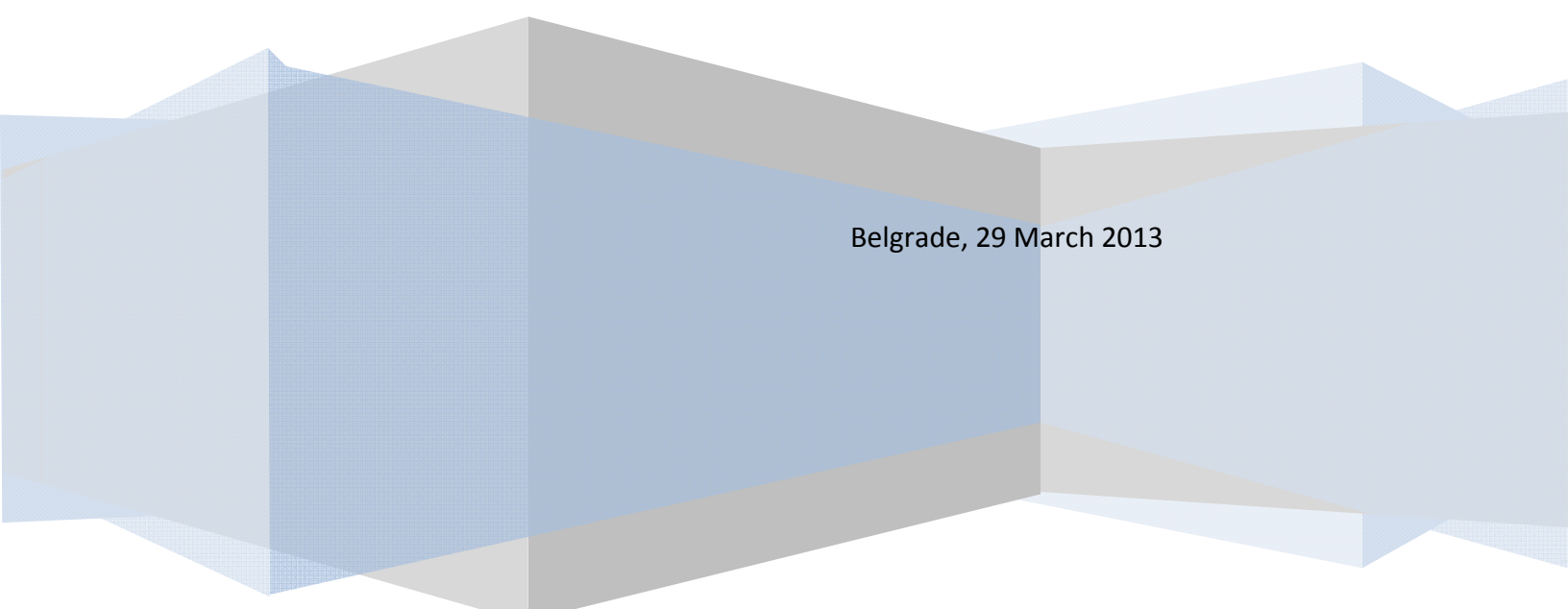


REPUBLIC OF SERBIA
Ministry of Finance and Economy
Administration for the Prevention of Money Laundering

ANNUAL WORK REPORT 2012

Belgrade, 29 March 2013



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1. AML/CFT LEGISLATIVE DEVELOPMENTS

1.1. Draft Law on the Freezing of Assets for the Purpose of Preventing Terrorism

Based on Chapter VII of the UN Charter, UN member-states are required to take measures for implementing the UN Security Council (UNSC) resolutions. UNSC adopted a series of resolutions providing for repressive measures against terrorists, terrorist organizations and their financiers. The measures also relate to the prevention of the use of territories of countries by terrorists and their financiers, efficient border control in order to prevent such individuals from crossing the state border of the member states, etc. One of the measures is related to the prevention of the use of property and assets of designated persons and the member states are required to pass legislation governing the freezing of property and assets to the individuals in the territory of such persons. The resolutions imposing such measures are as follows: Resolution 1267 of 15 October 1999 containing the list of individuals designated by the UNSC against whom the measures are imposed; Resolution 1373 of 2001; Resolution 1333 of 2000; Resolution 1363 of 2001; Resolution 1455 of 2003, etc.

International standards against money laundering and terrorist financing (AML/CFT) are set by the Financial Action Task Force through a document called International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - The FATF Recommendations. This document is the fundamental AML/CFT standard. This is also a document used as a cornerstone for the work of any international organization dealing with the fight against money laundering and terrorism financing.

In order to harmonise the system with the above international standards, a working group was set up to draft a proposal for the relevant law. The working group, comprising the experts from the Ministry of Justice, Ministry of the Interior, Serbian Public Prosecutor's Office and the Administration for the Prevention of Money Laundering, finalised in March 2012 a Draft Law on the Freezing of Assets for the Purpose of Preventing Terrorism. The Draft Law is fully harmonised with the ratified International Convention on the Suppression of the Financing of Terrorism, UN SC Resolutions 1267, 1373, 1333, 1363, 1455, FATF recommendations, as well as the Third EU Directive, Council Common Position 2001/931/CFSP of 27 December 2001 on the application of specific measures to combat terrorism, and Council Common Position 2005/847/CFSP of 29 November 2005 updating Common Position 2001/931/CFSP on the application of specific measures to combat terrorism and repealing Common Position 2005/725/CFSP).

The main objective of this law is to improve the fight against terrorism by establishing a system of preventive and repressive measures against the financing of terrorism as a preceding and necessary stage in the commission of terrorist acts.

1.2. AML/CFT Risk Assessment Guidelines

The Administration for the Prevention of Money Laundering (APML) assumed new responsibilities under the Law Amending the Law on the Prevention of Money Laundering and the Financing of Terrorism of 11 December 2010 (AML/CFT Law) related to the supervision of the implementation of the AML/CFT Law by auditing companies, and entrepreneurs and legal entities providing accounting services. This means the APML became one of the supervisors under the AML/CFT Law. The AML/CFT Law provides that the supervisors should facilitate the implementation of the AML/CFT Law by providing guidance to the obliged entities as to how to apply the law in the most appropriate manner given the nature of the entity's business. Therefore, on 27 March 2012, the APML passed the Guidelines for the assessment of the ML/FT risk in auditing companies, and entrepreneurs and legal entities providing accounting services.

The principal aim of the Guidelines is to ensure uniform application of the AML/CFT Law using the risk-based approach embodied in the AML/CFT Law. This means that the level of diligence applied with respect to a customer may vary depending on the degree of the ML/FT risk posed by the customer's business or other circumstances. The Guidelines also aim at setting a minimum standard of care to be applied by the auditing companies, and the entrepreneurs and legal entities providing accounting services, when establishing and improving an efficient AML/CFT system, and particularly when developing and applying the procedures based on the risk analysis and assessment.

The Guidelines, among other things, define the ML/TF risk, i.e. the risk that the customer will misuse a business relationship, transaction, or a service for the purpose of money laundering or financing of terrorism.

The risk assessment, as defined in the Guidelines, should include at least three basic types of risk: geographic risk, customer risk and the risk of the service provided by the auditing company or the entrepreneur or legal entity providing accounting services. In case other types of risk are identified, depending on the specificities of their business operations, the auditing company and the entrepreneur and legal entity providing accounting services should include those types of risk, too.

1.3. National Money Laundering Risk Assessment

Serbia underwent comprehensive national money laundering risk assessment (ML NRA) process in 2012. Namely, the FATF recommendations were amended in February 2012 so as to include an entirely new recommendation, i.e. Recommendation 1, which introduces the concept of money laundering risk assessment at all levels: national level, obliged entity level, level of the client, as well as the level of supervision in the AML/CFT system. This recommendation is a result of the compromise in the international community recognising that each country has different legal and economic frameworks which again pose different levels of money laundering

probability and vulnerability. For instance, a phenomenon or a product which poses money laundering risks in one country does not necessarily do so in another, or, it can entail less risk. FATF Recommendation 1 offers a possibility to countries, but also imposes a requirement, to conduct a comprehensive survey in order to assess the money laundering risk in all sectors and then, depending on the risk found, apply more or less extensive measures towards the source of the risk. In 2012, the APML coordinated this NRA exercise, involving the participation of 23 state authorities, which was carried out with the assistance of the experts of the World Bank and using the World Bank's Methodology. The first workshop and the NRA conference were held from 18-20 January 2012, and the second, closing workshop took place from 22-24 October 2012. In addition to this NRA, Serbia participated in the International Monetary Fund's (IMF) preliminary national risk analysis. We would like to commend the cooperation and dedication of the representatives of all state authorities for their active involvement in 2012 in the gathering and processing of data necessary to arrive at the risk assessment. The NRA is a process in which the threats and vulnerabilities are analysed in the following areas:

1. Proceeds from crime,
2. National vulnerability,
3. Banking sector vulnerability,
4. Other financial institutions vulnerability and
5. Vulnerability of DNFBPs.

The NRA findings will serve as a basis for the development of a new national AML/CFT strategy.

2. FINANCIAL INTELLIGENCE ACTIVITY

A total of 467 analytical cases were opened in 2012. The cases in 2012 were triggered by other state authorities, foreign financial intelligence units and STRs received from the obliged entities. The most frequent predicate crimes behind the money laundering-related requests for information received by the APML include abuse of office, abuse of powers in commercial transactions, drug trafficking and human trafficking. A large number of reports sent by the APML to the competent authorities were related to the activities of persons holding certain positions in companies (e.g. manager, nominee, founder) and whose intention was to acquire proceeds through fictitious business transactions either for their own benefit or for the benefit of other associated individuals or entities. A large number of cases are related to manipulations in acquiring company ownership, and in the acquisition of share/stock in company acquisition procedures.

In 2012 the APML continued working on 55 cases opened in the previous years as a result of new information coming in, mostly regarding the persons involved in the privatisation process. Work on these cases was renewed also as a result of new circumstances brought about by suspicious transaction reports filed by the reporting entities and as a result of the fact that additional links between the subjects and some other persons were detected.

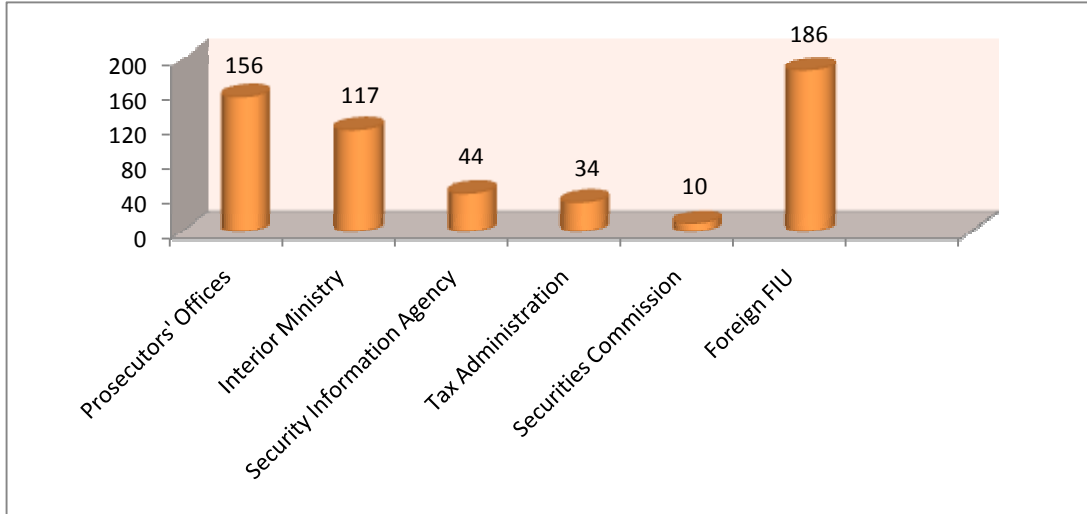


Chart 1: Number of reports sent to other state authorities

Most of the reports in 2012 were sent to prosecutors' offices, i.e. 156, of which 112 were filed at the APMI's initiative. Most of the reports to the prosecutors' offices were delivered over a suspicion that the criminal offence of tax evasion was committed followed by placement of the proceeds using newly founded business entities, investing into their business activities, and using it partly for personal needs of those involved in the fictitious business transactions. Such placement of the money suspected to have originated from tax evasion, disguising of the origin of the funds followed by their integration in the legitimate financial system was the indicator for the suspicion on the money laundering offence. Besides the suspicion caused by the activities of the subjects of the APMI's analyses, a large number of cases was transferred over a suspicion that the transactions analysed in relation to certain persons indirectly point to the links between these persons and the organised criminal groups or individuals under investigation for drug trafficking and human trafficking.

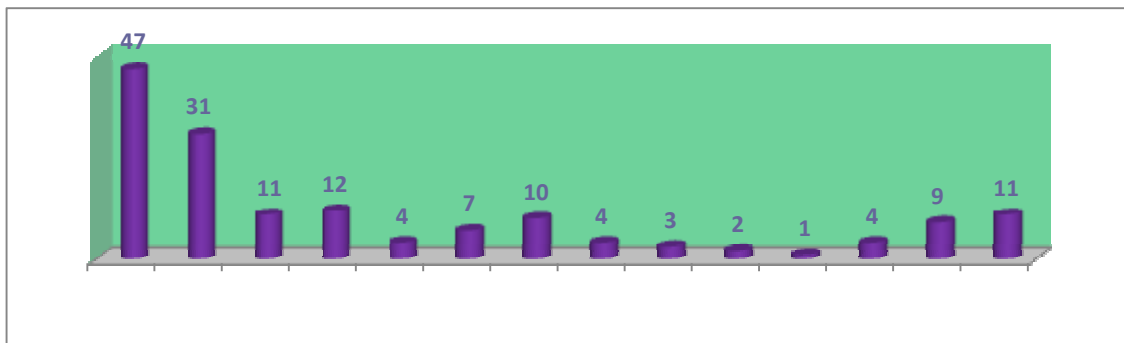


Chart 2: Suspected predicate crimes

As is seen from Chart 2, most of the reports, 47 of them, were filed because of suspicion on tax evasion as the prior crime. This suspicion is followed by the suspected abuse of office (total of 31 cases), illicit production and trafficking in narcotic drugs (11 cases), association of persons for the commission of crimes (12 cases), forgery (4 cases), fraud (7 cases), abuses in company privatisation procedures (10 cases), failure to follow the procedures in awarding and using loans (4 cases), illegal trade over the Internet (3 cases), smuggling of people (2 cases), terrorism (1 case), corruptive practices (4 cases), depositing of large amounts of money and transfers of cash of unknown origin (9 cases) and other activities triggering the suspicion on money laundering (11 cases).

Comparing these statistics with the 2011 statistics, when 56 reports were shared with the prosecutors' offices, we note an increase in the number of reports sent to prosecutors' offices. All cases of suspicious money laundering or terrorist financing are reported by the APML to the prosecutors' offices given the fact that the prosecutor has a coordinative role in investigations, according to the Criminal Procedure Code.

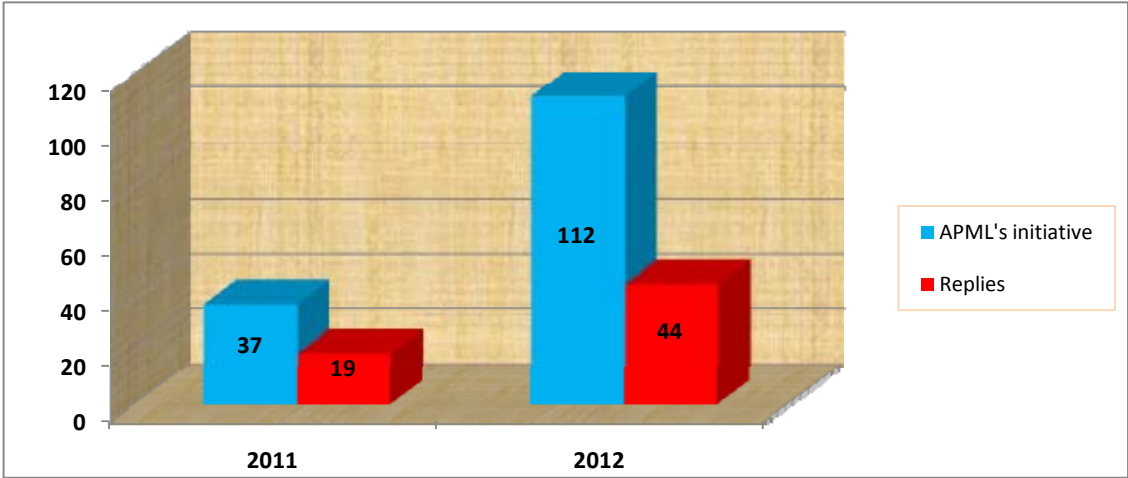


Chart 3: Comparison between the number of reports sent to the prosecutors' offices in 2011 and 2012

Based on the analysis of STRs, the APML shared 18 reports with the Ministry of the Interior. Most of the reports are related to the transfers of large amounts of cash to the bank accounts held by individuals. The origin of the cash credited was not clear from the analysis of the turnover recorded in the accounts of the account holders. Following the transfers of cash, this money is further transferred to the bank accounts of associated individuals and legal entities. The individuals making the transfers are suspected to be man of straw acting on behalf of criminals, i.e. they are suspected to have carried out these transactions upon the order of other persons with the intention to place the money into the legal cash flow.

In addition to unknown origin of funds, a large number of reports were shared based on the suspicion that money transfers were being carried out between legal entities through fictitious

business transactions, e.g. trade in goods that had actually never taken place, in which the money ricochets from the bank account of one legal entity to the bank account of another associated legal entity, ending up in one account whence it was withdrawn in cash. There is a suspicion that the beneficial owner of the legal entities used in this hopscotch of funds is one and the same individual.

In 2012 the Ministry of the Interior's Crime Police Directorate sent to the APML a total of 68 requests. Police directorates sent 31 requests for information to the APML.

The following suspected underlying crimes were involved in the cases of APML's information sharing with the Ministry of the Interior: human trafficking, arms trafficking, abuse of office, tax evasion, illicit production and trade in narcotic drugs, market manipulation, etc.

Information was shared in various cases in 2012 with the Security Information Agency too. A total of 44 information sharing letters were exchanged. Most of the information exchanged related to the suspicion of individuals being involved in drug trafficking, transportation of illegal money into Serbia, human trafficking and document forgery.

The APML also regularly monitors suspicious circumstances in the capital market that may indicate attempted dirty money integrations. In 2012, the APML exchanged six information sharing letters with the Serbian Securities Commission concerning suspicious capital market manipulation, i.e. that certain legal entities were acting in collusion in company acquisitions.

The APML received 70 requests for information from its foreign counterparts in 2012, most of them coming from the financial intelligence units (FIUs) of Montenegro (15), Belgium (7), Slovenia (5), Croatia (4) and Austria (4).

The APML sent 116 requests for additional information in various cases to foreign FIUs, most of which to the FIUs of Hungary (10), Austria (9), Russia (8), Montenegro (4) and Slovenia (4).

The information exchanged with the foreign FIUs mostly related to various individuals and the funds found in individual bank accounts, or the funds declared at border crossings. The persons involved in the transactions were considered suspicious or they were owners or managers of legal entities that were subjects in various investigations.

Three most frequent predicate crimes involved in the information exchange with foreign FIUs were fraud, tax evasion, and abuse of office.

The following social phenomena in 2012 were analysed from the point of view of their possible abuse for money laundering or terrorism financing purposes: operation of the non-governmental sector, i.e. the work of non-profit organisations (NPOs); issuing and use of prepaid cards; investment funds activities, and renting of virtual offices.

The statistics on border crossings by individuals were analysed as well as the total amount of funds declared at the border crossings. The AML/CFT Law provides that all individuals carrying bearer negotiable instruments amounting at EUR 10,000 or more when crossing the state border are required to report to the competent customs body. In addition, in case of an individual transporting across the state border less than EUR 10,000 which is suspected to be money laundering or terrorism financing, Article 69 of the AML/CFT Law provides that the competent customs body is to seize the money and deposit it to the account of the authority which in such cases conducts the misdemeanour procedure, the account being with the National Bank of Serbia. The customs authority must issue a certificate that the funds or other bearer negotiable instruments were seized. The analysis of these seizure certificates, that the APML receives from the customs authorities, shows that the individuals from whom the money was seized usually state that the money originated mostly from savings, wins at casinos, inheritance, etc.

The following table is a breakdown of data from the APML's databases relevant to the transportation of money across the borders of the Republic of Serbia:

Incoming	2011	2012	Outgoing	2011	2012	Transit	2011	2012
AUD	566,800	193,820	EUR	204,415	185,345	CHF	70,600	115,000
CAD	94,000	142,930	USD		19,980	DKK		367,000
CHF	1,230,500	1,285,810				EUR	8,682,410	4,151,435
DKK	1,900	367,000				NOK		425,000
EUR	11,473,695	16,840,201				GBP	15,600	
GBP	27,800	68,410				USD	365,200	171,400
NOK	1,510,000	180,600						
PLN		30,000						
SEK	428,110	318,810						
RSD	3,941,930	9,574,000						
USD	1,230,840	998,920						

As can be seen from the table above, the amount of money transported into Serbia is considerably higher than the amount of outgoing transportation. If we take a look, for instance, at the incoming and outgoing transportation of the Euro, we will see that the amount transported into Serbia in 2011 is EUR 11,473,695 whereas the amount shown as leaving Serbia in the same period is EUR 204,415. A large share of the funds is transported into Serbia by Serbian citizens working abroad. Other individuals too transfer funds to Serbia, the origin of which cannot be established. Also, a large amount of cash is recorded as being only in transit through Serbia; this is most likely the case of foreign citizens in transit to their countries of origin, most frequently Turkey, from the West European countries where they work.

A total of 811 reports were sent to the APML in 2012 about transactions reasonably suspected to be money laundering or terrorism financing (STRs) and 266,436 reports on cash transactions (CTRs).

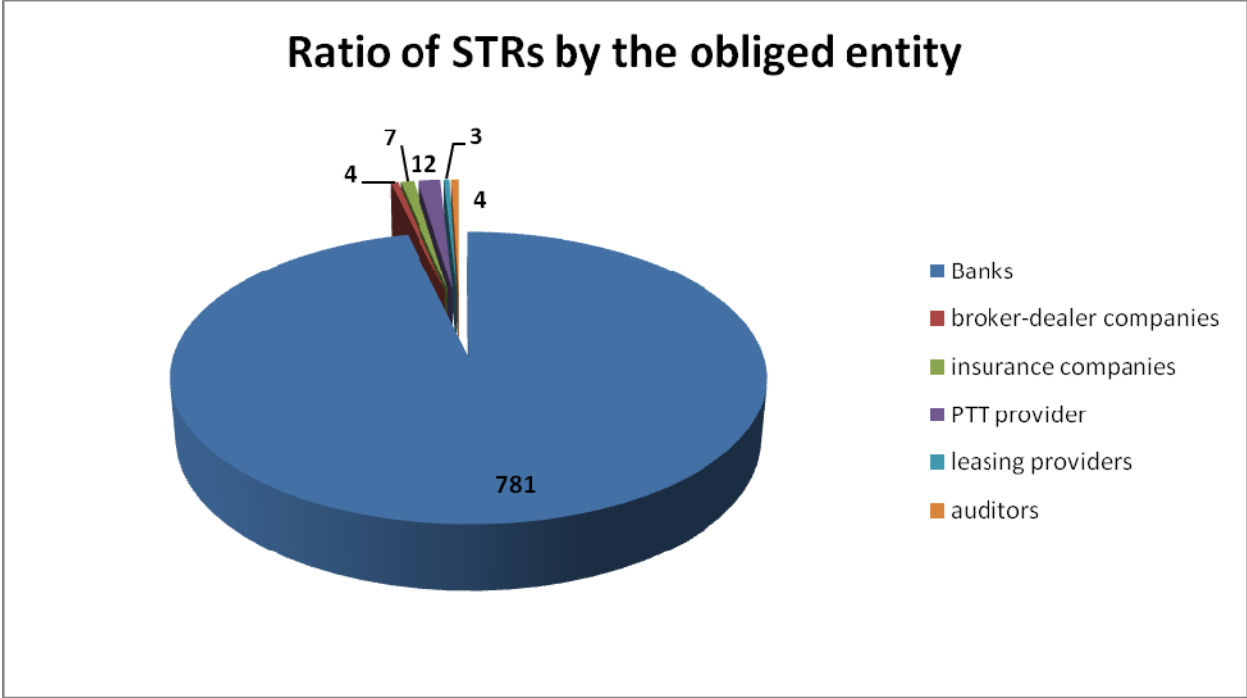


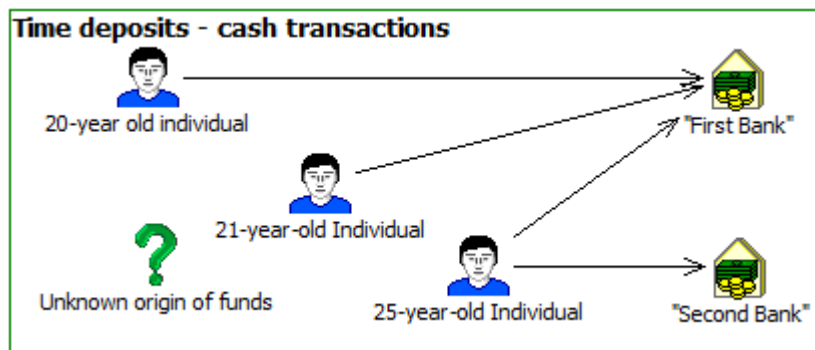
Chart 4: Ratio of STRs by the obliged entity

Most of the reports were filed by banks. It is through the banking sector that most of the transactions in the financial system are carried out. In 2012, the banks reported a total of 787 STRs. The quality of the STRs increased significantly in 2012. The APML representatives in January and February 2012 held meetings with compliance officers of all banks. The meetings served to inform the banks of the failures that they made in their work, about the transaction reporting procedure, application of indicators, risk evaluation and assessment, as well as their descriptions of money laundering and terrorism financing suspicion. Direct communication with compliance officers resulted in an increased quality of STRs as well as better descriptions of the ML or FT suspicion in these STRs.

2.1. MONEY LAUNDERING TYPOLOGIES IN 2012

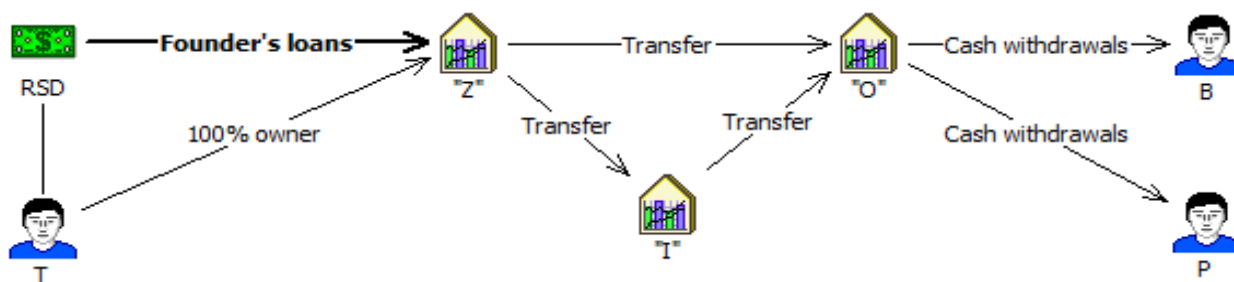
The analysis of the transactions reported to the APML in 2012 revealed the following typologies:

- Natural persons deposit considerable amounts of foreign currency in cash to their foreign currency accounts held with different banks as time-deposit. The origin of funds cannot be established. The depositors are most frequently young persons, and in most cases unemployed.

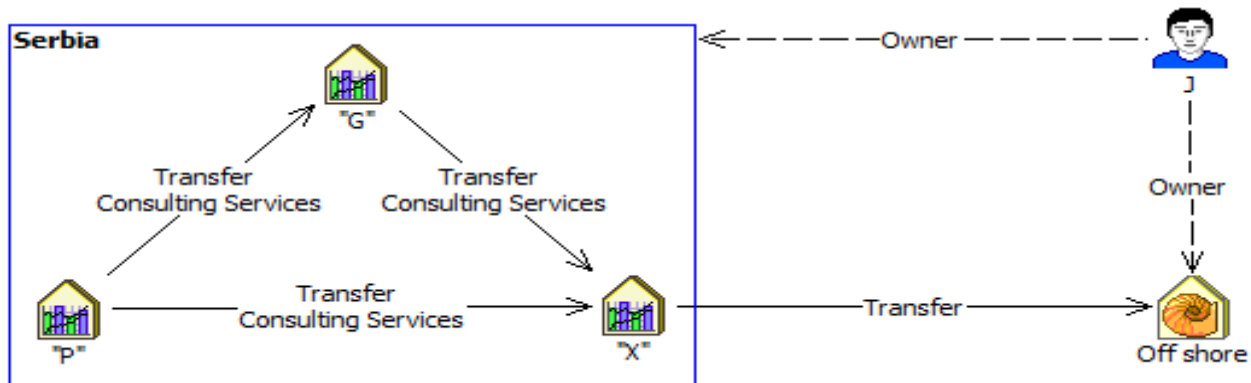


- Natural persons deposit considerable amounts of cash to their personal bank accounts, both foreign currency and RSD. In a large number of cases these individuals are founders of real estate trading companies. The above cases revealed failures to comply with Article 36 of the AML/CFT Law related to the prohibition of cash payment for goods or services in the amount of EUR 15,000 or more. The real estate is believed to be sold for cash and the money deposited to the personal bank accounts of the companies' owners for further investment.

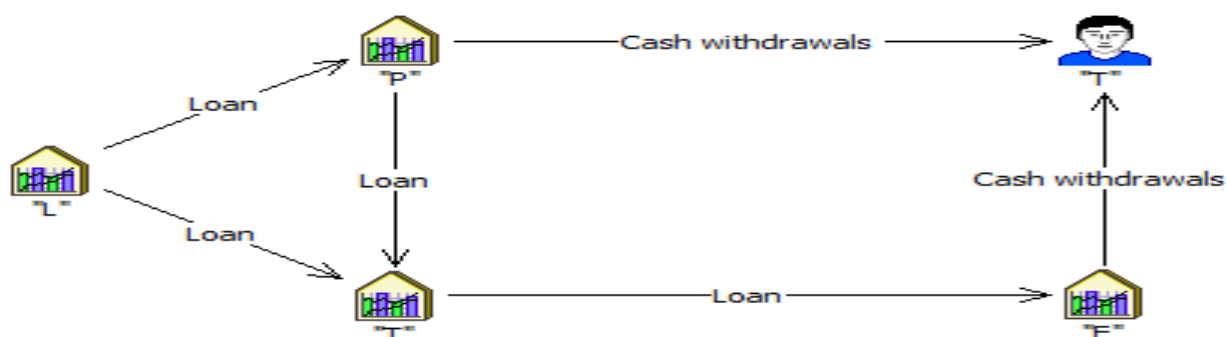
- There is a continuing trend of company founders' depositing considerable amounts of money to the bank account of newly-founded legal entities under the purpose of *founder's loan for company liquidity*. The money is then transferred through bank accounts of a number of associated legal entities, the transactions most frequently being described as trade in goods and services, even though the actual trade or any business activity have never occurred; the funds then, following numerous transfers, returns to the bank account and is withdrawn in cash.



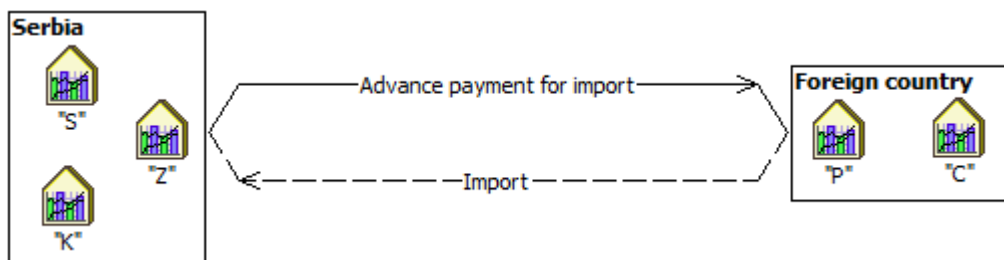
- Legal entities transfer funds among each other as *provision of services* (consulting services, market research and development, etc.) the price of which is difficult to determine, followed by further transfers of funds to off-shore destinations;



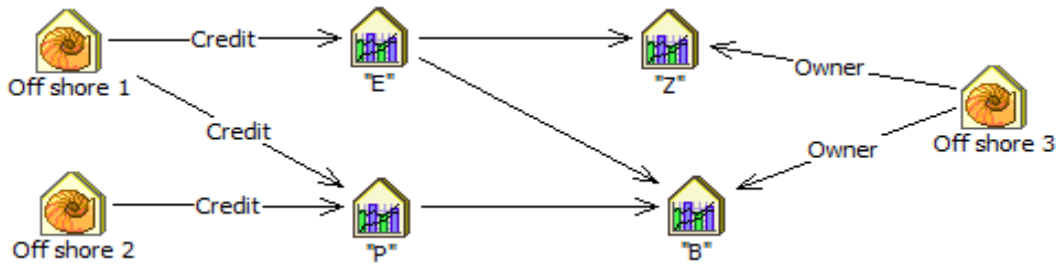
- A large number of legal entities make transfers among each other described as *loan*, followed by withdrawal of the funds by natural persons other than the company owners or its nominees, which raises suspicion as to the beneficial ownership of the companies;



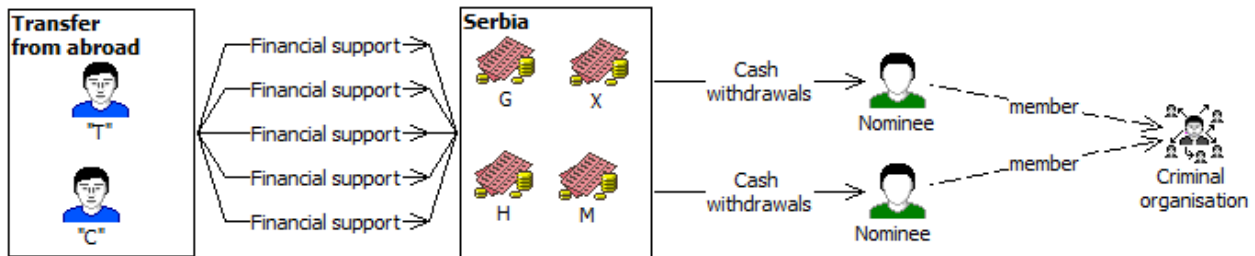
- Legal entities transfer funds to companies located abroad as *advance payment for import of goods*, where the import actually never takes place;



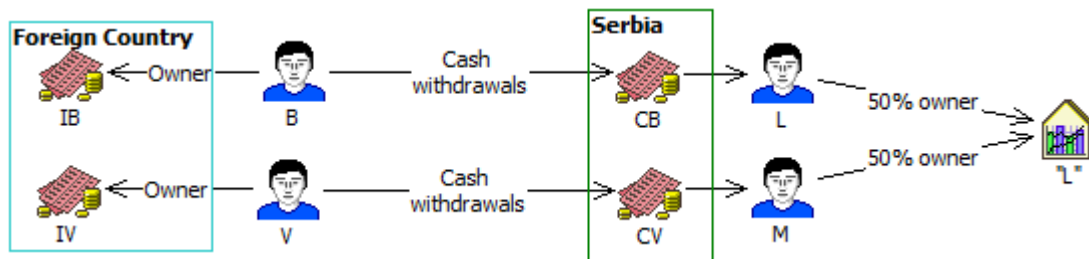
- Funds are transferred from off-shore areas as *approved credit facilities or loans* to the bank accounts of legal entities in Serbia, followed by a transfer of the funds to the bank accounts of other associated legal entities (same owners, same company addresses, etc.) shortly afterwards. The funds are then transferred to new companies whose owner is usually registered in an off-shore area.



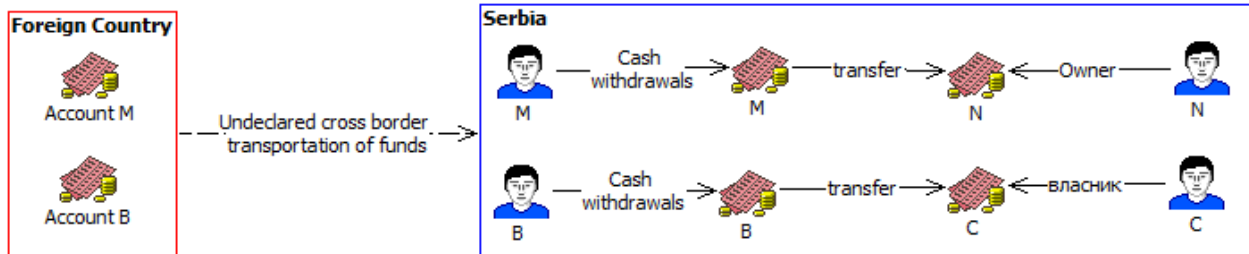
- Natural persons' bank accounts are credited from abroad *as financial support*. The money is credited successively in smaller amounts and then withdrawn in cash. The individuals withdrawing the funds from the accounts are not their holders but nominees and are linked to individuals from the criminal milieu;



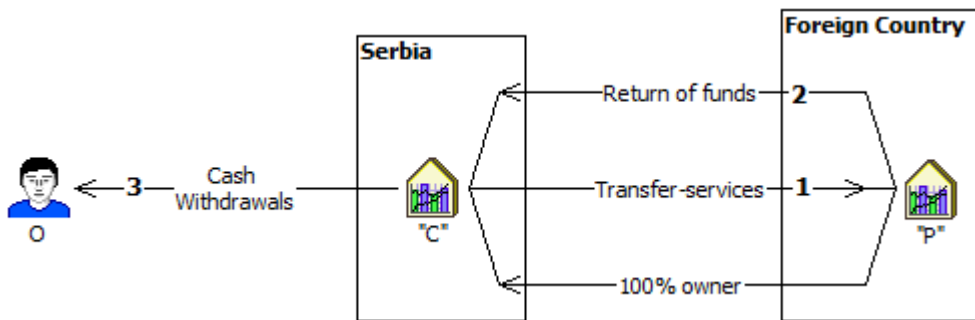
- Natural persons, Serbian citizens, deposit cash to their personal foreign currency accounts. They also hold accounts with banks in neighbouring countries. After crediting the accounts in cash, the money is transferred to RSD accounts of natural persons, i.e. founders of investment companies, and withdrawn as *material cost*.



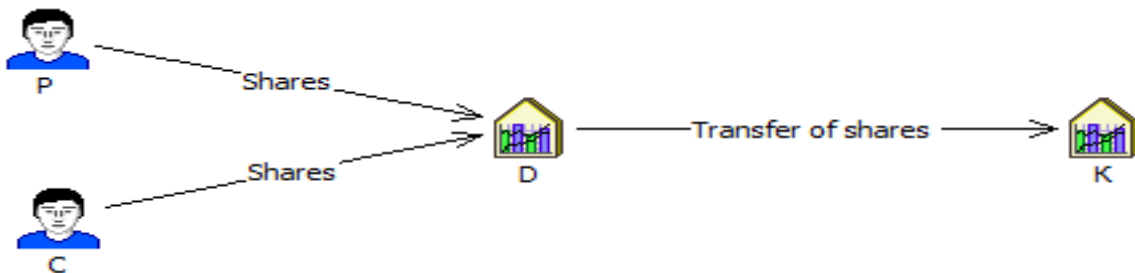
- Non-resident persons deposit cash to their personal bank accounts and then transfer the money further to a large number of bank accounts held by different individuals. Further checks reveal that even though they have recently crossed the Serbian border they have declared no funds at the crossing, which they were required to do under Article 67 of the AML/CFT Law. These individuals also hold bank accounts in the countries of their origin, yet have not used them to transfer the money to Serbia. The databases show that they only use the accounts to receive cash payments. The income they make is far below the average cash deposits that they make to their bank accounts in Serbia.



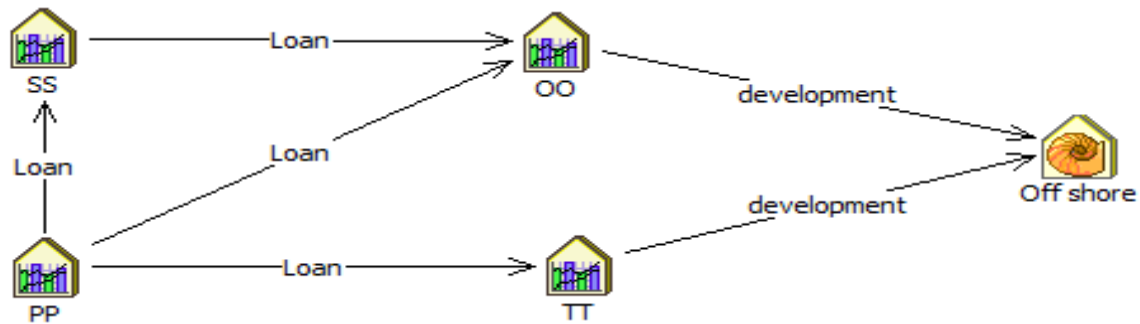
- Legal entities transfer funds as *payment for services* to bank accounts of foreign legal entities, and then, in short time, the same amount of money is returned to Serbia and is later withdrawn from the accounts of these legal entities. The founders of the Serbian legal entities are foreign companies whose bank accounts are credited under the grounds of *payment for services*.



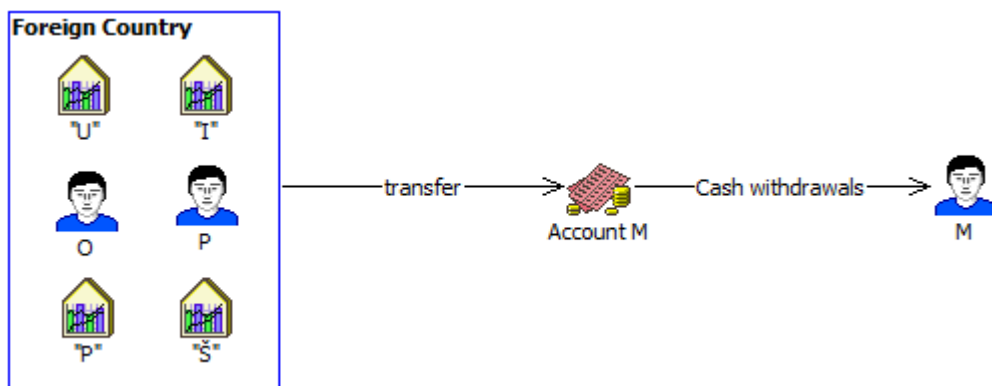
- Legal entities act in collusion with the aim of taking ownership over a company;
- Purchase of share in a company; more specifically, when founding a company, the founding capital is introduced in rights or securities. After a certain time, the rights are transferred to another owner ('the shares are sold').



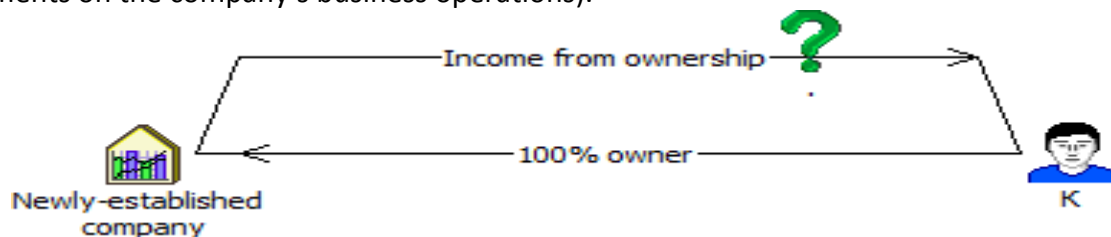
- A large number of transactions are transfers to offshore company accounts where the stated purpose for the transactions is *development services provided*. The accounts of the newly-founded companies show frequent transactions on the grounds of *loan provision* involving also other associated legal entities, and then, immediately after the depositing of the loans, the funds are transferred to offshore areas.



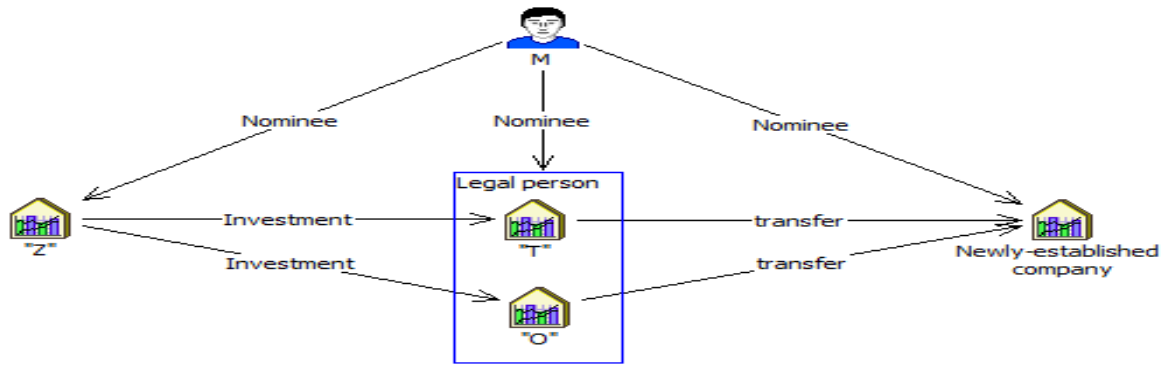
- A large number of persons from foreign countries transfer funds to the bank account of an individual in Serbia who immediately withdraws it in cash. The individual in Serbia has no family, business or any other relationship with the persons from foreign countries.



- Money is withdrawn from bank accounts of newly-founded companies on the grounds of income from company's profit, even though this is not justifiable (there are no financial statements on the company's business operations).



- Funds are transferred from the bank account of a legal entity to the bank accounts of a large number of companies on the grounds of *investment in buildings and equipment* and quickly afterwards the money is further transferred from these bank accounts to the accounts of newly registered companies. One and the same natural person is the nominee for all bank accounts of all companies.



- Newly-founded companies make an extremely high volume of transactions in their accounts immediately after registration. The money is then quickly transferred to the bank accounts of companies headquartered in tax-havens.

2.2. MONEY LAUNDERING TRENDS

Money laundering trends in Serbia are influenced by a set of factors such as the level of Serbia's economic development (GDP and standard per capita), level of development of individual industries or economic sectors that may attract or that attract investment; poor legislation which may provide opportunities for money laundering or financing of terrorism; exposure to international financial flows; existence of institutions and organisation at national level against money laundering and terrorism financing; resilience to the influence of crime on the economic and financial systems; existence of awareness of the detrimental effect of money laundering and terrorism financing on the country.

If we take into account the above factors and the findings of the National Risk Assessment process, together with the observed money laundering typologies in certain sectors, we assume the money laundering will have a trend in the following sectors of the Serbian economy:

Banking sector

As the key sector in terms of financial flows in Serbia we can expect the following:

- A tendency of placing and integrating dirty money in banking products yielding income to investors or money transfers through the banking system towards the final integration in the target investment (purchase of real estate, investment into securities, acquisition of companies, etc.);
- A tendency of placing and structuring of dirty money through a number of business accounts with the aim of disguising the origin of the money and making the identification of those involved in the transactions and of the owners of the money difficult;

- International flows of capital with questionable origin, especially the incoming transactions from the bank accounts of offshore companies that are difficult to identify in business and financial terms as well in terms of their ownership, and which are assumed to have acquired the money in an illegal manner. Experience shows that this incoming money is integrated through the provision of loans to Serbian companies or through founders' shares in the initial capital, through credit facilities or payment of services that are not economically reasonable with the intention thereby to introduce the dirty capital into legal financial system;
- Numerous cash and non-cash transactions involving natural and legal persons and indicating that they arrive from the grey area of economy, which points to the crime of tax evasion;
- Capital flight, especially in the form of funds transfers through payment for fictitious services (especially in the area of marketing and consulting) which leads to "disguising the operating costs" and unrealistic presentation of income in the balance sheet which also points to the intention of decreasing the amount of tax base and the liabilities due to be paid as public revenue. We also noted that dirty money is 'legally' taken out of the country; there is a trend of 'fictitious' services (that have never been actually rendered) being paid to offshore companies.
- Incoming flows of money to non-resident accounts of suspicious natural persons where the origin of the money is difficult to establish and which is coming from countries with strict banking secrecy rules and with characteristics of offshore areas;
- Inflows in extremely large amounts from companies whose owners are unknown where the incoming transactions arrive from offshore zones and the money is then used to purchase shares in companies with no apparent economic justification;
- Experience shows that numerous perpetrators of proceeds-generating crimes place their illicit proceeds in the banking sector in the form of deposits or targeted transfers the aim of which is their integration in investments.

Capital market

- Even though the capital market has been in crises for several years now, previous experience indicates that the trend of company acquisitions will continue; the acquisitions take place in the form of purchasing of blocks of majority shares by investors with suspicious biographies and capital, related to acquisition offers coming from offshore companies owned by unknown individual or where the money is invested through 'front' companies with the aim of disguising the trace to the origin of the funds;
- Purchase and sale of securities where the collateral was secured by cash deposits in specific-purpose accounts and whose lawful origin cannot be reasonably proven;

- Foreign investment funds with unknown ownership and capital structure;
- The trend of market manipulation and insider trading will remain which is relevant from the AML point of view as these activities were criminalised and recognised as proceeds generating crimes. Here we should also take into account that the money deriving from crime has the tendency of being placed and multiplied through complex and less transparent activities;

Real estate market

- The analysis of the real estate market shows that this is, at the global level, “the most attractive sector” for investment by organised criminal groups, which can also be said for the Serbian market. Experiences show that the following trends of money laundering and integration will remain:
 - Placement of dirty money by crediting bank accounts with cash or depositing money to bank accounts with the intention of purchasing construction land, construction or purchase of completely built houses, flats and business facilities.;
 - Placements of dirty money through front companies and individuals buying or investing on behalf of the beneficial owners;
 - Founding or acquisition of legal entities specialising in construction industry and placement of dirty money in these legal entities in order to boost their capital;
 - Individual investors raising funds of unclear origin and from suspicious clients and further re-investing or placing them in construction industry;
 - Offshore investors, whose beneficial owners are unknown, appear as founders of legal entities engaged in construction industries, invest money of unknown origin in the form of capital increases, loans or in purchasing of company shares that are often overpriced.

Currency exchange operations

- Conversion of dirty money – daily receipts (usually originating from sale of drugs on the street) – into an effective foreign currency, mostly into higher denominations for a more convenient handling;
- Organised money laundering by organised criminal group members through exchange offices chains assumed to be owned by them;

- Conversion of dirty money through numerous fronts in order to conceal the suspicion caused by the amounts or suspicion on the origin of the funds.

Foreign trade

Over a longer period of time we have noticed a trend of foreign trade operations, especially of import activity through off-shore companies figuring as sellers to Serbian companies where the seller and purchaser are associated, i.e. the purchaser is actually the founder of the seller. The goods usually originate from developed countries but are delivered through intermediaries-contractors (official vendors), fictitious companies, usually headquartered in an off-shore area. There is a trend of over-invoicing in these transactions, for instance:

- The goods are imported using inflated invoices the purpose of which is to take out the *surplus* capital or to *launder the gray or black economy*, which constitutes crime. In these cases, the money pours out to offshore companies which then pay the *actual price* of the goods.
- Also noticed are a few instances of under-invoicing (i.e. the receivables are fictitiously decreased) with the aim of establishing *slush funds* in offshore areas;
- Goods are imported at extremely low (dumping) prices in collusion with vendors. The goods are then lawfully sold at realistically shown, i.e. higher, prices and are also partly traded in the informal economy. In such cases, the liabilities toward the foreign vendors that are shown through the payment operations records are far lower than the actual prices (distortion of the 'fair price' principle and misstatement of figures in order to pay less taxes) where the 'full price' or 'realistically shown price', i.e. purchaser's obligations, is compensated for through the creation of 'fictitious invoices' followed by cash payments usually by physically transferring the effective foreign currency across the state border.
- Smuggling of goods from other countries – influence on 'black economy'. The goods are imported illegally and then sold for cash only. The foreign vendors, who the goods have been acquired from illegally, are usually paid by means of transactions from the accounts of numerous natural persons (mostly unemployed) from Serbia to the account of a foreign natural person (connected to the foreign vendor), the stated purpose of transactions being *help to family*, or something similar. The money flows are extremely difficult to track due to the abuse of the purpose of payment and many persons involved.

Internal trade

The most recent research points to a high level of grey economy whose ratio in the GDP is now as high as 30 %. This is a particularly important piece of data as it involves high levels of illegal money flows in the grey zone of the economy, which further involves evasion of public revenue, i.e. tax evasion, unfair competition and inefficient market distribution.

There is a noted trend in internal trade of money laundering through:

- Fictitious trading through *phantom firms* opened solely in order to make the grey trading area appear legitimate and *legalise* the proceeds;
- Fictitious daily receipts intended to legitimise the cash;
- Provision of loans to legal entities out of the proceeds from grey economy, to be used as current assets in the company;
- Linked money flows among legal and natural persons in order to move the money through a number of accounts and bring it back again into cash flows (grey economy) by cash withdrawals.

Trade in gold

Gold has been and will remain the most important 'money' of all time. This has been particularly evident over the recent years with the emergence of the global financial crisis. Contrary to the overall economic situation and an ostensible economic slowdown in Serbia, there has been a noted increase in gold trade. In particular, there is an evident increase in the levels of purchase and smuggling of gold which is directly linked to organised crime activities. Additional 'motivation' for the criminals is provided by a rather unorganised legal environment when it comes to trade in gold.

Money laundering trends:

- Purchase of gold, especially of scrap gold in the black market by organised crime groups;
- Purchase of gold (scrap gold) using the money of unknown origin through the chain of goldsmiths' shops and *bureaux de change*;
- Purchase of scrap gold using the money of unknown origin and its smuggling across the state border;
- Purchase of scrap gold by foreigners and nationals using the money of unknown origin and its export in an irregular manner (no licence, disguising the true form of gold, chopping and melting beyond recognition);
- Smuggling and import of jewellery to Serbia which is suspected to have been made out of the scrap gold purchased in the Serbian black market.

Games of chance – betting places

- Unauthorised organisation of games of chance by legal entities and individuals involved in crime and generation of proceeds therefrom, and dubious legality of the money flows used for the gaming, both in terms of gambling organisation and the participation in gambling or betting;
- Misuse of risk deposits for the purposes of paying out wins to gamblers, by constant payment of deposit, frequently cash of unknown origin, thereby avoiding the statement of income;
- Pay-out ML technique. Money is laundered by purchasing chips using dirty money and then the chips are cashed out even without gaming.

3. SUPERVISION OF ACCOUNTANTS AND AUDITORS

The Department for Supervision in the first half of 2012 worked towards educating the obliged entities in the non-financial AML/CFT sector, especially accountants and auditors. Namely, many of them were unaware that they even had any obligations stipulated in the AML/CFT Law and that they were part of the AML/CFT system. On 27 March 2012 Guidelines were finalised and sent to all the auditing companies informing them that they were obliged entities under the AML/CFT Law and that they were required to establish internal AML/CFT systems. Through the professional associations, the accountants were informed that they were required to apply the AML/CFT regulations and harmonise their internal enactments with the Guidelines. In the same period a number of seminars for accountants and auditors were held to educate them as to how to apply the law and about the importance of having internal AML/CFT systems in place.

Supervision of accountants and auditors began in the second half of 2012. Both off-site and on-site inspections were carried out.

The APML's off-site supervision was conducted by sending out a questionnaire on how the obliged entities were implementing the AML/CFT regulations and by analysing the answers to the questionnaire. The replies to the questionnaire are supposed to provide an overview of the current state of play in the sector concerned. The questionnaire also facilitates indirect monitoring of the developments in the AML/CFT system in the sector concerned and gives an overview of the level of obliged entities' understanding of AML/CFT regulations. In 2012, the APML sent the AML/CFT questionnaire to 53 auditing companies active in this year. The total number of entrepreneurs and legal entities providing accounting services in Serbia exceeds 8000. A sample of 105 companies/entrepreneurs was selected and all of them were sent a letter informing them of their obligations under the AML/CFT Law.

The analysis of the replies to the questionnaire showed that the total number of clients of these auditing agencies was 5095, 27 of which were classed as high-risk customers, 4769 as low-risk clients, and 353 as medium-risk clients.

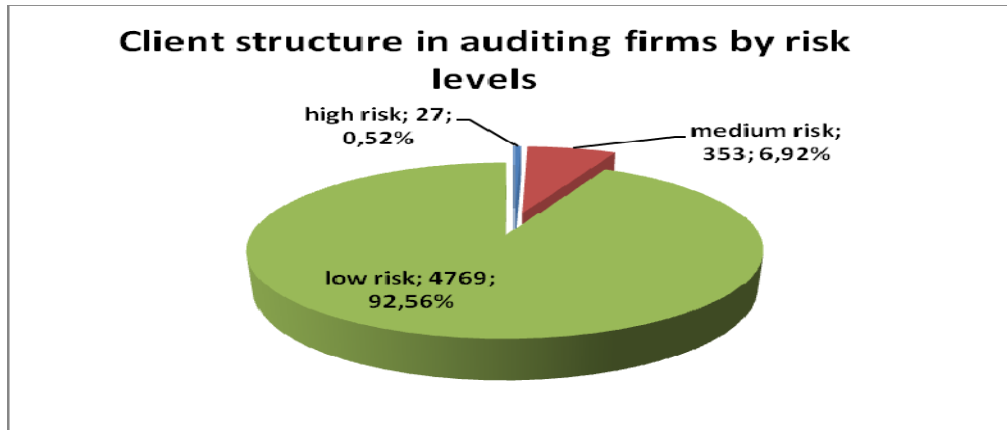


Chart 5 – Risk classification in auditing companies

As far as accountants are concerned, the replies analysed show, on a sample of 105 supervised entities, the total number of clients with a business relationship with these obliged entities was 3203, 83 of which were classed as high-risk customers, 121 as medium-risk and 2999 as low-risk customers.

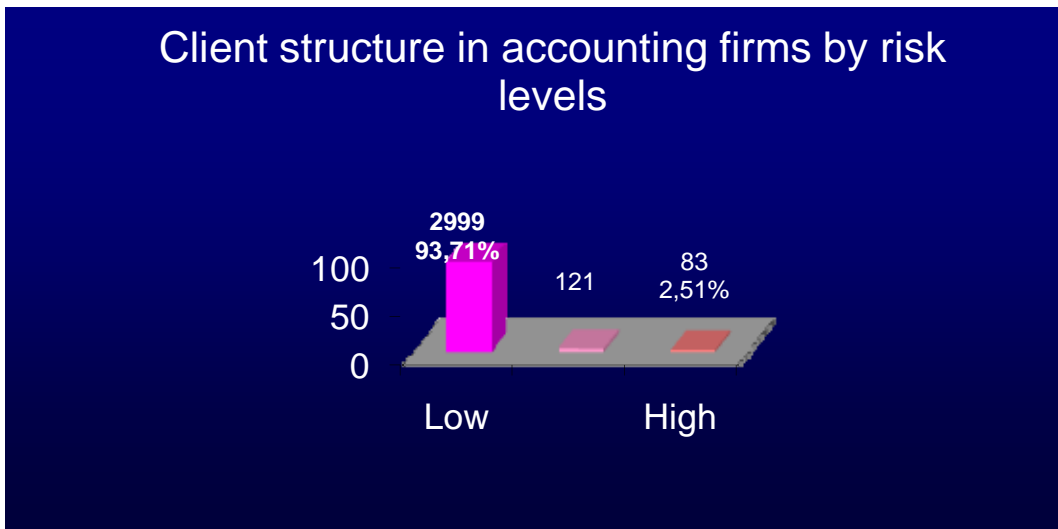


Chart 6 – Risk classification in accounting services providers (companies and entrepreneurs)

The analysis of the replies to the questionnaires showed that the accountants and auditors do not seem to have a clear understanding especially with respect to identification of customer or owner who is a foreign politically exposed person (PEP) and to the application of certain actions and measures to be applied based on the level of ML/FT risk that a client is exposed to. In addition, we have noted a lack of understanding of the concept of foreign PEP and the way to establish if the client or the beneficial owner of the customer is a foreign PEP.

3.1. On-site supervision

Prompted by the replies to the questionnaires, the APML at the end of 2012 conducted supervisions of two auditing companies setting in advance some supervision criteria. In both inspections irregularities in the application of the AML/CFT Law were found and economic offence referrals were filed against the legal entities and the responsible individuals. The most frequent irregularities found are related to client identification and lack of risk assessment with respect to the client, business relationship, and service the obliged entity provides as their business.

4. INTERNATIONAL COOPERATION

4.1. AML/CFT Progress Report for the Republic of Serbia

The Council of Europe's MoneyVal committee adopted on 3 December 2012, during its 40th plenary, a Progress Report for Serbia. The Progress Report was adopted based on an assessment of the achieved progress in Serbia's AML/CFT system by the MoneyVal committee. On the first day of the MoneyVal plenary, the results achieved in the last two years in the system for the prevention of money laundering and terrorism financing were discussed. First the MoneyVal Secretariat informed the plenary on the detailed analysis of Serbia's compliance with the FATF's core recommendations and then the delegation of Serbia was thoroughly questioned by Vatican City, as the intervenor country, other MoneyVal members and its experts in the fields of finance and law. After a successful discussion, the MoneyVal Committee Plenary reached a consensus on Serbia's Progress Report.

4.2. Memorandums of Understanding

In 2012, the APML signed five memorandums of understanding (MOUs) with financial-intelligence units of Colombia, Australia, Belarus, Finland and the Republic of South Africa. Although the APML, according to the AML/CFT Law, can exchange financial intelligence with the colleagues from other countries, signing MOUs has the aim of further developing international cooperation and exchange of information between FIUs throughout the globe. With these five MOUs, the total number of MOUs in 2012 counted 38.

4.3. Egmont Group

At the 20th Egmont Group plenary meeting held from 9 to 13 July in Saint Petersburg, Russia, the APML received a special letter of appreciation for participating in the Egmont Group's BECA award contest (Best Case Award) with one of its successful money laundering cases. This recognition is even more significant given that the APML was among 16 out of 130 Egmont Group members whose financial-intelligence work was given special attention and appreciation.

APML's representatives were active in the Legal Working Group, which discussed suggestions to alter the definition of the FIU, reciprocity as a condition for the exchange of information, the cases when an FIU cannot act on the request from a counterpart and the dissemination of information.

The APML staff were also engaged in the Operational Working Group. A project on ML/TF through diamonds was started to look into the possibilities of laundering money through the trade in gems and precious metals. The APML took part in the work of this project the results of which will be known at the end of 2013.

The 20th Egmont Group plenary meeting decided to endorse the membership to the EG of the following FIUs: Gabon, Jordan, Tajikistan and Tunisia. With these newly admitted members, the Egmont Group membership in 2012 increased to 131.

4.4. Eurasian group on combating money laundering and terrorism financing

The Republic of Serbia has been an observer in the Euroasian Group on combating money laundering and the financing of terrorism (EAG) since June 2010. The EAG members are Russia, China, India, Belarus, Tajikistan, Kyrgyzstan and Uzbekistan. Besides Serbia, the EAG includes 13 more states and 18 organizations as observers such as the USA, Germany, Italy, IMF, World Bank, Interpol and the EBRD. The APML participated at the 16th plenary meeting held in Moscow from 22 to 25 May 2012. This plenary admitted the following new observers to the EAG: France, Mongolia, and the Egmont Group.

5. INTERAGENCY COOPERATION

Due to the complexity of the money laundering phenomenon, its successful prevention and detection is almost impossible without an active and developed cooperation with other AML/CFT state authorities, and the APML invests considerable efforts to improve it. This cooperation runs in two directions.

Firstly, the APML collaborates with the authorities supervising the obliged entities' compliance with the AML/CFT Law aiming to achieve a better understanding of legislation that they and the obliged entities apply. There is a uniform system to inform the APML on the number of conducted supervisions and irregularities found. Also, there is a common agreement to hold this type of meeting regularly in order to maintain a uniform and harmonised application of the AML/CFT legislation by all obliged entities.

Secondly, the APML works actively with the law enforcement authorities representing the repressive segment of the AML/CFT system in Serbia, in particular the Ministry of the Interior and the competent prosecutors' offices (POs). In 2012 three workshops were organised for

prosecutors from higher prosecutors' offices as these POs have jurisdiction for money laundering. More than 60 prosecutors attended these workshops. The APML's main objective is to make those involved in detecting money laundering aware of the APML's powers, in particular the possibility to obtain documentation from obliged entities, monitor the financial operations of clients and temporarily suspend the execution of transactions, yet only in case where money laundering or terrorism financing is suspected. Another purpose of these workshops is to provide information to the prosecutors as to how to send to the APML an initiative to open a case. Namely, based on Article 58 of the AML/CFT Law, the APML may open a case based on a written and justified initiative of enumerated state authorities, but only if there is reason to suspect money laundering or terrorism financing and if such suspicion is justified.

As well as with prosecutors, the APML has worked in a similar manner with the members of the police force, Security Information Agency and the Military Security Agency.

5.1. Standing coordination group for the monitoring of the implementation of the National strategy against money laundering and the financing of terrorism

Two meetings of the Standing coordination group for monitoring of the implementation of the National strategy against money laundering and terrorism financing ('SCG') were held in 2012, on 15 March and 22 November. The March meeting discussed the coordination of the national risk assessment process that involved all the SCG members. The November meeting looked at the recent reshuffle of the SCG membership reflecting the staff changes in the state authorities represented in the SCG, and also discussed the forthcoming discussion of Serbia's Progress Report during the MoneyVal December plenary.

6. IT SYSTEM DEVELOPMENT

In 2012 a considerable improvement of the APML's IT system has been undertaken, including the implementation of:

- Disaster Recovery;
- Integration of APML's key applications (TMIS and DCM systems) and improvement of analytical tools;
- Improvement of the CDM system.

6.1. Disaster Recovery

The APML keeps a large amount of data and documents generated in the course of its work. Any loss of this data would cause irreparable damage to the APML. This was the reason why the APML in 2012 started a project to implement strategies and procedures for data recovery in case of disasters, such as fire, earthquakes, etc. This system should allow for a smooth

operation of the APML's IT system and prevent loss of important data in case of large-scale accidents.

6.2. Integration of APML's existing key applications (TMIS and DCM systems) and improvement of analytical tools

The APML receives data from obliged entities and other state authorities which are all stored in a database. Also, the APML uses a Case and Document Management system which stores its metadata in a separate database.

The APML in 2012 initiated a project to integrate all data sources that it holds in order to allow for consolidation of data from multiple analytical sources and a single logical presentation of all data through standardised report forms. In addition, all the data will be kept in an optimal way in a uniquely structured data warehouse so as to improve the speed of searches and protect data from loss. By implementing a business intelligence (BI) solution the analytical and reporting process will be improved retaining maximum flexibility in their use.

This project also intends to develop an important module to rate transactions according to the level of ML/TF suspicion, which would be fully integrated with the existing TMIS and DCM systems.

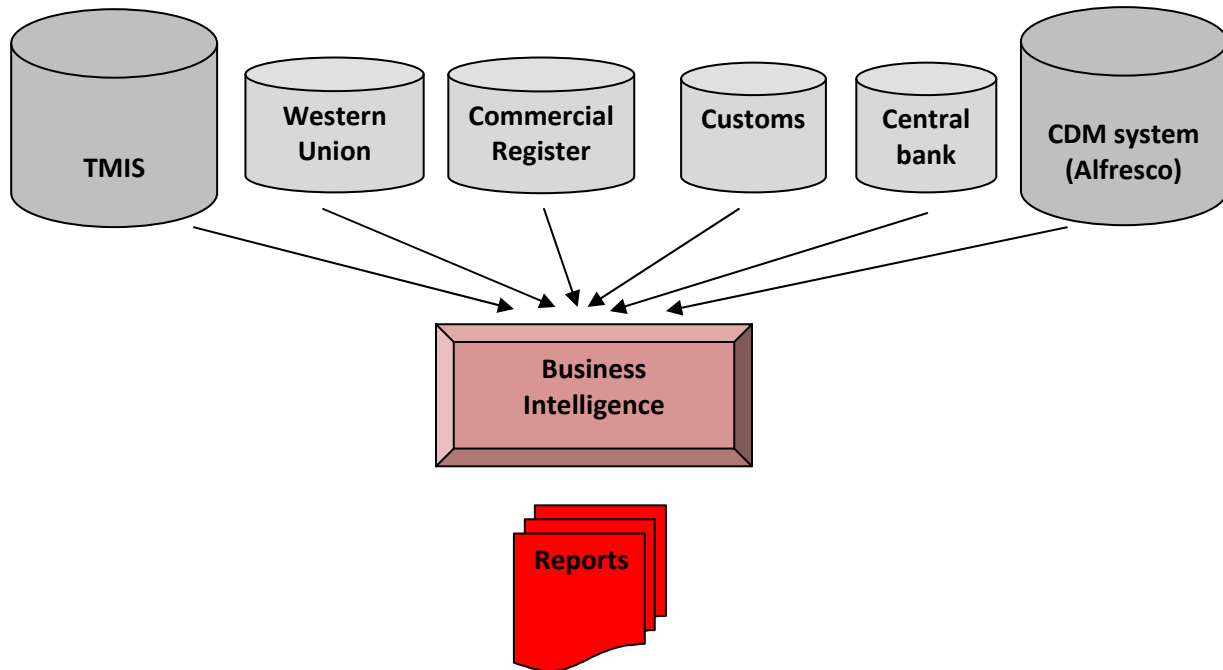


Chart 7: Integration of all database

6.3 Improvements to the CDM system

In 2012, the APML worked on improving its CDM system. The system was reorganised so as to reflect the most recent changes in the APML's organisation, the existing workflows and searches of the system were improved, new document types added, etc.

7. ORGANISATIONAL STRUCTURE, HUMAN RESOURCES AND TRAINING

With the aim of a more efficient usage of the existing and building new capacities in the APML, a new organization has been in force since March 2012. Instead of the Rulebook on the organization and jobs systematization which was valid since June 2011, the new Rulebook envisages as follows:

- Department for Analytics, consisting of:
 - Team for Pre-analytics
 - Section for Financial Analysis
- Department for International Cooperation and Legal Affairs
- Department for Supervision, with two teams:
 - Team for supervision of accountants and auditors
 - Team for supervision of other obliged entities
- IT Team
- Team for Financial and Material Affairs

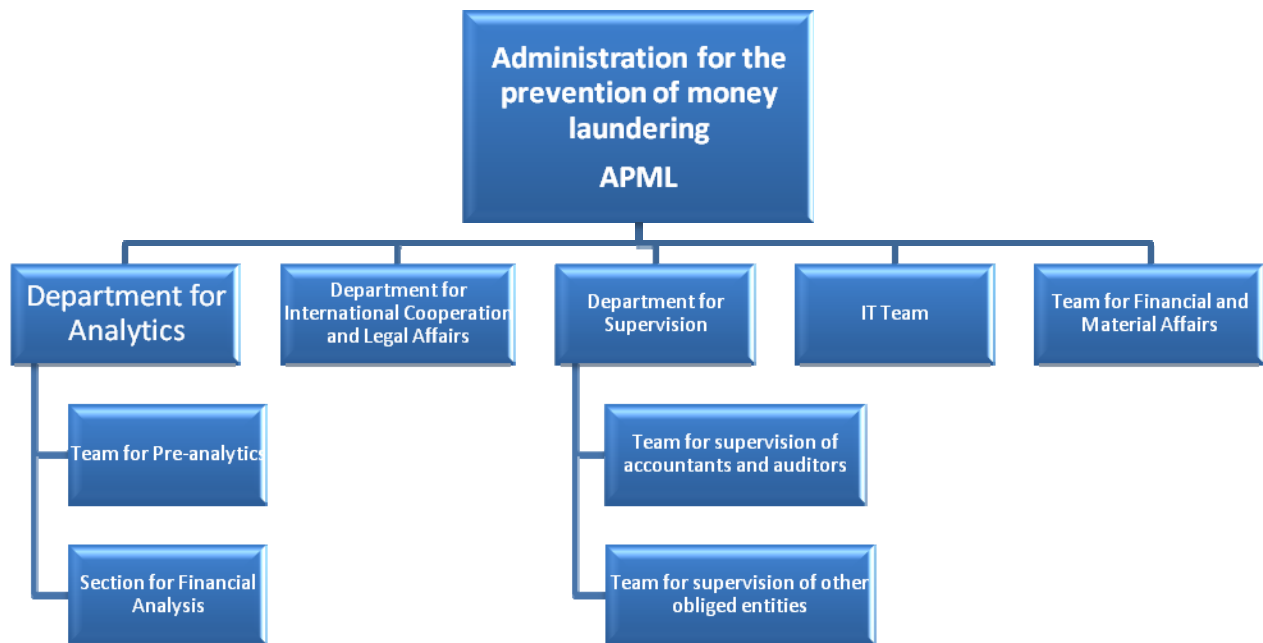


Chart 8: Organizational chart of the APML

The improvements were introduced in the Department for Analytics by setting up a Team for Pre-Analytics. The aim is a more efficient and accurate analysis as the task of this team is to create, both manually and through the IT system, links between the reported transactions to serve as red flags for the analysts thereby facilitating their financial-intelligence work.

7.1. APML Staff Training

Regarding the staff capacity improvement, in addition to regular civil servant training organised by the Government's Human Resources Management Service, such as on the integrity of civil servants, fight against corruption, European integration, developing (IPA) projects, etc., the APML staff, either as lecturers or attendants, also participated in numerous specialised trainings, seminars and conferences, some of them being:

- Workshop on cyber-crime, held at the Judicial Academy in January 2012, where the experts from Belgium and the Netherlands shared their experiences on the topic;
- Conference on the prevention of money laundering and terrorism financing for all participants on the capital and securities market, held in Aranđelovac from 28 to 30 March 2012 (as lecturers);
- Training for prosecutors on prosecuting crimes in the area of securities (Zrenjanin, March 2012) (as lecturers);
- ReSPA workshop "*Training Civil Servants on Anti-corruption in Public Administration*" in Danilovgrad, Montenegro, March 2012;
- ILECU and the Ministry of the Interior of Serbia, seminar on financial crime – seizure/confiscation of proceeds from crime, money laundering, tax evasion; Symposium on money laundering, held in Ohrid, Macedonia, March 2012;
- Seminar on financial crime and strategic analysis – as part of MOLI Project – a study visit to the EUROPOL Headquarters in the Netherlands and the Belgian FIU, held in April 2012.
- As part of a study visit to the Romanian FIU, the representatives of the APML learned about the work of the National office for the prevention and control of money laundering which is an administrative body of the Romanian government, in April 2012;
- Conference organized by the Securities Commission and USAID Business Enabling Project. The aim of this conference, held in the hotel Hayat in Belgrade, was the promotion of the amendments to the Law on the Capital Market of the Republic of Serbia, in force since November 2011,
- Seminar of the International Forfeiting Association on forfeiting and factoring, organised by Marfin Factors&Forfaiters and Real Factor Serbia, Grand Casino, Belgrade, April 2012;
- Seminar to raise awareness with accountants of their obligation to apply the AML/CFT Law, organised in *Privredni savetnik*, Belgrade, May 12, 2012;
- Seminar to raise awareness with accountants of their obligation to apply the AML/CFT Law, organised in *Privredni savetnik*, Novi Sad, May 16, 2012;

- Conference on “Control of the games of chance” organised by the Association of gaming operators, authorized technicians and producers of slot machines “JAKTA”. The aim was to promote a new system of real-time monitoring over the machines of the gaming operators, May 2012;
- Seminar on “Methods of Counterintelligence” organised by the Security Information Agency (*BIA*) on APML’s premises in May 2012;
- Workshop on Money Laundering Investigations – mock-trial cases, held at Zlatibor in June 2012. The workshop was targeted at prosecutors in higher prosecution authorities and the presenters were the APML’s employees;
- Workshop on “Potential for abuse of non-profit sector for terrorist financing purposes”, held in Belgrade, June 2012;
- Presentation on the Implementation of the AML/CFT Law, held in June 2012 in the Regional Chamber of Commerce in Novi Sad;
- Presentation for the APML employees on “The methods of creative and forensic accounting” held in June 2012.
- Presentation on the organization, competences, and powers of the Serbian Military Security Agency for the APML’s employees, held by the Agency’s representatives, June 2012;
- Presentation on the international standards, cooperation and experiences of the members of the EU in combating terrorism financing intended for the employees of the APML, held in June 2012;
- Regional seminar on the seizure/confiscation of proceeds from crime organised by OSCE in Vienna in September 2012;
- Presentation for the employees of the APML on new payment methods which allow the users to pay by means of technical equipment like computers, mobile phones or cards with a magnetic stripe or chip and the potential for the abuse of these means with the aim of money laundering and terrorist financing, held in September 2012;
- Seminar called “Lifestyle analysis”, organized by the OSCE Mission to Serbia Law Enforcement Department in coordination with ICITAP (International Criminal Investigative Training Assistance Program), Department of Justice USA and in cooperation with Ministry of the Interior of Serbia, in September 2012;
- Workshop on Preliminary NRA organized by the IMF in September 2012 in Syracuse, Italy;
- Workshop on “The list of terrorists pursuant to the relevant EU resolutions” in September 2012 in Belgrade;
- Conference on “Systems of protection of classified data in Serbia, Slovenia, Montenegro and Bosnia and Herzegovina”. The aim of the conference, held in Belgrade in October 2012, was to exchange experiences in the area of classified data protection and consider possibilities for strengthening the regional cooperation in this field;
- Seminar on the Prevention of Money Laundering and Terrorist Financing, organised by the European Bank for Reconstruction and Development, October 2012;

- Workshop on Money Laundering Investigations – working on mock-trial cases, held in Kladovo in November 2012. The workshop was targeted at prosecutors at higher prosecutors' offices and the lecturers were the APML's employees;
- Study visit to the United States of America the aim of which was to exchange experiences in combating corruption and money laundering with various US authorities, organised by the United States Congress, November 2012;
- In December 2012, the APML's employees held a presentation for the members of the Serbian Military Security Agency on the role and significance of the APML, with a focus on how to initiate a case in the APML;

8. LICENCES

Owing a licence is a requirement that the compliance officers must meet in order to perform customer due diligence. The purpose of the licences is to ensure that the compliance officers, as an important link in the AML/CFT system, have the required level of knowledge and skills to be able to recognize a suspicious transaction or person. In addition, the licences have the goal of contributing to permanent character of compliance officers' work posts, especially in large obliged entities such as banks.

Professional exams were organized in 2012 for licencing compliance officers in banks, insurance companies, investment funds, leasing companies, *bureaux de change*, postal communications, accounting and auditing. A total of 901 licences were issued.

9. PLANS AND IDEAS

Despite the active efforts invested, the APML was not successful in providing for adequate business premises that would fit the number of staff envisaged in the new organization and jobs systematization. Recruiting new staff for the newly-founded Department for Supervision, i.e. the new APML's department supervising accountants, auditors, tax advisers, factoring and forfeiting firms, etc., is particularly important. The development of the APML's capacities thus not only stagnates but there is also a certain risk that the current capacity might be undermined.

Namely, even though not formally being part of the anti-organised crime system in Serbia (Anti-Organised Crime Prosecutor's Office, Security-Information Agency, specialised agencies of the Interior Ministry, etc.), the APML is actually and in reality part of it. Having in mind the unique position and capabilities of the APML in working on specific AML/CFT cases, and its unique possibilities in terms of cooperation with the obliged entities, primarily the banking sector, it is essential that the APML's role be recognized in a manner similar to the roles of formal anti-organised crime authorities. The rights and obligations of APML's staff should also be appropriately provided for, in terms of status and salaries. These issues are addressed in the proposed amendments to the AML/CFT Law that are expected to be adopted soon.

More precisely, the APML employs highly educated civil servants who continually develop in professional sense and specialize in certain aspects of financial analysis and are exceptionally wanted on the labour market. Due to this situation, there is, on the one hand, an imbalance between the nature of work of the APML's staff, the resources invested in their professional development, and the fact that they handle extraordinarily sensitive data and, on the other hand, the salary they are paid which has been equalized with the salary of other employees in state administration. In this context, the APML faces a certain level of staff turnover among experienced professionals due to their desirability especially in the private sector.

The plan to set up a training centre remains to be implemented, the lack of adequate business premises being the main reason. The APML will continue with its endeavours to materialise this idea and establish a training centre that would serve not only for training of the APML's staff, other state authorities and obliged entities, but also be used for international and regional trainings.