

**FINANCIAL MONITORING SERVICE  
REPUBLIC OF AZERBAIJAN**



**2018**

**ANNUAL REPORT**

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**FATF**

Financial Action Task Force of the Organization for Economic Cooperation and Development

**GoAML**

Special analytical module system

**GUAM**

Georgia, Ukraine, Azerbaijan and Moldova – Organization for Democracy and Economic Development

**Service**

Financial Monitoring Service of the Republic of Azerbaijan

**IT**

Information technologies

**MONEYVAL**

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures of the Council of Europe

**AML/CFT**

Anti-Money Laundering and Combating the Financing of Terrorism

**ML/TF**

Money laundering and terrorism financing

We won't be mistaken if claim the year gone by to be the year of key reforms and significant achievements in the history of anti-money laundering and counter-terrorism financing (AML/CFT) system of the Republic of Azerbaijan.

Last year was marked by the establishment of the Financial Monitoring Service of the Republic of Azerbaijan as an independent institution. A number of changes were made to the legislation as a result of purposeful steps taken to establish the Service as an independent body and to bring the normative legal framework in conformity with the international standards.

It is a result of consistent reforms in the AML/CFT field that specialized international organization of financial Intelligence units - the Egmont Group restored the Service's membership. We would like to inform you that our membership to such an influential specialized organization like the Egmont Group is of great importance in terms of strengthening the capacity and expanding the information exchange of the Service.

When talking about the last year's achievements one should also highlight the adoption of IV Round AML/CFT mutual evaluation progress report of the Republic of Azerbaijan during the 57th Plenary Meeting of Council of Europe MONEYVAL Committee and removal of our country from MONEYVAL's monitoring regime as a result.

Thus, in 2018, further improvement of our country's international reputation in the fight against the legalization of criminal funds or other property and terrorism financing was achieved.

In order to ensure professional development of the Financial Monitoring Service employees, their involvement in relevant events domestically and abroad was ensured, targeted trainings for participants in the fight against money laundering and terrorist financing were conducted.

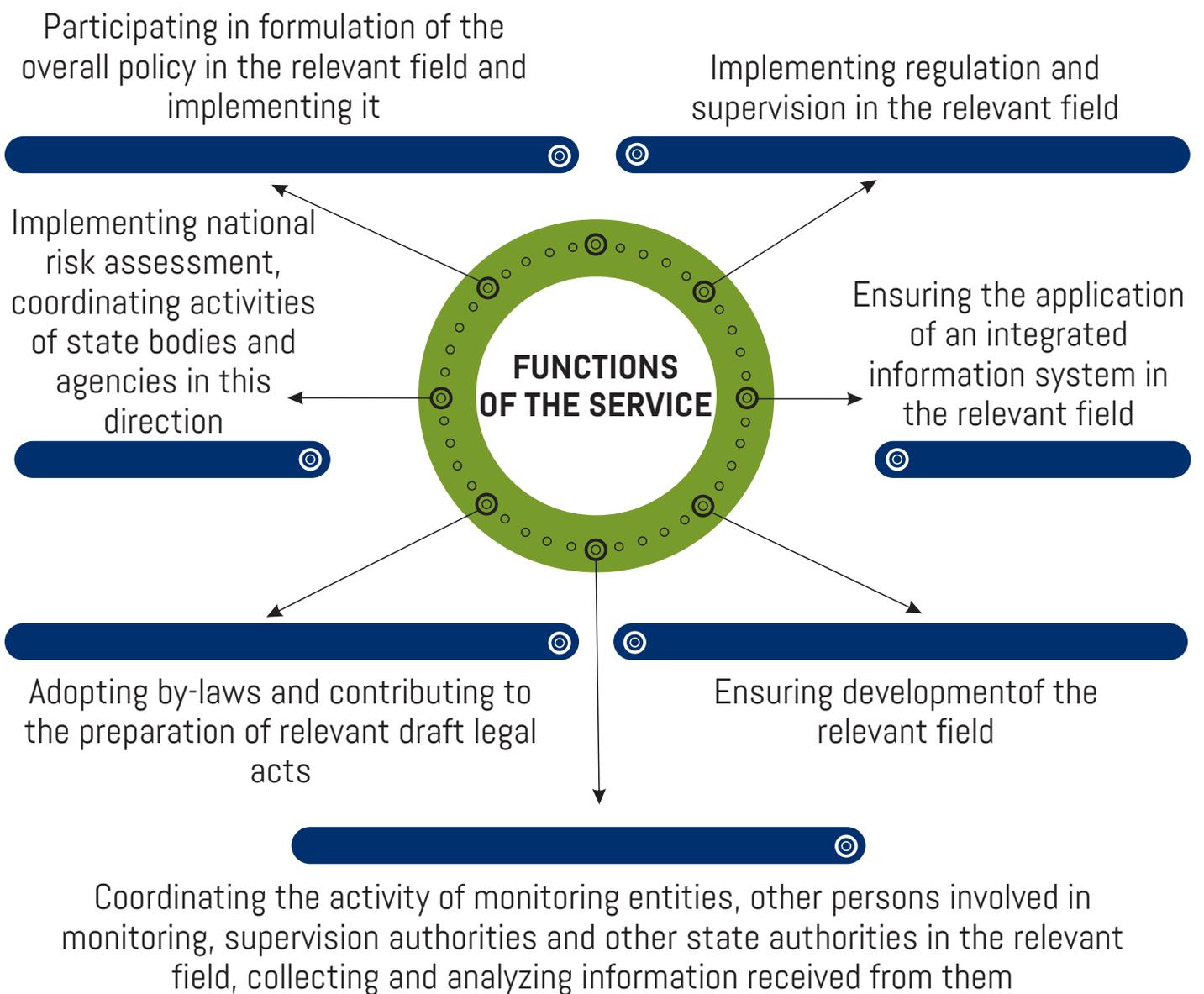
Finally, it should be mentioned that implementation of the activities in the framework of the "National Action Plan on combating legalization of criminally obtained funds or other property and financing of terrorism for 2017-2019" was continued in 2018.

KAMIL HEYDAROV  
Acting Chairman of the Executive Board

The Financial Monitoring Service was established as an independent entity by the Decree # 95 of the President of the Republic of Azerbaijan dated 25 May 2018. The Service's Charter and structure were approved by the Decree # 215 of the President of the Republic of Azerbaijan dated 18 July 2018.

The main goal of the Service is to oversee compliance with stipulated by the law requirements on prevention of the legalization of criminally obtained funds or other property and the financing of terrorism, implement policy and overall regulation in the relevant field, coordinate the activity of monitoring entities, other persons involved in monitoring, supervisory and other state authorities, ensure transparency and effectiveness.

## FUNCTIONS OF THE SERVICE ARE AS FOLLOWS



## Information analysis department

Tactical analysis unit

Strategic analysis unit

## Information support department

Information processing unit

Information technologies unit

## Corporate services department

Secretariat unit

Logistics and accounting unit

## Internal security department

General security unit

IT security unit

Human resources unit

## Legal department

Legislation and execution unit

Risk assessment and  
methodology unit

## Cooperation department

Foreign and domestic cooperation

Protocol and public relations unit

## Supervision department

Pawnshop supervision unit

Realtor supervision unit

Improvement of the legislation within the framework of reforms implemented in the AML/ CFT field in the Republic of Azerbaijan was one of the main goals for 2018. A number of changes were made to the legislation as a result of purposeful steps taken to establish the Service as an independent body and to bring the normative legal framework in conformity with the international standards.

First of all, establishment of the Service as an independent body necessitated redefining the scope of AML/ CFT supervisory agencies. Thus the new Law of the Republic of Azerbaijan dated 12 June 2018 amended the Law of the Republic of Azerbaijan "On Prevention of the Legalization of Criminally Obtained Funds or Other Property and The Financing of Terrorism" and the Service's supervisory function was differentiated from the other supervisory bodies' functions. Thereby, the Service was entrusted with the supervisory agency functions in relation to pawnshops and natural persons or legal entities that provide intermediary services for purchase and sale of real estate.

Decree of the President of the Republic of Azerbaijan #216 dated 18 July 2018 amended Decree of the President of the Republic of Azerbaijan #384 dated 16 February 2011 "On the application of the Constitutional Law of the Republic of Azerbaijan "On normative legal acts" with a view to ensuring that the Service had the authority to adopt normative acts in the AML/CFT field. Thereby the Service obtained the regulatory function in respect to monitoring entities and other persons involved in monitoring as an institution contributing to the state policy formulation in the relevant field.

Additionally, according to the Law of the Republic of Azerbaijan #1185-VQD dated 12 July 2018, the Service obtained the right to use the information resources of the relevant state bodies (agencies).

It should be noted that 2018 also stood out as a year of progress in terms of bringing the national legislation in line with international standards in the field of AML/CFT. Major changes made to the legislation in connection with the international standards implementation in the past year are shown in Annex 1.

Suspicious transaction reports at the Service are analyzed by GoAML software in accordance with the “Guideline on Information Analysis Department’s research and analysis activities”.

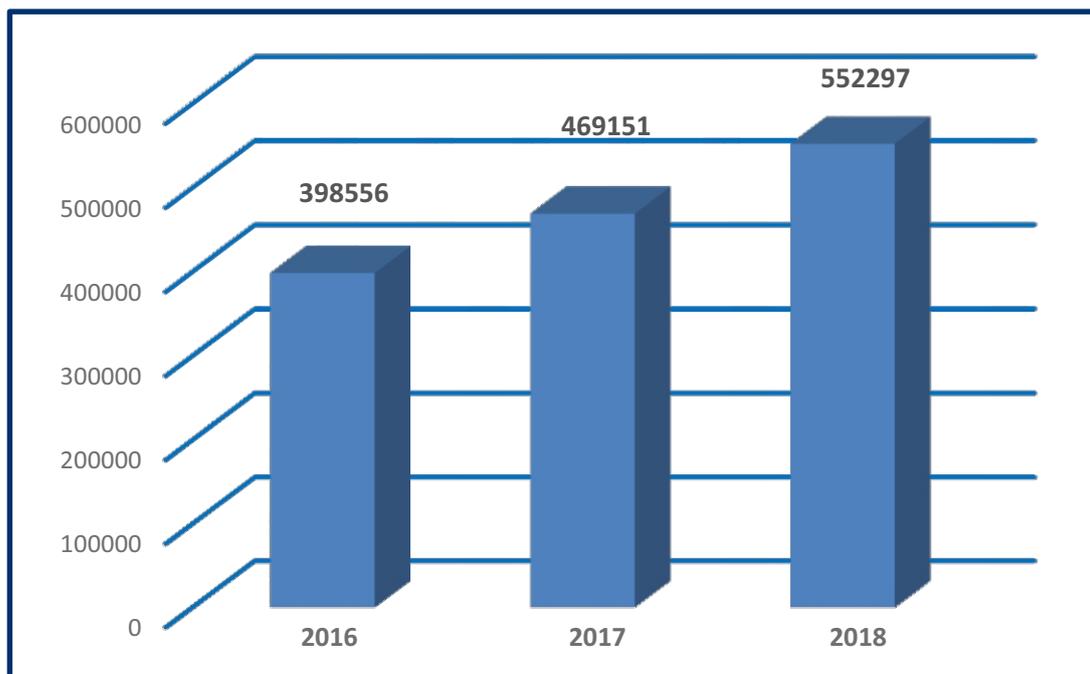
The Service’s analytical activity includes tactical and strategic analysis. Within the framework of tactical analysis information received from the reporting entities is compared with other operational information as a part of the data collection process necessary for an accurate representation of the facts about natural and legal persons or various events proving the case.

Information aggregated in the Service’s analytical information system, open source data (company registers, audit reports, telephone directories, Internet, etc.), the state agencies’ databases (tax, justice, police, migration, customs, moveable and immovable property registers, etc.), additional information collected from the initial reporting entity and information received from the financial Intelligence units of other countries make up the main sources for tactical analysis.

During strategic analysis, information-based body of knowledge is formed helping to define the future action pathways of the Service and also use operationally. Such information refers to new problems and trends, general trends, typologies, models, area studies, suspicion criteria, behavioral patterns, criminal activity models, criminal schemes, and other analytical products. The scope of strategic analysis includes identifying criminal schemes in any particular group, as well as developing a broad concept of new illegal activity models.

The total number of transaction reports submitted by the reporting entities to the Service in 2018 increased by 17.7% reaching 552297 (Figure 1).

**Figure 1.**  
**Information about the number of transaction reports submitted to the Service in 2016-2018**



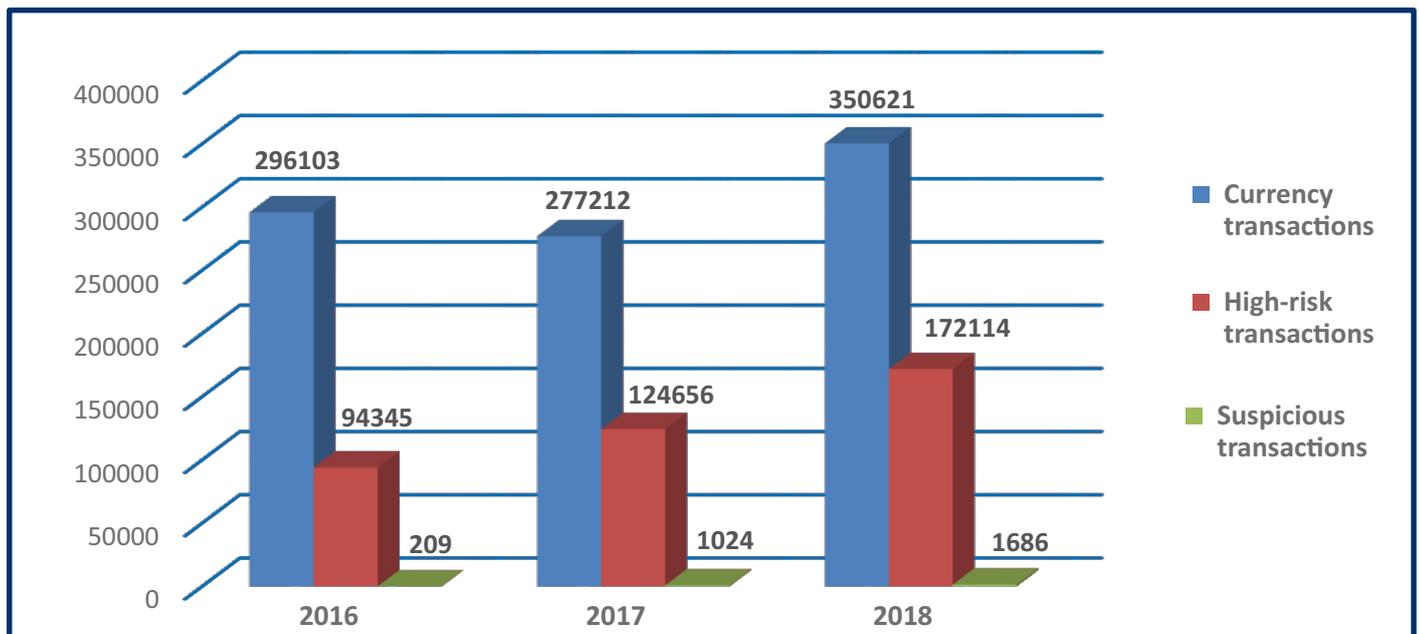
63.5% of these reports were currency transaction reports (transactions in cash of 20000 manat or more), 31.2% high-risk, 0.3% suspicious, 5% other transaction reports (Table 1).

**Table 1.**  
**Number of transaction reports submitted to the Service in 2018 according to transactions classification**

Classification of transactions	Number of transactions
Currency transactions	350 621
High-risk transactions	172 114
Suspicious transactions	1 686
Other transactions	27 876
<b>TOTAL</b>	<b>552 297</b>

In 2017 currency transactions decreased by 64%, high-risk transactions increased by 32% and suspicious transactions by five times compared to 2016. In 2018, currency transactions increased by 26.5%, high-risk transactions by 38%, suspicious transactions by 65% compared to 2017 (Figure 2).

**Figure 2. Number of transaction reports for 2016-2018 according to transactions classification**



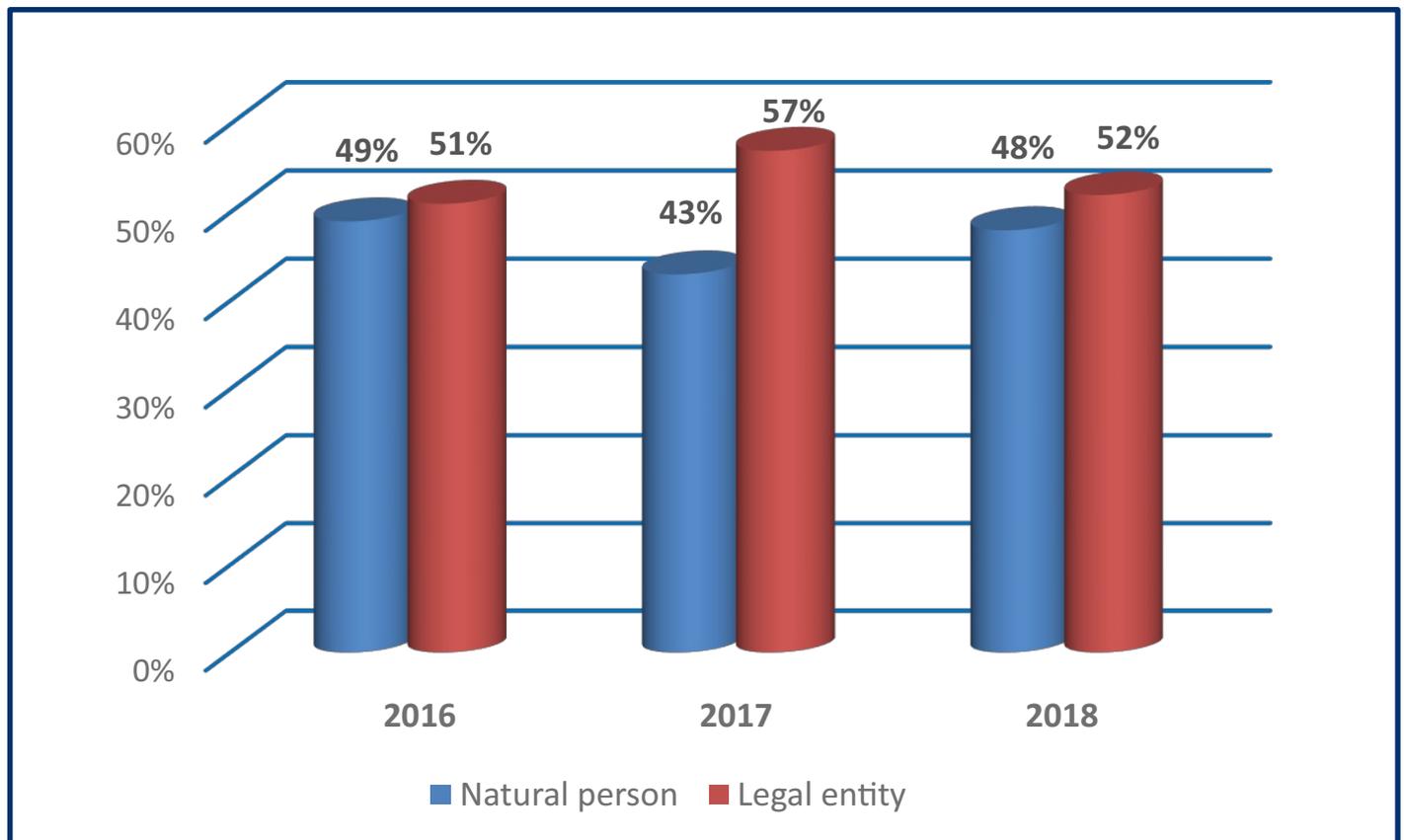
During the reporting period, the majority of reports submitted to the Service were related to transactions with the amount ranges of 20001 - 100000 manat and 0 - 5000 manat (Table 2). 83% of all transactions were made up by the transactions from the above-mentioned two amount ranges. High-risk (93%) and suspicious transactions (56%) are mainly found under 0 - 5000 manat range.

**Table 2.**  
**Composition of transactions for 2018 based on amount range (%)**

Ranges	Currency transactions	High-risk transactions	Suspicious transactions	Other transactions	Total transactions
0-5000	0,0	92,9	55,7	40,1	40,1
5001-10000	0,0	2,4	11,9	7,2	7,2
10001-20000	4,1	1,9	15,0	23,9	23,9
20001-100000	79,1	2,0	11,6	18,7	18,7
100001-1000000	15,9	0,7	4,1	8,8	8,8
1000000+	0,9	0,0	1,7	1,3	1,3
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

In 2018 the Service received about 2200 transactions per day on average. 48% of reports submitted by the reporting entities were about transactions with natural persons, while 52% - with legal entities (Figure 3).

**Figure 3.**  
**Distribution of submitted to the Service transactions for 2016-2018**  
**by customer type**



In order to analyze suspicious transactions, the Service continued its information exchange with government agencies and financial intelligence units of foreign countries during the reporting year.

As a result of investigation of the received reports by the Service, the ML/TF suspicious cases were disseminated to the relevant law enforcement agencies.

Last year the Service continued its cooperation with the reporting entities, law enforcement and judiciary agencies, as well as the other state and non-governmental organizations.

During the period from May to August 2018 technical training seminars for banks on the interpretation of the XSD and XML structures of reports submitted to the Service under the relevant regulations were conducted.

The Service's experts during May – December 2018 conducted trainings for the banks' management, AML/CFT compliance, front office, internal audit and legal departments' officers on AML/CFT topics, including identification of customers and beneficial owners as well as introduction of internal control systems.

Moreover, trainings were held for monitoring entities and other persons involved in monitoring on "Concepts and challenges in the field of terrorism financing" on 27 September, "Risk assessment methodology in the field of legalization of illegal proceeds and terrorism financing and application of risk-based approach for banks" on 2 November, "Terrorism financing and proliferation" on 10 December 2018 as a part of the "Strengthening Anti-Money Laundering in Azerbaijan" Project implemented in the framework of the Council of Europe Partnership for Good Governance Program. Regular participation of the Service's experts in all working meetings under this project was also ensured during the year.

It should be mentioned that the Service's representative attended the Banking Forum held in Baku on 15-16 November 2018 and delivered a speech about its new independent status and the role of banks in the AML/CFT system.

International cooperation is one of the important aspects of the Service's activities. Implementing appropriate measures in this field also serves the purpose of effective execution of item 3 "Strengthening international and bilateral cooperation" of the "National Action Plan on combating legalization of criminally obtained funds or other property and financing of terrorism for 2017-2019".

In the previous year, the Service worked systematically with the Egmont Group – specialized international organization of financial Intelligence units in order to restore its membership with the mentioned institution. As a result, following discussions at the working groups and the Heads of FIU meeting the decision on admitting the Service to the Egmont Group was made on September 27 at the 25th Egmont Plenary Meeting held on 23-28 September 2018 in Sydney, Australia.

Restoration of the Service's membership in the Egmont Group is of particular importance in terms of further enhancing the international reputation of the Republic of Azerbaijan, expanding international cooperation and information exchange as well as capacity building in the relevant field.

Another important aspect of the Service's international cooperation was related to the Council of Europe MONEYVAL Committee. Thus on 5 December of the reporting year MONEYVAL heard the IV Round AML/CFT mutual evaluation progress report within the framework of its 57th Plenary meeting and decided that the Republic of Azerbaijan had successfully implemented FATF 40+9 Recommendations as well as derived from them MONEYVAL recommendations.

Moreover, the Service actively contributed to the work of the Financial Action Task Force (FATF) of the Organization for Economic Cooperation and Development, MONEYVAL and Organization for Democracy and Economic Development – GUAM.

The Service also contributed through participation to the "Ways of solving the problem of illegal wealth accumulation through corruption" workshop (Kishinev, Moldova), "Transparency of beneficial ownership" conference (Tirana, Albania) and "Risk-based approach in AML/CFT by supervision authorities" workshop (Istanbul, Turkey) organized by the Council of Europe and the European Union.

In 2018 cooperation with the European Bank for Reconstruction and Development was established and a joint event for financial institutions was organized.

In addition, the Service participated in the 12th Parliamentary Intelligence Security Forum, held in December of the reporting year in Washington, DC.

Several measures were taken in 2018 to improve the information technologies (IT) infrastructure of the Service and provide relevant electronic services. Information technologies

The material and technical base of the Service's IT infrastructure was evaluated as a whole and separately, and purchase proposals regarding the required equipment and software were developed. Important technical measures were also taken to ensure completeness and accuracy of information submitted by the reporting entities to and received by the Service electronically via the GoAML system. During the year, inquiries received from the reporting entities were answered and relevant recommendations given.

Providing special security certificates for submitting information by the reporting entities over the Service's encrypted channel is carried out by the Certification Center of the Central Bank of the Republic of Azerbaijan. Last year, the Service issued new certificates to the relevant reporting entities and updated the expired certificates. In total, 24 electronic certificates were issued during the year.

Widely applied across the globe "G Analytics" software was installed to monitor the Service's official website indicators and visitor statistics. The results of the 2018 web site monitoring are presented in Table 4.

**Table 4.**  
**www.fiu.az website indicators for 2018**

Number of sessions	Number of visitors	Page hits	New visitors	Returning visitors
40 772	21 893	104 669	21 272	4 860

## SOME LEGISLATIVE AMENDMENTS MADE IN 2018 RELATED TO IMPLEMENTATION OF THE INTERNATIONAL STANDARDS IN THE AML/CFT FIELD

Name of the normative-legal act	Content of the amendment
<p>The Law of the Republic of Azerbaijan #1273-VQD dated 12 October 2018 "On amending the Law of the Republic of Azerbaijan 'On the prevention of the legalization of criminally obtained funds or other property and the financing of terrorism"</p>	<p>Terrorism financing concept was adapted to the international standards, possibilities for criminal associates to have significant shares in a financial institution or a beneficial owner of such a share as well as to hold managerial positions in a financial institution were limited, the obligation of the supervisory authorities to conduct annual sectorial risk assessments and to compile their inspection plans in accordance with the identified risks was introduced, measures to be taken by reporting entities in regard to high-risk areas were specified, bases for dissemination by the financial intelligence unit of information regarding predicate offenses along with the cases of money laundering and terrorism financing were defined.</p>
<p>Decree of the President of the Republic of Azerbaijan #299 dated 8 October 2018 "On amending the "Statute of Anti-Corruption General Directorate under the Prosecutor General of the Republic of Azerbaijan" approved by the Decree of the President of the Republic of Azerbaijan #138 dated 28 October 2004 and some measures in the field of anti-money laundering and counter-terrorism financing"</p>	<p>Anti-Corruption General Directorate under the Prosecutor General of the Republic of Azerbaijan was authorized to carry out the centralized statistical activity on ML/TF crimes in electronic form and to ensure the functioning of the information system for collecting, processing and transmitting statistical information on these offenses.</p>

## SOME LEGISLATIVE AMENDMENTS MADE IN 2018 RELATED TO IMPLEMENTATION OF THE INTERNATIONAL STANDARDS IN THE AML/CFT FIELD

Name of the normative-legal act	Content of the amendment
<p>Ordinance of the Cabinet of Ministers of the Republic of Azerbaijan #434 dated 10 October 2018 on approving "Procedure for declaration by residents and non-residents of the national currency in cash and securities denominated in national currency transportation from and to the Republic of Azerbaijan"</p>	<p>Cross-border cash transaction in the national currency was brought under the monitoring regime.</p>
<p>Ordinance of the Cabinet of Ministers of the Republic of Azerbaijan #433 October 10 2018 on approving "Regulations on providing monitoring participants and other persons involved in monitoring with the information about founders (stakeholders), shares in the charter capital and stock owners of the commercial legal entities"</p>	<p>Legal basis for obtaining by reporting entities information of information about founders (stakeholders), shares in the charter capital and stock owners of the commercial legal entities for carrying out AML/CFT activities was defined.</p>
<p>Law of the Republic of Azerbaijan #1367-VQD dated 30 November 2018 "On amending the Criminal Procedure Code of the Republic of Azerbaijan"</p>	<p>Investigative authorities were granted the right to carry out investigative actions in the form of seizure of information that constitutes personal, family, state, commercial or professional secret, including information on financial transactions, bank account status and tax payments during the initial investigation before the criminal case commenced. This amendment provided for access of the law enforcement agencies to financial information during the investigation of the ML/TF cases without criminal proceedings.</p>

## SOME LEGISLATIVE AMENDMENTS MADE IN 2018 RELATED TO IMPLEMENTATION OF THE INTERNATIONAL STANDARDS IN THE AML/CFT FIELD

Name of the normative-legal act	Content of the amendment
<p>Decree of the President of the Republic of Azerbaijan #358 dated 23 November 2018 "On amending the Decree of the President of the Republic of Azerbaijan" #387 dated 25 August 2000 'On application of the Law of the Republic of Azerbaijan 'On approval, entry into force and legal regulation of the Criminal Procedure Code of the Republic of Azerbaijan' and approved by the mentioned Law the Criminal Procedure Code of the Republic of Azerbaijan"</p>	<p>The Ministry of Internal Affairs of the Republic of Azerbaijan and the Ministry of Taxes of the Republic of Azerbaijan were granted the authority to investigate money laundering offences when detecting their signs during the preliminary investigation. Granting appropriate authority to the said authorities expanded opportunities for conducting financial investigations during money laundering and predicate offence investigations.</p>
<p>Law of the Republic of Azerbaijan #1363-VQD dated 30 November 2018 "On amending the Code of Administrative Infringements of the Republic of Azerbaijan"</p>	<p>Supervisory agencies over designated non-financial businesses and professions (excluding lawyers and auditors) were granted the authority to impose administrative sanctions without the participation of the administrative-economic court in the cases specified by the Law of the Republic of Azerbaijan "On the prevention of the legalization of criminally obtained funds or other property and the financing of terrorism".</p>
<p>Decree of the President of the Republic of Azerbaijan # 360 dated 23 November 2018 "On amending the Decree of the President of the Republic of Azerbaijan # 795 dated 15 February 2016 'On application of the Law of the Republic of Azerbaijan # 96-VQ dated 29 December 2015 'On approval to the Code of Administrative Infringements of the Republic of Azerbaijan'"</p>	<p>The scope of the supervisory agencies for designated non-financial businesses and professions was defined.</p>

## SOME LEGISLATIVE AMENDMENTS MADE IN 2018 RELATED TO IMPLEMENTATION OF THE INTERNATIONAL STANDARDS IN THE AML/CFT FIELD

Name of the normative-legal act	Content of the amendment
<p>Decree of the President of the Republic of Azerbaijan #361 dated 23 November 2018 "On amending the List of officials authorized to compile a protocol on cases of administrative offenses considered by district (city) courts' approved by Decree of the President of the Republic of Azerbaijan #1361 dated 3 May 2017</p>	<p>The scope of officials authorized to compile a protocol on cases of administrative offenses against designated non-financial businesses and professions was defined.</p>
<p>The Law of the Republic of Azerbaijan #1364-VQD dated 30 November 2018 "On amending the Law of the Republic of Azerbaijan 'On suspending inspections in the field of entrepreneurship'"</p>	<p>The restrictions imposed on AML/CFT inspections were removed.</p>
<p>The Law of the Republic of Azerbaijan #1365-VQD dated 30 October 2018 "On amending the Law of the Republic of Azerbaijan 'On the prevention of the legalization of criminally obtained funds or other property and the financing of terrorism'"</p>	<p>The Service was authorized to participate in the formulation of public policy in the field of AML/CFT.</p>
<p>Decree of the President of the Republic of Azerbaijan #362 dated 23 November 2018 "On amending the Charter of the Financial Monitoring Service of the Republic of Azerbaijan" approved by the Decree of the President of the Republic of Azerbaijan #215 dated 18 July 2018</p>	

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