

The Federal Financial Monitoring Service

2012 ANNUAL REPORT



Dear readers,

The report is outlining the results of the activities carried out by the Federal Financial Monitoring Service in 2012.

It was a busy year for the Service. We continued to work on the implementation of our key objectives: protecting the country's economy against various criminal threats, improving the anti-money laundering and counter-financing of terrorism (AML/CFT) regime as well as

maintaining Russia's forefront standing at the relevant international fora.

The 2012 was highlighted by the praise given to Rosfinmonitoring's performance both by the country's leadership and the international community. This appraisal was affirmed by the shift in Rosfinmonitoring's position within the structure of federal executive bodies: since May 21, 2012 the activities of Rosfinmonitoring are being guided directly by the President of the Russian Federation.

Presidential decree No. 808 dated June 13, 2012 delegated to Rosfinmonitoring the functions of the national center for assessment of national security threats arising from money laundering and financing of terrorism (ML/FT).

Rosfinmonitoring is a part of the international anti-money laundering system standardized by the Financial Action Task Force (FATF). Since the 90s of the last century this organization has been reviewing and updating its standards, adapting them to the new challenges and threats.

At the beginning of 2012, the FATF approved the updated version of its 40 Recommendations. For this reason, 2012 was a year devoted to its careful study as well as to preparation of legislative initiatives aimed at the implementation of new requirements and to coordination thereof with all agencies concerned.

First of all, we must improve interaction within the AML/CFT system framework. There are over 80,000 reporting entities in Russia that submit diverse information. Rosfinmonitoring alone receives more than 27,000 reports on a daily basis. And it is our task to make

all this information contribute to the strengthening of the country's financial system.

The practical experience, expertise and reputation acquired by Russia enable us to fully participate in the development of international AML/CFT standards and ensure that our interests are given due consideration through the decision-making process at both regional and global levels.

This report presents the main results of the efforts undertaken by the Federal Financial Monitoring Service in 2012 and shows the dynamics of the key performance indicators of the national AML/CFT system.

Yury A. Chikhanchin

Rosfinmonitoring Director

REGULATORY CONTROL

As a full member of the FATF, the Russian Federation develops its national AML/CFT legislation based primarily on international standards.

In February 2012, the FATF approved the latest version of Recommendations. The Service began active work on the preparation of legislative initiatives aimed at implementation of new requirements and their coordination with all agencies concerned.

The intermediate result of this work was the submission of a draft federal law No. 196666-6 "On amendments to certain legislative acts of the Russian Federation (concerning the combating of illegal financial transactions)" to the State Duma of the Federal Assembly of the Russian Federation. The said draft law introduces a set of measures that affect the basic anti-money laundering law, criminal law and banking law, as well as issues relating to the registration of legal entities, the responsibility of economic entities, the bringing of certain definitions in line with the FATF requirements and other issues.

In addition, during reporting period due to the adoption of two federal laws, the Federal Law No. 115-FZ of August 7, 2001 "On combating money laundering and terrorist financing" was twice amended and supplemented in 2012 with respect to the provisions pertaining to the control over:

- the activities of non-profit organizations. Pursuant to the new amendments, transactions related to the transfer of monetary funds or other assets to non-profit organizations by foreign governments or international and foreign organizations are subject to mandatory control (Federal Law No. 121-FZ of July 20, 2012 "On amendments to certain legislative acts of the Russian Federation regarding the regulation of activities of

non-profit organizations performing the functions of a foreign agent").

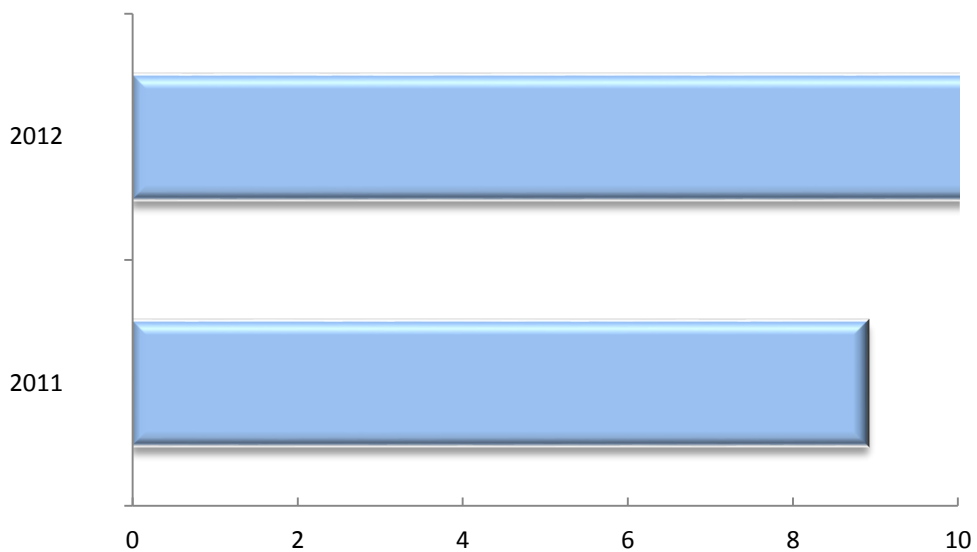
- parity between income and expenses of state officials. Pursuant to the new amendments, all national and public officials as well as public officials of international organizations shall be subject to enhanced customer due diligence (Federal Law No. 231-FZ of December 3, 2012 "On amendments to certain legislative acts of the Russian Federation in connection with the adoption of the Federal Law 'On control over consistency of state officials' income with their expenditures").

INFORMATION TECHNOLOGY SUPPORT

Effective implementation of AML/CFT mission assigned to Rosfinmonitoring depends, to a large extent, on the level of IT support of the process of collecting and processing the information provided by reporting entities in compliance with the current legislation.

Significant attention in 2012 was paid to insuring the proper functioning of the hardware and software systems and the maintenance of the IT infrastructure, enabling Rosfinmonitoring to guarantee an uninterrupted receiving and processing of more than 10 million reports on transactions with monetary funds or other assets.

Transaction reports submitted to Rosfinmonitoring (total)



(million)

To improve the quality of data and the speed of its submission, Rosfinmonitoring continued the work on providing non-credit institutions with special "Organization" software application, which enables them to cooperate with

Rosfinmonitoring on-line. In 2012 Rosfinmonitoring issued over 2700 sets of the special software.

To improve the effectiveness of IT support provided to financial investigations and other activities, Rosfinmonitoring focused on the implementation of:

- functional subsystems and components of the Common Information System supporting the formation and analysis of the database of schemes and typologies of money laundering and terrorist financing; the conduct of macro-analytical research; as well as

- ensuring storage, automatic classification and analysis of data and comprehensive information security of the Service;

- the unified integration platform.

Besides that, Rosfinmonitoring continued to expand its access to the external information resources of public authorities.

2012 saw the start of the pilot testing of Rosfinmonitoring Web Portal used for:

- on-line access to the List of organizations and individuals known for their engagement in extremist activities or terrorism;

- informing organizations about rejected reports and the status of the "Organization" special software.

In the reporting period was put into trial operation subsystem "Public services provided by Rosfinmonitoring in electronic format".

SUPERVISORY ACTIVITY

Control over Compliance with AML/CFT legislation by Institutions supervised by Rosfinmonitoring

The top priority objective of the supervisory activities carried out by Rosfinmonitoring in 2012 was the integrated implementation of new international standards, including a risk-based approach.

In accordance with the Federal Law No. 115-FZ, supervisory and oversight powers in the field of AML/CFT are distributed among various authorities responsible for supervision of institutions' core activities (Bank of Russia, Russian Federal Financial Markets Service, Assay Chamber of Russia and Federal Supervision Service for Communications, Information Technologies and Mass Media (Roscomnadzor)). The entities operating in the non-supervised sectors of AML/CFT are subject to control by Rosfinmonitoring.

| Bank of Russia | Russian FFMS | Roscomnadzor |
|---|---|--------------------------------------|
| Credit Institutions | Professional securities market participants | Federal postal service organizations |
| Assay Chamber | Management companies | |
| Precious metals, stones and jewelry sector entities | Insurance Institutions | |
| | Consumer credit co-operatives | |
| | Microcredit Market participants | |

Rosfinmonitoring

Leasing companies

Factoring Institutions

Gambling sector
entities

Payment acceptance
operators

Pawnshops

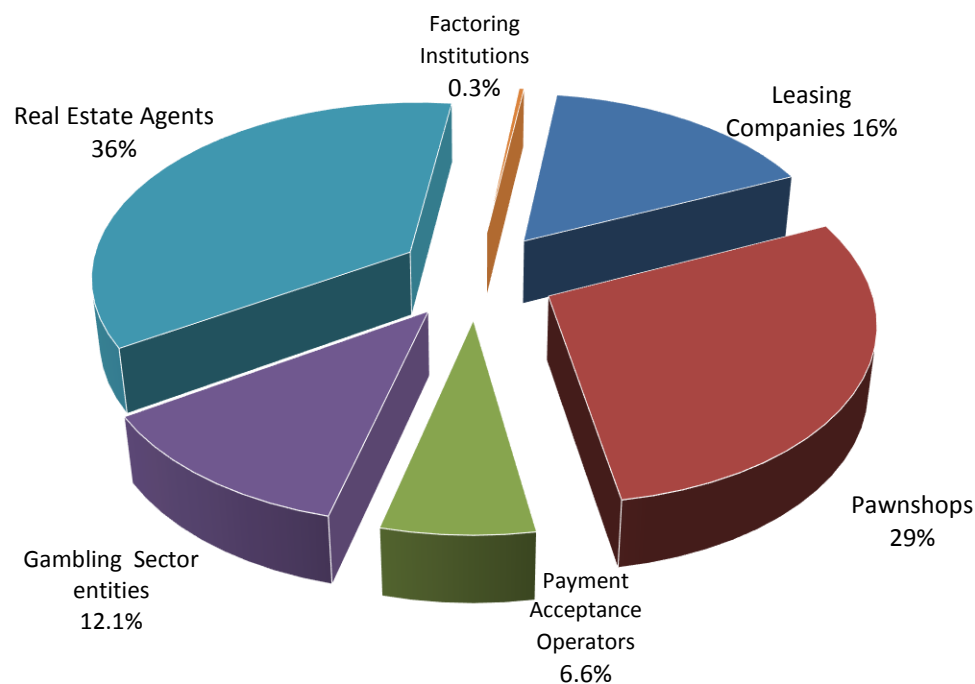
Real estate agents

An important indicator of the effectiveness of AML/CFT system is the number of involved organizations and the quality and quantity of submitted reports.

Starting 1 of July 2012, entities supervised by Rosfinmonitoring in regard to AML/CFT legislation are offered the opportunity to receive the state registration (deregistration) service in electronic form via the Common Government Services Portal of Russian Federation.

The number of institutions registered with Rosfinmonitoring increased in 2012 by almost 10%.

Institutions registered with Rosfinmonitoring



Rosfinmonitoring directly and through its regional offices in the Federal Districts verifies compliance with the AML/CFT legislation by the institutions operating in non-supervised sectors, including performing inspection. In this case, entities are selected using a risk-based approach.

Inspection/audit findings of entities are considered by Rosfinmonitoring as an additional source of information in its financial investigations and other analytical work aimed at combating money laundering and financing of terrorism.

Cooperation with credit institutions

Credit institutions account for over 95% of all reports and refer as the main source of reports on transactions with monetary funds and other assets submitted to the Rosfinmonitoring database. This is primarily due to the efficient and effective work in identifying “suspicious” financial transactions carried out by the banking sector.

It should be noted that, despite the rise in the number of

reports submitted by credit institutions in the reference year, the proportion of reports related to suspicious transaction identified by banks as part of their internal control procedures remained at the 2011 level, indicating a high degree of credit institutions' involvement in the AML/CFT system.

The year also saw a rise in the level of Rosfinmonitoring's interaction with banks' internal control bodies and in the speed of reports submission, with the proportion of untimely submitted reports standing just at 0.1%.

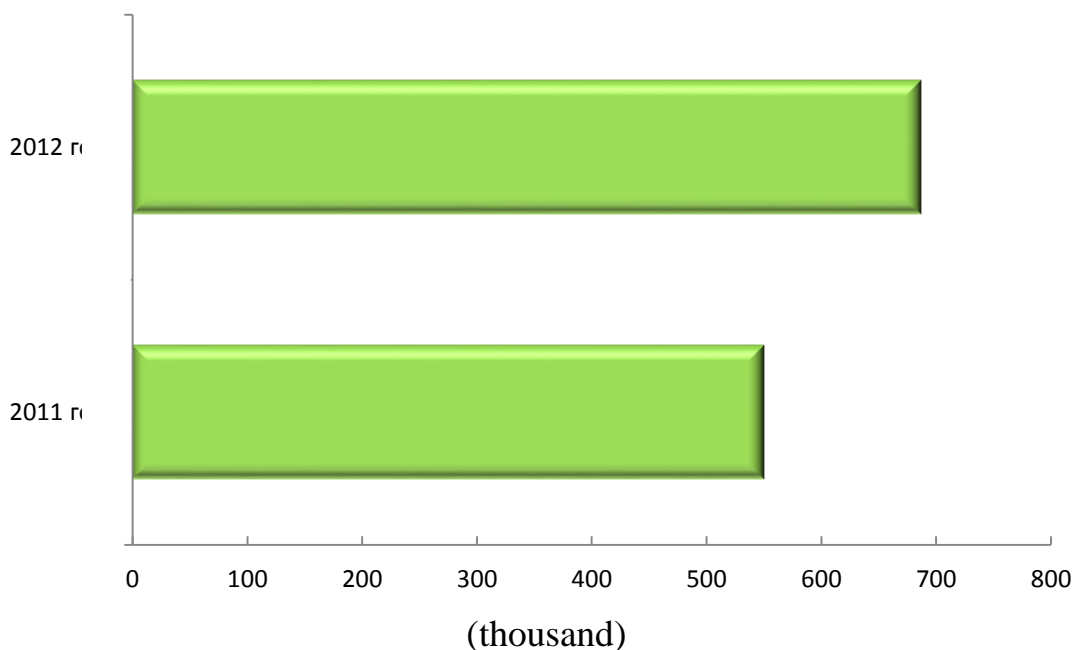
Cooperation with non-credit Institutions

The number of suspicious transaction reports submitted by non-credit institutions in 2012 has increased.

The list of activities carried out during the year includes efforts to improve legal and regulatory framework, provision of extensive training to non-credit institutions' employees, enhanced communication activities (including the Internet-based), and prevention of non-compliance with AML/CFT legislation. The measures taken have contributed to the formation of positive trends and achievement of desirable outcomes in specific sectors.

Thus, the number of reports received from non-credit institutions in 2012 grew in 1.2 times and exceeded the 700,000 reports benchmark.

Reports submitted by non-credit institutions (total)



Interaction with Supervisory Authorities and private sector

In the process of strengthening the AML/CFT-related

supervision and individual elements of the national anti-money laundering system (financial and non-financial sectors, supervisory authorities), the work to establish a common methodological and information environment, to facilitate the use of a risk-based approach in supervisory activities and enhance the effectiveness of oversight measures was also continued in 2012.

In this context, Rosfinmonitoring prepared a theoretical basis for the use of a risk-based approach in oversight activities, which helped to improve understanding of AML/CFT-related risks. Proposals were made for conducting a national assessment of ML/FT risks and threats, and tested during the international scientific and practical conference "The national risk assessment as the basis for an effective AML/CFT system: views, approaches and opinions".

In order to improve the provision of information support, Rosfinmonitoring established a monthly practice to inform the supervisory authorities about entities that require special attention, that allowed to focus on the most vulnerable entities in terms of their involvement in money laundering and terrorist financing activities.

In order to improve the AML/CFT-related legislation and bring it in compliance with the provisions of the Federal Law No. 115-FZ, amendments were made to a number of subordinate regulations.

In particular, the Requirements for the Rules of Internal Controls, drafted by organizations for AML/CFT purposes, were approved by the Russian Government decree No. 667 dated June 30, 2012 and came into force; Rosfinmonitoring's orders approving the Requirements for the Identification of Clients and Beneficiaries, including the ones based on an assessment of the risk of the client's involvement in ML/FT (Rosfinmonitoring's order No. 59 dated February 17, 2011), were amended along with the Transaction Data Submission

Guidelines (Rosfinmonitoring's order No. 245 dated October 5, 2009).

Rosfinmonitoring prepared methodology papers that cover the issues related to the conduct of inspections and administrative proceedings. In all federal districts were organized training workshops for local units of supervisory authorities.

In 2012 Rosfinmonitoring actively worked with the private sector.

The main risks associated with the use of organizations in committing economic crimes as well as for money laundering and terrorist financing, along with the issue of enforcing the AML/CFT legislation and prevention of offences, were discussed at working meetings with representatives of various associations.

Rosfinmonitoring's representatives took part in workshops, conferences and other events organized by the supervisory authorities and associations of internal control unit employees of organizations, and were involved in organizing education activities and targeted trainings.

These events were instrumental in helping to "fine-tune" organizations' internal controls mechanisms and, as a consequence, to boost the effectiveness of the entire anti-money laundering system.

ANTI-MONEY LAUNDERING

In order to address the priority tasks identified by the President of the Russian Federation and the Government of the Russian Federation in the field of AML/CFT, Rosfinmonitoring's anti-money laundering efforts in 2012 were focused on investigations into major economic crimes, detection and prevention of dubious financial schemes and illicit financial flows that feed the underground economy, and on the development of preventive and protective measures.

With banks continuing to play a major role in "dirty" money laundering schemes, special attention was devoted in 2012 to identifying the organizers and operators of illicit banking schemes and stable criminal groups. Funds used in such schemes were most often withdrawn using a mechanism of deferred payments made for goods already imported into Russian Federation.

While working in close cooperation with Rosfinmonitoring, law enforcement authorities successfully foiled a number of large-scale illicit financial schemes.

In 2012, the monitoring of the credit and financial sector helped detect a steady migration of illicit schemes from the banking sector into other segments of the financial market, as well as the extensive use of non-banking financial services and mechanisms for their implementation.

Extra emphasis in the reporting period was also placed on combating the laundering of income derived from the commission of corruption-related crimes.

A list of measures undertaken by Rosfinmonitoring in 2012 also included initiatives aimed at improving the transparency of financial and economic activities of public corporations and financial institutions with state participation and at "deoffshorization" of the economy, which helped detect

illicit schemes involving the use by officials of affiliates to channel funds into the “shady” economy.

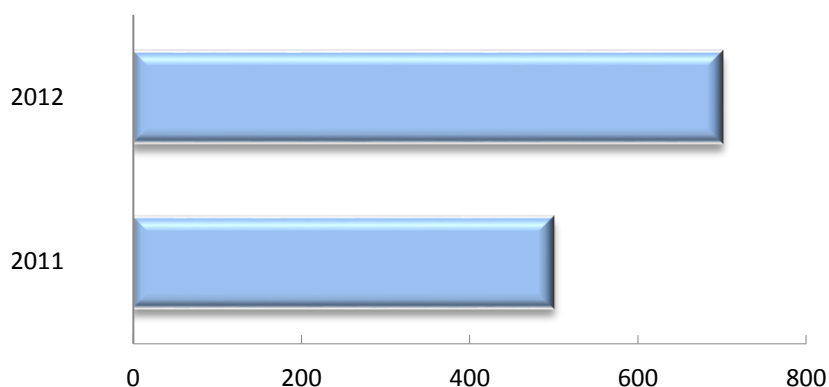
In 2012, Rosfinmonitoring conducted over 30,000 financial investigations, which was primarily due to the new approaches to organizing information resources, computerization of financial investigations and improvements in the mechanisms for inter-agency cooperation.

The bulk of financial investigations conducted by Rosfinmonitoring in that year were linked to requests received from Russian law enforcement authorities, with the Ministry of Interior, the Federal Security Service and the Federal Drug Control Service being among the most active contributors.

Additionally, Rosfinmonitoring conducted financial investigations in response to requests submitted by other public authorities, as well as requests made by private individuals and organizations.

The number of initial inspections conducted in response to requests from financial intelligence units (FIUs) of foreign states increased 1.5-fold. This was the result of the improved interaction mechanisms, including the ones involving the international professional association of financial intelligence units Egmont Group, and bilateral meetings.

Inspections conducted in response to requests from foreign FIUs



A total of about 280 reports based on the results of international financial investigations conducted by Rosfinmonitoring and containing details of financial transactions were transferred in accordance with the established procedure to the FIUs of foreign states in the reporting period.

One of Rosfinmonitoring's financial investigations was voted the best in 2012 by members of the Egmont Group.

Although the number of criminal cases initiated in 2012 with the participation of, or based on the materials sent to law enforcement authorities by, Rosfinmonitoring, including the ones related to money laundering, remained unchanged, while the proportion of particularly large and complex cases increased.

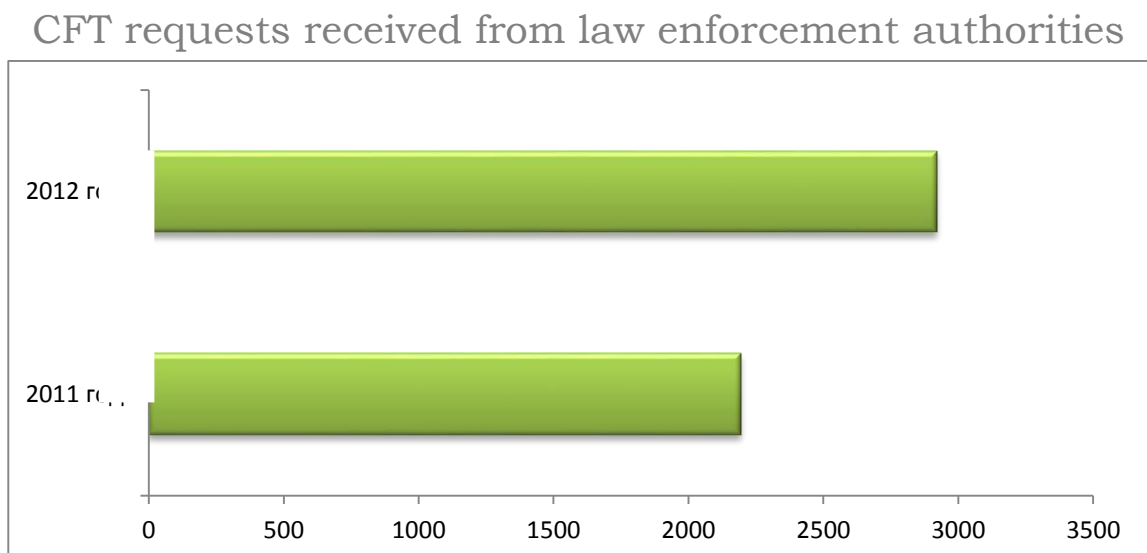
The number of cases with Rosfinmonitoring's input that were referred to courts increased by 22% compared with the previous year, with cases initiated under Articles 174 and 174.1 of the Criminal Code increased by 12%.

COMBATING FINANCING OF TERRORISM

The timely identification of channels and sources of terrorism and extremism financing is the principal goal of Rosfinmonitoring in the overall system of combating financing of terrorism (CFT).

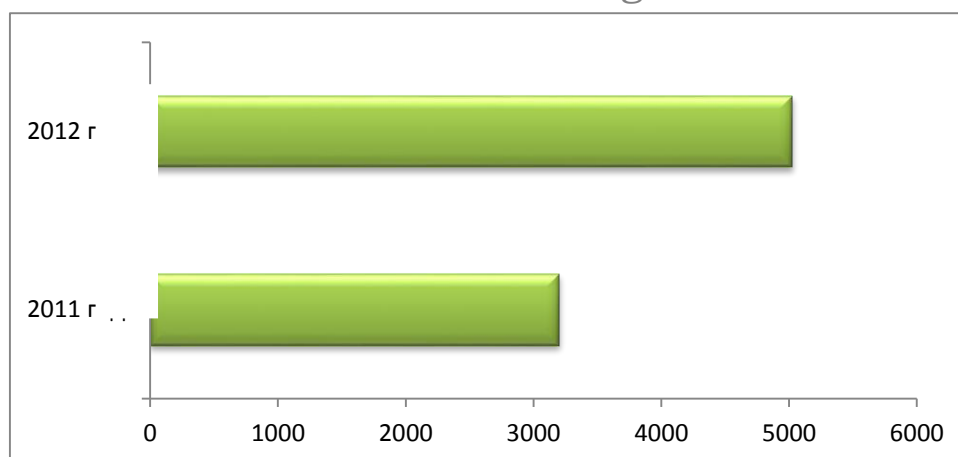
The level of interagency cooperation between Rosfinmonitoring and law enforcement authorities in the area of CFT increased in 2012 that, in its turn, resulted in better standards of primary information processing. The practice of conducting on-site interagency working meetings with employees of territorial divisions of law enforcement agencies on issues of combating the financing of terrorism and extremism was continued. As a result of this work, the amount of exchanged data increased significantly.

The number of requests received by the Service from law enforcement authorities increased by about 25% as compared with the year before, so did their overall quality improved as well.



The number of CFT-related financial investigations increased by more than 40% (to over 5,000 in total).

CFT financial investigations



One of the key elements of the successful functioning of the counter terrorism financing system remained the work on compiling a list of organizations and natural persons suspected of being involved in extremist and terrorism activity (hereinafter the "List") and delivering it to the organizations carrying out transactions with monetary funds or other assets.

Throughout 2012, Rosfinmonitoring carried out an ongoing monitoring of financial activities of entities included in the List, as well as acted to suspend or freeze the assets of the listed entities or their associates when there was evidence of cash or other assets being used to finance extremist activities or to commit individual terrorist acts.

This activity is part of Russia's international commitment to the task of closing the financing channels feeding international terrorism. It puts a barrier to the use by the listed persons and entities of legitimate money transfer mechanisms and helps to detect cases of family and other ties being used by terrorists to carry out transactions.

81 organizations and 379 natural persons were added to the revised international issue of the List dated 13.12.2012 (in accordance with the UN Security Council resolutions), with 49 terrorist and extremist organizations banned in Russia by the Supreme Court of the Russian Federation and 2,259 individuals who are charged with extremism or terrorism-

related offences or who have been found guilty of committing these crimes by courts being added to the Russian section.

In order to carry out the new international anti-money laundering and combating terrorism financing requirements and based on the amendments made to the federal legislation, Rosfinmonitoring in 2012 analyzed data on transactions involving non-profit organizations obtained pursuant to the country's anti-terrorism legislation.

INTERNATIONAL COOPERATION

Rosfinmonitoring's international activities in 2012 were aimed at further enhancing Russia's participation in international organizations specializing in issues of AML/CFT (FATF, MONEYVAL, Egmont Group, EAG) and at expanding cooperation in bilateral and multilateral formats.

In order to strengthen the country's global standing, Rosfinmonitoring worked jointly with the relevant state authorities to formulate Russia's common position for presentation at the FATF and FATF-type regional bodies.

While taking part in the drafting of the revised FATF Recommendations and the mandate for 2012-2020, Rosfinmonitoring's experts sought to incorporate the Russian specifics therein and thereby safeguard the country's national interests.

The successful defense of the Follow-up Report at the FATF in June 2012 confirmed the high level of interagency cooperation and acknowledged Russia's efforts aimed at improving the national legislation.

In 2012, Rosfinmonitoring continued the work on preserving the existing and assuming new leadership roles in the sector's leading international and regional organizations in order to strengthen Russia's reputation in foreign policy affairs and its AML/CFT developments.

So, for example, the steps taken by the organization in 2012 have contributed to the approval of Russia's bid to chair the FATF in 2013-14. Russia's representative (V. P. Nechaev) assumed the duties of vice-president on July 1, 2012. Thereupon, Russia for the first time joined the FATF Steering Group in its role as vice-president.

In 2012 Rosfinmonitoring contributed significantly to the activities of the Egmont Group, which unites financial intelligence units worldwide. The jubilee 20th plenary meeting

of the Egmont Group, held in St. Petersburg, resulted in numerous important initiatives, such as promotion of cooperation with regional FIU associations, including the informal Council of the Heads of FIU within the EAG.

In 2012, Rosfinmonitoring, as co-sponsor, effectively supported Tajikistan in gaining membership in the Egmont Group.

Among the priorities of international cooperation in 2012 were the measures intended to strengthen the leadership role of Russia and Rosfinmonitoring in the development of the regional AML/CFT system in the Eurasian space and to enhance the level of cooperation between the EAG and international organizations in the framework of joint projects.

As part of the integration processes occurring within the CIS, the Council of the Heads of State of the CIS signed at its meeting, held in Ashgabat (Turkmenistan) in 2012, an Agreement on the formation of the Council of Heads of Financial Intelligence Units of the CIS Member States.

Interaction and cooperation between Rosfinmonitoring and financial intelligence units of foreign states are built upon bilateral and multilateral agreements, as well as the principles of the Egmont Group.

In 2012, Rosfinmonitoring concluded a total of 14 international interagency agreements and signed one memorandum of understanding.

One of the important aspects of Rosfinmonitoring's activities is exchanging of information with foreign FIUs. A list of the most active counterparts in 2012 includes Latvia, Cyprus, Ukraine and France.

Alongside the growing scope of data sent and received via the Egmont Group network, reporting period was also noted for the increase in the quality and speed of processing of incoming and outgoing requests.

In the reporting year, Rosfinmonitoring conducted approximately 700 international financial investigations.

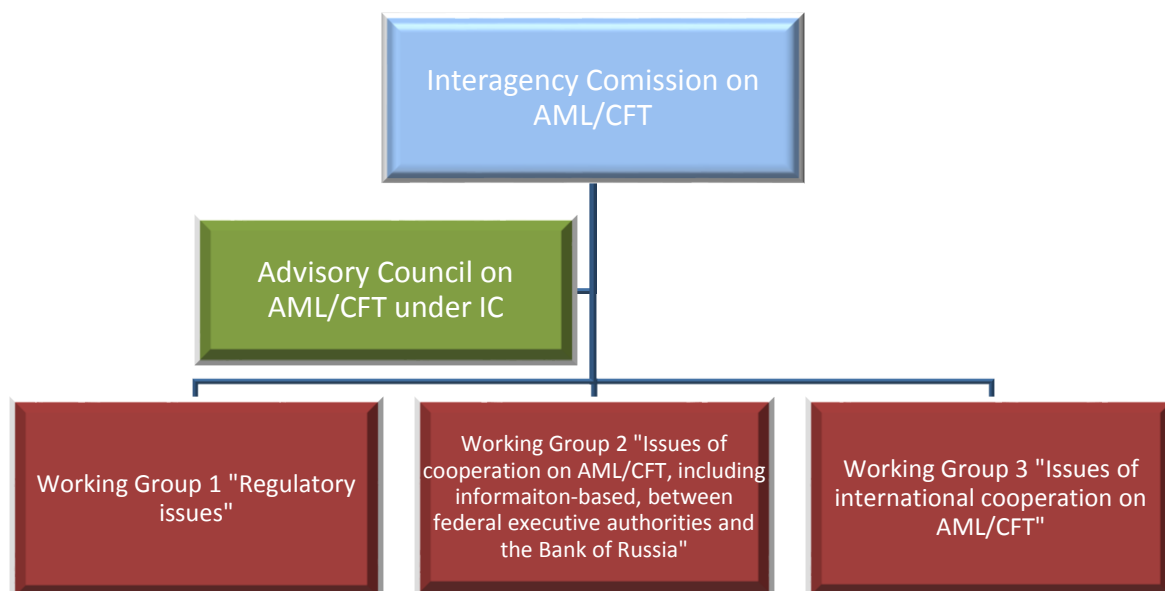
Capacities of international cooperation were successfully exploited in the field of combating drug trafficking financing through the political group of the Paris Pact, as well as through the International Coordination and the National Interagency Headquarters of the operation "Channel".

Among the organizations benefiting from Rosfinmonitoring's active involvement was the Russian-American Working Group on Combating Drug Trafficking, set up under the American-Russian Bilateral Presidential Commission. In particular, Rosfinmonitoring jointly with FinCEN (U.S. FIU) developed a selection criteria for financial transactions linked to drug trafficking and prepared a joint report on entities relevant to both sides, which was subsequently sent as part of the joint project titled "Illegal financial transactions related to drug trafficking" to the Russian Federal Drug Control Service, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury, as well as to the relevant departments of the U.S. Drug Enforcement Administration (DEA).

INTERAGENCY COOPERATION AND COORDINATION

One of the key goals for 2012 was to raise the effectiveness of interagency cooperation, coordination and measures taken by all participants of the national AML/CFT system: internal control units of financial institutions, oversight bodies, Rosfinmonitoring, and law enforcement authorities.

The AML/CFT Interagency Commission (IAC), which operates under the chairmanship of Rosfinmonitoring, acts as key interagency coordination mechanism.



The Consultative Board established under the IAC, which is composed of representatives of professional associations of institutions representing both financial and non-financial sectors of the national AML/CFT system, plays an active role in the work of the IAC.

The mechanisms of the IAC and the Interagency Working Group on Combating Illegal Financial Transactions chaired by E. M. Shkolov, the aide to the President of the Russian Federation, were actively used throughout 2012 in the drafting of new regulations, coordinating interaction between the

participants of the AML/CFT system and in analyzing the practice of application of the AML/CFT legislation.

The Interagency Working Group on Combating Illegal Financial Transactions jointly with concerned government authorities drafted the Regulations on the Exchange of Information between the Bank of Russia, the Prosecutor General of the Russian Federation, law enforcement and other federal agencies of the Russian Federation involved in the detection and suppression of illegal financial transactions committed by credit institutions and their customers.

In 2012, Rosfinmonitoring played an active role in the work of the State Anti-Drug Committee and the National Anti-Terrorist Committee.

Interagency cooperation and coordination was carried out also through participation in the Interagency Committee of the Security Council of the Russian Federation on Public Safety and the Presidential Anti-corruption Council.

Rosfinmonitoring's representatives were also actively involved in the work of various Government Committees and Interagency Working Groups participating in the development of the fishery and the forestry sectors, control over the use of budget funds allocated for the procurement of goods, works and services for state and municipal needs, etc.

STAFFING AND TRAINING REQUIREMENTS

The work of Federal Monitoring Service was focused in 2012 on forming the organization's professional staff structure, supporting professional development of public officers with the use of modern technology and preventing corruption-related and other offences.

2012 saw a substantial revision of the Service's approaches to the recruitment and appointment of staff and formation of personnel pool, in particular, adoption of these new forms of personal testing during recruitment contests.

In order to ensure the inflow of bright talents into the AML/CFT system, Rosfinmonitoring raised the level of its engagement with the country's leading institutions of higher education, i.e. the Financial University under the Government of the Russian Federation, the Russian Academy of National Economy and Public Administration under the President of the Russian Federation, the Higher School of Economics and the Diplomatic Academy of the Russian Foreign Ministry.

Equally important is the creation of an effective system of personnel training and development of training programs that meet the actual needs of specific departments.

Further vocational education programs funded under the Government procurement contracts act as the basis of professional advanced trainings of Rosfinmonitoring's employees. A total of 187 employees received training as part of this form of education in 2012.

An active role in the provision of AML/CFT training is assigned to the International Training and Methodology Center for Financial Monitoring (ITMCFM), where a total of 549 Rosfinmonitoring's employees received training in 2012. Importantly, the ITMCFM training programs are integrated to satisfy the training needs of both highly experienced in AML/CFT employees and new recruits.

Extra attention in the reporting period was also paid to the prevention of corruption, both in terms of monitoring corruption-related risks and gathering and analyzing data on income, assets and liabilities of certain categories of Rosfinmonitoring's employees; provision of training, outreach and advisory activities to its employees; and drafting of anti-corruption guidelines.

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