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FINANCIAL MONITORING SERVICE OF GEORGIA
DECREE #1

Tbilisi June 27, 2013

On Approving the Regulation on Receiving, Systemizing and Processing the Information by Qualified Credit Institution and Forwarding to the Financial Monitoring Service of Georgia

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

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

2. Qualified credit institution shall submit to the Financial Monitoring Service of Georgia the Form of Registration according to the procedure established under the Regulation "on Receiving, Systemizing and Processing the Information by Qualified Credit Institution and Forwarding to the Financial Monitoring Service of Georgia" within twenty days following the registration at the National Bank of Georgia.

3. Qualified Credit Institution within two months after submission of the Form of Registration to the Financial Monitoring Service of Georgia shall ensure implementation and operation of an electronic data base containing identification details of clients and other relevant persons and information on transactions (operations) subject to monitoring; as well as implementation and operation of the relevant software for revealing suspicious, unusual and partitioned transactions.

4. This Decree shall become effective upon promulgation.

M. Roinishvili

Head of the Financial Monitoring
Service of Georgia

REGULATION

On Receiving, Systemizing and Processing the Information by Qualified Credit Institution and Forwarding to the Financial Monitoring Service of Georgia

Article 1. General Provisions

1. This Regulation has been developed on the basis of the Organic Law of Georgia "on the National Bank of Georgia", Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization" and other relevant normative acts of Georgia.

2. Requirements of this Regulation shall apply to Qualified Credit Institutions registered at the National Bank of Georgia in accordance with the organic law of Georgia "on the National Bank of Georgia", their branches, Georgian resident and non-resident natural persons and legal entities, their representatives, representational offices and branches (except microfinance organizations and non- bank depositary institutions - credit unions).

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

Article 2. Definition of Terms

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

a) Illicit income – illicit or/and unjustified property in ownership or possession of a person;

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

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

d) Qualified Credit Institution – legal entity as it is provided by the Organic Law of Georgia "on the National Bank of Georgia";

e) Suspicious transaction – a transaction (regardless its amount and operation type) supported with reasonable grounds to suspect that it had been concluded or implemented for the purpose of legalizing illicit income or / and the property (including funds) on the basis of which the transaction had been concluded or implemented is the proceeds of criminal activity or / and the transaction had been concluded or implemented for the purpose of terrorism financing (person participating in the transaction or the transaction amount causes suspicion, or other reasons exist for considering transaction as suspicious),

or any person involved in the transaction is on the list of terrorists or persons supporting terrorism, or / and is likely to be connected with them, or / and funds involved in the transaction may be related with or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism, or any involved person's legal or real address or place of residence is located in a non-cooperative zone or the transaction amount is transferred to or from such zone;

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

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

h) Client - any person who addresses to the Credit Institution for the service defined by the legislation as the principal activity of the latter or / and uses such service;

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

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

k) Controlling person – person exercising control;

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

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

n) Non-cooperative or watch zone – a country or a part of the territory thereof defined by the National Bank of Georgia on the basis of proposition of the Financial Monitoring Service of Georgia. The country or territory thereof shall be identified as such on the basis of the information provided by competent international organization, or if the grounded supposition exists that in such zone weak mechanisms for controlling illicit income legalization are effective;

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

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

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

r) Family member – a spouse of a person, his / her parents, siblings, children (including step – children) and their spouses;

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

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

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

Article 3. Transactions Subject to Monitoring

1. For purposes of this Regulation, subject to monitoring shall be a transaction (operation) concluded by the Credit Institution for the purpose to attract funds and / or grant loans with attracted funds and / or series of transactions (operations) aimed at partition of the transaction (its amount), if one or both of the following provisions exist:

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

b) Transaction is suspicious according to Subparagraph (e), Article 2 of this Regulation.

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

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

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

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

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

7. For the purpose of revealing suspicious, unusual and partitioned transactions (operations) the Credit Institution shall establish electronic database (system).

Article 4. Obligations of Credit Institution with Respect to Implementation of Internal Control

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

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

a) In cases defined under Subparagraphs (a – c), paragraph 1, Article 6 of this Regulation identification of clients of the Credit Institution, their representatives and agents, beneficial owners as well as the third person if the transaction (operation) is concluded in favor of the third person is required;

b) Measures provided for in the legislation shall be undertaken against Politically Exposed Persons (PEPs);

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

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

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

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

f[1]) Defining terms and procedure for carrying out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction;

g) Organizng trainings for employees of Credit Institution on topics of preventing illicit income legalization and terrorism financing. Such trainings shall be of regular type in order to ensure timely acquaintance of employees with changes introduced to the Georgian legislation, internal regulation of the Credit Institution, as well as with new techniques, methods and trends of money laundering and terrorism financing.

3. For the purpose of determining internal control rules and procedures, the Credit Institution shall develop the internal regulation on the basis of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization and this Regulation that must be approved by the Credit Institution's Board of Directors. The internal regulation shall provide the terms and procedure for: identification (including enhanced and simplified identification/verification procedure) of the Credit Institution's (or its branchess and representative officess) clients, persons willing to establish the business relationship with the Credit Institution, their beneficial owners and other relevant persons; systemizing, analyzing and retaining the information obtained as a result of the identification process; identification of transactions (operations) subject to monitoring and submission of reporting forms to the Service; carrying out the instruction of the Service on the suspension of implementation of the transaction; establishing rights and responsibilities of the employee/employees authorized to confirm the receipt of and carry out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction. All employees of the Microfinance Organization shall be acquainted with the internal regulation.

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

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

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

2. Functions, authority and responsibility of the employee (special structural unit) in charge of monitoring shall be defined under the internal regulation of the Credit Institution.

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

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

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

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

c) Consult other employees of the Credit Institution with respect to issues of preventing illicit income legalization and terrorism financing and organize special training programs on issues defined under the present Regulation;

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

5. Position of the employee in charge of monitoring (head of structural unit) shall correspond to the senior hierarchy (management) level in the Credit Institution's organizational chart. Under the internal regulation of the Credit Institution, employee (or special structural unit) in charge of monitoring shall be granted authority to obtain any information from other employees of the Credit Institution necessary for fulfillment of his / her functions and shall be obligated to ensure observance of confidentiality of received information as well as of any other information related to his / her activity.

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

Article 6. Obligations of Credit Institution with respect to Identification and Registration of Identification Information (Documents)

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

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

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

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

2. Credit Institution shall identify the beneficial owner of the client, as well as to undertake reasonable measures to verify his / her identity by means of reliable, independent source and be satisfied that it knows who the beneficial owner of the client is. Identification

procedures similar to those used for natural persons shall be applied against beneficial owner.

3. In the course of the identification and/or verification of a client (its beneficial owner), the Credit Institution may rely on a third party/intermediary that carries out the identification and verification of a person in accordance with the FATF recommendations, keeps documents (their copies) as provided for by Article 9 of this Regulation, and is subject to the supervision and regulation as defined under the FATF recommendations. The Credit Institution shall be required to immediately obtain from a third party/intermediary the information related to the identification and verification of a client (its beneficial owner), as well as the purpose and intended nature of business relationship. Furthermore, the Credit Institution shall be required to undertake necessary measures to ensure that it can access the identification data of a client (its beneficial owner) and other relevant documents related to the identification and verification of a client (its beneficial owner) held by a third party/intermediary immediately upon request. In such cases, the ultimate responsibility for identification and verification of a client in accordance with the procedure provided for by this Regulation shall remain with the Credit Institution. The credit intitution shall take into account the information available about the risk of illicit income legalization and terrorism financing in the host country of a third party/intermediary, when selecting a third party/intermediary.4. Identification process shall be conducted in compliance with the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", this Regulation, relevant normative acts issued by the National Bank of Georgia, the internal regulation of the Credit Institution and guidelines and recommendations of the Financial Monitoring Service of Georgia.

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

6. Credit Institution for the purpose of identifying client (its representative or proxy, as well as the third person, if the transaction is being concluded in favor of the third person), and its beneficial owner in conformity with the Law of Georgia "on Facilitating the Prevention of Illicit Income legalization" and this Regulation, shall be entitled to use the electronic databases of identification documents provided by the Public Service Development Agency – Legal Entity of Public Law at the Ministry of Justice of Georgia according to the procedure set by the Georgian legislation.

7. Identification and verification of the client as well as its beneficial owner and obtaining of other information as it is defined by this Article, shall take place before carrying out of a transaction or establishing of another type of business relationship, as well as prior further continuation of the business relationship if legalization of illicit income or terrorism financing is suspected or if doubts exist about the veracity or adequacy of previously-obtained client identification data, except for cases provided under paragraph 3, Article 6^1 of this Regulation.

8. Credit Institution shall be prohibited to establish relations with shell banks. They shall undertake prudential measures to identify:

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

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

9. Credit Institution shall not be authorized to provide the client with services without preliminary identification of this person.

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

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

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

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

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

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

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

d) Upon receipt of the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction as prescribed under Article 10^1 of this Regulation.

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

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

a) in case of natural person:

a.a) First name, last name;

a.b) Citizenship;

a.c) Date of birth;

a.d) Place of residence;

a.e) Number of ID (Passport) and citizen’s personal number by ID (Passport);

a.f) If the natural person is registered as a sole trader – the relevant registration date, number, registering authority, identification number of tax payer.

b) In case of legal entity:

b.a) Full name;

b.b) Business activity;

b.c) Legal address (in case of the branch or representation the legal address of the head office also);

b.d) Registering authority, date and number of registration;

b.e) Identification number of tax payer;

b.f) Identification details of persons authorized for management and representation (in conformance with subparagraph (a) of this Paragraph);

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

c) Organizational formation provided for in the legislation not representing a legal entity:

c.a) Full name;

c.b) Legal address;

c.c) Legal act or other document, based on which the given organizational formation was established (is functioning);

c.d) Identification number of tax payer;

c.e) Identification details of persons authorized for management and representation (in conformance with Subparagraph (a) of this Paragraph);

c.f) Identification details of the person representing organizational formation in a specific transaction (operation) subject to monitoring.

14. Documents necessary for identification process shall be:

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

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

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

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

15. Credit Institution shall record country and authority, which issued documents presented for identification, as well as date of issuance and validity period thereof.

16. For documenting, systemizing and better examining identification details of permanent clients (persons that periodically apply to the Credit Institution for use its service) the Credit Institution should use the procedure of form (questionnaire) filling. In parallel with this process, the Credit Institution shall ensure setting up of the relevant electronic data base.

17. Procedure of form (questionnaire) filling shall also be allowed for identification of persons (clients), that apply to the Credit Instiution for implementing single transaction (operation) or represent second or third persons (if transaction (operation) is implemented in favor of the third person) involved in transaction (operation).

18. If documents presented for identification or information stored in the Credit Institution allow, in addition to the information listed in subparagraphs (a) - (c), Paragraph 13 of this Article, the following details shall be documented:

a) In case of natural person:

a.a) Patronymic;

a.b) Place of birth;

a.c) Temporary (real) place of residence (in Georgia as well as abroad), if different from registered place of residence;

a.d) Main business activity and position held;

a.e) Bank account (accounts) details;

a.f) Tel/fax, e-mail.

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

b.a) Date of appointing persons authorized for management and representation;

b.b) Bank account (accounts) details

19. Credit Institution shall exercise permanent monitoring of business relationships with their clients that includes:

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

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

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

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

20^1. Credit Institution shall be authorized to use the simplified identification and verification procedure as provided under Article 6^1 of this Regulation that is commensurate with the low risk of illicit income legalization and/or terrorism financing identified through the appropriate risk assessment by a Credit Insitution. The use of the simplified procedure shall be prohibited when there is a suspicion of illicit income legalization and/or terrorism financing or in cases of the high risk of illicit income legalization and/or terrorism financing as provided under paragraph 20 of this Article. A Credit Institution shall be authorized to use the simplified procedure once the appropriate criteria (risk-factors) are defined through its internal regulations and the clients are assigned to the category of the low risk of illicit income legalization and/or terrorism financing.

21. Credit Institution should pay special attention to any threats that may arise from new technologies, products and service that might favor anonymity during the service and take all measures, to prevent their use in legalization of illicit income and terrorism financing. Credit Institution should have in place such identification and verification policy and procedures that reduces the risks associated with non face to face service as it is considered under the Georgian legislation. Policy and procedures defined under this paragraph shall be used when establishing business relationship and when conducting permanent monitoring.

Article 6^1. The enhanced and simplified identification and verification procedure

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

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

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

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

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

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

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

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

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

3. A Credit Institution is authorized, in cases provided under paragraph 20^1 , Article 6 of this Regulation, to use the simplified identification and verification procedure that is commensurate with the low risk of illicit income legalization and terrorism financing, including to:

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

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

c) Reduce the frequency of implementing the requirements provided under subparagraph "c", paragraph 19, Article 6 of this Regulaion, based on the reasonable monetary threshold;

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

4. A Credit Institution shall not be exempted from the obligation of obtaining the data provided under paragraph 13 of this Article, and verifying the identity of the client and the beneficial owner when applying the simplified identification and verification procedure in cases provided under paragraph 20^1, Article 6 of this Regulation. A Credit Institution shall be required, when applying the simplified identification and verification procedure, to obtain sufficient information for determining the reasonableness of assigning the client to the category of the low-risk of illicit income legalization and terrorism financing.

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

Article 7. Obligations of Credit Institution with respect to Politically Exposed Persons (PEPs)

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

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

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

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

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

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

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

Article 8. Obligations of Credit Institution to Record Information (Documents) on Transactions (Operations)

1. Pursuant to Paragraph 6, Article 6 of the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", the Credit Institution shall be obligated to record information (documents) on transaction (operation).

2. When recording information on transaction concluded between the Credit Institution and the Client as well as on transaction representing ground for implementing transaction (operation) the Credit Institution shall depict the following information:

Content of transaction (operation) (e.g. grant of loans, repayment of loans, attract of funds etc);

b) Date of concluding of transaction, date of implementation of transaction (operation) as well as amount and currency in which transaction (operation) is implemented;

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

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

e) Identification details of persons involved in the transaction (as well as its representatives and proxies);

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

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

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

3. For the purpose of documenting, systemizing and filing the information indicated in paragraph 2 of this Article, the Credit Institution shall develop the relevant system
.
4. Identification details of those persons that do not represent the Credit Institution's clients (persons having business relationship with the Credit Institution), shall be recorded on the basis of submitted (available to the Credit Institution) information (documents). The Credit Institution shall not request additionally from the client submission of identification documents on the other party of the transaction.

Article 9. Obligations of Credit Institution to Keep Information (Documents) on Transaction (Operation)

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

1^1. Credit Institution shall be required to keep the information (documents) on a transaction (operation) for at least 6 years from the moment of concluding or implementing a transaction, except for the information (documents) provided under the first paragraph of this Article, unless the respective supervisory or other competent authority requests the retention of such information for a longer period and/or a longer period for keeping such information (documents) is provided for by the Georgian legislation.

2. Information (documents) on transactions (operations), including those presented for the identification of a person, shall be kept in their original form, and where impracticable, a copy of such information (documents) confirmed by a notary or authorized employee of the Credit Institution shall be maintained. For the purpose of complying with this requirement the Credit Institution shall designate the employee (employees) authorized under the internal regulation or the relevant legal act to certify copies. The copy shall be certified in a way that it is clear who and when certified the copy. Information submitted according to the procedure provided for in paragraph 6, Article 6 of this Regulation for identification of the client and information verified by the Credit Institution does not require a notarization (certification).

3. In addition to the information indicated in paragraph 1 of this Article, subject to retention for the period of six years (if a requirement of retaining for a longer period is not set by the respective supervisory authority) shall be reporting forms (electronic and documentary form) submitted to the Service pursuant to Article 10 of this Regulation.

When retaining reporting forms electronically the Credit Institution shall observe security measures. Responsibility for retaining reporting forms in an electronic format shall be determined by the internal regulation of the Credit Institution. Also, in cases defined under the present Regulation, hard copies of reports retained in the Credit Institution shall be certified with the signature of an employee, who is authorized under the internal regulation of the Credit Institution, and if it is provided for by the internal regulation, with the Credit Institution's seal.

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

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

Article 10. Obligations of Credit Institution to Present Reporting Forms on Transactions (Operations) Subject to Monitoring

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

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

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

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

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

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

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

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

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

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

8. Reporting form sent to the Service shall be subject to retaining by the Credit Institution for the period defined under Article 9 of the present Regulation. In the event of sending hard copy of the reporting form it is to be printed in two copies, each is to be certified with the signature of the employee designated under the internal regulation of the Credit Institution and if provided in the internal regulation, by the seal of the Credit Institution. One copy of the report is to be sent to the Service, while the other copy is to be retained at the Credit Institution and be archived in conformity with the procedure and period defined under the Article 9 of this Regulation.

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

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

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

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

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

Article 10^1. The instruction of the Financial Monitoring Service on the suspension of implementation of the transaction (operation)

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

2. The Head of the Financial Monitoring Service or the person designated therein shall be authorized, in case of urgency, to verbally (directly or through electronic means) or in writing through electronic means issue the instruction referred to in paragraph 1 of this Article that shall be confirmed by the written instruction of the Head of the Financial Monitoring Service and handed over to the Credit Institution in the next 24 hours (non-working days and public holidays shall not be considered in the time limit). If within this time limit the written instruction is not handed over to the Bank the instruction of the Financial Monitoring Service shall not be observed. The protocol shall be drawn up as provided for by subparagraph 3 of this Article when the instruction referred to in this paragraph is issued.

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

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

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

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

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

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

f) The confirmation of the receipt of the instruction by the Credit Institution's authorized employee;

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

h) The signature of authorized employees of the Financial Monitoring Service and the Credit Institution.

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

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

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

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

8. The Credit Institution shall be required to designate an employee (employees) based on formal decision who shall be authorized: to receive/accept the instruction on the suspension of implementation of the transaction issued by the Head of the Financial Monitoring Service or the person designated therein as provided for by paragraphs 1 and 2 of this Article and the instruction revocation notice; to confirm the receipt of the

instruction on the suspension of implementation of the transaction and the instruction revocation notice to the Financial Monitoring Service; to draw up the protocol referred to in paragraph 3 of this Article and undertake all necessary measures for the implementation of the instruction on the suspension of implementation of the transaction.

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

Article 11. Obligation of Credit Institution to Submit the Form of Registration to the Financial Monitoring Service of Georgia

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

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

Article 12. Responsibilities Related to Monitoring

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

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