APPROVED BY THE DECISION OF THE GOVERNOR
OF THE CENTRAL BANK OF ARMENIA NO 1/913-A
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ANNEX

3. Typology

Scheme for money laundering using foreign currency exchange operations for the purpose of concealing the true origin of funds and the direction of actual movements thereof

The operational mechanism of this kind of scheme is the following: with several trading transactions of two and/or more foreign currencies the financial institution:

- obtains income through transactions with one of its customers, and
- experiences losses due to transactions with another entity, thus providing for the transfer of proceeds derived from the losses of the first party to the second one. As a result of the transactions a flow of funds from one entity to another one takes place while concealing the true origin of the funds and the actual direction of movement.

1) Description of the Scheme

a. Financial institution obtains income from foreign currency exchange transactions with its business entity customer

Such potential suspicious transactions of foreign currency exchange are carried out with the following scheme:

1) The institutions sells, for example, 1.000.000 Euros to its Customer A and buys 1.500.000 US dollars (e.g. exchange rate of 1.500)

2) With the next step, the institution carries out an equal-amount Euros reverse transaction with Customer A buying 1.000.000 Euros and repaying 1.450.000 US dollars instead (e.g. exchange rate of 1.450):

As a result, the financial institutions pays Customer A a smaller amount of US dollars than received (with an amount due to the margin of buy and sell exchange rates) for repurchasing the Euros sold and obtains a certain amount of income (in this case 50.000 US dollars). Thus, Customer A “sacrifices” a certain amount of money for the financial institution at the cost of losses.

b. Financial institution experiences losses due to foreign currency exchange transactions with its business entity customer

The actions specified under the previous Point are repeated herewith, but this time with an opposite result. Particularly:

1) The institutions sells, for example, 1.000.000 Euros to its Customer B and buys 1.450.000 US dollars (e.g. exchange rate of 1.450),

2) With the next step the institution carries out an equal-amount Euros reverse transaction with Customer B buying 1.000.000 Euros and repaying 1.500.000 US dollars instead (e.g. exchange rate of 1.500).

As a result, the financial institution pays Customer B a greater amount of US dollars than received (with an amount due to the margin of buy and sell exchange rates) for repurchasing the Euros sold and experiences certain amount of losses (in this case 50.000 US dollars). Thus, the financial institution "sacrifices" a certain amount of money for Customer B at the cost of losses.

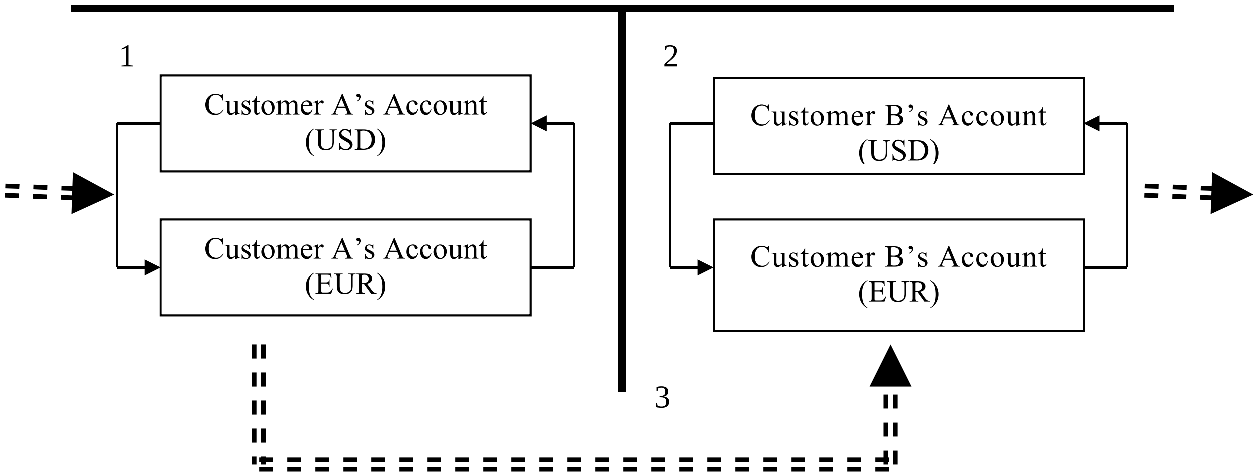
As a result of the aforementioned transactions the proceeds derived from losses of Customer A are placed on the account of Customer B, concealing the true origin of the funds and the actual direction of movement, where, as a rule, the financial institution receives a "bonus" instead in the form of tariffs charged for foreign exchange transactions and/or income derived from the differences in exchange rates for buying/selling currencies.

Particularly, as a condition verifying the lawfulness of the conducted transactions, the financial institution can present/explain the aforementioned transactions to a possible third party with the following correspondence – "a1-b2" and "a2-b1" (according to the numbers of the abovementioned Points). That is, the institution can insist that the US dollars purchased in step "a1" from Customer A with an exchange rate of 1.500 were later on sold to Customer B in step "b2" with the same exchange rate and the Euros purchased in step "a2" from Customer A with an exchange rate of 1.450 were later on sold to Customer B in step "b1" with the same exchange rate, while in both cases having obtained income in the form of tariffs charged for foreign currency exchange transactions in this case.

The operations illustrated in both Point "a" and Point "b" can be conducted through a chain of exchanges in not only two, but three, four or more currencies, where the underlying logic and the aim of the transactions will not change. It is worth to also mention, that there is no standard or "best" timeframe for transactions to follow each other for the purpose of considering any combination of foreign exchange transactions as a "chain": the term can be somewhere in between one or more days, or a longer interval in certain cases. When reviewing similar transactions, the examination of the overall income (or the loss) of the relationship between the bank and the customer shall be important, including also the similarity of the conditions established for this category of customers (or material dissimilarities thereof).

2) The mentioned type of operations are schematically illustrated bellow

"Bad Financial Institution" CJSC



a. In the result of the two equal-amount foreign exchange reverse transactions carried out with Customer A, "Bad Financial Institution" CJSC obtains net income (e.g. sells Euros and buys US dollars with an exchange rate of 1.500 and afterwards buys Euros and sells US dollars with an exchange rate of 1.450),

b. In the result of the two equal-amount foreign exchange reverse transactions carried out with Customer B, "Bad Financial Institution" CJSC experiences net losses (e.g. sells Euros and buys US dollars with an exchange rate of 1.450 and afterwards buys Euros and sells US dollars with an exchange rate of 1.500),

·. In the result, "Bad financial institution" CJSC provides for the transfer of funds derived from losses of Customer A to Customer B.

3) Conclusion

The operations conducted according to the illustrated scheme and series of steps may be aimed at concealing the origin, movement or true ownership (final beneficiaries) of proceeds.

In terms of examining transactions with elements of the illustrated scheme, special attention shall be drawn to **<u>foreign exchange transactions carried out by financial institutions</u>.**