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

6. Typology

Scheme for money laundering using lending practices at the cost of accepted deposits for the purpose of concealing the true origin of funds

1) Description of the Scheme

The operational mechanism of this scheme is that, the funds with unknown origin and in possession of the customer are injected into the banking system by one or more transactions, where afterwards loans are granted upon pledging these funds as a collateral for the purpose of verifying the lawful origin of funds in question for a third party.

Thus, cash or non-cash (via transfers from abroad) funds are developed on the account of the local bank customer, which are placed in the bank in the form of an account balance or a time deposit. As a document verifying the lawful origin of funds, real estate trade, lending, financial aid and other contracts can be presented. With the next step, having the mentioned account balance or the time deposit pledged as a collateral, loans are granted by the bank, which are managed upon the instructions of the customer, while generally being transferred abroad (in some cases - cash withdrawn).

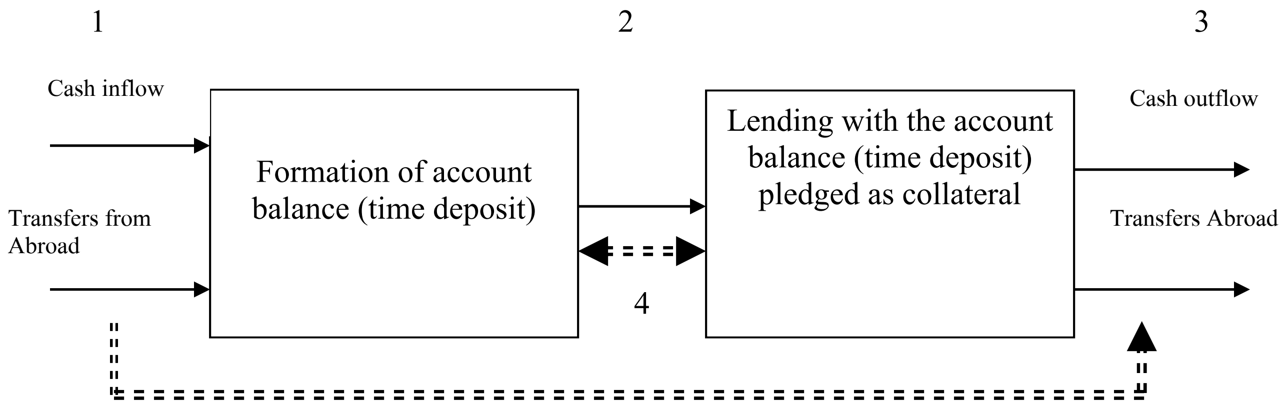
Similar operations can be carried out in the form of interbank operations following the same logic and order, i.e. when a foreign bank forms a loro account balance with the local bank (allocates a time deposit), loans collateralized with the mentioned funds are granted to local customers which are managed by them being generally transferred abroad. Particularly, in accordance with the logic of the mentioned transactions, the fact that the loro account balance (time deposit) is pledged at a local bank is not anyhow reflected in financial or other statements of the foreign bank.

In case of both options specified above the granted loans are repaid after a period of time at the cost of the customer's account balance (time deposit).

As a result of operations conducted with the mentioned schemes:

- The customer of the local bank verifies the lawfulness of the funds in possession for a third party – foreign country supervisory authority, by presenting the funds as loans obtained from the Armenian bank often being awarded privileges for transactions carried out by means of borrowed funds,
- The foreign banks resolves problems related to indirect lending of its customers and/or the refinancing/restructuring of impaired assets formed in the past.

2) The mentioned type of operations are schematically illustrated bellow.



a. Cash or non-cash funds are formed by the customer of the bank (via transfers from abroad) in the form of an account balance or a time deposit,

µ. Loans are granted with the account balance or the time deposit pledged as collateral,

b. The borrowed funds are managed upon the instructions of the customer being generally transferred abroad (in some cases cash withdrawn),

c. The granted loans are repaid after a period of time at the cost of the customer's account balance (time deposit).

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>transactions of financial institutions related to accepting deposits, granting loans, i.e. loans with funds and other high liquid assets being pledged as collateral.</u>**