

Annual report of the Financial Intelligence Unit for 2019





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PROLOGUE

Dear Readers,

I am pleased that you are interested in getting to know the annual report of the Financial Intelligence Unit of the Presidium of the Police Force for the year 2019, which we bring to you on the following pages, in order to present the activities of our unit in the past calendar year.

In this annual report, we present an evaluation of the main activities in the year 2019, while it is not always possible to quantify the activities of our financial intelligence unit. Undoubtedly, to such content- and scope-intensive activities belong the following:

- the 5th round of evaluation of the Slovak Republic by the Committee of Experts of the Council of Europe for the Evaluation of Measures against Money Laundering and Terrorist Financing - Moneyval,
- completion of the process of the National Risk Assessment of Money Laundering and Terrorist Financing through the processing of non-legislative material, which was submitted to the Government of the Slovak Republic
- and the preparation of a draft amendment to the Act No. 297/2008 Coll. on the Prevention of Legalization of Proceeds of Criminal Activity and Terrorist Financing and on Amendments and Supplements to Certain Acts, as amended, the main objective of which was the transposition of the Directive 2018/843 of the European Parliament and of the EU Council of 30 May 2018 amending EU Directive 2015/849 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing and Directives 2009/138/EC and 2013/36/EU.

In connection with the evaluation of the activities of the Financial Intelligence Unit, it is necessary to mention the change in its organizational integration. Since 01.08.2019, the financial intelligence unit has been directly subordinated to the President of the Police Force of the Slovak Republic, without changes in its internal structure.

I would like to take this opportunity to thank all the police officers of the Financial Intelligence Unit for their quality work as well as for their enthusiasm and cooperation during the evaluation by Moneyval. My thanks also go to all the subjects that actively participated in the mentioned projects.

Ing. Peter Čarnecký
Deputy Head

ANALYTICAL ACTIVITY

The Financial Intelligence Unit of the Presidium of the Police Force (hereinafter referred to as „FSJ“) performs the tasks of the central national unit in the field of prevention and detection of legalization of proceeds of criminal activity and terrorism financing (hereinafter referred to as „ML/TF“). At the same time, the FSJ also performs tasks in the area of control of cross-border transportation of cash from and to the countries that are not members of the European Union (hereinafter referred to as „EU“), resulting from Section 4 (4) of the Act No. 1995/2004 Coll. - Customs Act and on Amendments to Certain Acts as Amended (hereinafter referred to as the „Customs Act“).

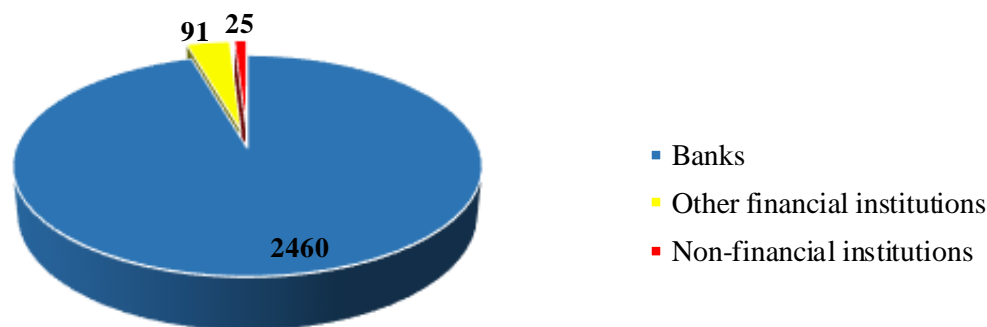
The most important part of the FSJ's activities is focused on receiving, analyzing, evaluating and processing of the unusual transaction reports (hereinafter referred to as „UTR“). The FSJ receives UTRs on the basis of the reporting obligation stipulated by the Section 17 of the Act No. 297/2008 Coll. on the Prevention of Legalization of Proceeds of Criminal Activity and Terrorist Financing and on Amendments and Supplements to Certain Acts, as amended (hereinafter referred to as the „AML/CFT Act“) from reporting entities defined in the AML/CFT Act, in particular banks, other financial institutions and non-financial institutions.

In 2019, FSJ received 2576 UTRs in the total amount of 1.413.291.467,-EUR, which was 67 UTRs more than in 2018.

In the graphic representation, graph No. 1, we see that the received UTRs can be divided into 3 basic groups according to the type of reporting entity:

- the UTRs in the total number of 2460 received from the banks acting in the territory of the Slovak Republic (hereinafter referred to as „SR“), including the National Bank of Slovakia (hereinafter referred to as „NBS“),
- the UTRs in the total number of 91 received from the other financial institutions other than banks,
- the UTRs in the total number of 25 received from the non-financial institutions.

Graph No. 1: Total number of the UTRs received in 2019



Source: FSJ statistics



In percentage terms, this means that up to 95,5 % of the total number of the submitted UTRs came from banking institutions, a negligible amount from other financial institutions (3,53 %) and from non-financial institutions less than one percent (0,97 %).

A more detailed overview of the number of the sent UTRs from the banking sector, also with the development since 2017 can be seen in the chart No. 1. The number of the UTRs sent in 2019, divided by individual types of reporting entities, can be seen in the charts No. 2 and No. 3.

Chart No. 1: Number of UTRs sent by banks in the years 2017 - 2019

| Banks acting in the territory of the Slovak Republic | | | |
|---|----------------|-------------|-------------|
| Reporting entity | Number of UTRs | | |
| | 2017 | 2018 | 2019 |
| The National Bank of Slovakia (NBS) | 59 | 53 | 70 |
| Commercial banks acting in the territory of the Slovak Republic | 2496 | 2280 | 2390 |
| Total | 2555 | 2333 | 2460 |

Source: FSJ statistics

Chart No. 2: Number of UTRs sent by other financial institutions in 2019

| Other Financial Institutions | |
|--|----------------|
| Reporting entity | Number of UTRs |
| Central Securities Depository | 5 |
| Insurance Company, Reinsurance Company | 17 |
| Securities Dealer | 1 |
| Supplementary Pension Insurance Company | 1 |
| Pension Asset Management Company | 1 |
| Legal Entity or Natural Entity Authorised to Trade in Receivables | 1 |
| Payment Institution, Agent of Payment Services and Institution of Electronic Money | 27 |
| Asset Management Company and Depository | 5 |
| Financial lease - leasing | 20 |
| Exchange Office and others | 13 |
| Total | 91 |

Source: FSJ statistics



Chart No. 3: Number of UTRs sent by non-financial institutions in 2019

| Non Financial Institutions | |
|-------------------------------------|-----------------------|
| Reporting entity | Number of UTRs |
| Advocate or Notary | 4 |
| Auditor, Accountant, Tax Advisor | 1 |
| Organizational and Economic Advisor | 3 |
| Postal Undertaking | 1 |
| Gambling Game Operator | 14 |
| Administrator of Bankruptcy Estate | 2 |
| Total | 25 |

Source: FSJ statistics

After receipt of the UTR, FSJ police officers carry out a targeted analysis of the information obtained, using the additional information documenting the financial flow, as well as using all available information sources and databases available to the FSJ, in order to combat ML/TF. Based on the comprehensive information thus created for the received UTR, the FSJ will choose a suitable procedure in accordance with the Section 26 (2) and (3) as well as Section 28 of the AML/CFT Act. The choice of the appropriate procedure for using of the information obtained from the UTR depends on the seriousness of the findings and the facts in each case.

Based on the results of the analysis of the received UTRs, taking into account the competencies of the relevant authorities authorized to receive information from the FSJ, the FSJ provided information to the following authorities in 2019, in particular:

- 219 information to competent Law Enforcement Authorities (hereinafter referred to as „LEAs“),
- 485 information to National Criminal Agency of Police Force Presidium, of which 61 information to Counter-Terrorism Headquarters of National Criminal Agency of Police Force Presidium,
- 397 information to Regional or District Headquarters of Police Force,
- 829 information to Financial Directorate of the Slovak Republic,
- 453 information to relevant foreign FIUs.

502 information was entered into the Comprehensive Information System/ internal database of the FSJ (hereinafter referred to as "CIS") for possible further utilization.

One of the effective tools in the fight against crime is the institute of postponement of an unusual transaction (hereinafter referred to as „UT“) under Section 16 of the AML/CFT Act. This significant legal act performed by the reporting entity is used mainly in cases where there

is a danger that securing the proceeds of crime or funds intended for terrorist financing may be thwarted or significantly hampered by carrying out an unusual transaction.

Chart No. 4: Summary of the postponed UTs in 2019

| | |
|--|------------------|
| Total number of the postponed UTs | 65 |
| Number of UTs postponed by reporting entity | 62 |
| Number of UTs postponed on request of FSJ | 3 |
| - Number of UTs postponed on request of a foreign FIU | (1) |
| Number of information submitted to the competent LEAs related to the postponed UTs | 43 |
| Total value of the postponed UTs | 7.766.749,75 EUR |

Source: FSJ statistics

Another way of combating ML/TF is the refusal of the conclusion of a business relationship, the termination of a business relationship or the refusal to carry out a business pursuant to Section 15 of the AML/CFT Act by a reporting entity. These precautionary measures are a way of preventing the use of proceeds of crime, which may also be used for terrorist financing purposes. The above provision of the AML/CFT Act was used in 2019 by reporting entities in 383 cases with the value of trades in the total amount of 113.890.166,-EUR.

In connection with 219 information submitted to the competent LEAs, in 2019 FSJ recorded 18 orders (related to 15 UTRs) issued by the relevant prosecutor's office in order to secure funds on bank accounts in the total value of 3.033.259,54 EUR.

According to the AML/CFT Act, the FSJ informs the relevant reporting entities about the effectiveness of their UTRs and about the individual procedures that follow the receipt of the UTRs. For this purpose, FSJ requests information from the competent LEAs, the so-called feedback on the results of the verification of the information submitted and on the other procedures taken in the mentioned matter. As feedback is a dynamic process, this information needs to be constantly updated until a final decision is taken. Chart No. 5 provides an overview of LEAs procedures with updated data for the years 2018 and 2017 (original values published in the annual reports are given in brackets).



Table No. 5: LEAs procedure after forwarding information under Art. 26 par. 2 b) of the AML/CFT Act

| LEAs procedure after receiving information from FSJ | Number of cases (2019) | Number of cases (2018) | Number of cases (2017) |
|---|------------------------|------------------------|------------------------|
| Commencement of criminal prosecution under Art. 199 of the Code of Criminal Procedure - in all cases | 23 | 52 (47) | 81 (78) |
| Commencement of criminal prosecution under Art. 199 of the Code of Criminal Procedure for criminal act of legalization of proceeds of criminal activities under Art. 233 and 234 of the Criminal Code | 13 | 34 (33) | 53 (52) |
| Commencement of criminal prosecution under Art. 199 of the Code of Criminal Procedure - for other criminal act | 10 | 18 (14) | 28 (26) |
| Accusation under Art. 206 of the Code of Criminal Procedure for criminal act of legalization of proceeds of criminal activities under Art. 233 and 234 of the Criminal Code | 0 | 1 | 3 |
| Accusation under Art. 206 of the Code of Criminal Procedure - for other criminal acts | 2 | 6 | 4 |
| Discontinuation of criminal prosecution under Art. 215 of the Code of Criminal Procedure | 0 | 0 | 1 |
| Refusal to start criminal prosecution under Art. 197 par. 1 d) of the Code of Criminal Procedure | 14 | 11 | 21 (20) |
| Seizure of financial funds under Art. 95 of the Code of Criminal Procedure | 15 | 22 | 20 |

Source: Statistical data FSJ

From the statistical data provided by the Ministry of Justice of the Slovak Republic (hereinafter referred to as „MS SR“), in 2019 we recorded a total of 8 cases of accusation for criminal act of legalization of proceeds of criminal activities under Art. 233 of the Criminal Code (hereinafter referred to as Criminal Code) involving 9 accused persons for this crime and no accusation in the case of legal persons.

No natural or legal person has been accused for the crime of terrorist financing under Art. 419c of the Criminal Code.



In connection with the fulfillment of tasks arising from the Customs Act concerning the verification of the reporting obligation for the transport of cash and notifications of violations of customs regulations, in 2019 FSJ received a total of 264 notifications of cash transport from the Customs Directorate of the Slovak Republic in the total amount of EUR 19,625,290 of which the amount of EUR 239,407 represented the amount at the exit from the territory of the Slovak Republic (8x).

The currencies that were brought to the territory of the Slovak Republic included CZK (1x), EUR (176x), GBP (1x), TMT (1x) and USD (29x), at the exit USD (1x), CZK (1x), EUR (6x). The obliged persons were in most cases citizens of Ukraine (198). Of the number of reports received, a block fine was imposed in 19 cases for non-compliance with the reporting obligation in the total amount of EUR 1,350, while unreported cash was in the amount of EUR 266,916 (17 cases from the Bratislava Customs Office, the branch Bratislava Customs Office, M.R. Štefánik Airport and 2 cases from the Michalovce Customs Office, the branch of the Vyšné Nemecké Customs Office).

In seventy cases, the transport of funds was carried out by air, in other cases the EU land border between the Slovak Republic and Ukraine was used.

The most frequently mentioned purposes for the use of the transported cash out of the total number of these reports were the purchase of a car or truck (68), a deposit in a bank account (57) and the purchase of real estate / apartment or family house (18).

Information from received reports was after verification in the available police databases and open sources stored in database of FSJ for further use (211), in 55 cases spontaneous information was disseminated to competent FIUs for further use (FIU Ukraine – 39, FIU Russian Federation – 6, FIU Czech Republic – 5, FIU Hungary – 4, FIU Moldova – 1), in 6 cases the information was sent to the Financial Directorate of the Slovak Republic.

Trends in UTRs

During 2019, FSJ recorded a significant increase of UTRs in connection with real estates. This was due to the increasing interest of the population in buying real estates associated with the high availability of low-interest mortgages, which however had an impact on rising real estates prices. On the contrary, there was a significant decrease in the cases of ML / TF and their connection to predictive criminal activity of so-called CEO fraud as well as phishing. This fact was caused by the precaution of bank clients ensured by increased awareness of the banks themselves as well as the repressive forces of individual states against committing such crime, as it was a crime with an international element.

Moreover, a significant increase in cases was noticed in fraud-related transactions, the so-called Romance scam. These types of cases are not directly related to the issue of ML / TF, but due to the prevention of such crime as well as the detection of its perpetrators, the FSJ provided the identified cases to LEAs.



Trend „Romantics“

Cases of so-called "Romance scam" involved a scam aimed at eliciting cash using emotional pressure. The perpetrators contacted the aggrieved persons via e-mail, social networks or web-sites offering online dating, where they expressed interest in establishing a romantic relationship, or described their bad financial situation (various health problems associated with the need for expensive treatment, etc.).

Persons thus contacted in the virtual environment were emotionally blackmailed after gaining of their favour. In several cases they were persons living alone, resp. without a life partner. Subsequently, transfers abroad took place (sometimes in thousands of EUR), often without verifying the true identity of the person to whom they were willing to send the funds.

Despite the fact that the recipient of payments abroad was a person other than the person mentioned by the remitter in the bank and was notified to this fact by the bank's employees, the person (the bank's client) continued to insist on the transfer.

In several cases, the aggrieved person took out a loan, or he/she borrowed funds so that he/she could send alleged help to acquaintance/friend. However, the "friendship" stopped working when the victim of this scam did not want to send more money or wanted to have a personal meeting.

The funds were thus sent mainly to accounts held in Italy and Turkey. In these cases, it was an issue that began to grow significantly across Europe, and this fact was also brought to the attention of individual Member States by Europol.

Financial transactions of business entities with unclear, respectively dubious economic justification was a recurrent modus operandi occurring in UTRs received in 2019. A special category of such transactions were financial transactions carried out by foreign business entities on their accounts established at bank branches near Slovak borders, as well as financial transactions related to Italian citizens performed on accounts established in Slovakia. In both cases there was a significant increase in such UTRs.

Based on the method of performed financial transactions, it can be assumed with a high probability that such executed business transactions were related to the commission of latent tax criminal activity. In analyzing such UTRs, the FSJ encountered complex financial transaction schemes involving a number of business subjects/entities with an international element.

Trend „Border Area“

Numerous cases related to the Slovak border had the following common indicators:

- setting up bank account in cities located in border area of the Slovak Republic,



- establishment of personal bank accounts in the Slovak Republic by persons of a neighboring country,
- establishment of business bank accounts in the Slovak Republic by persons of a neighboring state for legal entities incorporated in a neighboring country,
- establishment of business bank accounts in the Slovak Republic by persons of the neighboring country for legal entities incorporated in the Slovak Republic.

During opening process of accounts in the Slovak Republic, the persons who requested to open an account, explained the need for account in Slovakia, that it is more convenient option for payments carried out in euros with business partners from the Slovak Republic and, last but not least lower fees for such payments. These accounts thus established were subsequently used for transactions, which did not show signs of typical behavior of a real business entity.

Specifically it involved following bank transfer patterns:

- subject's accounts credited with large deposits of cash, mainly in foreign currency, which were immediately transferred to accounts in a neighboring country (persons who carried out deposits of cash, stated that money originate from their business activity performed in in a neighboring country and that outgoing transactions represent payments of debts to their suppliers)
- repeated chain transactions of funds from a neighboring state and transfers back to a neighboring country among the same entities involved in transaction schemes.

Transfers involving Slovak entities (which didn't involve CEO from a neighboring country) occurred in minimum cases. The most cases were related to a pattern called "account zeroing" (transit account), when there usually aren't transactions typical for business activity carried out on bank accounts (as are payments for rent or utilities, parking fees, payments for telecommunications services, wages of employees, levies, etc.).

Based on the above findings, it can be assumed that entities (foreign or Slovak) with accounts established in the Slovak Republic, involved in transaction schemes were most likely used in tax optimization or carousel VAT fraud and the related subsequent legalization of proceeds of criminal activity carried out in abroad.

In this context, FSJ informed the foreign FIU in 124 cases to prevent the commission of the said criminal activity, while the volume of financial transactions carried out in these cases had reached more than 127 mil. EUR.

Trend „Italiano“

In 2019, FSJ police officers also noticed an increased number of performed financial transactions and related transactions involving Italian subjects (natural persons with permanent residence in Italy, or legal entities - Italian companies).

Within the analysis of UTRs carried out by FSJ in relation to Italian subjects revealed the following common indicators:



1. An Italian citizen has set up a personal account with a Slovak bank, which has immediately been credited with payments received from Italy from various entities (natural and legal persons). The funds thus transferred were subsequently withdrawn in cash via ATMs located in Italy using payment cards.
2. CEOs of Italian companies (Italian citizens) have opened accounts in Slovak banks for these companies. They stated to bank clerks, that they need to do so for purpose of relocation of their business activities to Slovakia. These accounts have subsequently been credited with payments transferred from various accounts held by Italian companies, which have immediately been withdrawn in cash via ATMs located in Italy using payment cards or in several cases from ATMs located in Slovakia.
3. Italian citizens have bought ready - made Slovak companies with virtual seat addresses. Subsequently already as the owners of a.m. companies registered in the Slovak Commercial Register, they set up business accounts in Slovak banks, where they pretended to be interested in performing business activities in the territory of the Slovak Republic, or business with Slovak business entities. After the establishment of accounts, there have continued the modus operandi described under the point No. 2.

An important common feature in cases mentioned under points 2 and 3 was the fact that no real business activity was noticed in the newly established business accounts of such entities (wage payments, payments for levies, utilities costs, rent, etc., transactions obviously related to real business activity) and a large volume of transactions have occurred immediately after opening an account for the entity.

The analysis of performed financial transactions revealed a suspicion that they may be purposeful transfers of funds carried out without real background. The amount of foreign credit payments was approximately equal to the amount of sequential cash withdrawals, or in some cases equal to the amount of transfers of funds sent to other accounts back to Italy, and thus leading to the so-called zeroing of a.m. accounts. The total number of such cases was 56, with the volume of transactions in the amount of more than 33 mil. EUR.

The probable reason that a large increase of a.m. suspicious financial transactions appeared in connection with Italian subjects is an effort to pretend a business and entrepreneurial activity in Slovak business entities for the Italian tax authorities, which can lead to a tax optimization of business income. The increase in the number of such cases indicates that these cases may be linked to the commission of sophisticated organized tax crime at international level. Moreover, it indicated that transactions carried out in described way led to the legalization of proceeds of criminal activities in Italy.

UTRs obtained from the obliged entities related to Italian entities were analyzed and processed by FSJ officers, and then a report has been sent from FSJ to the partner FIU in Italy for its possible further verification and utilization. In several cases, the Italian counterparts have found out that Italian entities were in fact a part of transactions' pattern related to tax criminal activity.



Trend „Loans“

A specific category of the recently noticed new trend in UTRs reporting were reports related to transactions, which subsequently were referred to “providing of loans”. In this connection, several cases showed signs of a criminal offense, preliminarily legally qualified as the legalization of proceeds of criminal activities under Art. 233 of the Criminal Code.

In these cases, the personal accounts of citizens who had a low income were misused. Many of them were listed in the Central Register of Debtors of the Slovak Republic, while at the same time they needed a quick loan at some point. This group of people most often looked for the possibility of obtaining a quick loan on the internet, and these people responded to any loan offer.

They applied for a loan through various websites of entities that provide such loans. Then they communicated via e-mail based on a loan inquiry they made via web-sites. In several cases, they have been approached with an offer to obtain a “favorable” loan, which, however, was conditioned by the establishment of a personal account in a commercial bank.

Subsequently, if a person agreed to such offer and set up a personal account, he/she was asked to send the account number and access rights to their internet banking via e-mail (i.e. it was no longer necessary to send payment cards by post office, as was typical for cases analyzed in the previous period of 2018). Subsequently, the access rights to internet banking were changed and various, most often foreign payments in various amounts began to flow to such accounts and/or cash deposits were executed in favour of such accounts and then there were transfers to other foreign accounts carried out. Part of the money transferred this way would be a loan asked by a victim – real account holder. Bank clerks asked account holders (victim) to explain the purpose of transactions carried out on the account. The account holders submitted a loan agreement elaborated abroad (they obtained such document from persons who arranged such loan). Log-ins for internet banking in such cases were most often made from the USA and Benin. There is a high risk that such accounts have been misused for legalization of proceeds of criminal activities due to the fact that real account holders didn't have any knowledge of the volumes of transactions carried out on their accounts.

In 2019, a significantly lower proportion of UTRs related to the operation of gambling games was noticed by FSJ. It was caused by a successful working meetings of "representatives of gambling operators" in the Slovak Republic with the FSJ representatives, which took place in order to improve preventive activities of gambling operators in the field of assessing the risk of commercial transactions from the perspective of ML/TF.

REAL CASES

Auctioneer

During 2019, FSJ received several reports from various obliged entities, the content of which revealed a suspicion of the continuing crime of fraud, the modus operandi of which was identical in all cases. The fraud consisted in the fact that perpetrators (or depending on the



manner of implementation and circumstances of the crime, probably organized crime group) sought people of weaker social status (in most cases homeless people) throughout the Slovak Republic (especially districts of Prievidza, Bánovce nad Bebravou, Banská Bystrica, Prešov, Poprad, Bratislava). Then they (perpetrators) used them as the so-called "strawman" who set up personal bank accounts in various banks in Slovakia. Subsequently, these accounts were used to place fraudulently elicited funds. Offenders (organized crime group) advertised various offers through selling web-sites, where they put ads of properties offered for sale for attractive price. These ads were related to a misuse of a trade name of a certain auction company, which was introduced as a seller in those ads. After the victims expressed interest in particular real property, they were contacted by a possible perpetrator who acted as an employee of the auction company and were instructed to pay an auction deposit to a particular account (established and held by „strawman“). After paying the deposit / part of the purchase price, the perpetrators stopped communicating with the victims, the sale of things did not take place and the money was not returned to them. In this way, FSJ found out 12 injured parties (one of them came from the Czech Republic), while the total amount of damage, which was documented, is 67,576 EUR. In most cases, despite the fact that FSJ immediately processed and submitted the information in question to the relevant LEA (which was also aware of the fact that similar cases are being resolved in other departments of Police Force of the Slovak Republic), almost none of the fraudulently elicited funds were secured by LEA, as the perpetrators immediately after receiving credit payments in favour of „strawman's“ bank account, withdrawn the cash through strawmen from ATMs or in bank branches. The reason for not securing the funds in bank accounts was the fact that the victims complained about the suspicion that they had become a victim of fraud in the bank at a time when the funds had already been withdrawn from „strawman's“ bank account.

Africa – misusing of personal bank account

FSJ received UTR from a bank in relation with credit payments in lower amounts, which were received from various foreign remitters, in favour of a personal bank account held by a Slovak citizen. Based on the above, the bank asked the account holder to explain the origin of incoming foreign payments to his account from EU countries, as when opening the account, the client declared to use the account only to receive a wage.

The account holder stated that he needed a loan and so he contacted via internet an unknown entity who promised to provide him loans. He stated that received funds are considered as a loan. At the same time, he admitted that he provided an unknown person from Africa (who was supposed to lend him funds) access to electronic banking, even with an account number, on the grounds that otherwise the funds (loan) would not be sent to him. The account holder did not carry out any transaction on his account and all transactions on the account were carried out by a third party. Based on this information, the bank blocked the personal account.

During 1 month since the bank account opening, totally 27 credit payments in the total amount of EUR 12,342 were credited to this account. Outgoing transactions in the total amount of EUR 4,403 were carried out in favour of bank account conducted with a bank in Slovenia,



and another in favour of various bank accounts held in EU countries - mainly in Bulgaria and Germany.

All transactions were carried out on the basis of transfer order entered via internet banking from IP addresses located in Benin and the USA. Regarding the incoming payments the bank hasn't received any complaints or any request for payment return from the remitters of payments. The bank also noticed other persons (bank's clients) in its system who received payments from various entities in favour of their bank accounts. Subsequently the funds were also transferred via internet banking from IP addresses located in Benin and in the USA, and none of incoming payments were claimed.

FSJ elaborated comprehensive information, which was submitted to relevant Police Force unit on suspicion of money laundering pursuant to Section 233 of the Criminal Code and at the same time foreign partner FIUs were contacted.

MONEY LAUNDERING AND TERRORISM FINANCING **PROGNOSIS**

Based on the analysis of the information obtained and current events happening in the Slovak Republic, the following activities and the development of trends in the field of ML / TF can be expected, which should generate income in particular:

- tax crime with the use and involvement of shell and fictitious companies in complex transaction and business schemes, with the deployment of new forms of tax crime and tax optimization, carousel fraud, as well as the use of tax havens and offshore companies,
- misuse of business activities of companies, where the entity has no or insignificant connection to the Slovak Republic, misuse of business bank accounts by non-residents for transit of funds originating from illegal activities abroad (presumption of misuse of such accounts in transaction schemes for possible use of cash operations) through the Slovak Republic,
- from committing economic and property crime in the form of so-called CEO fraud (payment diversion), internet fraud, credit card fraud and their penetration and transfer to the field of "cybercrime",
- fraud abusing the methods of social engineering, abuse of trust and eliciting of funds on the basis of pretended interest in establishing a relationship, "paying out winnings" in high volume, etc.,
- abuse of the purchase of crypto-currencies, electronic wallets and electronic payment gateways,
- using of online player accounts, mainly in order to create a legal title to prove the origin of funds.

Expected development

Based on previous experience and trends noticed in the field of ML / TF, it can be predicted that in the forthcoming period the development of the situation in this area will be largely influenced by the development of the situation in the world. It is assumed that the number of CEO fraud or phishing cases, etc. will have a declining trend. A significant increase can be predicted in the case of internet fraud, due to the growing interest of the population in the internet method of purchasing goods, to which the current situation of the spread of coronavirus in the world also contributes. In order to eliminate the commission of such criminal activity, it is necessary to raise citizens' awareness again by payment service providers as well as state authorities. We also anticipate an increase in cash withdrawals from bank accounts of natural persons and legal entities, as well as transactions between business entities in higher volumes.

NATIONAL RISK ASSESSMENT

One of the activities carried out by FSJ in 2019, which cannot be quantified but it is necessary to stress it, is the finalization of the National Risk Assessment of Money Laundering and Terrorist Financing (hereinafter only the "NRA") process, which resulted in the processing of non-legislative material that was submitted to the meeting of the Slovak Government. The Slovak Government by Resolution no. 207 of 7 May 2019, approved the Action Plan of the Fight Against Legalization of Proceeds from Criminal Activities and Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction for 2019 – 2022 (hereinafter only the "Action Plan") and took note of the Final Report and the Strategic Principles of Fight Against Legalization of Proceeds from Criminal Activities and Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction for the period 2019-2024.

The Action Plan is a key tool in the risk assessment process at the national level and contains specific roles and responsibilities for national competent authorities to mitigate vulnerabilities and shortcomings in the fight against ML / TF in the Slovak Republic.





MONEYVAL

Throughout 2019, the Slovak Republic underwent the 5th round of evaluation by the Moneyval Committee for Experts on Money Laundering and Terrorist Financing (hereinafter referred to as "Moneyval"). Moneyval is a regional body of the Financial Action Task Force (hereinafter referred to as "FATF"). The FATF is an independent intergovernmental body that has developed a system of recommendations to protect the global financial system from ML / TF.

To clarify the concept, we would like to state that the Moneyval evaluation is a comprehensive evaluation, including an assessment of legislative, institutional and organizational measures. At the same time, it identifies the shortcomings of these measures and subsequently provides the evaluated country, in the form of recommendations, with instructions on how to eliminate these shortcomings.

The assessment of the Slovak Republic is carried out in two complementary levels:

- a) evaluation of the technical compliance of the Slovak legal order with international standards,
- b) an evaluation of the effectiveness of the national system to combat ML / TF.

One of the phases of the Moneyval evaluation is the development of two questionnaires. The Technical Compliance Assessment Questionnaire contains specific requirements for each of the forty FATF Recommendations, with the country required to demonstrate sufficient implementation. The questionnaire for the evaluation of effectiveness is focused on providing information through which the Slovak Republic will demonstrate the effectiveness of the functioning of the national system for combating ML / TF.

After submitting the questionnaires, the Slovak Republic was preparing for a two - week evaluation visit, while the FSJ ensured demanding coordination in the personnel, financial and material - technical provision of the evaluation visit itself. The aim of the evaluation visit was to answer all questions from the members of the evaluation team in the form of a guided discussion and dialogue. The evaluation visit itself took place in the premises provided by the National Bank of Slovakia.

Intensive communication is currently underway with evaluators to comment on the text of the report, which is due to be approved at the 60th Moneyval Plenary in July 2020.



TERRORISM FINANCING

In 2019, FSJ also dealt with the issue of terrorism financing, which is also related to the issue of "proliferation" financing - financing the proliferation of weapons of mass destruction. Terrorism is a persistent threat to society as a whole. Its essence is the spread of fear and violence to achieve the goals of perpetrators. Terrorism is related to the need for its financing, in the form of financing the needs of individual terrorists or entire groups.

In this context, it is essential that the fight against terrorism, as well as terrorist financing, be pursued in line with the intention to achieve the common goal of protecting society from crime and safeguarding the stability and integrity of the financial system. The success of the fight against terrorism is conditional on the early identification of suspicious activities. FSJ is making increased efforts to identify UTRs, monitor, evaluate and update methods, forms and relevant indicators of terrorism financing.

Elements of terrorism financing, which were mentioned in UTRs received by FSJ from obliged entities in 2019, hasn't been confirmed by FSJ's officers after thorough assessment of particular UTRs. For precautionary reasons, they were further disseminated to a specialized unit. In the future, FSJ will continue in improving methods for detecting financial transactions related to terrorism financing and proliferation financing. In this area we understand the need for cooperation with intelligence services and, given the scale of the issue, cooperation at the international level.

Proliferation is defined as:

- providing financial services for the transport and export of nuclear, chemical or biological weapons; means of import (transport) and related material,
- financing of trade related to the proliferation of sensitive goods, as well as the provision of financial support to natural or legal persons involved in the proliferation of weapons of mass destruction.

The proliferation of weapons of mass destruction is currently one of the most serious security threats. The main reason is the fact that nuclear, chemical and biological weapons



belong to the most destructive category of weapons. In the future, FSJ will pay increased attention to the issue of proliferation in cooperation with all stakeholders, both at the national and international levels.

INTERNATIONAL COOPERATION

Good, fast and effective international cooperation is essential in the fight against ML / TF at the national level. The legislation of the Slovak Republic allows FSJ to exchange information about unusual transactions, either in the form of requests and responses to them or spontaneously. International cooperation is not limited to specific cases of exchange of information in cases under scrutiny, but also includes a general exchange of experience, best practices and participation in international working groups and organizations.

The numbers of requests for information sent abroad and vice versa received from abroad, as well as the numbers of received and sent spontaneous information, are provided in Table no. 6. As part of the strengthening of bilateral cooperation, regional workshops are organized annually for partner FIUs of Austria, the Czech Republic, Hungary, Poland, Slovenia and the Slovak Republic, which are regularly attended by selected representatives from the FIUs of these countries. In 2019, the meeting took place in Slovenia, and in 2020 it will be organized in the Slovak Republic.

In 2019, FSJ representatives took part in the regular meetings of the Expert Group on Anti-ML / TF Experts (EGMLTF) in Brussels, as well as in the meetings of the FIU Platform, an informal group of FIUs of EU member states, established by the European Commission in 2006. In connection with the above-mentioned 5th round of the Moneyval evaluation, to which the Slovak Republic is currently undergoing, FSJ representatives participated in two plenary meetings of the committee in question in Strasbourg. FSJ representatives also attended the plenary session of the AP SUSTRANS in 2019.

An example of international cooperation is the case where in October 2019 FSJ was asked by a foreign FIU to identify Slovak ATM cards seized under warrant from a citizen of an EU member state who was suspected of economic crime. According to the information available to the foreign FIU, there was a realistic assumption that the bank accounts to which the cards were issued contained proceeds of crime. Subsequently, FSJ asked Slovak banks to find out the bank accounts to which the suspect's cards were issued, and at the same time they were asked to block all outgoing transaction on the identified bank accounts for 120 hours. Following that, a mutual legal assistance was performed. On the basis of a seizure order issued by the District Prosecutor's Office in Nitra, funds in bank accounts were seized for purposes of official criminal proceedings carried out in another EU Member State.

Table no. 6: Overview of international cooperation statistics of FSJ for the years 2017 - 2019

| Year | Number of requests sent abroad | Number of received and processed requests from abroad | Number of requests disseminated abroad* | Number of information on Slovak entities received from abroad |
|------|--------------------------------|---|---|---|
| 2017 | 89 | 265 | 654 | 211 |
| 2018 | 85 | 240 | 555 | 420 |
| 2019 | 125 | 263 | 502 | 131 |

Source: FIU statistics

* "The number of information sent to foreign FIUs includes the total number of information sent, not only the number of information obtained from reports on UTRs (e.g. additional information, information obtained from its own activities, etc.)."



SUPERVISORY ACTIVITIES

The control of the fulfilment and compliance of obligations arising to obliged entities from the AML/CFT Act is ensured by FSJ in accordance with the provisions of Article 26 and Article 29 of the Act. In relation with obliged entities defined in the AML/CFT Act, the FSJ is also an administrative body., which means that FSJ can impose sanctions for detected breach of obligations from the AML/CFT Act in cases where the offense was committed in connection with a breach of the duty of confidentiality in accordance with Act no. 71/1967 Coll. on administrative proceedings as amended (Administrative Procedure Code), resp. Act no. 372/1990 Coll. on offenses, as amended.

Regarding supervisory activities in 2019, FSJ primarily followed the Annual Control Plan, which was elaborated with using of findings from specific developments in the fight against ML / TF, the results of the NRA, as well as findings from previous inspections of obliged entities, suggestions and information obtained from other parts of the Police Force, as well as from knowledge of various failures and non-compliance with certain legal obligations obtained during the processing of UTRs.



During 2019, FSJ carried out 12 inspections, while the ratio between obliged entities from the financial sector and the non-financial sector that were subject of inspection was 1:1 (financial sector 52%, non-financial sector 48%).

Out of the total number of 12 executed inspections, FSJ imposed fines in 4 cases in the total amount of EUR 36,300. In two cases the inspection was terminated without imposing a sanction and in six cases the inspection was not completed by the end of 2019. In addition to these inspections, the Department of Obligated Entities Inspection of FSJ finalized 6 inspections from 2018.

The inspection activity revealed violations of legal provisions by obliged entities, which consisted mainly in not elaborating the obligatory requirements of the obliged entities' own activity program to the extent required by law /Article 20 (1) (2) of the AML/CFT Act/, failure to carry out customer due diligence with respect to Article 10 of the AML/CFT Act, /insufficient identification of the client and its verification within the scope of Article 7 and Article 8 of the AML/CFT Act/, failure to determine the purpose and planned nature of the business relationship, or whether the client acts in his own name, failure to determine beneficial owner and origin of funds depending on ML / TF risk, failure to carry out enhanced due diligence pursuant to Article 12 of the AML/CFT Act, non-assessment of transactions pursuant to Article 14 (1) – (3) of the AML/CFT Act, non-notification of UTRs to FSJ, as well as failure to provide the necessary cooperation and non-delay of proceedings that could frustrate the performance of control under Article 30 of the AML/CFT Act.

Within the framework of cooperation with obliged entities, FSJ issues opinions, guidelines and answers to qualified inquiries received from obliged entities to individual application problems arising from practice (mainly based on inquiries obtained from obliged entities, professional organizations and associations of obliged entities). In 2019, a total of 22 opinions and responses to a qualified inquiry were prepared in this form, which in most cases concerned multivalent definitions given in the AML/CFT Act and ambiguity in the application of individual obligations of obliged entities in practice.



Table no. 7: Statistics on inspections of obliged entities divided according to a subject of activity carried out in 2019

| Obliged entity - activity | Number of inspections |
|---|-----------------------|
| Currency exchange activity | 1 |
| Providing loans | 4 |
| Financial leasing | 2 |
| Debits trading | 1 |
| Trading with precious metals | 1 |
| Organizational and economic consultanting | 7 |
| Activities of Payment Services Agents | 2 |
| Activities of Accountants | 2 |
| Activities of Securities brokers | 1 |
| Organizing voluntary auctions | 1 |
| Activities of Financial agentd | 1 |
| Activities of Gambling operators | 1 |
| Activities of Creditor | 1 |
| Activities of Banks | 1 |

Source: statistics data of FSJ

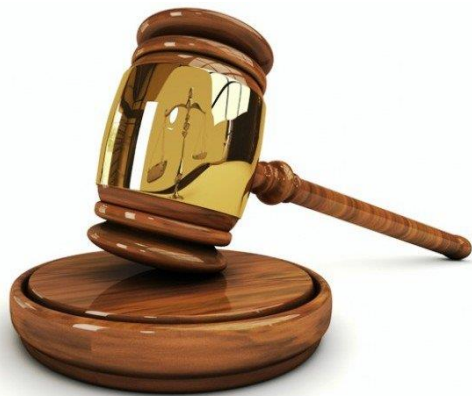
Table no. 8: Statistical data on the number of inspections, number of imposed fines, amount of fines imposed in the years from 2017 to 2019

| Year | Number of inspections | Method of finalization of inspections | | | Sanction amounts in EUR |
|------|-----------------------|---------------------------------------|----------|-----------|-------------------------|
| | | Without sanction | Sanction | Undecided | |
| 2017 | 5 | 0 | 5 | 0 | 49.200 |
| 2018 | 10 | 3 | 7 | 0 | 39.500 |
| 2019 | 12 | 2 | 4 | 6 | 36.300 |

Source: statistics data of FSJ

LEGISLATIVE ACTIVITIES

In 2019, FSJ prepared a draft amendment of the AML/CFT Act, the main objective of which was to transpose Directive 2018/843 of the European Parliament and European Council of 30 May 2018 amending EU Directive 2015/849 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing and Directives 2009/138 / EC and 2013/36 / EU (hereinafter the "V. AML Directive") and the acceptance of MONEYVAL and FATF recommendations, in an effort to effectively respond to ongoing developments in the fight against ML / TF. The aim of the submitted proposal is to improve access to the Register of Ultimate Beneficial Owners, to strengthen and harmonize enhanced due diligence rules, to take stricter measures to reduce the ML / TF risks associated with anonymous prepaid instruments, to monitor UTRs carried out by using of virtual crypto-currencies, to expand scope of Politically Exposed Persons (PEPs) and to make the FSJ's procedure for exchanging information with the competent authorities of the Member States necessary for the prevention and detection of ML / TF more precise. The transposition of Article 32a of the AML Directive to the Act no. 483/2001 Coll. on Banks and on Amendments to Certain Acts changed and adjusted conditions for providing information from obliged entities to FSJ on payment accounts identified by the IBAN number or other bank accounts conducted with a bank, branch of a foreign bank or payment institution, including safe deposit boxes. The material was discussed and approved by the Government of the Slovak Republic by Government Resolution No. 495 dated on 9 October 2019.



STRONGER TOGETHER

During 2019, as in other years, activities and coordination meetings took place with key partners participating in the fight against ML / TF.

As part of its activities, FSJ participated in various trainings, consultations and meetings aimed to elimination of application issues that occur in connection with the fulfillment of tasks stipulated by the AML/CFT Act. Specifically, FSJ provided 31 trainings. In 2019, FSJ representatives participated in several meetings led by the Slovak Banking Association, the Slovak Chamber of Auditors, and the Association of Leasing Companies of the Slovak

Republic. Moreover FSJ representatives participated in meetings held with the National Bank of Slovakia and the Gambling Regulatory Authority in order to exchange experiences and knowledge from performed inspections. FSJ representatives together with representatives from the General Prosecutor's Office of the Slovak Republic attended an educational activity in the town Krpáčovo on the issue of tax crimes, financial investigation and asset recovery.

In order to increase the quality of filling in notification forms (Cash Transportation Report) by persons from third countries entering or leaving the EU, FSJ representatives attended a working meeting with representatives of the Customs Department of the Financial Directorate of the Slovak Republic, the Criminal Office of the Financial Administration of the Slovak Republic, and heads of shifts at individual border crossings and representatives of customs branches – in towns Vyšné Nemecké, Veľké Slemence, Čierna nad Tisou and Ubl'a.



STATISTICAL OVERVIEW OF SELECTED DATA

| | 2017 | 2018 | 2019 |
|---|------------------------------|--------|--------|
| Number of received UTRs | 2 636 | 2 509 | 2 576 |
| Number of UTRs disseminated to LEA | 354 | 252 | 219 |
| Number of postponed UTRs disseminated to LEA | 87 | 44 | 43 |
| Total value of postponed UTRs (in thous. of EUR) | 9 895 | 4 018 | 7 767 |
| Number of UTRs disseminated to tax authority | 1 138 | 980 | 829 |
| Number of requests received from abroad | 265 | 240 | 263 |
| Number of requests sent abroad | 89 | 85 | 125 |
| Number of spontaneous information received from abroad | 211 | 420 | 131 |
| Number of spontaneous information sent abroad | 657 | 555 | 502 |
| Number of inspections | 5 | 10 | 12 |
| Total value of imposed sanctions (EUR) | 49 200 | 39 500 | 36 300 |
| Number of Reports of Transportation of Cash | 152 | 230 | 264 |
| Total Value of reported cash transports (in thousands of EUR) | 5 261 (+registered bonds) | 8 132 | 19 625 |





CONTACT DATA

ADDRESS

Ministry of Interior of the Slovak Republic
Presidium of the Police Force
Financial Intelligence Unit
Pribinova 2
812 72 Bratislava

INTERNET

Web-site: www.minv.sk/?financna-policia
e-mail: sjfpsek@minv.sk

TELEPHONE/FAX

Tel.: 09610/51402
Fax: 09610/59047

CONTACT DATA for UTRs reporting

In person: Račianska 45, 832 02 Bratislava
In writing: Financial Intelligence Unit, Pribinova 2, 812 72 Bratislava
Electronic: sjfpnoo@minv.sk
Tel.: 09610/51419
Fax: 09610/59047

