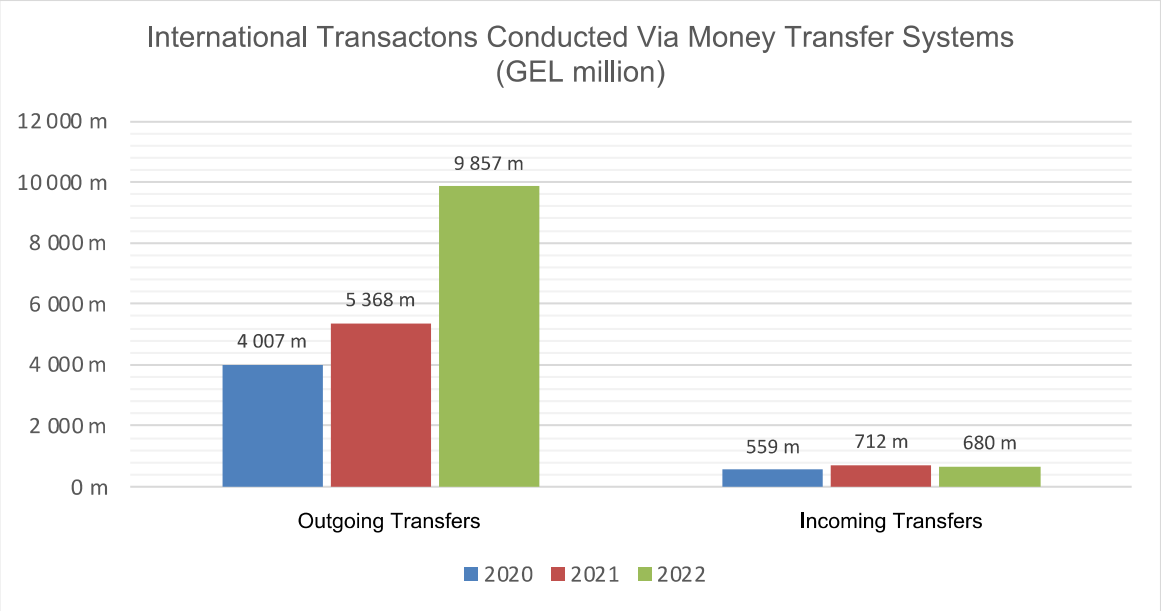
In the information obtained through remote supervision by NBG, a particular attention is drawn by the fact that there is a negligible difference between the volumes of incoming and outgoing operations connected to specific countries (such as Cyprus, Luxembourg, Jersey, Hong-Kong, Malta). This fact may indicate that Georgian banks are being utilized for what is commonly referred to as transit operations. During on-site inspections of banks conducted by NBG, certain companies were identified whose business activities and transactions were not linked to Georgia. Such companies or their parent companies were often registered in offshore zones. In this case, it is challenging to determine the legitimacy of these transactions. When companies transfer funds to various countries under the designation of a loan, it is possible that the transactions and accompanying documentation (such as loan agreement) are fictitious and serve the purpose of layering illegal incomes. However, the analysis by the FMS (subchapter 3.2.1) demonstrates, that the total volume of transactions conducted for the purpose of layering is reduced in comparison to previous years. The main reason for this is improvement of compliance control systems in the banking sector.

Various systems for servicing money transfers are actively used in the banking sector. Such services are primarily utilized by the so-called one-off clients[284]. Over the period of 2020-2022, commercial banks conducted nearly GEL 21 billion worth of international operations using money transfer systems (with absolute majority being incoming transactions). These operations are mostly connected to countries where there is a large number of Georgian immigrants – Russian Federation, Italy, the United States of America, Israel, Greece and Germany.

Over the period of 2020-2022, 1% (GEL 187 million) of international operations conducted using express money transfer systems were connected to high-risk jurisdictions. It is noteworthy, that incoming money

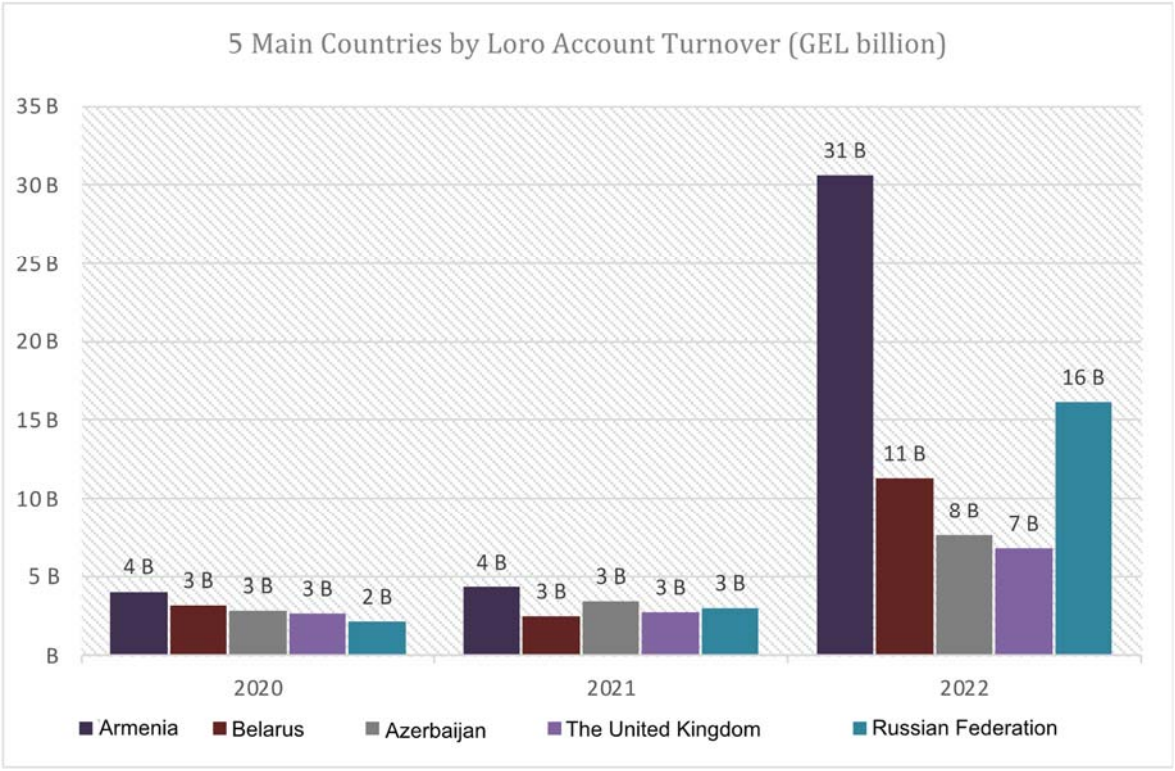
[284] Clients, who perform one-off operations without opening bank accounts

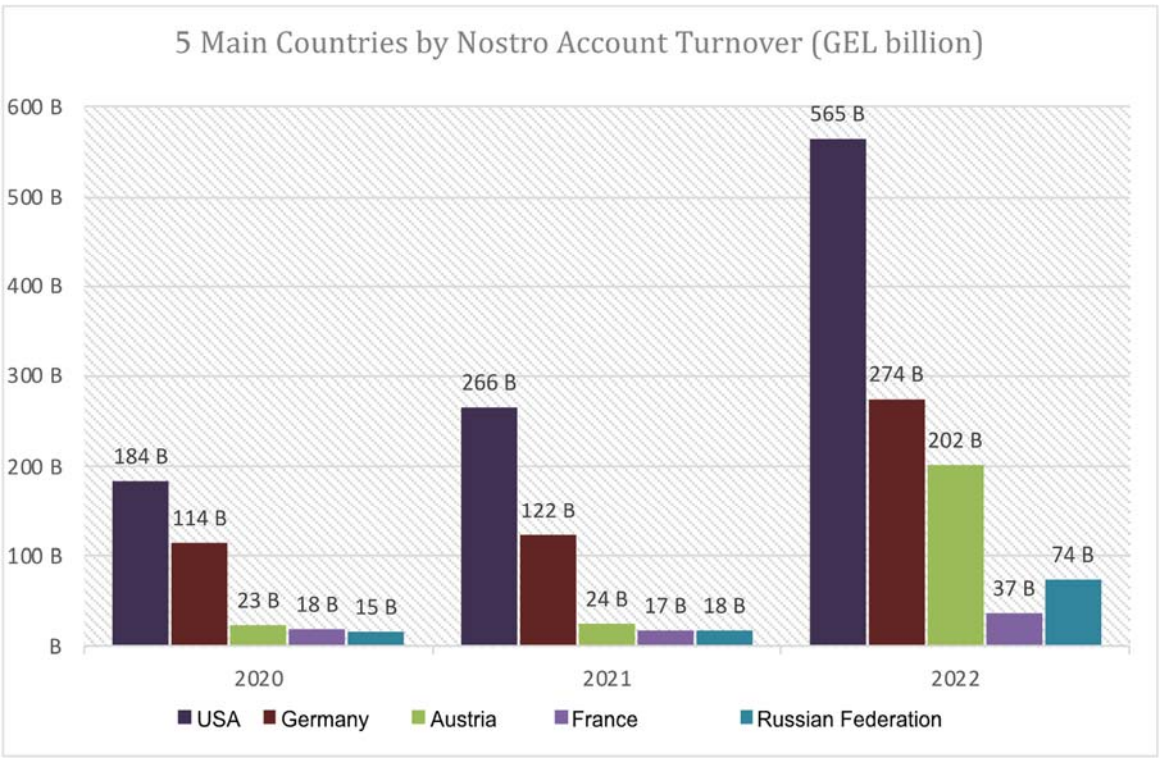
transfers from offshore zones significantly exceed the volume of outgoing money (incoming transfers – 94% - GEL 386 million; outgoing transfers – 6% - GEL 23 million).



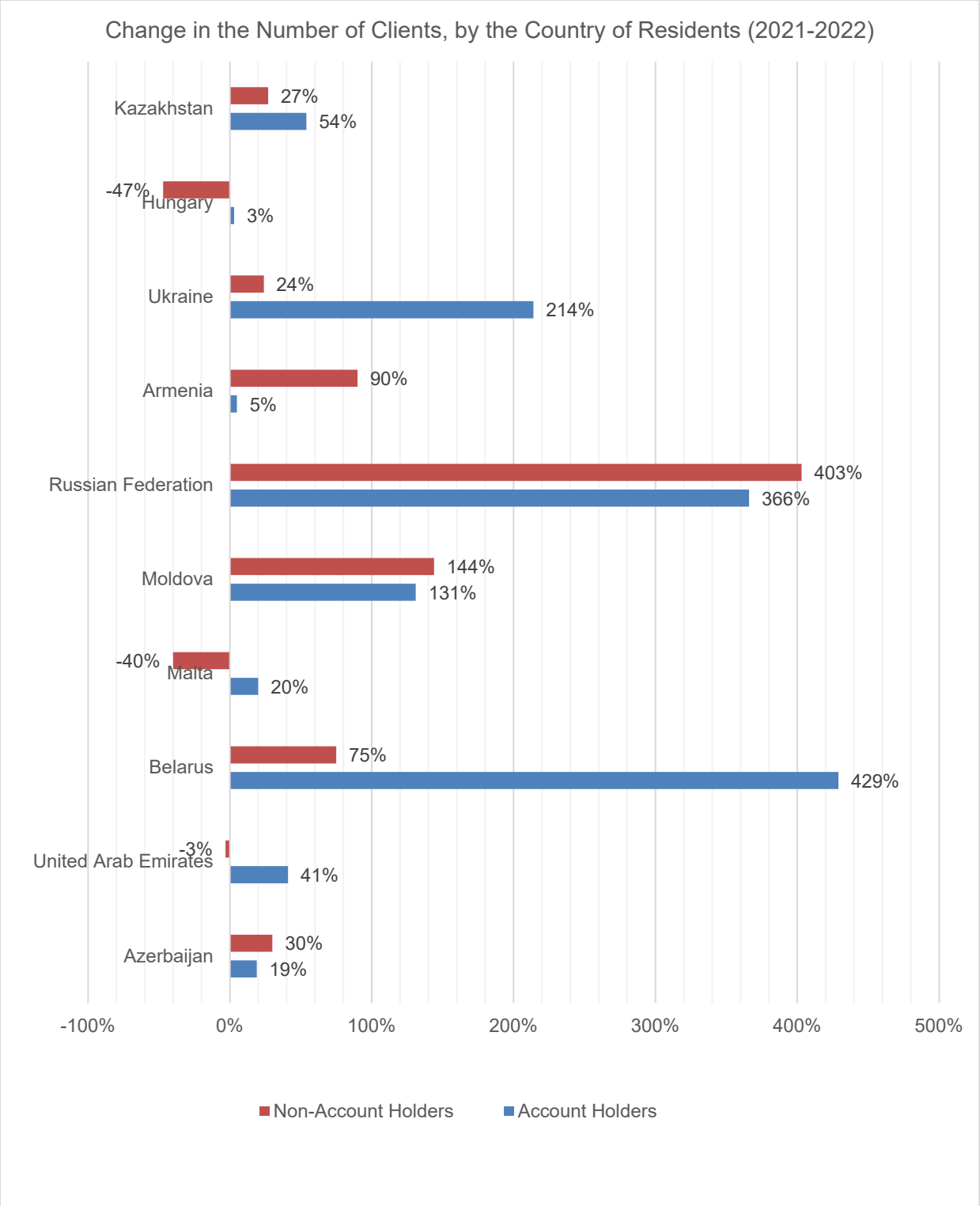
Money transfers can be used for the purpose of terrorism financing. However, such facts have not detected by investigative authorities, which indicates the effectiveness of the monitoring systems implemented by banks towards the money transfers. In addition, for the purpose of mitigating terrorism financing risks, the banks implemented enhanced preventive measures towards charitable organizations and other non-profit legal entities.

In the context of correspondent banking relationships, majority of loro accounts in Georgian banks are established by banks from Armenia, Belarus, Russia, Azerbaijan, and the United Kingdom. Meanwhile, Georgian banks have nostro accounts primarily in the US, German, Austrian, Russian and French banks. The on-site inspection by NBG reveals that in the banking sector, in the context of correspondent banking relationships, only isolated and inconsequential instances of shortcomings have been identified. The measures for risk reduction implemented by banks (including prevention of any kind of relations with sanctioned financial institutions) are commensurate with the existing risks.


5 Main Countries by Loro Account Turnover (GEL billion)
35 B
30 B
25 B
20 B
15 B
10 B
5 B
B
4 B
3 B
3 B
3 B
2 B
4 B
3 B
3 B
3 B
3 B
31 B
11 B
8 B
7 B
16 B
2020
2021
2022
Armenia
Belarus
Azerbaijan
The United Kingdom
Russian Federation


5 Main Countries by Nostro Account Turnover (GEL billion)
600 B
500 B
400 B
300 B
200 B
100 B
B
184 B
114 B
23 B
18 B
15 B
266 B
122 B
24 B
17 B
18 B
565 B
274 B
202 B
37 B
74 B
2020
2021
2022
USA
Germany
Austria
France
Russian Federation

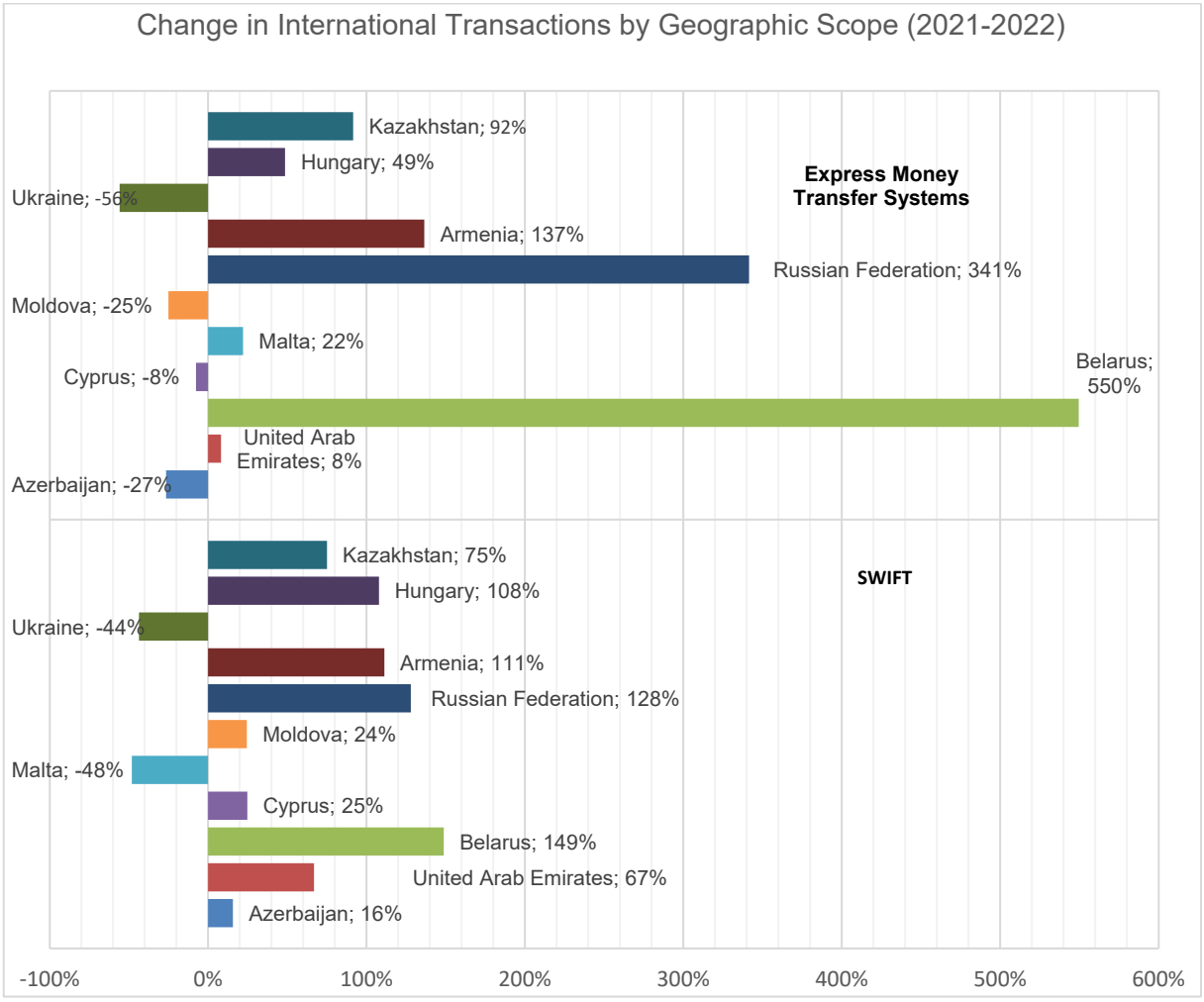
In 2022, the United States of America, the European Union, the United Kingdom and other countries imposed sanctions on Russian Federation and Belarus in response to the armed assault on Ukraine. The supervisory practice demonstrates, that in parallel to the imposing of sanctions, there has been a rise in the number of clients from Russian Federation and Belarus and in the number and volume of transactions connected to these countries. The increase in the amount and volume of transactions is connected with the citizens of Russia and Belarus relocating to live in Georgia and crypto arbitrage (see subchapter 6.4). However, instances of attempts to evade sanctions have also been identified, wherein Georgian resident companies have sought to acquire sanctioned products from EU member states and supply them to entities associated with Russia. The absolute majority of such transactions is blocked by commercial banks.



Immediately upon the start of the Russian-Ukrainian war, NBG instructed financial institutions operating in Georgia to comply with the requirements of international sanctions. Furthermore, to mitigate the risks of sanctions evasion, NBG issued written instructions to the financial sector, directing them to impose

limitations on money transfers associated with Russia and/or carried out by Russian residents, and to enhance strictness of control measures.

The inspections conducted by NBG revealed that the majority of incoming money transfers from Russia are utilized for covering living expenses in Georgia. This observation is supported by the fact that the inflow of Russian tourists to Georgia has increased, with certain number of them choosing to temporarily reside in the country. It is worth noting that a portion of the incoming money transfers from Russia is allocated for trading virtual assets or engaging in crypto arbitrage (see subchapter 6.4).



It is noteworthy, that ongoing geopolitical events and the accompanying processes (migration, increase in financial inflows, etc.) have increased risks not only in terms of sanctions evasion, but also in terms of using financial system for illegal purposes. Consequently, systemic banks have made the decision to implement enhanced preventive measures targeting residents of Russia and Belarus. These measures (in addition to obtaining standard KYC information, cross-referencing against the lists of sanctioned individuals and entities and PEPs) involve gathering information regarding the legality of the funds' origin that potential customers intend to deposit in the bank, obtaining documentation verifying their business or vocational activities, thorough checks on networks and reputation using public sources and other informational

resources, and obtaining approval from the bank leadership before opening an account. As such, the banking sector proactively attempts to reduce newly emerging risks.

Summary – the banking sector dominates the Georgian economy. The assets of Georgian banks are substantial and are characterized by a positive growth trend. New products/services are introduced rapidly. Bank accounts are one of the widespread means of money laundering in Georgia. The vulnerability of the banking sector is further facilitated by widespread use of cash within the economy, as well as increased relocation of Russian citizens to Georgia and increase of transactions connected to Russia due to the international financial-economic sanctions imposed against Russia in recent periods. On the other hand, the compliance of the banking sector with the legislation against money laundering and terrorism financing is high. Additionally, commercial banks are subject to comprehensive, risk-based supervision. Considering these circumstances, the risk of money laundering in the banking sector has been assessed ad **Mid-High**, while the risk of terrorism financing has been assessed as **Mid-Low**.

Chapter VIII

NON-BANK FINANCIAL SERVICES

8.1 General Review

In 2022, the ratio of assets of non-banking financial institutions to GDP was 3.7%, and to total assets of the financial sector (excluding NBG) was approximately 3.6%. The largest share of total assets of the non-banking sector – 72% - comes to microfinance organizations. The development of the non-banking financial sector is determined by the availability of products and services and a wide network of services, and in some cases, low commissions, speed of service and remote delivery channels. During the reporting period, NBG supervised the lending entities and investment funds. With the legislative changes adopted at the end of 2022, NBG will also supervise virtual asset service providers.

8.2 Tax Service Providers

As of 2022, 30 payment service providers (later "providers") were registered in the NBG. In the case of 3 providers, non-resident beneficial owners were recorded (Czech Republic, Israel and Greece). It should be noted that 4 providers are the members of financial groups whose shares are traded on the London Stock Exchange.

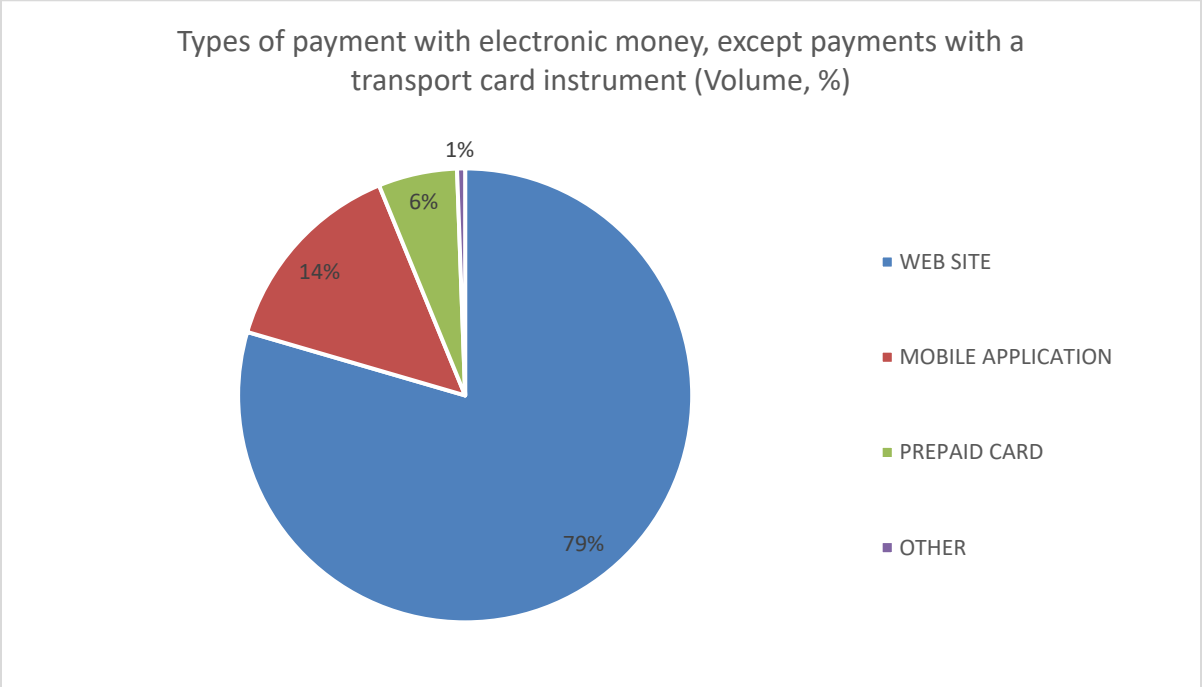
The volume of operations of providers has been increasing in recent years. The amount of operations carried out in 21020-2022 amounted to 24.5 billion GEL, which is insignificant compared to banks. Nevertheless, providers play an important role in the implementation of small volume (retail) payments. Providers provide payment services both face-to-face and remotely. Fast payment machines are most often used to perform

operations, through which 94% (quantitative) of payments were made in 2022. [289] Providers' websites are also used to initiate payment transactions.

The number and volume of payments made with electronic money is growing, although their share in the total operations of providers is still quite small (in 2022 it amounted to 3.4%). Prepaid transportation cards are actively used to pay for travel in Tbilisi's public transport. In 2022, the volume of payments made with such cards made up 13% of all electronic money payments. In addition to transport cards, in 2020-2022 payments with electronic money in the amount of 681.2 million GEL were made mainly through the websites of electronic money providers.

Providers issue prepaid cards that are used to access the electronic wallets. A significant number of providers also use mobile applications, which contribute to the growth of remote payments.

289 For a detailed analysis of operations carried out by fast payment machines, see subchapter 6.2.



Customers

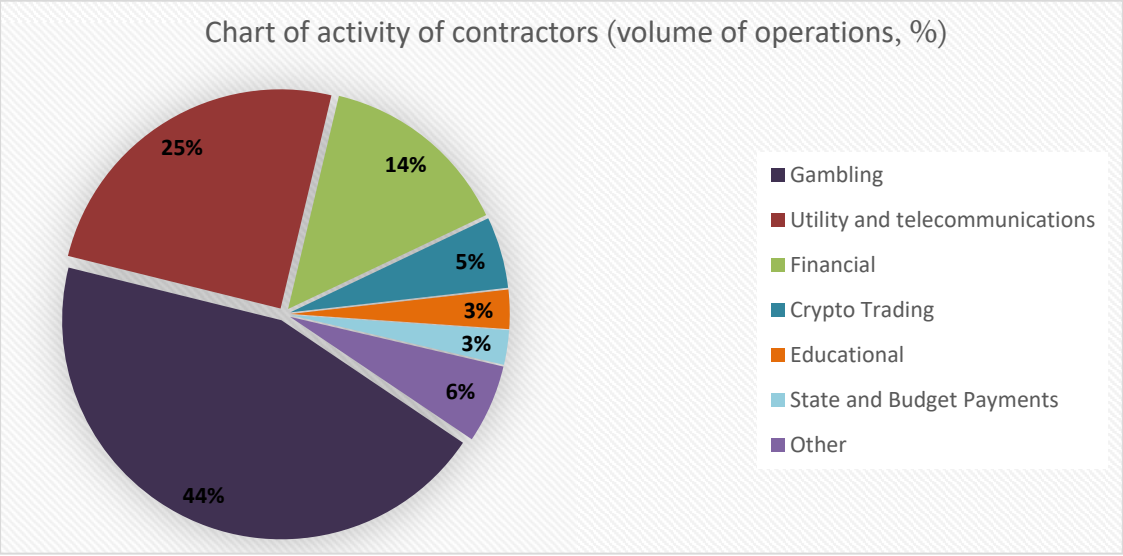
As of 2022, providers have 910,852 registered customers, of which 347,806 have made at least one transaction in the last 1 year. 99.8% of clients are physical persons, and 99.8% of them are residents of Georgia. It should be noted that the largest part of the providers' operations (93.9%) are performed by residents. Operations of residents of high-risk countries and offshore zones, in 2020-2022, totaled approximately 0.3% of operations (60.9 million GEL), while operations by residents of other countries amounted to 221.6 million Gel (0.9%).

Clients of the providers, except the persons performing payment operations, are contractors (companies) in long-term business relationships, who use the services of the provider in order to receive multiple payments from their customers. In 2020-2022, only 0.29% of the total transactions of providers came from payments made in favor of non-resident contractors. As of 2022, the scope of activities of non-resident contractors is mainly related to telecommunications and educational services, online games and remittances. The operations of legal entities with a comples ownership structure are more high volume, which amounted to 7.1 billion GEL in 2020-2022 (about 29.1% of the total operations of providers' clients). Legal entities with a complex ownership structure mainly conduct business and receive payments for services such as gambling, utility bills, internet/telecommunications services, educational and insurance activities. The number of customers with a complex ownership structure, as of 2022, amounted to 12.4% of legal entities that are customers of providers.

During the NBG's on-site inspections of some providers, deficiencies related to the determination of beneficial owners of companies with complex ownership structures were identified. However, in accordance with the instructions and recommendations of the NBG, in 2022 the situation in the payment customer sector has improved in this direction.

As of 2022, the number (34) and share (0.001%) of the total number of clients whose beneficial owners are residents of high-risk jurisdictions or offshore areas is negligible. The volume of the operations performed by such clients in 2020-2022 amounted to 335 million GEL, which is 1.4% of the total operations of providers.

Payments made in favor of contractors are dominated by the gaming business, whose operations significantly exceed household service and budget payments. Providers have established business relations only with local gaming business operators.

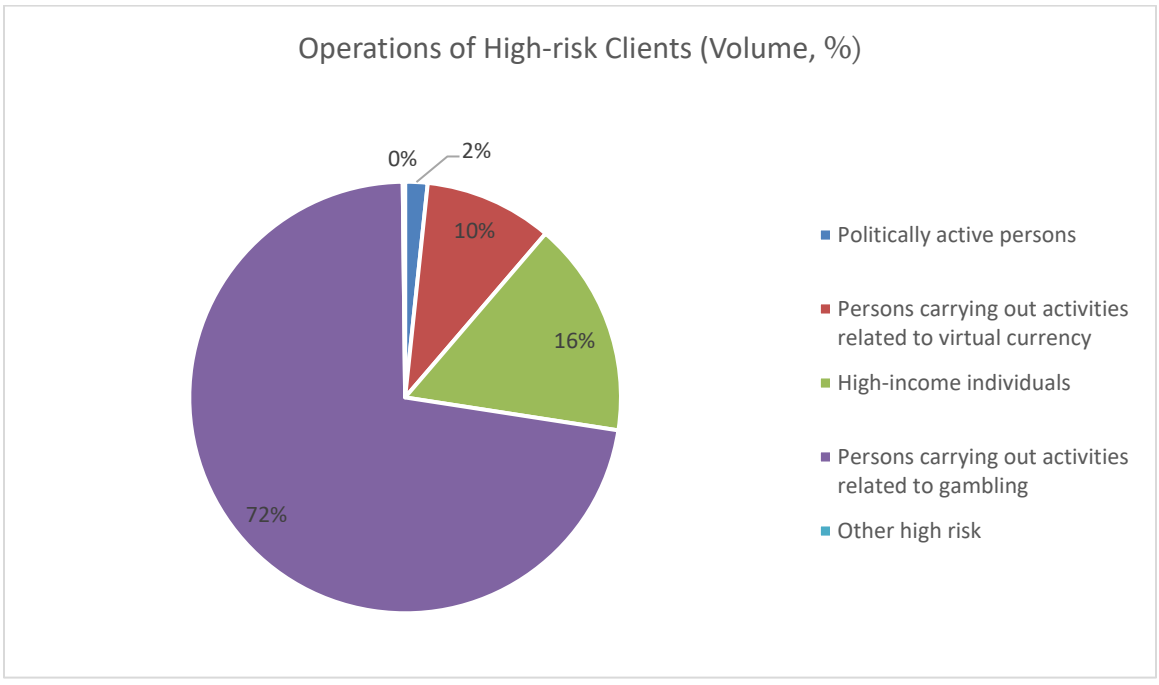


The share of clients performing high-risk activities in the total number of clients is 0.19%. However, almost half (46.59%) of the providers' operations were performed by/for such clients. In this case, a large part of

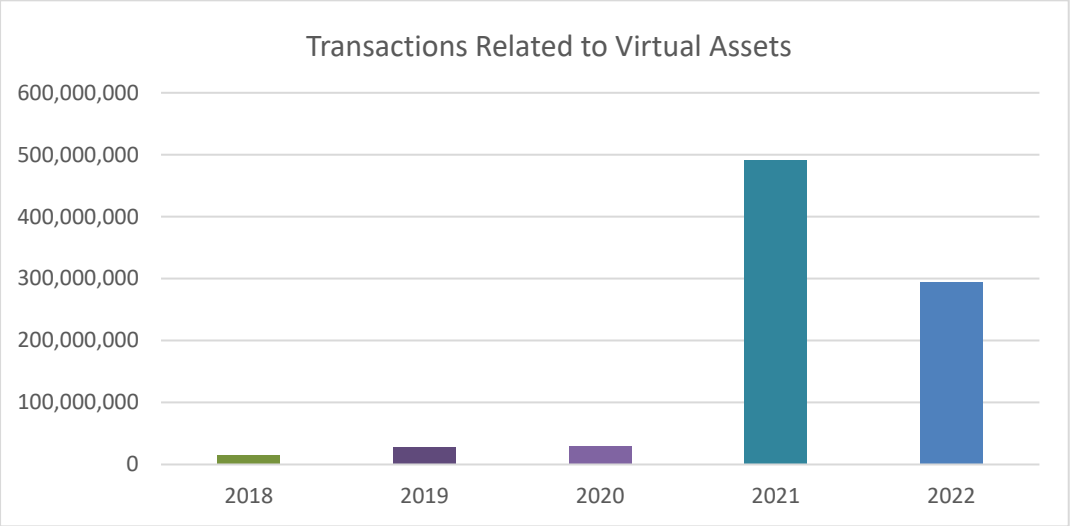
the payments comes from operations related to the gaming business, which grew until 2022. In 2022, significant restrictions were imposed on the gaming business (see subsection 9.1)



According to FMS, the transaction of criminal assets is mainly performed through bank accounts. However, there are also cases of misuse of electronic wallets and accounts opened in online casinos. According to the results of NBG 's on-site inspection, the frequency and large volume of transactions on electronic wallets, in some cases, give grounds for assuming that the operations of depositing funds on the wallets may not be related to the gambling business and are carried out in order to give a legal form to illegal income (such as gambling profits). In order to avoid such cases, payment service providers perform constant monitoring of customer transactions and obtain information about the origin of the customer's funds within the established monetary limits (total turnover volume or large volume transaction).



The operations of clients engaged in activities related to virtual assets (mining, virtual asset exchange platforms) account for a significant part of the total operations of the providers, which is one of the main factors of the vulnerability of the sector. Virtual asset service providers (hereinafter referred to as "VASP") will only be supervised from 2023, while virtual asset transactions have grown significantly in recent years.



To place funds on e-wallets opened with one of the major VASPs in Georgia is possible only through the provider. According to the NBG, VASPs should be assigned a high risk level and enhanced preventive measures corresponding to the risk should be implemented. It should be noted that the providers do not have a business relationship with non-resident VASPs.

The share of PEPs among providers' clients and the volume of operations performed by them is insignificant. The vast majority of PEPs are local. As for high-income individuals (as of December 2022, a total of 3,065 individuals), this category includes individuals whose e-wallet has recorded transactions of more than 30,000 GEL in 6 months. This kind of turnover is usually experienced by individuals who perform gambling transactions.

In 2021, 619 citizens of Russia were recorded among the clients of the providers, and as of December 2022, their number increased to 13 thousand (only 1 company). It should be noted that as of 2022, payment service providers have resident contractors of the Russian Federation, the volume of operations of which totaled 264,993 GEL. As for the residents of Belarus, as of 2022, the number of individuals exceeded one thousand (in 2021 it was only 24), and the number of companies increased to 10.

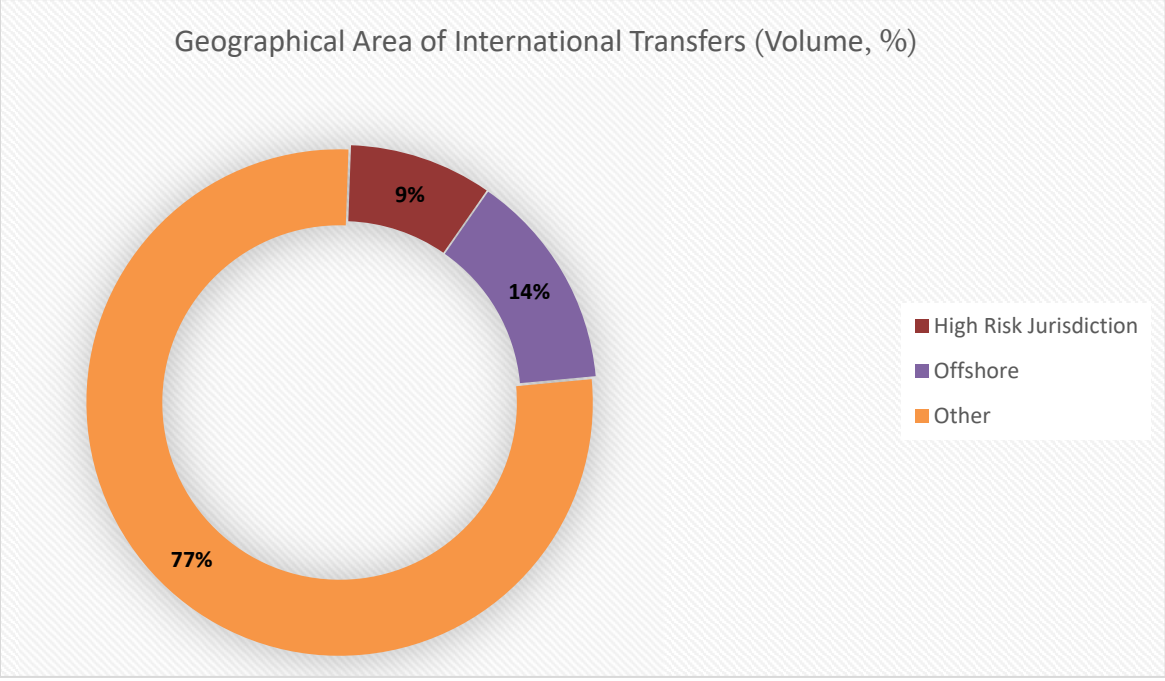
In 2020-2022, operations carried out by Russian residents amounted to 44 million GEL, and the total volume of transactions carried out by residents of Belarus - 554,045 GEL. Despite the increase in the number of residents of Russia and Belarus, their operations are still small compared to the total volume of the providers' operations. Also, it is important that in 2022, the residents of Russia and Belarus will not actually have any operations carrying increased risk.

Products

8.6% of providers' operations are considered to carry increased risk, including 4.8% operations performed without identification of clients. Until 2020, operations of unidentified customers accounted for a large part of the total turnover of providers, which was one of the main factors in the vulnerability of the sector. In particular, small one-time payments could be made with fast payment machines and electronic wallets without client identification. However, as a result of the legislative changes, the execution of payment operations by unidentified persons has been completely excluded.

Currently, only properly identified persons can open an e-wallet and perform transactions with fast payment machines. Also, benefits related to small-volume payment instruments have been canceled, and providers issuing similar instruments will be fully subject to NBG supervision from 2020. The only exception is a low-risk electronic money instrument, which may not be fully subject to the requirements of anti-money laundering and anti-terrorist financing legislation. Such an instrument must take into account the limitations established by the legislation (amount limit, ban on anonymous electronic money, limited purpose) and be agreed with the NBG. These changes also reduced the risks associated with non-personalized prepaid cards. The limited functionality of such cards significantly reduces the risk of using them to transfer funds across borders. Non-personalized prepaid cards are usually used only to pay for transportation services.

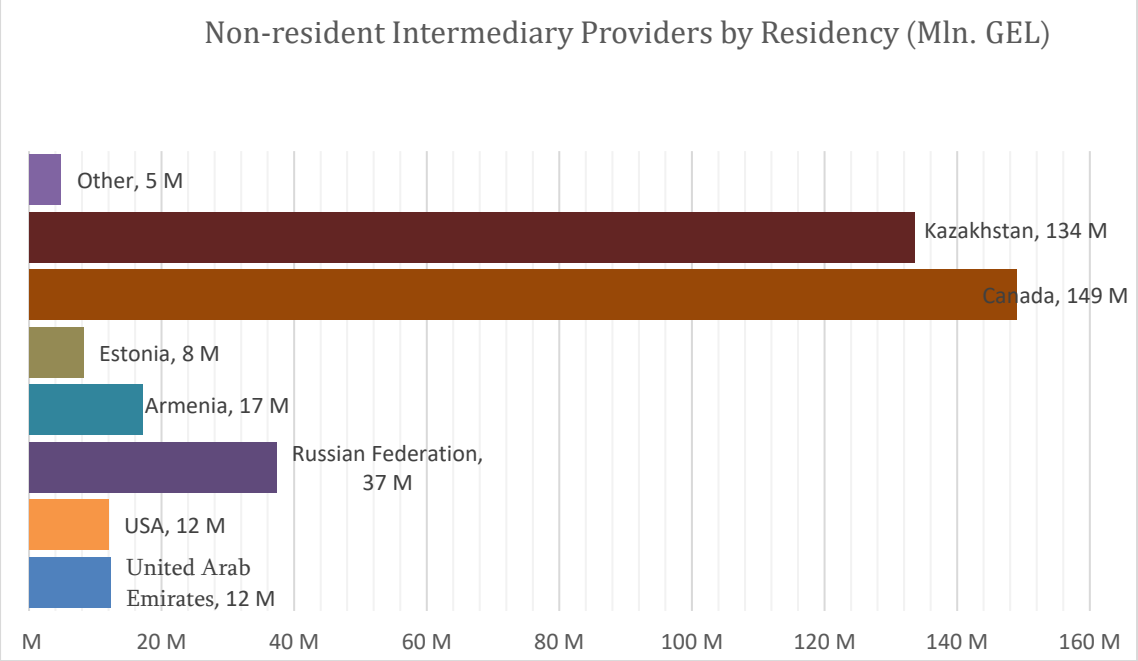
In 2020-2022, the main geographical area of the registration-transfer operations performed by the providers' clients on electronic wallets is Georgia. The share of international transactions is only 0.37% (90.9 million GEL). It should be noted that the share of remittances in credit-transfer operations is insignificant and amounts to 0.11%.



In international credit-transfer operations, remittances received from Greece and Italy account for 39%. High volume transactions also come from Turkey (12%), Seychelles (9%) and Ireland (7. It should be noted

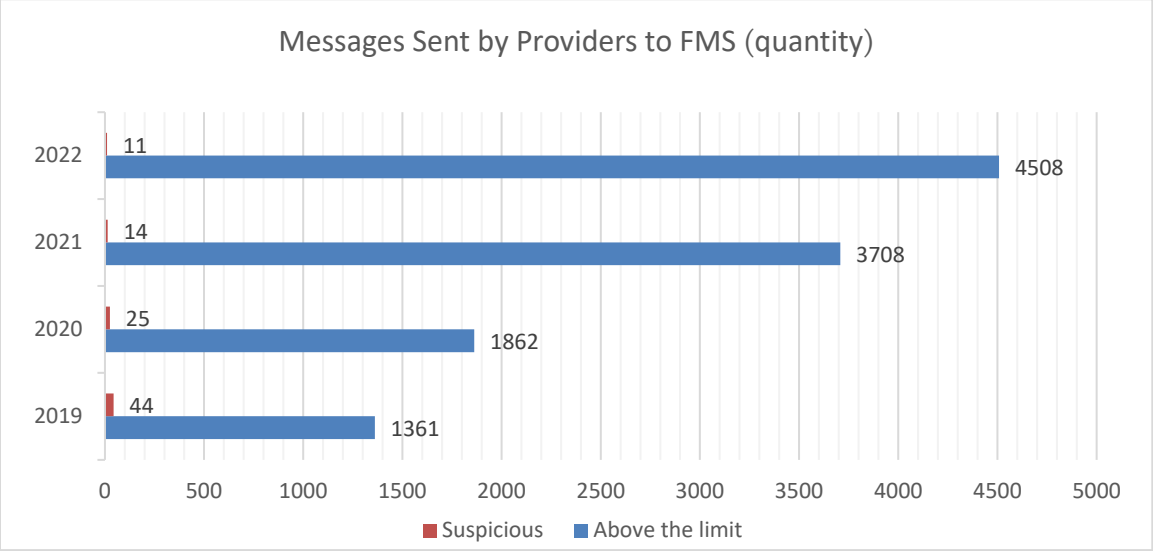
that a global provider of mobile phone balance replenishment is registered in Ireland, with which the Georgian provider has established a bilateral business relationship. In particular, on the one hand, the company provides the provider with various services (Itune, Google Play, United Mobile Payment, Playstation Store and others), and the provider, on the other hand, provides this company with mobile operators of different countries (Georgia, Azerbaijan, Kazakhstan, Kyrgyzstan, Russia). Services that the company has built into its website and receives payments for them. There is an electronic money provider operating in the Seychelles, through which the provider performs electronic money buying and selling operations and receiving electronic money payments. Transactions related to other countries are mainly due to the large number of Georgian emigrants in these countries.

Providers often use agents [289], and for more efficient management of activities - intermediary providers [290]. This type of business relationship is currently established with 88 providers, including 22 non-resident financial institutions. The non-resident intermediary providers are mainly used for payment services and e-wallet replenishment. In 2020-2022, the operations performed through them amounted to 372.5 mln GEL.



Although 99% of operations performed through agents and intermediary providers come from resident providers, non-resident providers significantly increase the vulnerability of the sector. Inspections carried out by the NBG in 2020-2022 revealed only few deficiencies related to the acquisition and analysis of information related to the compliance control system of intermediary providers. Based on the Law of Georgia "On Promotion of Preventing Money Laundering and Financing of Terrorism" adopted in 2019, the limit of client identification has become zero, and before carrying out any operation, regardless of the amount of money, the client is subject to identification and mandatory verification on the list of UN-sanctioned persons, which is an important tool for reducing risks.

290 In 2022, 43% of the number and 16% of the volume of payment transactions were performed using agents.
291 In 2022, 29.3% of the volume of payment transactions was performed through intermediary providers



The notifications sent by providers to the FMS in 2020-2022 about suspicious transactions, 15 were related to the possible connection of the person participating in the operation with terrorism (internal list of one of the countries). However, as a result of the investigation, no link with terrorism was confirmed. Other messages sent to FMS are related to transactions made through electronic wallets (non-identification of legal origin of funds), websites (fraudulent operations) and fast payment machines (fragmented operations). It should be noted that money was usually transferred to the accounts opened in online cash registers (casinos) using fast payment machines. The dynamics of the decrease in the number of notifications sent to the FMS regarding suspicious transactions was to some extent due to legislative changes (for example, the zero limit of identification), which helped to reduce the risks in the sector.

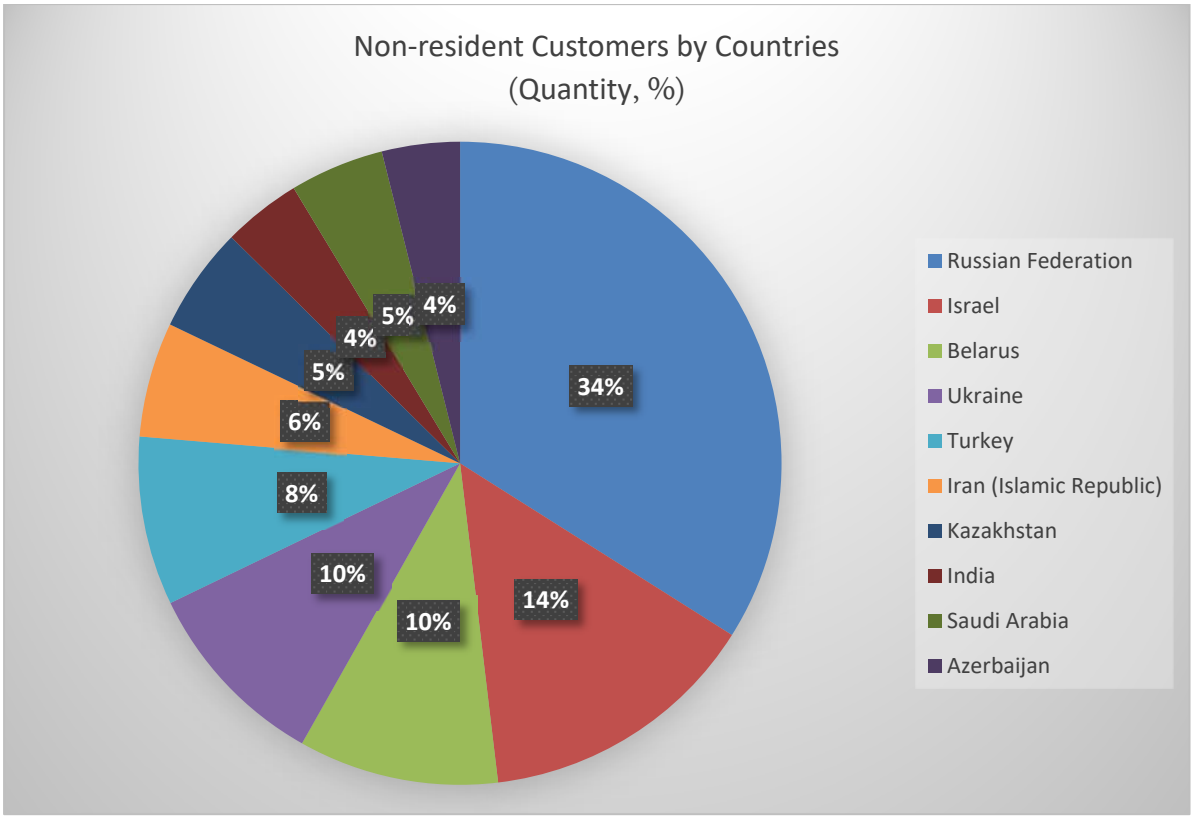
Summary – The payment service provider sector is growing. Most of the services are provided through remote channels. Providers also offer international transactions to their clients. The vulnerability of the sector is mainly due to the large volume of operations related to the gaming business, as the supervision of the gaming business needs to be improved. Transactions involving virtual assets remain a challenge before the NBG begins supervising VASPs. However, compliance control systems in the payment services sector have improved significantly in recent years, thanks to the supervision of the NBG, which leads to effective risk management. Considering these circumstances, the risk of money laundering related to the activities of payment service providers was assessed as **medium**, and the risk of terrorist financing as **medium-low**.

8.3 Currency Exchange Points

As of 2022, the ratio of assets of currency exchange offices to GDP was 0.09%. 511 currency exchange points are registered across the country, and their branches are located in 689 locations. In recent years, there has been a tendency to decrease the number of currency exchange points, which is due to the strict supervision of the NBG (in 2022, the registration of 48 currency exchange points was canceled due to non-compliance

with the requirements established by the law). 94% of beneficial owners of currency exchange offices are residents of Georgia, and the remaining 6% consist of residents of Turkey, Russia, Cyprus, Armenia and Azerbaijan.

As of 2022, the number of registered customers at currency exchange offices exceeds 6 million. 94% of which are resident individuals. In 2020-2021, the volume of operations carried out by non-residents did not exceed 5% of total operations, and in 2022, the volume of operations carried out by non-residents increased and made up 19% of total operations. According to the 2022 data, the number of non-resident clients is dominated by citizens of Russia, Israel, Belarus, Ukraine, Turkey, Iran, Kazakhstan, India, Saudi Arabia and Azerbaijan. In 2022, the number of citizens of Russia and Belarus increased in particular. Compared to 2021, the number of Russian citizens in 2022 increased from 4,659 to 42,049, and the number of Belarusian citizens increased from 1,721 to 12,471.



Residents of high-risk jurisdictions are dominated by residents of Iran, Syria, Pakistan, Nigeria, Iraq, and Yemen. In 2021, currency exchange operations of a total of nearly 7 million GEL was made by individual residents in high-risk jurisdictions. And the volume of operations carried out in 2022 amounted to 21 million GEL. Majority of these individuals are students, some of them have Georgian residency and/or are engaged in small business activities in Georgia. Residents of Kuwait, the United Arab Emirates, Lebanon, and the Philippines performed a relatively large volume of operations among residents of offshore zones (a total of 7.4 million GEL operations were carried out by residents of offshore zones in 2021, and 13.7 million GEL in 2022).

In 2020-2021, 99% of clients of currency exchange offices are individuals, although in 2022, the number of clients of legal entities sharply increased. The volume of operations performed by legal entities is up to 40% of total transactions. Among legal entities, according to the data of 2021-2022, in terms of the volume of operations, the vendors of food and household products, construction and repair materials, automobiles and their parts, and electronic equipment dominate. In addition, the clients of currency exchange offices include high-risk companies and legal entities whose owner and/or beneficial owner is a resident or PEP of a high-risk jurisdiction or offshore zone. However, the specific share of such companies is small (0.1%). An important challenge for the sector is the identification of beneficial owners of companies. However, the 2022 NBG inspections reveal that the situation in this regard has improved in recent years.

In 2020-2022, less than 1% of currency exchange clients were assigned high and medium risk status. Given that the activities of currency exchange offices are cash-intensive and the volume of operations carried out by their client companies is also quite high, such a small number of high/medium risk clients indicates the challenge of classifying clients according to risk in the sector. This is confirmed by the results of the NBG's on-site inspection - the client's risk assessment process implemented by a large number of currency exchange points is characterized by flaws.

Currency exchange services are limited to cash exchange operations only and do not include transactions related to money transfers or other money market instruments. Currency exchange offices, compared to other financial institutions, offer better exchange rates to customers, which leads to an increase in their turnover. If the turnover of currency exchange points in 2020 amounted to 4.6 billion GEL, in 2021 this data became 6.8 billion GEL, and as of 2022, the turnover of currency exchange points amounted to 8.5 billion GEL. Up to 50% of operations come from the exchange of foreign currency (mainly USD, EUR, Russian ruble) into GEL or another foreign currency.

In currency exchange points, there is a risk of unaccountable cash flows and information on currency exchange transactions, which is confirmed by the results of the NBG's on-site inspection. In 2021, the problem of non-payment was recorded in 89 points, and in 2022 - in 116 points. Therefore, according to the instructions of the NBG, commercial banks ask the points for cash withdrawal orders. In addition, within the framework of NBG inspection, orders for outgoing and incoming funds transferred by the currency exchange point to another financial institution are checked, which is one of the means of risk mitigation.

It should be noted that the facts of currency exchange services provided by unregistered points are recorded. NBG provides information about similar facts to investigative parties. In 2021, 27 such facts were recorded, and in 2022 - 61. The NBG's supervisory practice also indicates that the software tools available in the sector (including for verification in the lists of sanctioned persons) are characterized by certain shortcomings. However, taking into consideration the type of services and the specificity of the clients, the risks of financing terrorism in the currency exchange sector are low.

In 2020-2022, currency exchange offices sent a total of 6 notifications to FMS about suspicious transactions. These messages were based on the customer's unusual behavior, including unwillingness to provide contradictory information about the place of work and the origin of the money. Given the large volume of

cash transactions, the low number of reports indicates that the process of identifying suspicious transactions in the sector as a whole needs to be improved.

Summary - A large amount of cash is exchanged by currency exchange points, but systems for controlling the compliance of the points are less developed. Accounting/systematization of information, determining the beneficial owners of companies and studying the source of cash flows also remain a challenge. On the other hand, the supervision of points by NBG has been significantly intensified in recent years, which resulted in a decrease in the number of points operating in the market. Given these circumstances, the money laundering risk associated with the items has been assessed as **medium** and the terrorist financing risk as **low**.

8.4 Microfinance Organizations

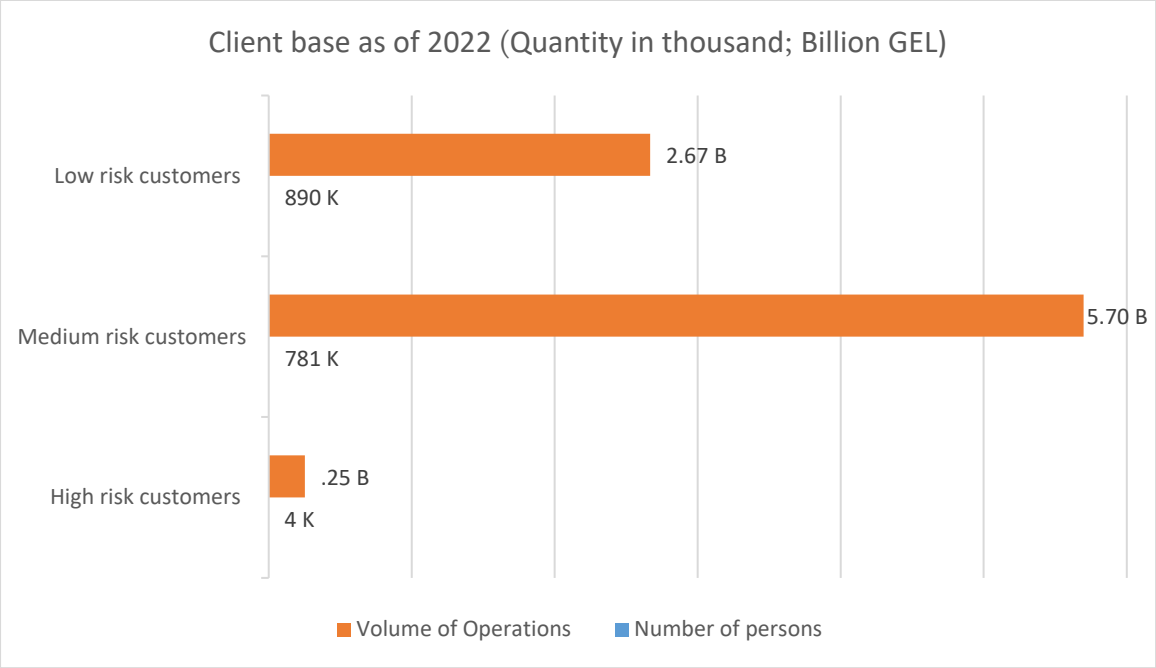
In 2022, the ratio of assets of microfinance organizations to GDP was 2.6%. As of 2022, there are 36 microfinance organizations operating in the market with 396 branches. Most of the owners of a significant share in the capital of microfinance organizations are residents (85.6% in total). The remaining 14.4% come from residents of the following countries: Pakistan (3.4%), Germany (3.4%), Israel (2.1%), Great Britain (0.7%), Norway (0.7%) etc. Microfinance organizations offer credit, currency exchange and remittance services to customers. Collecting funds is possible both by legal entities and by individuals.

Customers

In 2022, the number of clients of microfinance organizations exceeded 1.6 million, and the total volume of transactions carried out by them exceeded 1.2 billion GEL. The largest part of the client base (91%) is resident individuals. Among non-resident clients, at the end of 2022, the sector recorded 40 legal entities and 148 thousand individuals, of which only 0.3% are residents of high-risk jurisdictions.

It should be noted that the structure of the client base has changed by the end of 2022 compared to 2021. In particular, the number of non-resident individuals increased by 33%. On December 31, 2021, there were 49,000 non-resident individuals in the client base, and at the end of 2022, their number increased to 148,000.

As for non-resident legal entities, most of them are regulated, highly reputable international financial institutions, from which microfinance organizations have attracted funds. Borrowed funds in 2022 increased by 125 million GEL compared to the previous year and amounted to 1.1 billion GEL, which was due to increased lending activity. As in previous years, the funds borrowed from individuals will decrease in 2022 as well.



In the microfinance sector, in the total client base, the share of high-risk clients is only 0.3%, and the volume of their operations is 3% of the total turnover of the sector. The main part of turnover comes from medium (66%) and low risk (31%) clients, the vast majority of which are residents.

High-risk client activities are mainly related to currency exchange, import/export of automobiles, precious metals and other cash-intensive businesses. In terms of products, these customers mainly benefit from short-term loans, remittances and currency exchange services. The volume of operations performed by them in the total turnover of the sector is immaterial and as of 2022, it is 4% of the total turnover of the sector.

In 2020-2022, microfinance organizations served a total of 400 politically active persons (hereinafter - "PEPs") (including family members of PEPs). Most of them are citizens of Georgia. Compared to previous years, the increase in the number of PEPs in 2022 is mainly due to the microfinance sector offering better conditions for currency exchange operations (compared to the banking sector).

In the microfinance sector, high-income individuals are considered to be clients who have performed operations worth more than 500,000 GEL in a 6-month period. Most of them are founders of microfinance organizations or persons financially connected with them. Legal entities operating in the financial sector - other microfinance organizations, currency exchange offices, etc. are in the same category. In 2022, a total of 120 high-income individuals were recorded among the clients, and their turnover volume was 4% in relation to the total turnover.

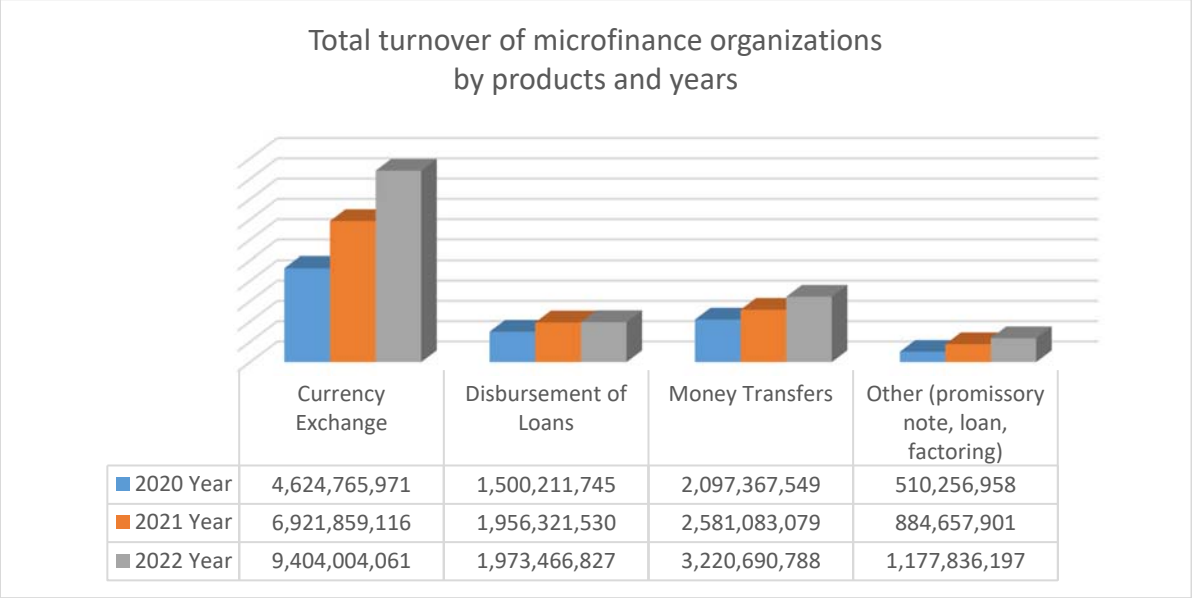
In 2022, due to the increased number of foreign visitors, the number of non-resident clients increased by 173.3% compared to the previous year, the recovery of global tourism and the start of the Russia-Ukraine war. However, this data is still lower than the pre-pandemic level (-39.1%). The increase in foreign visitors comes mostly from Russia (410.5%), Turkey (183.5%), Armenia (350.9%) and Israel (108.7%). In terms of increase in visitors from EU countries, Germany and the United Kingdom stood out. These global factors

have led to an increase in the number of non-residents seeking currency exchange and remittance services in the microfinance sector.

According to the results of NBG's on-site inspections, the microfinance sector continues to face challenges in terms of preventive measures, transaction monitoring and client risk assessment/mitigation. However, the shortcomings identified by the NBG are fixed in relatively small microfinance organizations, while in large organizations compliance control systems have been implemented that ensure adequate risk management.

Products

In 2020-2022, the total turnover of the microfinance sector exceeded 36.8 billion GEL. The largest share in turnover came from currency exchange operations (20.9 billion GEL). 40% of these are currency buying and selling operations performed in cash. In 2022, a significant increase in the total volume of currency exchange services and remittance operations is worth noting.



	Currency Exchange	Disbursement of Loans	Money Transfers	Other (promissory note, loan, factoring)
2020 Year	4,624,765,971	1,500,211,745	2,097,367,549	510,256,958
2021 Year	6,921,859,116	1,956,321,530	2,581,083,079	884,657,901
2022 Year	9,404,004,061	1,973,466,827	3,220,690,788	1,177,836,197

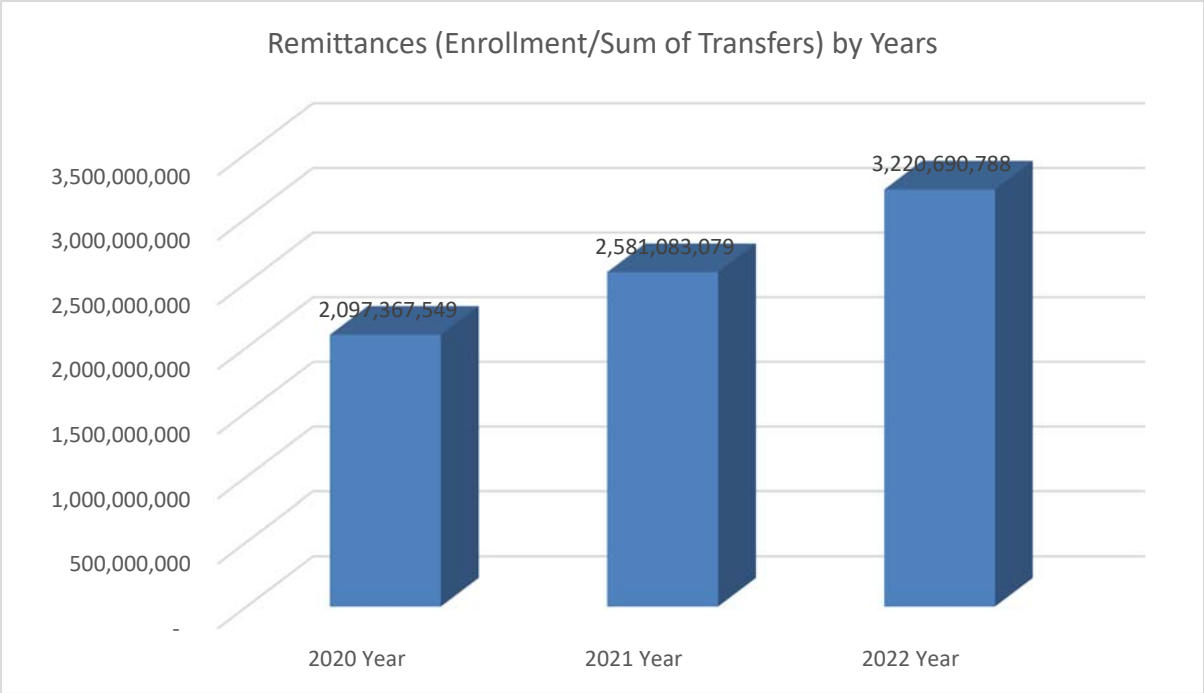
The increase in turnover, especially in the direction of remittances and currency exchange operations, is due to the increase in migration and tourism in Georgia in 2022. This is related to the international financial/economic sanctions related to the Russia-Ukraine war and the activation of the tourism sector after the end of the pandemic. As a result, the inflow of migrants from Russia, Belarus and Ukraine increased during 2022. They turn to microfinance organizations for remittance and currency exchange services. Compared to the banking sector, access to the services of microfinance organizations is higher, as they do not require opening an account, operations are often one-time, etc.

Currency exchange operations are not only performed in cash. In the microfinance sector, semi-cash transactions are also recorded, when the microfinance organization, after conversion, transfers the cash received from the client to the client's bank account (or vice versa, the amount credited to the account, after conversion, is given to the client in the form of cash). Transactions carried out in semi-cash form are

associated with relatively less risks. It is worth noting that microfinance organizations (like currency exchange offices) offer better exchange rates to customers compared to commercial banks. This is the main reason that determines the volume of cash operations in the microfinance sector and the dynamics of growth. In 2020-2022, microfinance organizations have significantly improved their compliance control systems, but the NBG's on-site inspections revealed that tracing the origin of cash remains a challenge in the sector. Nevertheless, the defects detected during the NBG inspection do not have a material nature.

The largest part of currency exchange operations is carried out by Georgian residents (more than 90%). However, in 2022, compared to previous years, the number of non-residents using this product has increased significantly. The largest increase comes from Russian citizens - in 2022 it exceeded 4%.

In 2020-2022, approximately 26% (7.8 billion GEL) of remittance operations in Georgia were carried out through microfinance organizations. It is important that the provision of services related to remittances is carried out entirely face-to-face.



Most of the remittances are related to the countries in which there are a large number of Georgian emigrants (they help their family members in Georgia). However, in 2022, due to the influence of the Russia-Ukraine war, the volume and geographical area of rapid remittances changed significantly. In particular, more than 52% of enrollments in 2020-2021 came from three countries: Italy, the Russian Federation and Greece (2.06 billion GEL). However, in 2022, the total amount of remittances related to the Russian Federation alone exceeded 1.3 billion GEL. Due to such a dramatic increase, in 2022, microfinance organizations refused to provide remittance services altogether or set limits, limited the geographical area and introduced enhanced preventive measures. In order to manage the risks associated with the increased flows of transactions, the sector has also been given instructions by the NBG. It should be noted that a large part of microfinance

organizations do not act as direct agents of large remittance systems (eg Western Union) and mainly operate as sub-agents of Georgian commercial banks.

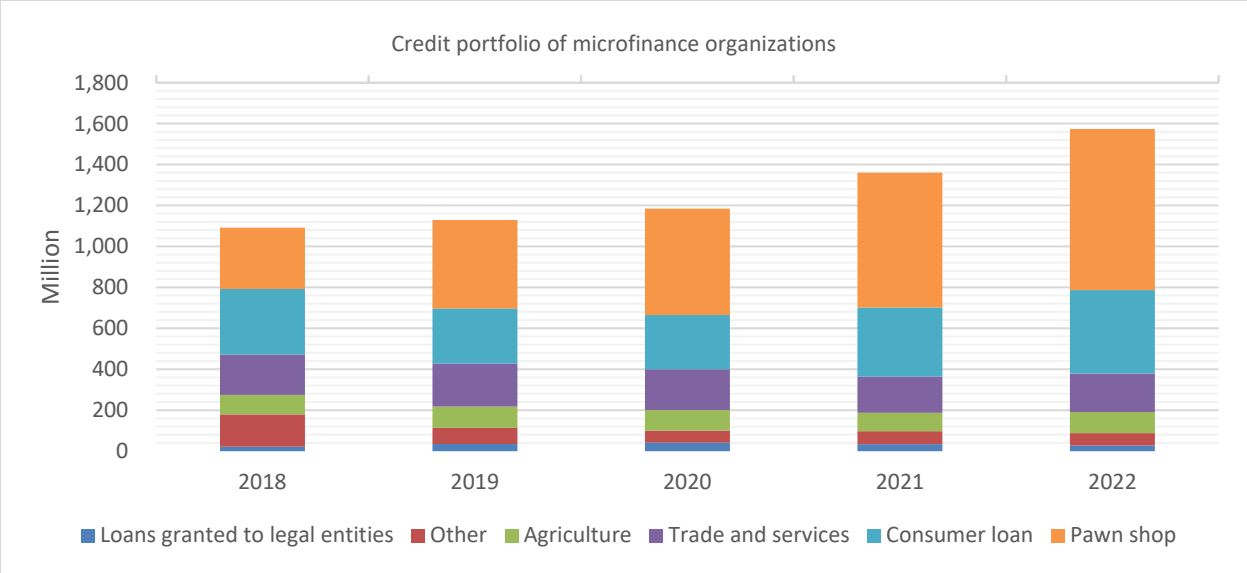
In 2020-2022, the trend of remittances related to high-risk geographical areas is not characterized by significant changes. A significant share of remittance operations comes from countries such as Iraq and Tajikistan (mainly transfers). Most of these remittances are related to reimbursement of study and living expenses of foreign students in Georgia. According to the data of the National Statistical Service of Georgia (hereinafter - "Geostat"), 17.5 thousand foreign students studied in Georgia in 2021 (a 20% increase compared to 2020), and in 2022 the number of non-resident students was 25 thousand. Access to commercial bank services for students from high-risk countries is limited, which causes them to move to the microfinance sector.

In 2020-2021, 95% of remittances coming into the country (4.1 billion GEL) were received by residents (3.8 billion GEL). Among the residents of other countries, a significant share came from citizens of Russia (45.2 million GEL), Ukraine (33.5 million GEL), Azerbaijan (16.9 million GEL) and Iraq (12.6 million GEL). However, in 2022, the situation has changed - 80% of remittances (2.2 billion GEL) were received by residents, and the volume of remittances cashed by Russian residents increased from 1% to 14% (397 million GEL). In 2022, the sums received by citizens of Ukraine, Armenia and Azerbaijan also stood out from other non-resident persons.

As for outgoing remittances, 92% (593.9 million GEL) of remittances in 2020-2021 were made by residents of Georgia, and 2% by citizens of Russia. In 2022, the volume of transfers made by citizens of Georgia has decreased, but remittance operations made by residents of Russia have increased from 1% to 4%.

During the 2020-2022 NBG on-site inspections in the microfinance sector, some deficiencies were identified in the software used to identify unusual and related transactions. However, these deficiencies were observed only in a few microfinance organizations and they did not have a material nature. In relatively large microfinance organizations, customer and transaction screening and suspicious transaction detection systems have improved significantly in recent years.

One of the main services of microfinance organizations is lending. The main direction of lending in the microfinance sector is consumer loans issued to individuals, which is 80% of the sector's total credit portfolio (1.3 billion GEL). The remaining 20% comes from loans granted to the business and agricultural sector (319 million GEL).



The vulnerability of credit services in the microfinance sector is low. Lending is based on proven income (an exception is a pawn loan), and 99% of borrowers are residents of Georgia. The number of legal entities with complex ownership structure and/or non-resident founders is also very small in the credit portfolio.

In 2020-2022, 237 reports on suspicious transactions were submitted to FMS by microfinance organizations. In 2022, the number of notifications increased by 25% (95 notifications), which is related to the increase in financial flows during this period. Most of the complaints sent to FMS refer to the unreliable information provided by the client and the origin of the funds. In 2020-2022, FMS handed over information received from microfinance organizations to investigative bodies in 21 cases, which indicates an increase in the culture of compliance in the sector.

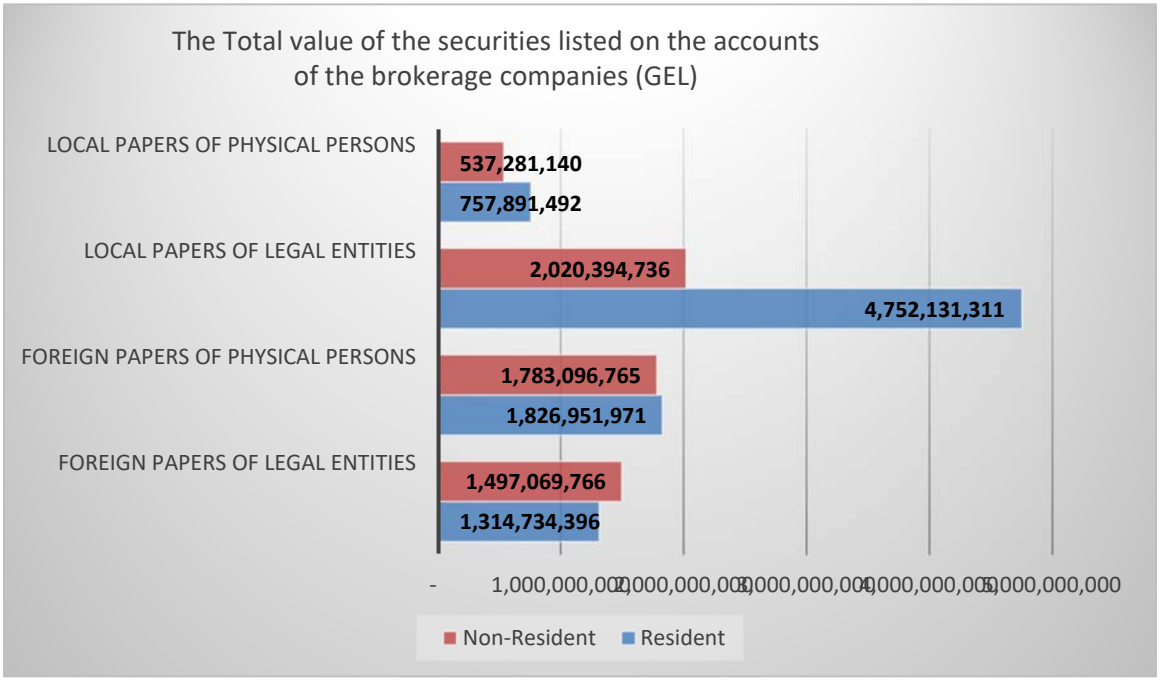
Summary - The activities of microfinance organizations mainly include issuing small loans to resident clients and currency exchange operations. This sector also provides remittance services, which are often used by one-time customers. The risks in the microfinance sector are related to operations performed with cash - currency exchange, remittances. During 2022, the Russia-Ukraine war and the large flow of migrants led to an increase in risks in the sector. However, in recent years, compliance control systems operating in microfinance organizations have improved. Considering these circumstances, the risk of money laundering associated with microfinance organizations was assessed as **medium**, and the risk of financing terrorism as **medium-low**.

8.5 Brokerage Companies

As of December 2022, the ratio of assets of brokerage companies to GDP is 0.16%. There are 9 brokerage companies operating in the market, whose beneficial owners are mostly residents of GeorgiaIn addition, the two largest brokerage companies are subsidiaries of commercial banks whose shares are traded on the London Stock Exchange. In 2020-2021, the trend of growth of assets of brokerage companies was observed. However, in 2022, the total volume of assets of brokerage companies decreased by approximately 84 million GEL and amounted to 114 million GEL.

In 2020-2022, the value of stock and non-stock transactions concluded by brokerage companies on the Georgian Stock Exchange amounted to approximately 148 million GEL, and the number of securities - 187 million pieces. It's noteworthy that, compared to previous years, 2022 has a sharp decrease in the value of exchange and non-exchange transactions concluded on the exchange and the number of securities.

The value and number of securities traded outside the exchange are higher than those traded during trading sessions. In particular, 95% of the value of exchange and non-exchange transactions concluded with securities admitted to trading on the Georgian Stock Exchange and 99% of the number of securities come from transactions concluded outside the exchange.



Customers

As of 2022, 93% of the client securities balance and 94% of the number of clients are concentrated in the two largest brokerage companies within the banking group. In 2020, due to the pandemic and unpredictable environment, the number of transactions decreased in the sector as a whole, and from 2021, an increasing trend was observed. However, in 2022, a decrease in transactions is recorded again.

As of 2022, the number of clients of brokerage companies is about 26,000 (compared to 2021, almost doubled). 8% of clients are non-residents, the vast majority of whom are physical persons (94%). The volume of operations performed in 2020-2022 amounted to 48 billion. Lari. 38% of transactions come to non-residents (mainly individuals). Among non-residents, in terms of number, residents of the Russian Federation, Israel and Germany dominate. Compared to 2021, the number of Russian resident clients increased almost 4.5 times in 2022. Also, compared to 2020-2021, in 2022, the volume of operations performed by Russian residents has increased by almost 700 million GEL. However, residents of the United

Kingdom, Germany, South Africa, Uzbekistan and Finland are also worth mentioning in terms of the volume of operations performed. The number of clients residing in high-risk countries [292] and offshore areas [293] and the volume of operations are small.

Only 1.5% of clients of brokerage companies are legal entities (non-resident companies - 0.5%) and the volume of operations performed by them is 33% of total operations (in the case of non-resident companies - 8%), which is quite a high indicator. In 2020-2021, the number of companies with a complex ownership structure and the volume of operations performed by them also increases. As of 2021, brokerage companies had 83 clients with a complex ownership structure that carried out 1.3 billion GEL of operations. However, in 2022, the number of such clients became 103, and the volume of their operations increased to 2 billion GEL.

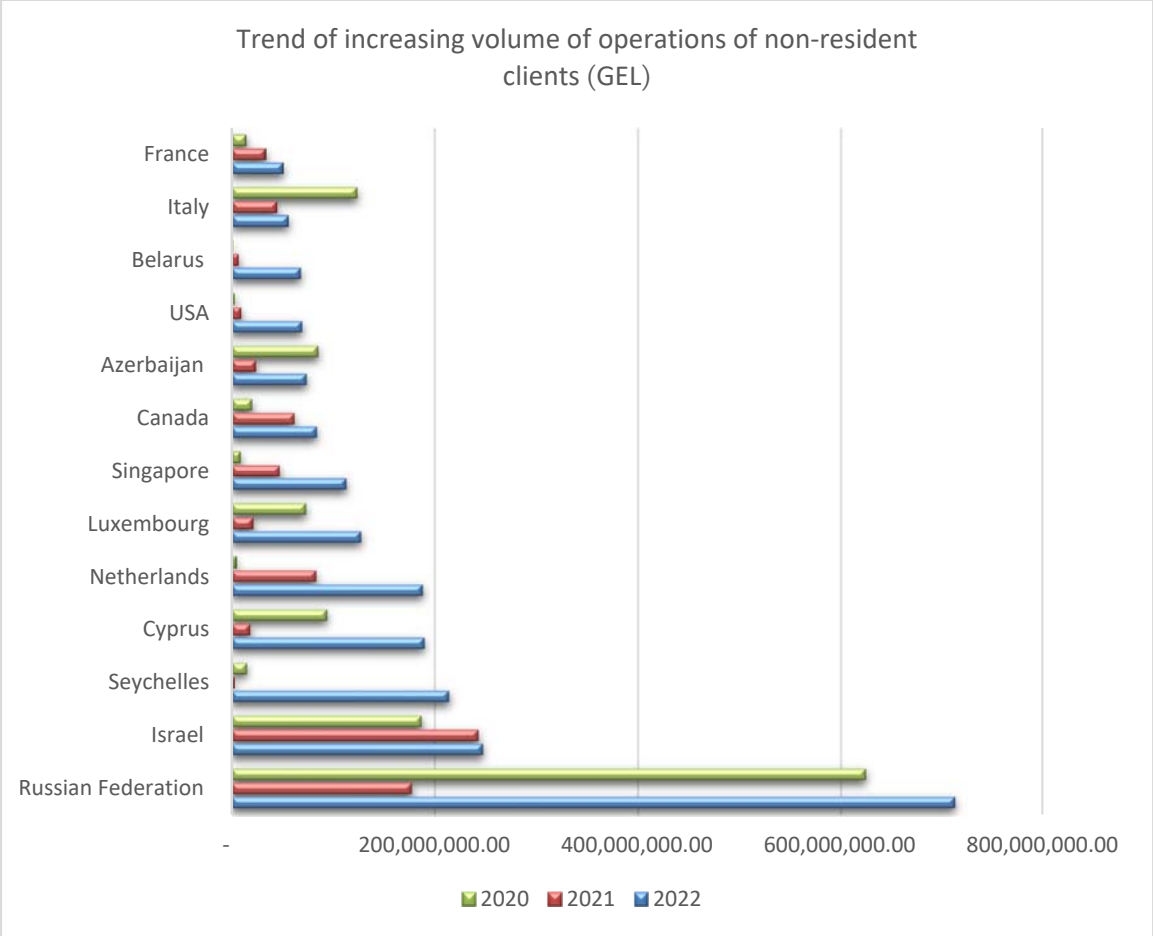
During 2020-2022 NBG's on-site inspections of 6 brokerage firms, revealed approximately 8% of clients had complex ownership structures. Deficiencies related to ownership structure study were revealed in only 2% of studied clients. The NBG also found some deficiencies in the risk classification systems of relatively small brokerage firms. However, two of the largest brokerages operating in the market have implemented appropriate compliance control systems. Therefore, for the brokerage sector as a whole, the aforementioned shortcomings are not material.

As of 2022, brokerage companies had a total of 70 politically active (hereinafter - "PEP") clients, of which 58 are residents and 12 are non-residents. Also, the beneficial owner of 14 companies is a resident PEP, and in the case of 5 companies, the beneficial owner is a non-resident PEP. There was a sharp increase in operations carried out by PEP clients in 2021 (200 million GEL in 2020; 1 billion GEL in 2021), which was caused by the issuance of bonds of one of the resident financial institutions, whose shares are traded on the London Stock Exchange and whose beneficial owners at the same time have PEP status. In 2022, the number of PEPs (30 new PEP clients) and the volume of operations carried out by them showed an increase (1.5 times).

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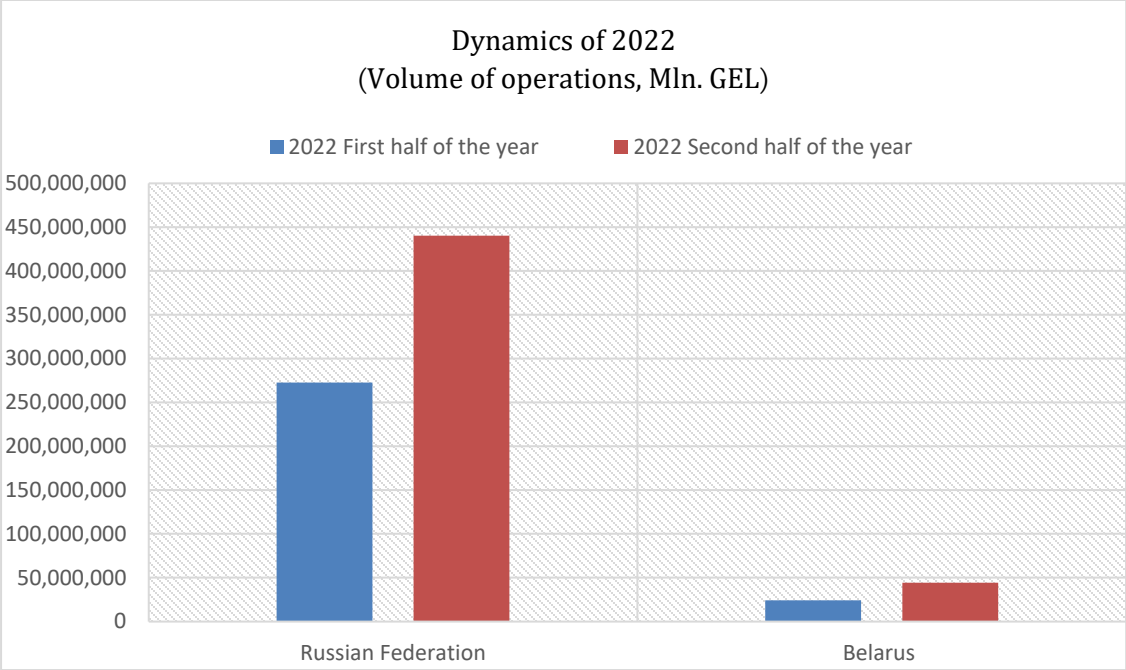
292 High-risk countries account for 0.2% of clients and 0.7% of operations

293 Offshore areas account for 0.4% of clients and 2.1% of operations



Brokerage companies consider the growth of the number of Russian and Belarusian citizen clients and the volume of operations they carry out as a challenge. However, the total number of citizens of Russia and Belarus as of 2022 was 706, which is only 2.6% of the total number of clients of brokerage companies.

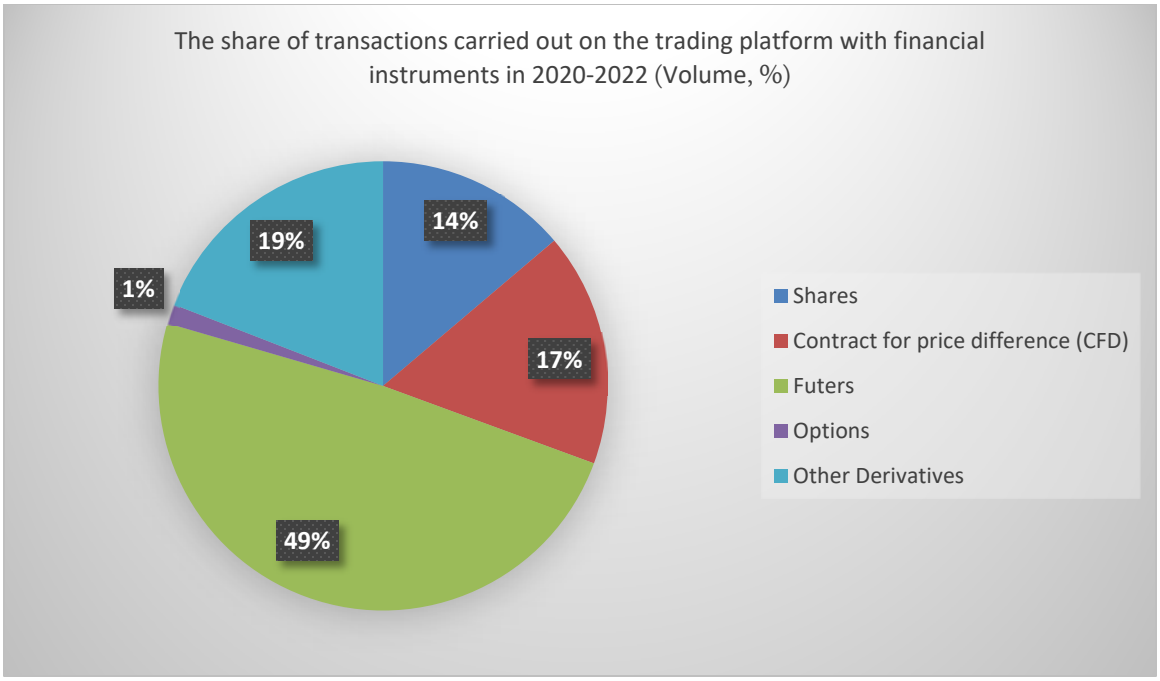
On the other hand, the volume of operations of citizens of Russia and Belarus has increased dramatically - compared to 2021, the volume of their operations in 2022 increased by 600 million GEL and amounted to 781 million GEL



Products

In 2020-2022, the volume of transactions with high-risk financial instruments in brokerage companies amounted to 40 billion GEL. Transactions carried out on trading platforms with financial instruments (77%) and non-exchange transactions (22%) are noticably high volume. However, starting from 2020, the dynamics of transactions carried out on trading platforms with financial instruments is decreasing.





During the execution of operations on the trading platform, the brokerage company does not see the other side of the transaction, which causes the vulnerability of the mentioned product. As a result of NBG's on-site inspection, it was determined that brokerage companies operate on various trading platforms based on the permission obtained from licensed dealers. Brokerage companies study the reputation and compliance control systems of intermediary companies. Brokerage companies also analyze and screen customer transactions before executing each transaction.

51% of operations carried out by clients of brokerage companies come from international transactions. In 2020-2022, international transactions in the amount of 12 billion GEL were carried out. A significant part of them (about 99%) is completed through intermediaries. Among the intermediaries, US resident intermediary brokerage companies dominate (73%). Other intermediaries are licensed in Belgium, the Netherlands, the United Kingdom, Bulgaria, the United Arab Emirates and Malta. It is worth noting that in 2020-2022, the dynamics of the decrease in operations carried out through intermediaries was observed. In particular, compared to 2020, in 2022, approximately 1.4 billion were executed through intermediaries. Transactions worth less than GEL. 0.1% of international transactions come from high-risk jurisdictions, 5% from offshore zones, and 94.9% from other countries. When using intermediaries, there is the challenge of fully analyzing the transaction. However, risk mitigation is facilitated by the effectiveness of the compliance control systems of the intermediary brokerage companies themselves.

It is less common for brokerage firms to carry out transactions in cash, which reduces the possible risks of terrorist financing. The operations are mostly related to futures transactions, which are also less attractive from the point of view of financing terrorism. Brokerage companies have appropriate systems in place to

identify terrorist-related and/or sanctioned individuals. Therefore, the risk of terrorism financing in the brokerage sector is properly mitigated.

Brokerage companies sent 10 reports of suspicious transactions to FMS in 2020-2022. 2 of these messages were sent by FMS to the investigation authorities. During the on-site inspection by NBG, some flaws were monitored in the software of relatively small brokerage companies, which serves to detect suspicious transactions. However, the errors didn't cause any financial losses and did not affect the vulnerability of the sector as a whole. It should be noted that during the inspection, no cases of non-reporting of suspicious transactions to FMS were detected.

Summary - The brokerage sector is growing. One of the challenges is the large volume of transactions carried out by non-resident companies. Assets can be moved across borders, and the specifics of trading platforms make it difficult to trace transactions through brokerage companies. On the other hand, brokerage companies are fully supervised by NBG. The level of quality of compliance control systems in the sector has increased significantly. The largest brokerage firms are subsidiaries of commercial banks and are subject to group compliance control systems. Considering these circumstances, the risk of money laundering associated with brokerage companies was assessed as **medium-low**, and the risk of terrorist financing as **low**.

8.6 Registrar of Securities

As of 2022, the ratio of securities registrants' assets to GDP was 0.01%. There are 3 securities registrars operating in Georgia. One of the relatively large registrants is a subsidiary of a commercial bank whose shares are traded on the London Stock Exchange. The beneficial owners of the other two registrants are citizens of Georgia.

In 2022, securities registrars maintained share registers of 937 legal entities, which is slightly less than in 2019. 99.57% of issuers are joint stock companies registered in Georgia. In 2020-2022, the total volume of 448 securities transactions carried out by issuers amounted to 3.9 billion GEL. The volume of the sector has not changed substantially in recent years.

As of 2022, the number of registered shareholders (individuals and legal entities owning securities issued by the issuer) was 211,237. In 2020-2022, shareholders made 4,427 transactions related to securities (12.5 billion GEL). 0.2% of the total number of shareholders are non-residents. Of these, the share of residents of offshore zones is 8.6%, and the share of persons registered in high-risk countries is 4.7%. Among the non-residents (quantitatively), residents of Russia, the United Kingdom and Germany (mostly natural persons) dominate. At the same time, the number of registered shareholders carrying out high-risk activities in the sector is very small and amounted to only 0.1% at the end of 2022.

The main vulnerability of the sector is related to determining the beneficial owners of the persons participating in the transaction. At the end of 2022, a total of 131 companies with a complex ownership structure were recorded among the clients of securities registrars. In 2020-2022, they carried out transactions worth 3.4 billion GEL. As a result of NBG's on-site inspection, certain errors in the study of the ownership structure of the companies were revealed. However, these shortcomings are intangible in nature.

It should be noted that joint-stock companies are usually not used for money laundering, and therefore the vulnerability of the sector is quite low.

There is an inherent danger of entering into fabricated transactions with securities registrars However, despite the existence of certain shortcomings in the monitoring of transactions by the registrars, the fact of a fabricated transaction was not detected by the NBG. In 2020-2022, the volume of transactions with registrars amounted to approximately 16 billion GEL. 29.4% of these transactions are performed by non-residents. The volume of transactions by residents of high-risk countries made up 0.03% of total transactions, and the volume of transactions by residents of offshore zones - 0.05%.

In 2020-2022, securities registrars sent only 2 notifications to FMS about suspicious transactions. In both cases, an individual gave securities to a legal entity, and the parties involved in both transactions were residents of Russia and Georgia. Given the sector's low vulnerability, only two notifications is logical.

Summary – The sector is of small volume. The activities of the securities registrars are limited to the production of the share register of the joint-stock company. More than 99% of issuers are resident persons. The number of non-resident shareholders is insignificant. However, the nominal holder of the shares can only be a regulated intermediary of the securities market, which is subject to the supervision of NBG. It should be noted that a joint stock company, as a legal form of a legal entity, is not used in Georgia for the purpose of money laundering. Given these circumstances, the money laundering risk associated with securities registrars has been assessed as **medium-low**, and the terrorist financing risk as **low**.

8.7 Non-bank depository institutions (credit unions)

Non-bank depository institution (hereinafter - "Credit Union") is an entity based on the membership of individuals, which operates mainly in the regions of Georgia. The activities of the credit union are limited to attracting credit resources from the members and granting loans to the members.

As of 2022, the only credit union operating in the market had an asset-to-GDP ratio of 0.001%. The portfolio of the same credit union during 2020-2022 amounted to 2.9 million GEL, and the received deposits amounted to 2 million GEL. These data are significantly reduced compared to 2019. The reason for this is the decrease in the number of credit unions, which was caused by the legislative change, according to which credit union members can only be individuals living in the administrative unit of one self-governing community. The compliance control system in the credit union is characterized by deficiencies. However, the risks in the sector are also minimal considering its small size.

Summary - The sector is of small volume, and the clients are only citizens of Georgia. However, the credit union can only carry out limited types of transactions (accepting deposits from members and issuing loans to members). Given these circumstances, the money laundering and terrorist financing risks in the sector have been assessed as **low**.

8.8 The lending entity

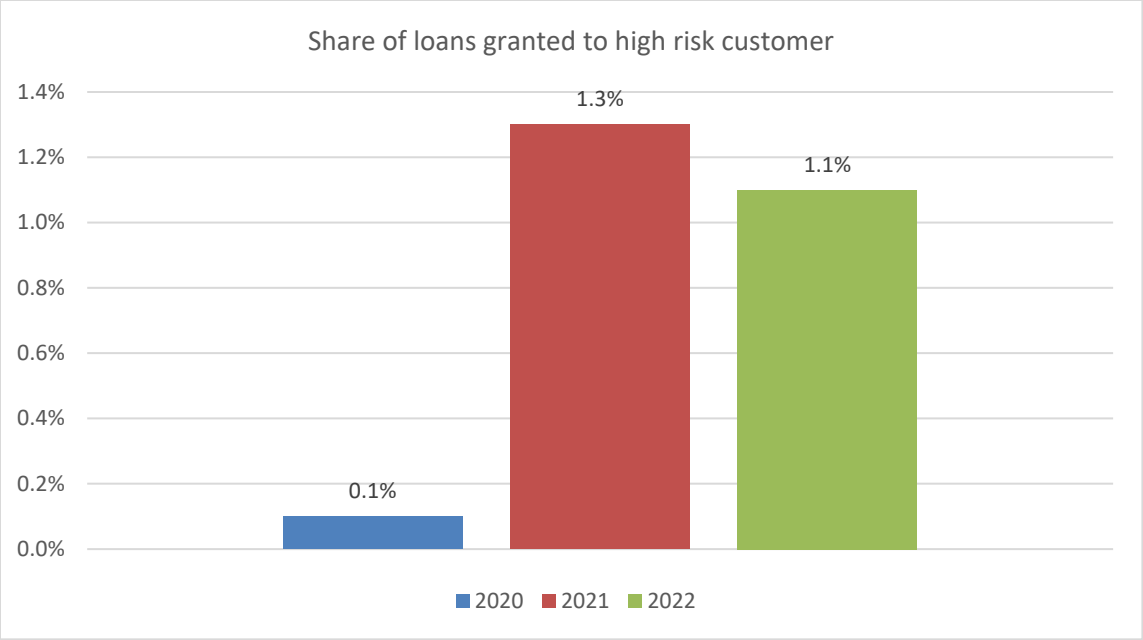
As of 2022, the ratio of assets of lending entities to GDP was 0.8%. A total of 176 lending entities operated in the market. More than half of the borrowers in the non-banking sector come from lending entities. The specificity of this sector is mostly the provision of small consumer and pawn credit services. Accordingly, the vast majority of clients of lending entities are individuals. In addition, the activities of lending entities include the collection of problematic consumer loans.

From the second half of 2020, NBG will carry out risk-based supervision of lending entities. During the registration of entities, NBG obtains information about the sources of their capital, ownership structure, direct owners of significant shares and beneficial owners.

88% of founders of lending entities are residents of Georgia. Lithuanian citizens predominate among non-resident founders (12 persons in total). Lending entities can raise financial funds only from founders and financial institutions. As of 2022, the funds raised amounted to 344 million GEL. Among them, 208 million GEL was raised from resident banks and non-banking financial institutions, and up to 136 million GEL was raised from the founders. Funds raised from resident founders amount to 109 million GEL, and from non-residents - more than 26 million GEL.

As of 2022,[285] the number of clients of lending entities is 406 thousand. Most of them are residents (402 thousand). Also, 99% of clients are resident individuals. In 2020-2022, the lending entities issued a total of 850 million GEL loans – an average of 590 GEL per client. Loans secured by precious metals and stones, stationery and household appliances are relatively high volume. In particular, the total volume of loans secured by precious metals and stones amounted to 204 million GEL, which is 24% of the total credit portfolio of the sector. 7% is charged on letterhead loans, and 6% on loans secured by household appliances. In addition, it should be noted that only 1% of the loans issued in the sector (11 million GEL in total) come to high-risk clients. The table below shows the data for July-December of 2020.

[285] Supervision of the sector was introduced from the second half of 2020. This analysis includes statistical data provided by the 50 largest lenders.



In the past, lending entities operated as pawnshops. Their clients needed loans secured by precious metals and various household appliances, and the services were mainly used to cover daily living expenses. In total, 342 client legal entities are registered in the sector, including 1 company with a complex ownership structure and 27 politically active persons (hereinafter - "PEP"). It should be noted that 342 legal entities account for 9% of the total volume of transactions. The total volume of transactions executed by a company with a complex ownership structure is only 500 thousand GEL. The share of transactions executed by PEPs is negligible and amounts to 0.2% of total transactions. Therefore, the number of clients residing in high-risk jurisdictions and offshore areas and the volume of their transactions is insignificant.

According to NBG's supervisory practice, the classification of clients according to risk by the lending entities and the implementation of appropriate preventive measures towards them are characterized by certain shortcomings. However, the clients of the lending entities are mainly low-risk resident persons. During the inspection of the lending entities, non-material deficiencies related to the software were also revealed.

A total of 11 notifications were sent to the FMS by the lending entities about suspicious transactions. Out of these, 6 messages were sent by one lending entity. The processes introduced in the sector regarding the detection of suspicious transactions need to be improved in terms of automation. Nevertheless, as a result of the inspection, there was no case when the lending entity did not send a notification to FMS.

Summary - The sector is of small volume, the field of activity of lending entities is related only to the granting of small volume loans and the withdrawal of problematic loans. The vast majority of clients are resident individuals. Since 2020, a complete risk-based supervision of the NBG has been introduced in the sector. Considering these circumstances, the money laundering risk in the sector has been assessed as **medium-low**, and the terrorist financing risk as **low**.

8.9 Investment funds

In accordance with the legislative changes implemented in 2020, the activities of investment funds were regulated and this sector was subject to the supervision of the NBG. Investment funds have been given 12 months to ensure compliance with anti-money laundering and anti-terrorist financing laws. At the end of 2022, the ratio of investment funds to GDP was 0.01%.

NBG has been implementing risk-based supervision of investment funds since 2021. During the registration of funds, NBG obtains information about the source of capital, ownership structure, direct owners of significant shares and beneficial owners. Also, NBG must be informed in advance of any important changes related to the investment fund.

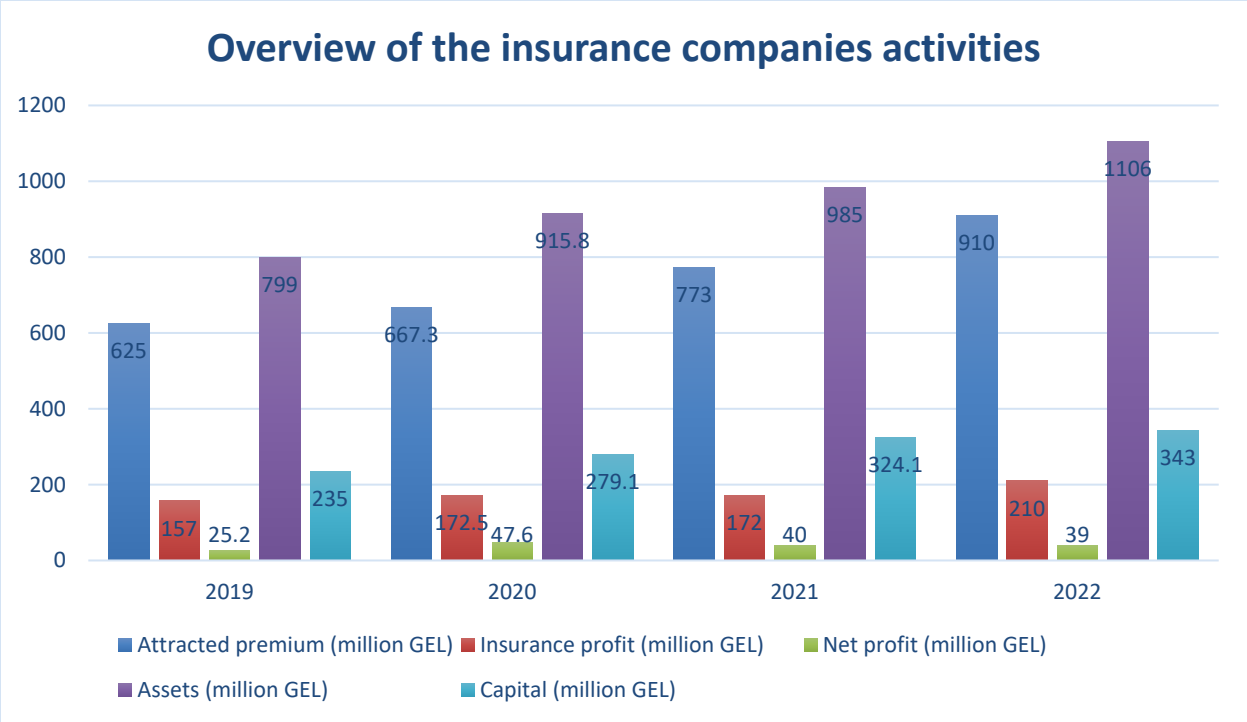
A total of 5 investment funds were registered in 2020-2022. 2 of these funds are owned by commercial banks whose shares are traded on the London Stock Exchange. In 2020-2022, 4 investment funds carried out their activities and the total volume of transactions made by them amounted to 88 million GEL. The funds have a total of 45 clients, of which only 2 clients are residents of the offshore zone and high-risk countries. In 2020-2022, investment funds made 5 exchange and 106 non-exchange investments. Non-exchange investments are made in light industry, agriculture, healthcare, retail trade and services.

Summary - The sector is of small volume. Risks related to customers, products, service delivery channels and geographic area are low. Investments are made in such areas of the economy that are not characterized by increased risk. Also, from 2021, the sector is supervised by NBG. Given these circumstances, the money laundering and terrorist financing risks in the sector have been assessed as **low**.

8.10 Insurance Sector

Currently 18 insurance companies are operating in the insurance market in Georgia. As of 2022, the total assets of insurance companies amounted to 1,105.5 million GEL (1.3% of GDP), and the capital amounted to 343.2 million GEL. The insurance premium collected from direct insurance activities in 2022 was 909.6 million GEL. In the same period, the insurance profit of insurance companies was 210.3 million GEL, and the net profit was 39.2 million GEL.[286] More than 70% of insurance premiums come from medical, vehicle and property insurance. The share of these types of insurance in the total volume of insurance payments was almost 90%.

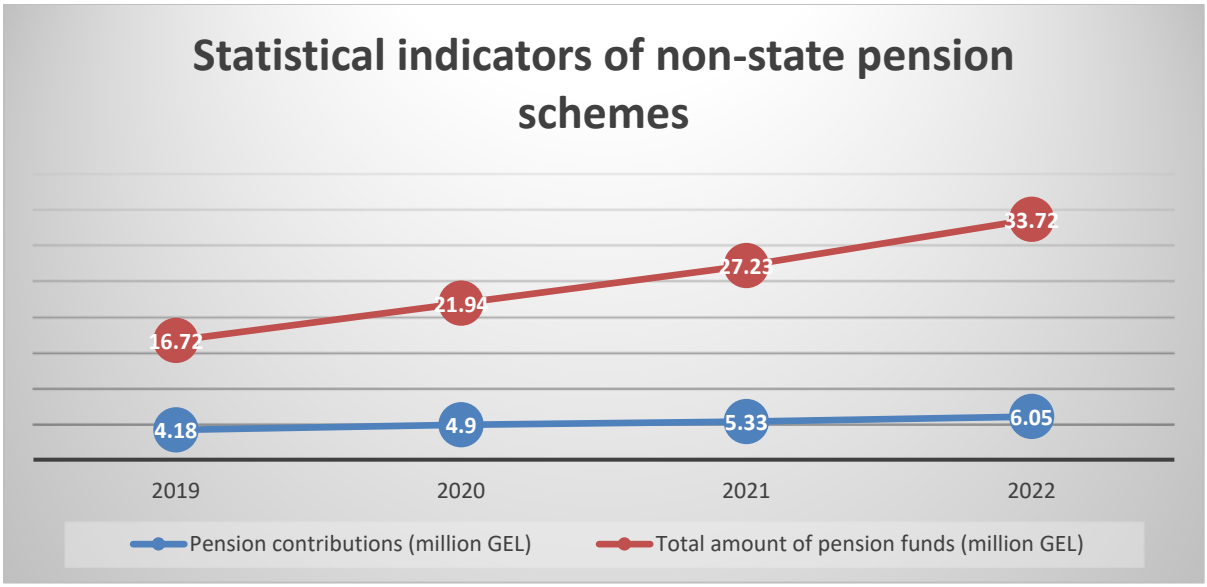
[286] LEPL Data of the State Insurance Supervision Service



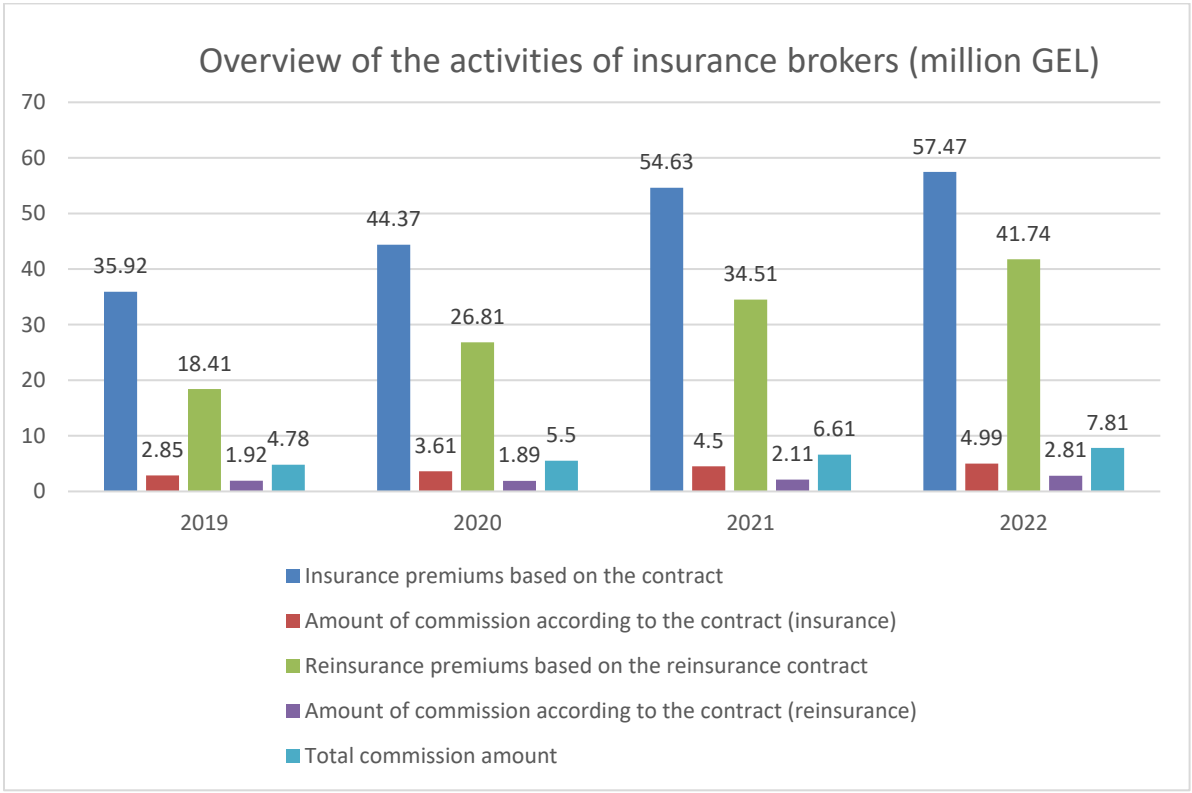
The sector is supervised by the Insurance State Supervision Service of Georgia (hereinafter - the "Service") For insurance activities, the Service issues 3 types of licenses - insurance (not life), life insurance and reinsurance [287]. All insurance companies operating in Georgia have both life and non-life insurance licenses. 4 pension schemes are also registered by the service, although only three schemes are active in the market [288]. As of 2022, the amount of pension contributions amounted to 6.05 million GEL, and the total amount of pension funds - 33.72 million GEL.

[287] An insurance company is automatically granted (in case of meeting the minimum capital requirement) the right to carry out reinsurance activities in the type of insurance for which it has obtained a license.

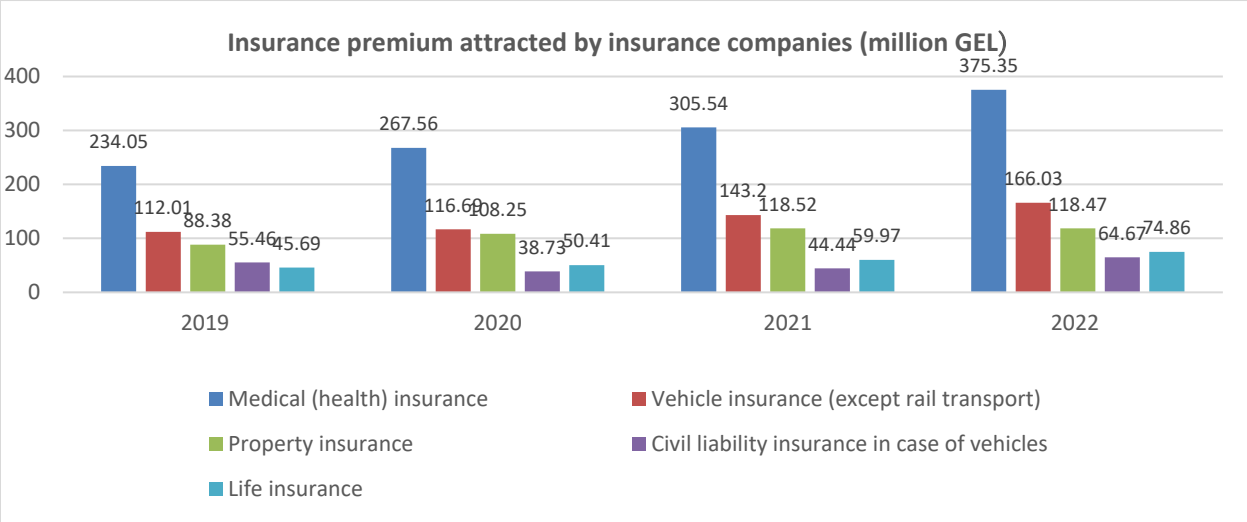
[288] Three pension schemes are based on insurance companies, and one is a professional pension scheme, created by the state enterprise "Sakaeronavigation" LLC.



19 insurance brokers are also registered by the service. As of 2022, the insurance premiums resulting from the insurance brokers' agreement amounted to 57.47 million GEL; The amount of the commission according to the contract (insurance) – 4.99 million GEL; The amount of reinsurance premiums based on the reinsurance contract - 41.74 million GEL; The amount of the commission according to the contract (reinsurance) is 2.81 million GEL, and the total amount of the commission is 7.81 million GEL.



There are no life insurance products with investment components in Georgia. Currently developed term life insurance in the market implies the payment of insurance benefits to the heir in the event of the death of the insured. Pension insurance can be considered a product with increased inherent risk, as withdrawal of pension savings is allowed without penalty, and without restrictions. However, the inclusion of the participant in the pension scheme is mostly done by the employer, and the withdrawal from the scheme is related to leaving the job. In addition, the pension insurance cannot be the subject of a lien, nor is it subject to alienation. Insurance products are mainly sold through direct sales. The sale of several products (eg travel insurance) within the limits of a small premium (up to 3,000 GEL) is also carried out remotely.



Clients of insurance companies are mainly resident individuals and legal entities. A small number of clients come from high-risk jurisdictions, politically active persons (hereinafter referred to as "PEPs") and companies with complex ownership structures. The analysis of international transactions of insurance companies reveals that returning the insurance premium to a bank account opened in another country is very rare. In addition, to collect insurance premiums or to issue reimbursements, international transfers are generally made with the participation of jurisdictions with effective anti-money laundering and anti-terrorist financing systems.

The Service carries out supervision based on a risk-based approach, both through on-site inspections and remotely. From 2016, every 6 months, insurance companies and non-state pension scheme founders, and from 2022 - insurance brokers, submit special reporting forms to the service, which contain information on the structure of clients, types of insurance products, geography of transactions and other risk factors. Based on the received information, the service assigns a risk level to each supervised entity and implements appropriate supervisory measures. The owner of a significant share of an insurance company and an insurance broker, a member of the supervisory board and a director cannot be a person convicted of an economic or serious crime. Regarding the alienation of a significant share (10%) of the insurance company, the service must be notified in advance, without the consent of which the alienation of the share is invalid.

In 2019-2022, taking into account the pandemic, the service remotely checked the compliance control system of all insurance companies and issued appropriate instructions and recommendations to eliminate the detected errors.

The number of notifications sent by insurance companies to FMS regarding suspicious transactions is small. An investigation has never been initiated based on them. The main reason for this is the lack of increased risk insurance products in the market.

Summary - The insurance market in Georgia is small. Investment life insurance products have not yet been offered by insurance companies. Their clients are mostly resident individuals, and the number of high-risk clients is very small. The insurance sector is also subject to full risk-based supervision. No facts of the use of insurance products for the purpose of money laundering or financing of terrorism were revealed. Given these circumstances, the risks of money laundering and terrorist financing in the insurance sector have been assessed as **low**.

8.9 Leasing services

As of June 2022, the leasing market portfolio amounted to approximately 500 million GEL, which is 1% of the country's GDP [289]. The leasing market has grown by an average of 22% annually over the past five years. Such a growth rate was due to the growing awareness of leasing as an alternative way of obtaining financing among small and medium-sized enterprises, which are the main users of leasing products. More than half of the leasing services come from the construction, service and medical sectors [290]. Leasing is a flexible financing tool (ie, no collateral is required) and allows for asset ownership without reducing working capital.

The declared purpose of more than a hundred companies registered in Georgia is leasing services [291]. However, the largest share of the market comes from one leasing company (75%), which is a subsidiary of a commercial bank (the bank's shares are traded on the London Stock Exchange) and is subject to compliance control at the group level. The most common form of leasing service is financial leasing (80% of the market)[292], but backleasing and operational leasing are also offered to clients. The majority of clients are resident legal entities. The subject of leasing can be real estate or movable property. However, entry into the leasing market is easy, and regulation of leasing services is limited to setting interest rates, commissions, and interest rates.[293].

Leasing companies are accountable entities, but they are not supervised. Nevertheless, leasing is somewhat low risk. As part of credit risk assessment, leasing companies also study their customers well enough.

[289] JSC TBC Leasing interim management report for June 30, 2022.
[290] *Ibid.*
[291] For tax purposes, a leasing company is considered an enterprise with at least 70% of its income coming from property leasing.
[292] In the case of financial leasing, after the expiration of the contract and payment of the value of the leased object, the object is transferred to the ownership of the lessee.
[293] NBG President's Order No.18/04 "Approving the rules for calculating the annual effective interest rate, commission, financial expense, penalty and/or any form of financial sanction for the purposes of Article 576 of the Civil Code of Georgia".

Summary - Leasing is a growing industry. Market entry is easy and leasing companies are not supervised. However, the vulnerability of leasing is low, and the largest company operating in the market is a subsidiary of a commercial bank and is subject to a group-level compliance control system. Considering these circumstances, the risk of money laundering in the field of leasing services was assessed as **medium-low**, and the risk of financing terrorism as **low**.

Chapter IX

NON-FINANCIAL SERVICES

9.1 Gaming business

The gaming business is a rapidly growing industry and has emerged as an important sector of the country's economy in recent years. This is determined by various factors. Gambling is prohibited or limited in the countries of the region [294], while their citizens can enter Georgia without a entry visa[295], In some parts of Georgia, gaming business operators enjoy certain benefits aimed at promoting investments [296] in tourism and regional development [297]. However, with the increase in internet penetration, the online gaming business has grown. Casino's permit gives a business entity the right to arrange gambling games both on land and in the Internet space. Currently, 19 land and 7 online casinos are operating. Most of the land patrols operate outside Tbilisi, in the border regions.

In 2019-2021, the income of the gaming business was about 4.9 billion. GEL, which is a significant decrease compared to previous years. The main reason for this was the pandemic, from 2022 the gambling business was also subject to new regulations and restrictions. In particular, the provision of online gambling games to young people under the age of 25 and to special categories of persons (e.g. gambling addicts and socially vulnerable persons, civil servants) was prohibited. As a result, nearly 1.5 million residents of Georgia were restricted from accessing online gambling. From 2022, advertising of gambling games and transferring money from an online gaming account to another player's account in any form is also prohibited.

Most of the clients of land casinos, especially in border regions, are citizens of neighboring countries. For example, in 2022, the number of visitors to the 11 casinos operating in Batumi alone amounted to 0.8 million individuals, among whom 85% were non-residents. [298]. Some of the country's casinos also organize special

[294] Gambling is prohibited in Turkey, Azerbaijan and Ukraine, while in Russia, Armenia and Kazakhstan it is allowed only in certain places.
[295] In Kazbegi, Tsinandali, Tskaltubo, Sighnaghi, Bakuriani and Gudauri, casinos are exempted from the annual fee.
[296] Casino is exempted from the annual fee in the case of construction of 80-bed hotels in Anaklia, Ganmukhuri, Grigoleti and Potsi, and 100-bed hotels in Batumi, Kobuleti and Khelvachauri.
[297] Revenues from gaming business fees are an important part of the budgets of several cities and municipalities (eg Kazbegi, Batumi, Zugdidi).
[298] Mostly from Turkey and Israel.

"gaming tours" and host wealthy players from various countries (e.g. Israel, China, India). Compliance control systems in land casinos are weak and suspicious transactions are rarely reported to the FMS.[299].

Land casinos are vulnerable to spending the money obtained by criminal means. The vast majority of transactions are carried out in cash, and high-risk customers and the source of their cash are not identified. All land banks also offer currency exchange services to clients. Gaming tokens with a high probability of winning (e.g. baccarat) and the so-called P2P (e.g. poker) games can be used to give a legal face to illegal income. Monitoring of transactions is carried out only for the purpose of fraud prevention in casinos. However, profit certificates are rarely issued[300], which lowers the level of vulnerability. Land casinos are less attractive in terms of strong or moving illicit proceeds. The winning amount is not credited to the client's bank[301]. Only one land casino offers cash storage services to its clients[302].

The vast majority of online casino customers are residents of Georgia, who are offered a wide variety of gambling games. Over the years, the main source of vulnerability for online casinos has been improperly verified customers and anonymously depositing cash into their accounts through instant payment machines. However, under new anti-money laundering and anti-terrorist financing legislation[303], only a properly verified client can open an online casino account. In addition, the payment service providers operating the fast payment machines were instructed to identify the persons wishing to deposit money into the online casino account. With the efforts of the FMS and the Revenue Service, online tax collectors have actively started to detect suspicious transactions (see sub-chapter 2.5)[304]. Currently, their compliance control systems are relatively more developed, and through special algorithms, facts of unintended use of accounts are detected and prevented.

The share of other gaming business operators in the whole industry is relatively small. Most of their customers are residents of Georgia. There are almost no compliance control systems in gaming machine parlors and sports betting, which are not operated by casinos. Slot machines can be played anonymously for large amounts of cash. In addition, the player can cash out the amount he has placed as a profit without playing the game. Some of the salons also issue tickets, which can be used for playing or can be cashed out by third parties. For online betting, it is possible to place bets with a high probability of winning or mutual bets. These products are vulnerable in terms of disguising the source of illegal income and giving it a legal face.

Gaming business operators are supervised by the Revenue Service. However, their verification takes place within the framework of the general permit conditions and is mainly limited to the existence of an internal compliance control policy and the submission of notifications to FMS on transactions above a predetermined monetary limit. Casinos also have limited eligibility criteria. In particular, the director or beneficial owner

[299] In 2019-2022, a total of 4 notifications were sent regarding suspicious transactions.
Revenue Service data: 2019 – 1.49 billion. Lari 2020 – 1.29 billion. Lari 2021 – 2.10 billion. Lari

[300] In 2019-2022, a total of 33 certificates of profit were issued.

[301] Revenue Service survey results.

[302] *Ibid.*

[303] Law of Georgia on "Facilitating the Prevention of Money Laundering and the Financing of Terrorism" and "Information Accompanying Transfers of Funds" approved by the order of president of NBG No.253/04.

[304] In 2019, FMS developed suspicious transaction detection guidelines for land-based and online casinos.

of the casino cannot become (be) a person convicted of a crime committed in the field of economic activity or other serious crime. The reputation of the beneficial owners of the casino is not checked and the source of the property is not determined. In 2019-2022, 18 alleged facts of organizing gambling games without permission were revealed, for which 19 persons were prosecuted[305].

Summary - Gaming business is an important sector of the economy. Land-based casinos are particularly vulnerable to spending money from crime because their compliance control systems are weak. Recently, significant measures have been taken to limit anonymity and misuse of accounts in online casinos. Also, the restrictions imposed in 2022 create a prerequisite for reducing risks in the gaming business in the medium term. However, ineffective supervision of the gambling business and weak eligibility criteria remain serious challenges. Considering these circumstances, the risk of money laundering in the gaming business was assessed as **medium-high**, and the risk of financing terrorism as **low**.

9.2 Real estate market

The real estate market in Georgia is growing. The number of real estate title registration transactions in 2021 was 9% higher than in 2020[306]. In addition, the turnover of real estate-related activities of business entities amounted to 1.7 billion GEL in 2022, which is a 14.3% increase compared to 2019 [307]. Similarly, the turnover of residential and non-residential construction is increasing [308]. A large part of registration transactions of real estate ownership rights and residential/commercial space falls on Tbilisi. Stable growth of the real estate market in Georgia is expected. In 2022, 25% of foreign direct investments came from real estate operations, leasing and services[309].

In Georgia, the registration of ownership rights to real estate is handled by the National Public Registry Agency (hereinafter - "Public Registry"). Real estate can also be bought and sold through a notary. Registration is completed in 4 working days, although the legislation of Georgia allows the possibility of accelerated service (for example, the registration of the right to real estate can be completed on the day of filing the application, if the interested person pays 300 GEL).

Intermediary activity in the field of buying and selling of real estate is not regulated. The exact number of real estate agents in the market is unknown because they are not registered. The vast majority of agents are small business entities, and their services are limited to connecting the property buyer with the seller and arranging property viewings. There are also several relatively large companies operating in the market, which offer clients wider consulting and brokerage services[310]. However, agents are not involved in the settlement process because they do not have access to settlement and title transfer risk insurance tools (eg,

[305] Data of the Investigative Service of the Ministry of Finance of Georgia.
[306] Public registry data
[307] Geostat data. Real estate activities include buying and selling, renting and managing.
[308] Geostat data. In 2022, the turnover of such construction totaled 5.4 billion GEL, which is 38.2% higher than in 2019.
[309] Geostat data
[310] In 2014, one of the world's largest international real estate management companies, Colliers International, started operating in Georgia

an escrow account) during the sale and purchase of property. Agents also do not participate in the preparation of documents necessary for the transfer of real estate ownership.

Buying real estate is a common method of integrating illegal income into the formal economy around the world. High real estate prices allow large amounts of money to be laundered in just one transaction. In several money laundering cases, the case of real estate purchase with criminally obtained funds was revealed (see sub-chapter 3.2.4) In 2020-2022, a lean was put on 799 units of real estate. Meanwhile, in 2020-2022, 21 units of real estate, the value of which is approximately 9.6 million GEL, were subject to confiscation by the Prosecutor's Office of Georgia in money laundering cases. Residential buildings are more vulnerable to the investment of illegal income than commercial premises. The owner of the house changes often and it is easy to resell. Nevertheless, commercial space can also be used as a location for fictitious businesses involved in money laundering or through long-term leases to obtain significant premises (so-called double laundering). The real estate in Georgia can be bought and sold in cash, which allows the price manipulation and disguising the source of cash. On the other hand, real estate is often purchased with a mortgage loan. Therefore, a large part of such transactions pass through the compliance control systems of commercial banks.

A large number of countries in the region are characterized by high levels of tax evasion, corruption and illegal financial flows, which are risk factors. Starting in 2019, foreigners can obtain an investment residence permit in Georgia if they purchase real estate worth USD 300,000 [311]. However, obtaining citizenship does not take place in exchange for a large investment (the so-called golden passport). In addition, the identity of real estate owners in Georgia is available to everyone [312]. The public registry also sends notifications to FMS about suspicious real estate purchase and sale transactions.

Summary - Demand and prices for real estate in Georgia are steadily increasing. Real estate can be purchased in cash and by bypassing the financial system. The real estate market also attracts foreign investment. However, a significant portion of real estate transactions are conducted through commercial banks, which reduces the overall level of vulnerability. Agents' role in real estate transactions is small and thus their vulnerability is low. The identity of the real estate owners is public, but the beneficial owners are not always known if the property is owned by legal entities. Considering these circumstances, the risk of money laundering in the real estate market was assessed as **medium**, and the risk of terrorist financing as **low**.

9.3 Trade in precious metals and stones

The market in Georgia for trade in precious metals, gemstones and their products is stable. Major players in the market are mining and exporting companies, trading houses and jewelry/antique shops. The commodity exchange is not functioning. The business of extracting precious metals is export-oriented. In 2019-2022,

[311] One of the initiations for obtaining a short-term residence permit is the purchase of real estate worth at least 100,000 USD.
[312] The information is available in the public register https://www.napr.gov.ge/udzravi

unprocessed and semi-processed gold worth 316 million USD was exported.[313] Goods made of precious metals are mainly imported to Georgia. Their value is significantly lower than the export volume.

About 1,400 small business entities operate in trading houses, selling local jewelers and collecting scrap precious metals. Such trading houses operate in several big cities. In addition, there are dozens of jewelry and antique shops throughout the country. Jewelry stores are the fastest growing sub-industry. Nevertheless, the overall market size is quite small. As of 2022, the annual turnover in the field of trade in precious metals, stones and their products is about 60 million GEL.[314]. In 2022, 176 organizations operated in Georgia, which provided loans secured by precious metals and stones in the amount of 204 million GEL.[315]. More than 99% of clients of these organizations are residents of Georgia. NBG sells gold investment coins and issues a gold certificate, which is an interest-free security that is issued to the person who buys the gold bar. In 2019-2022, NBG sold 7.5 million GEL worth of gold coins and 3.4 million GEL worth of Bars.

In 2005, activities related to precious metals, gemstones and their products were deregulated. The state quality control system no longer exists. There are special testing facilities in trading houses, in which metals and gemstones are checked and products are branded. However, the activities of such facilities do not meet international standards. Since 2004, traders in precious metals, stones and their products are accountable persons, but they are not recorded or monitored. Settlement in the market is mostly done in cash. Low-priced products are the most popular. In 2019, anti-money laundering and anti-terrorist financing legislation was extended to lending entities[316] The absolute majority of pawnshops have become accountable persons (loan-granting entities) and their activities are supervised by the NBG (see subchapter 8.8).

The purchase of precious metals and gemstones is a convenient way to convert criminal money into portable and valuable assets, helping to cover its source of origin. In Georgia, such metals or stones can be purchased anonymously, unless the seller is a NBG or a financial institution. There is also a danger of the sale of scrap precious metals of illegal origin, because business entities do not take preventive measures. In addition, it is easy to hide valuables and transport them across borders. Therefore, attempts to bring contraband goods into the territory of Georgia periodically do take place. In 2019-2022, 1,802 alleged facts of movement of precious metals and stones across the customs border in violation of the declaration rule were detected[317]. However, in money laundering cases, the facts of purchasing jewelry with illegal income have not been recorded so far.

Undeclared valuables found at the border [318]				
Year	**2019**	**2020**	**2021**	**2022**
Gram	147,945.97	27,029.83	16,228.87	35,737.34

[313] Geostat data
[314] Service data of the Ministry of Finance of Georgia
[315] NBG Data
[316] Entities that provide loans to more than 20 individuals at the same time
[317] Revenue Service Data
[318] *Ibid.*

Summary - In Georgia, the field of trade in precious metals, stones and their products is characterized by a relatively small turnover. The vast majority of transactions are also small in volume, and the prevention of smuggling of jewelry at the border is effectively implemented. Nevertheless, the purchase of precious metal products is mostly done in cash and anonymously, and business entities are not supervised. Considering these circumstances, the risk of money laundering in the field of trade in precious metals and stones has been assessed as **medium**, and the risk of terrorist financing as **low**.

9.4 Legal services

There are 4,940 practicing lawyers and 379 law firms in Georgia. Persons wishing to practice law should join the Georgian Bar Association. A necessary condition for entering the profession of a lawyer is obtaining a higher legal education, passing the qualifying exam for a lawyer or judge/prosecutor's office worker, and passing a one-year professional adaptation program [319]. A lawyer cannot be a person convicted of a serious crime. In addition, it is possible to practice law as a general, civil or criminal law specialist. The most common form of legal activity is independent practice as a natural person. Law firms are often registered as LLCs or joint liability companies. The Georgian Bar Association maintains the register of law offices.

Advocacy involves representation of the client and giving legal advice, preparation/submission of legal documents and other types of legal assistance. Attorneys provide corporate services and participate in property/financial transactions on behalf of clients. For example, some lawyers offer clients, on the basis of a power of attorney, to establish a legal entity, open a bank account or purchase real estate. However, such activities are rare, which is caused by the absence of trust relations in Georgia (see subchapter 5.4). The form of payment for legal fees is not limited. Therefore, there is a practice of paying fees to lawyers in cash. Since 2015, anti-money laundering and anti-terrorist financing legislation has been extended to lawyers. In 2019, law firms also became accountable entities [320].

In international practice, criminals try to abuse the services of lawyers because of their specialized knowledge, access to financial instruments and the principle of professional secrecy. For example, a lawyer may be called upon to create complex corporate structures as a method of disguising the origin of criminal money and integrating it into the formal economy. A lawyer's bank account can also be used to deposit, store and move criminal money into the financial system. The Code of Professional Ethics of Georgian Lawyers requires accounting of the client's cash funds separately from the lawyer's personal property. 2019 Since 2010, lawyers have the right to open a joint or[321] segregated bank account of nominal ownership. [322] The nominal ownership account is still hardly used, because there are no rules for receiving and disposing of client funds on the accounts[323]. However, in the future, this tool will contribute to the growth of the role

[319] Professional adaptation program for lawyers includes both theoretical training and practical internship.
[320] Preventive measures must be taken by the lawyer/law firm when providing services to the client related to the purchase and sale of real estate or entrepreneurial legal entity (share), cash or bank account management, organization of contributions for the creation, activity or management of a legal entity, legal entity or To create, operate or manage a trust.
[321] A bank account on which funds transferred in nominal possession by clients to a lawyer or law firm are jointly recorded.
[322] A bank account in which funds transferred in nominal possession by one client to a lawyer or law firm are recorded.
[323] The Georgian Bar Association is working on defining special rules for receiving and disposing of client funds on nominal ownership accounts by lawyers.

of lawyers in property transactions (see subchapter 8.2). In 2019-2022, lawyers did not send notification of suspicious transactions to FMS. This circumstance may indicate that there is a need to provide more clarity on the issue of compliance with the obligation to detect suspicious transactions and report to FMS, while respecting the principle of professional secrecy. The Georgian Bar Association supervises the legal profession. In particular, the ethics commission operating in the association decides the issue of disciplinary responsibility of lawyers.[324]. In case of violation of the code of professional ethics, the lawyer may be given a warning, be deprived of the right to practice law for a period of up to 3 years, or be terminated from the membership of the association. So failure to report a suspicious transaction to the FMS will result in the lawyer being subject to disciplinary action, unless such reporting would be contrary to the principle of professional secrecy. However, there is no monitoring mechanism for the fulfillment of the mentioned obligation by the lawyer. A training center has been created in the association, which provides continuing professional qualification of lawyers. In 2018, the Center introduced a training course on the issues of combating money laundering and financing of terrorism. In recent years, through the efforts of the Bar Association and other professional associations, the level of awareness among lawyers of the requirements of anti-money laundering and anti-terrorist financing legislation has increased.[325]

Summary - Lawyers can participate in the implementation of property and financial transactions. However, in the field of legal services, legal aid dominates, and trust relations have not been identified. The lawyer's fee can be paid in cash. There is no monitoring mechanism for lawyers to comply with the requirements of anti-money laundering and anti-terrorist financing legislation. On the other hand, no facts of abuse of lawyer services by criminals have been revealed, which is an indication of a high level of professional ethics. Lawyers' awareness of money laundering and terrorism financing is gradually increasing. Considering these circumstances, the risk of money laundering in the field of legal services was assessed as **medium-low**, and the risk of terrorist financing as **low**.

9.5 Notary services

Georgia is a country of the Latin Notary system. The notary exercises public-legal powers, and the notarial documents have indisputable evidential force. As of 2022, there are 289 notaries in Georgia, including 7 general notary bureaus[326] [327]. A prerequisite for appointment as a notary is a higher legal education, passing a qualifying exam and completing an internship[328] at the training center of the Chamber of Notaries. A person who has been convicted of an intentional crime cannot be appointed as a notary. The appointment of a person as a notary is also not allowed, even if the conviction is expunged, if he was convicted of a crime

[324] The basis for considering the lawyer's disciplinary responsibility is the complaint of his client or another person, as well as the appeal of the body producing the process or the chairman of the Georgian Bar Association itself, the audit commission, the executive board or the member of the ethics commission.

[325] In 2015, the Association of Law Firms of Georgia (SIFA) developed a guide for lawyers on preventive measures against money laundering.

[326] A notary office is created by an active notary. Several notaries can create a common notary office, although each notary performs notarial acts in his own name and is personally responsible for his official activities.

[327] Data of the Chamber of Notaries.

[328] The Selfregulation authority of notaries

related to notary activity. The Minister of Justice of Georgia determines the maximum number of notaries every year.

The powers of a notary include confirmation of transactions and certification of documents. However, since 2007, it is no longer mandatory to certify transactions related to real estate by a notary (except for the certification of a mortgage agreement concluded to secure a claim arising from a loan agreement). Similarly, legal entities can produce legal documents themselves and notaries are often not consulted for the purpose of drawing up/certifying the founding documents. Online notary services have been introduced ince 2010 [329], and they are becoming very popular [330]. The protocol of the meeting of the founding or governing bodies of legal entities can be verified online . If one of the partners is unable to attend the meeting, the notary can be contacted via Skype or another Internet application. After verifying the person[331], he notary establishes and verifies the minutes of the meeting. Only residents can use this service. Cash, securities or other valuables can be transferred to the notary for safekeeping (deposit). Funds are deposited into the notary's deposit account. During the deposition, a protocol is drawn up, in which the reason for the deposition, the amount/type of property transferred to the notary and the identification data of the transferor must be recorded. Funds can be deposited in cash or by bank transfer. Escrow is often used when the debtor wants to fulfill a loan obligation, but the creditor delays in accepting the performance. At this time, the debtor can fulfill the obligation by depositing and avoid possible negative consequences (e.g. fine). Deposition is also used during the purchase and sale of property as a settlement and title transfer risk insurance tool. However, only 472 persons benefited from the deposit in the period from 2019 to 2022.[332].

The activities of notaries are supervised by the Ministry of Justice of Georgia, and supervision is carried out through regular and extraordinary inspections. All notaries are subject to inspection at least once every 3 years. The appeal of FMS can also be the basis for an extraordinary examination of notaries. The committee established by the order of the Minister of Justice of Georgia, among other things, checks the compliance of notaries' activities with the anti-money laundering and anti-terrorist financing legislation. Violation of this legislation is a serious disciplinary offense, for which a notary may be suspended from office or dismissed from the position held. Repeated failure to report suspicious transactions to the FMS is a particularly serious disciplinary offense and may result in dismissal of the notary. Preventive measures by a notary are facilitated by their similarity to the procedure for performing a notarial act. Determining the identity and authority of the participants in a notarial act is a common practice. The list of persons associated with international terrorism of the United Nations [333] is integrated into the electronic notarial register of notaries. Verification of this list of persons participating in the notarial act is ongoing. Although the UN's list of persons associated with international terrorism is integrated, the verification of participating persons is an ongoing notarial act. Verification of this list of persons participating in the notarial act is ongoing. However, it is a challenge

[329] Application, consent, power of attorney or transaction can be verified online.
[330] In 2010, about 7 thousand notarial acts were performed over the Internet, and from 2020 to June 2022, 265,395 notarial acts performed via electronic communication were registered.
[331] The person's identity is verified in the databases of the State Services Development Agency.
[332] Data of the Chamber of Notaries.
[333] All notarial actions of the notary are registered in the electronic notarial register. Automatic messages in FMS are also sent through it.

for notaries to identify politically active persons from other countries because they do not have access to international databases. Notaries also face difficulties in establishing beneficial owners of legal entities registered in offshore zones.

Summary - Certification of property purchase and sale transactions and founding documents of legal entities does not belong to the exclusive powers of notaries. A notary's escrow account is rarely used in purchase transactions.ამასთან, The professional activities of notaries are properly supervised. As a result, notaries' compliance with anti-money laundering and anti-terrorist financing legislation is one of the highest in the non-financial sector. Considering these circumstances, the risks of money laundering and terrorist financing in the field of notary services were assessed. As a result, notaries' compliance with anti-money laundering and anti-terrorist financing legislation is one of the highest in the non-financial sector. Considering these circumstances, the risks of money laundering and terrorist financing in the field of notary services were assessed as **low**.

9.6 Accounting and auditing services

Persons registered in the register of auditors/auditing firms produced by the Accounting, Reporting and Audit Supervision Service (hereinafter - the "Service") have the right to perform audit services in Georgia. As of December 2022, 264 audit firms and 439 auditors, including 103 individual auditors, are registered in the register. A certified accountant who is a member of a professional organization [334] and has three years of experience in conducting financial statement audits under the supervision of an active auditor, can register as an auditor. In addition, an auditor cannot become a person who has violated the Code of Ethics for Professional Accountants (IESBA) or has been convicted of a serious or particularly serious crime. A legal entity in which more than 50% of the voting rights are owned by an auditor [335] or an audit firm can register as an audit firm [336]. The majority of the members of its management should also consist of auditors.

Accounting is largely a self-regulating profession. The service establishes the standard for certification and continuing education of accountants. The register of certified accountants is posted on the website of the service, although its administration is carried out by relevant professional organizations according to the rules established by the service. As of December 2022, there were 921 persons registered in the register

In 2022, with the amendments made to the Law of Georgia "On Promotion of Preventing Money Laundering and Financing of Terrorism", the circle of accountable persons was expanded and the persons subject to the supervision of the Service became accountants and accounting firms providing professional services. In accordance with the same package of changes, within the framework of the Law of Georgia "On Accounting, Reporting and Auditing", the service was tasked with the production of state registers of accountants and accounting firms providing professional services, which is a prerequisite for implementing risk-based

[334] There are 2 professional organizations of accountants and auditors in Georgia, whose certificate and continuing education programs are recognized by the service. Association of Professional Accountants and Auditors of Georgia (GFPAA) is the largest and has been a full member of the International Federation of Accountants (IFAC) since 2000.

[335] An auditor registered in the register of auditors/auditing firms produced by the service or a natural person who is a member of the International Federation of Accountants (IFAC) member organization operating in EU/OECD member countries.

[336] An audit firm registered in the register of auditors/audit firms produced by the Service or in the audit register of EU/OECD member countries.

supervision over these persons. Also, the service should issue a relevant by-law that ensures the dissemination of continuing education requirements to accountable persons in the direction of combating money laundering and terrorist financing. As of 2022, 1,656 taxpayers with an active status are recorded as accounting, bookkeeping and auditing activities or tax consulting in the register of taxpayers of the Revenue Service..[337]

In 2022, the total turnover in the field of audit services amounted to 141 million GEL, which is a decrease of 0.7% compared to last year. Since 2017, public interest entities and enterprises of the first category [338] are required to produce and audit financial statements in accordance with international Financial Reporting Standards (IFRS). Audits are also required for second category enterprises that submit financial statements in accordance with the International Financial Reporting Standards for Small and Medium Enterprises[344] (IFRS for SMEs). Almost 99% of the turnover comes from auditing firms, which, in addition to auditing financial statements, provide accounting, tax and other business consulting services.

Criminals can use the special knowledge of auditors to evade taxes or disguise the source of illegal income. In addition, audit services add more legitimacy to the client's activities and help access the financial system. However, auditors very rarely participate in property/financial transactions under FATF standards. Auditors also do not have the right to open a bank account of nominal ownership, and the case of their management of clients' funds has not been revealed to date.

The service regulates the field of audit services, translates into Georgian and implements international standards [339]. The service also recognizes the certification and continuing educational programs and examination process of professional associations and educational institutions. The service verifies the compliance of auditors' and audit firms' activities with International Standards of Auditing (ISA) and International Standards of Quality Control (ISQC). From 2023, compliance with international quality management standards (ISQM) will also be checked. These standards include examining the integrity of the client and detecting signs of fraud/falsification in financial statements. This, on the other hand, contributes to a relatively high level of compliance with the requirements of anti-money laundering and anti-terrorist financing legislation, especially among members of international networks. Every year, the service collects information on the activities and revenues of auditors and audit firms. The entities subject to monitoring of the quality control system are determined on the basis of a risk-based approach. As of 2022, the Service has conducted 225 quality control system monitoring and identified 6,095 non-compliances with international standards, which were mainly related to the process of planning audits and obtaining audit evidence. During

[337] Revenue service data

[338] A business entity that meets two of the following three criteria at the end of the reporting period: the total value of assets exceeds 50 million GEL; Income exceeds 100 million GEL; The average number of employees in the reporting period exceeds 250.

[339] International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations adopted by the International Financial Reporting Interpretations Council (IFRIC) and the Standing Interpretations Committee (SIC).

[339] A business entity that meets two of the following three criteria at the end of the reporting period: the total value of assets does not exceed 50 million GEL; income does not exceed 100 million GEL; The average number of employees in the reporting period does not exceed 250.

the same time period, 2 auditing firms and 1 individual auditor were canceled due to non-compliance with ethics and professional standards.

Summary - The vulnerability of auditors and audit firms is low because they rarely participate in property and financial transactions covered by FATF standards. Their activities are properly supervised. In addition, auditors' awareness of the requirements of anti-money laundering and anti-terrorist financing legislation is quite high. On the other hand, entry into the accounting profession is easy, and oversight of accountants' activities is in its infancy. However, in the field of accounting and auditing services, member firms of international networks dominate, and their compliance with anti-money laundering and anti-terrorist financing legislation is carried out at a high level. Considering the mentioned circumstances, the risks of money laundering and financing of terrorism in the field of accounting and auditing services were assessed as **low**.