



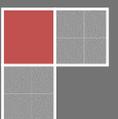
**REPUBLIC OF CROATIA
MINISTRY OF FINANCE**

ANTI-MONEY LAUNDERING OFFICE

(FINANCIAL INTELLIGENCE UNIT)

**MONEY LAUNDERING
TYPOLOGIES
(CASES FROM NATIONAL AND INTERNATIONAL
PRACTICE)**

In Zagreb, December 2011



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1. INTRODUCTION

Under Art. 66(4) of the Anti-Money Laundering and Counter Terrorism Financing Act (Official Gazette No. 87/08) (hereinafter: the Act), the Anti-Money Laundering Office (hereinafter: the AMLO) disseminates or discloses to the reporting entities listed in Art. 4(2) of the Act who have an obligation to implement the anti-money laundering and counter terrorism financing measures (hereinafter: the Reporting Entities) any information regarding the current money laundering and terrorism financing techniques, methods, trends and typologies.

In the context of anti-money laundering and counter terrorism financing, typology is defined as a systematic classification or breakdown of money laundering methods, techniques and trends observed over a given period of time, which share multiple common characteristics or features.

The purpose of this document on typologies and cases is to assist the Reporting Entities and supervisory authorities in their respective roles, as stipulated by law, in connection with the implementation of measures and activities aimed at prevention and detection of money laundering and terrorism financing, to the law enforcement authorities and other relevant state bodies, and to raise the awareness on the ML/TF risks and vulnerabilities of certain sectors irrespectively of whether they are related to the placement, layering or integration of illegal proceeds.

This document, using examples of typologies or methods, techniques and trends, as well as using de-identified actual cases from international practice, has been designed to illustrate suspicious transactions that are related to money laundering methods and indicators linked to individual cases, in order to help improve the understanding of potential risks faced by different sectors, independent professions and businesses, and thus help prevent and detect some of the many methods used in order to conceal the origin of criminal proceeds in the Republic of Croatia and worldwide.

The document describes and presents the typologies and cases from the national practice which are the result of strategic analyses conducted by the AMLO within the scope of its obligations and competencies as stipulated in the Act, as well as the examples of cases from international practice that have been taken from the materials found in the periodical FATF¹ reports, whose opinion is that the typologies have a key role in the process under which this international body, whose mission and purpose are precisely the development and promotion of policies, both on the national and international level, and establishing of international standards of anti-money laundering and counter terrorism financing, establishes the standards. The examples presented herein describe and illustrate how the framework intended for legal activities and financial channels was misused for money laundering purposes.

¹ Financial Action Task Force (FATF) is an international body established at the meeting of G-7 countries in Paris in 1989, whose mission is to establish international standards and develop anti-money laundering and counter terrorism financing.

Below you will find an overview of the examples of money laundering typologies, and the examples of actual cases from the national and international practice, intended for all Reporting Entities, supervisory bodies from Art. 83 of the Act and other state bodies from Art. 58 of the Act.

Definition of money laundering:

Money laundering means undertaking activities through multiple transactions aimed at concealing the actual origin of funds or other assets suspected of being generated by illegal activities either in the country or internationally, in order to present such funds or assets as being obtained legally.

Money laundering is an international phenomenon, and techniques used in connection therewith are diverse and sometimes quite sophisticated. New payment techniques (e-banking) and international diversity of financial markets in certain jurisdictions, and development of new financial products, go hand in hand with and render possible development of new techniques aimed at concealing the true origin of the funds, i.e. of money laundering and terrorism financing.

The main purpose of this process is to convert illegal proceeds into some other form of assets in order to conceal their illegal source. Money laundering therefore means converting illegal proceeds into seemingly legal ones. Criminal offenders thus increase their income, and avoid prosecution and confiscation of illegally obtained assets.

Money laundering cycle:

Placement, layering and integration are the three stages of the money laundering process.

The placement stage is the moment when dirty money is being placed or introduced into the financial system and, using different methods and techniques, separated and distanced from its true, illegal source. In this stage of the process, money launderers bring the illegal proceeds into the light of day, so this is also the stage when it is easiest to detect and stop them.

The layering stage comprises the process under which the funds circulate within the financial systems, being moved from one account into another, from one form into another, from one jurisdiction into another. It represents an activity aimed at channeling the funds placed in a financial system, through complex financial transactions, in order to conceal and cover the trail and source of dirty money.

The integration stage is the final stage of the money laundering cycle, as a process under which legal funds are integrated (comingled) with the illegal funds. If the funds obtained by criminal activities have been successfully placed into financial channels and, in the layering stage, distanced from their illegal source, they are then reintegrated into legal financial flows.

Rationale for existence of the anti-money laundering measures:

Taking advantage of economic and financial globalization, and the constant advances in technologies and communications in response to the demand by all participants in the global economic and financial market, criminal offenders transfer illegal proceeds across state borders. They use intensely a broad spectrum of new and ever more sophisticated techniques to transfer funds from one country into another, whereby the transactions move at an electronic speed from the national into the global environment, or misuse legal persons, either real or fictitious, in order to conceal the identity of the beneficial owner of the illegally obtained funds.

Money laundering thus became a global phenomenon, which undermines international efforts aimed at creating a free and competitive market and prevents economic development of national economies.

National economies are very vulnerable in that respect. Money laundering threatens the financial sector and stability of financial institutions, with important economic and social implications. Revenue generated by illegal activities give their perpetrators great economic power over the economies of such countries, making a healthy economic growth a goal that is almost impossible to achieve because the only interest of the criminal groups is to protect their own assets.

As the countries create their own anti-money laundering systems and measures, persons involved in illegal activities that generate illegal proceeds are forced to look for jurisdictions where such measures are weak or non-existent. Therefore, an efficient anti-money laundering framework is an important factor in the domestic and international outlook for all countries because it is precisely due the lack or absence of defined anti-money laundering and counter terrorism financing mechanisms and systems that the perpetrators are given an opportunity to launder their illegally obtained assets.

Anti-money laundering and counter terrorism financing system in the Republic of Croatia:

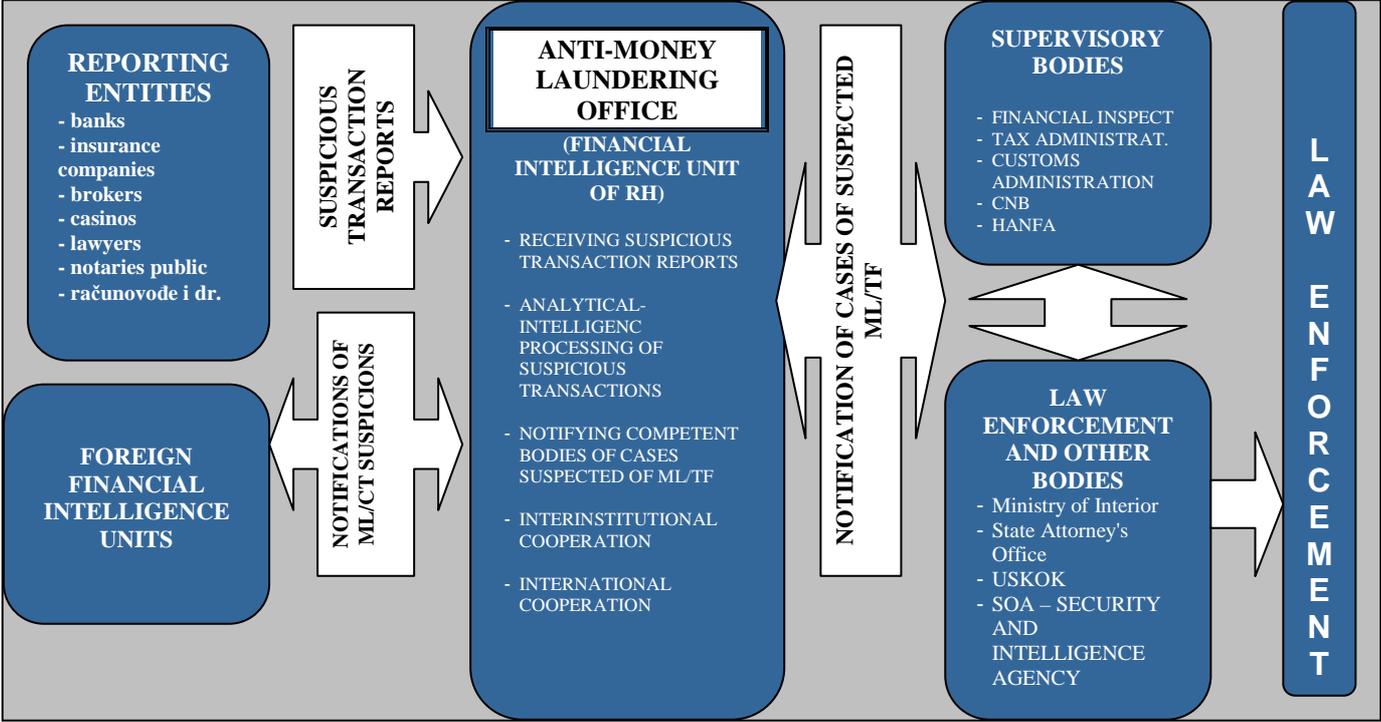
Under the Act and the international standards, the anti-money laundering and counter terrorism financing system does not fall under the competence of a single institution; quite the contrary, it is a system where the law clearly stipulates the roles of all participants and their mutual interaction and cooperation.

As a financial intelligence unit, the AMLO is only a link in the anti-money laundering and counter terrorism financing chain, which can give its full contribution in terms of preventing the abuse of the financial system of the Republic of Croatia for money laundering and terrorism financing purposes only in an interactive collaboration with other national competent authorities (State Attorney's Office, Office for Suppression of Corruption and Organized Crime, Ministry of Interior, Security and Intelligence Agency, Croatian National Bank, Croatian Agency for Supervision of Financial Services and the supervisory services of the Ministry of Finance) and foreign financial intelligence units.

The AMLO, as the central national unit which collects from banks and other Reporting Entities information on transactions linked with money laundering and/or terrorism financing,

conducts the analyses of transaction reports in order to confirm or reject the suspicion of money laundering and terrorism financing, and notifies the competent bodies of any cases of suspected money laundering and/or terrorism financing.

The AMLO is therefore an intermediary between on the one hand the financial and non-financial sectors (banks and other), which report the suspicious transactions to the AMLO, and on the other of the law enforcement authorities, as presented in the chart below:



2. MONEY LAUNDERING TYPOLOGIES – EXAMPLES FROM THE NATIONAL PRACTICE

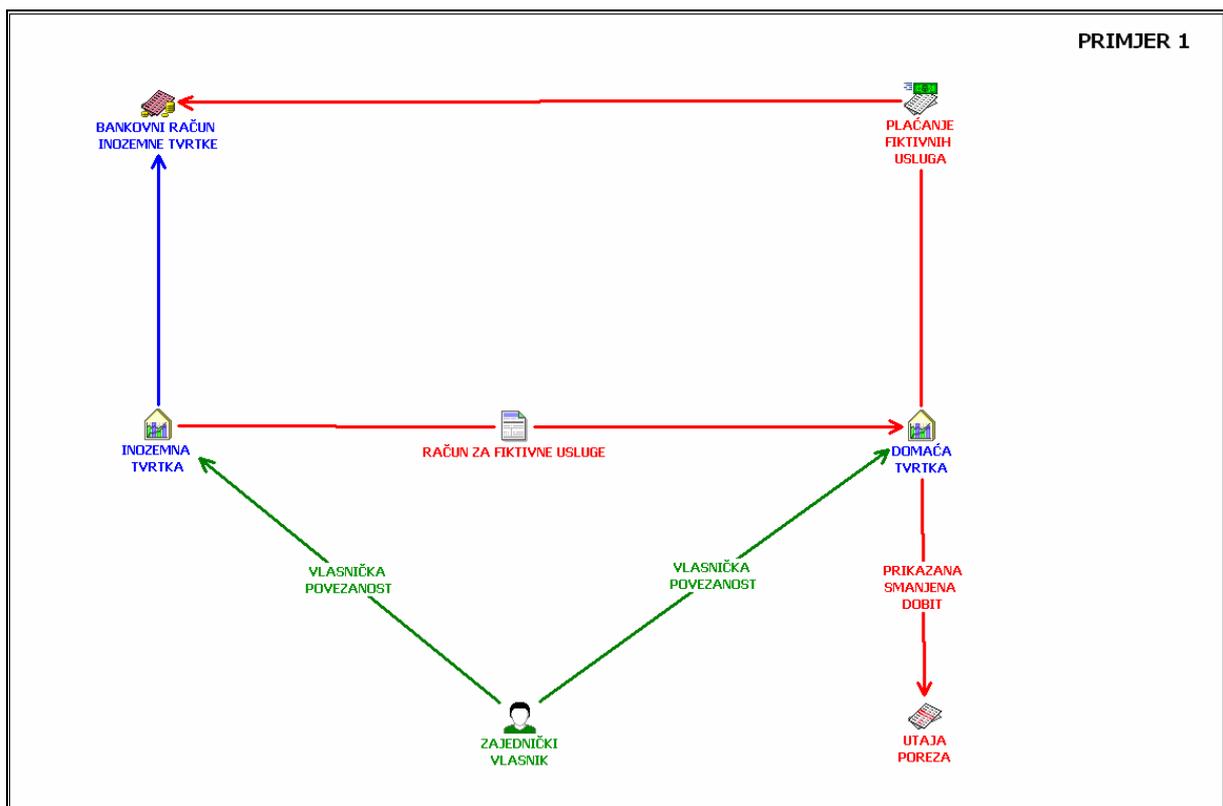
2.1. FICTITIOUS INVOICING

2.1.1. EXAMPLE 1:

A foreign company invoices its services (consultancy, marketing, IT etc.) to a domestic company. There is a suspicion that the services in question have not been rendered at all. The domestic company pays the invoice by making a wire transfer abroad. The value of the invoice is recognized as cost in the domestic company's business books, thus diminishing the tax base for calculation of tax, and moreover, the domestic and the international company are related to each other through ownership links (for instance, the founders/directors/owners of the domestic company are at the same time the founders/directors/owners of the international company).

Grounds for suspicion: wire transfers to accounts abroad based on an invoice for services that are suspected of being fictitious.

Possible link with predicate crimes: tax evasion.



2.1.2. EXAMPLE 2:

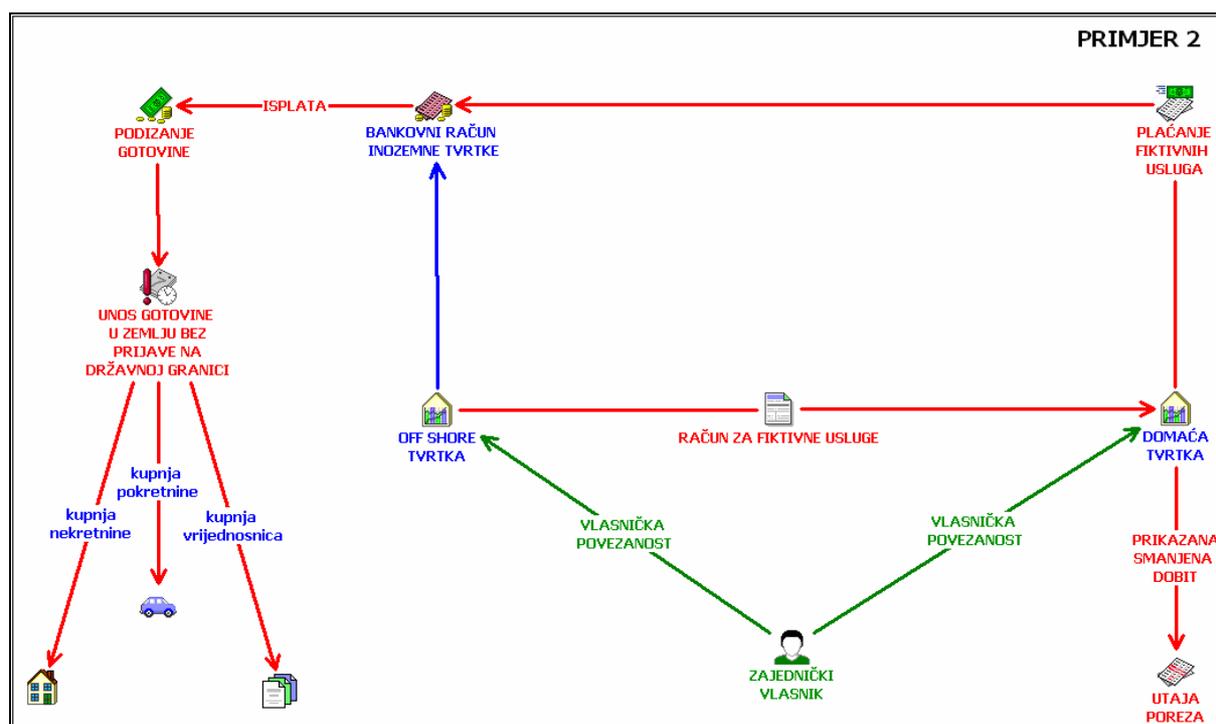
A foreign company registered in an offshore financial center invoices a domestic company for the services rendered (consultancy, marketing, IT). The domestic company makes a payment by wiring the money abroad, to a bank account held by the same offshore company with a bank in a neighbouring country or another country located within a convenient distance.

The invoice sent by the foreign offshore company is recognized as cost in the business books of the domestic legal person (thus diminishing the tax base). The two companies are related, by virtue of their having ownership ties, and the transferred funds are withdrawn abroad in cash, debiting the non-resident account opened abroad. The same funds are then brought into the Republic of Croatia without being declared at the state border crossing, to be subsequently used for buying real estate and movables in the Republic of Croatia or securities.

The characteristics of a typical offshore company are the following: it does not have any employees in the country where it was registered. Instead, it operates through another legal person holding power of attorney, an agent or an intermediary, who at the same time and in exchange for a consideration provides the offshore company with services related to office registration and return of mail. Ergo, the offshore company as such does not even have the capacity to perform any kind of economic activity in the country of its origin. Besides, such companies are very often established with a sole aim of opening non-resident accounts, which can then be used to make non-legitimate money transfers from the Republic of Croatia into the accounts held abroad only to return such funds into the Republic of Croatia either by carrying the money across the state border without proper declaration to the customs authorities or by lines of credit.

Grounds for suspicion: wire transfers abroad, offshore companies, non-resident accounts, payment for services that may never have been rendered.

Possible link with predicate crimes: tax evasion.



2.2. ACTIVITIES INVOLVING NON-RESIDENTS 1

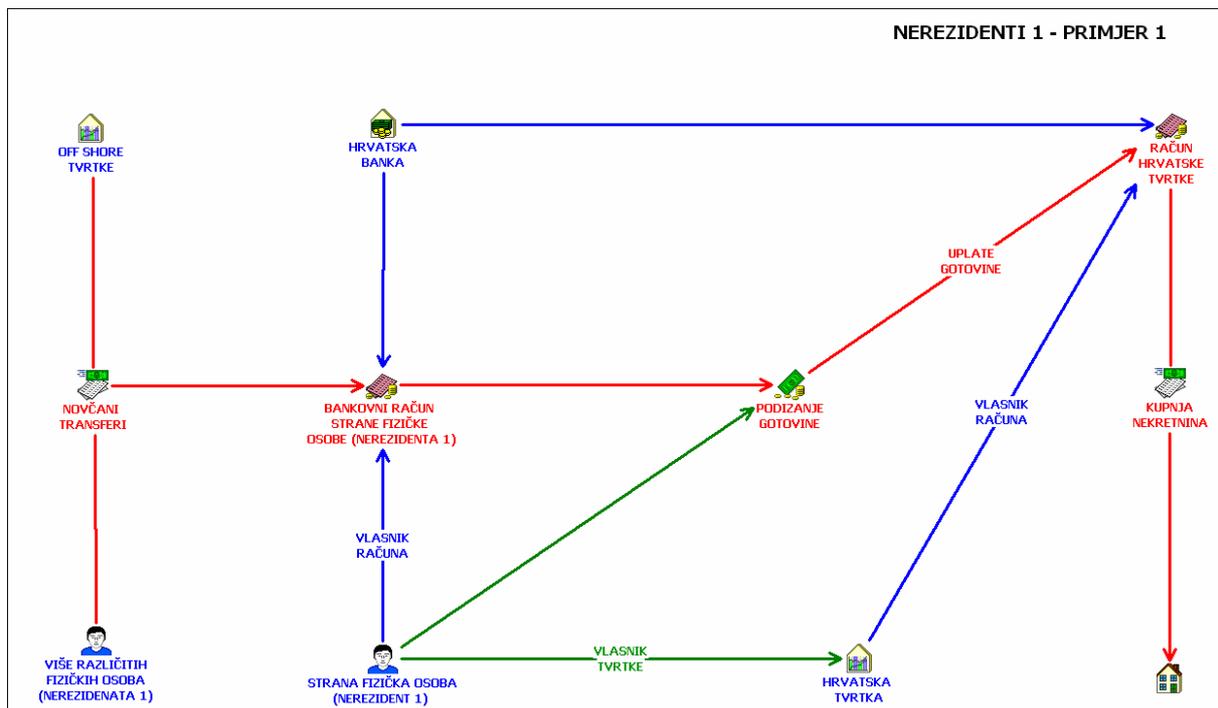
2.2.1. EXAMPLE 1:

Offshore companies or foreign natural persons remit funds from accounts abroad into the Republic of Croatia, in favour of the account held by a natural person who is a foreign national (non-resident 1) opened with a Croatian bank. A portion of the funds wired into the non-resident account is then withdrawn in cash by the same natural person, and deposited onto the giro account of a Croatian company where he/she is the founder/owner/director, and which eventually makes another appearance as the buyer of a real estate in Croatia. The company does not engage in any economic activity.

Except in the manner described above, the remitted funds can be also transferred, as a non-cash transaction, into another account held by the same natural persons of foreign nationality either in the same or in another Croatian bank, and then transferred to a giro account of a Croatian company whose founder/owner/director is the same natural person of foreign nationality, to be eventually used for purchasing real estate in the territory of the Republic of Croatia.

Grounds for suspicion: frequent transactions – international inflow whose true origin is not known because it was made based on the payment orders of offshore companies or natural persons of foreign nationality, cash withdrawals, movement to other accounts.

Possible link with predicate crimes: tax evasion, economic crime.



2.3. ACTIVITIES INVOLVING NON-RESIDENTS 2

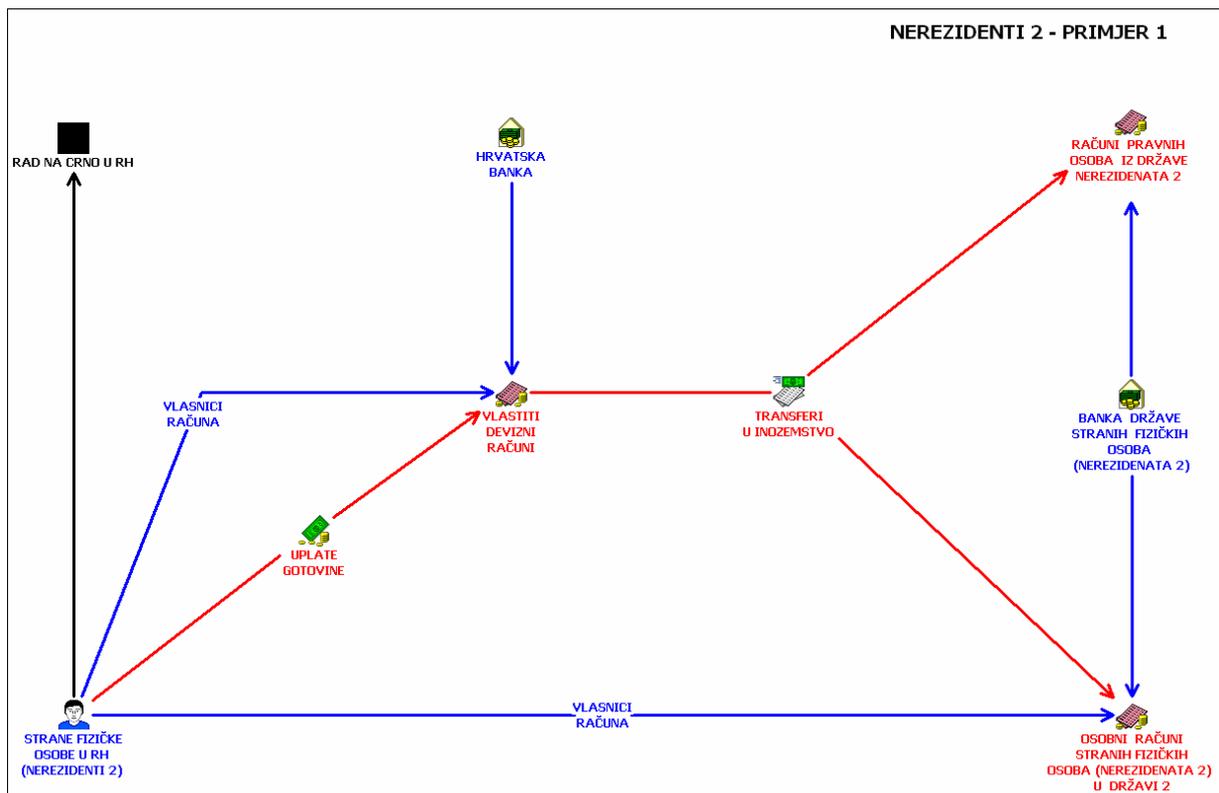
2.3.1. EXAMPLE 1:

Foreign natural persons with a temporary residence in the Republic of Croatia, founders of legal entities engaged in trading activity, make cash payments in foreign currency in favour of their own foreign currency accounts held with a Croatian bank. Immediately after the payments were made, the same cash funds are transferred abroad, most often to the home country of the foreign national (non-resident 2), in favour of the personal accounts held by the same natural persons or in favour of the accounts of legal persons or companies from the foreign country in question.

Analytical processing of those transactions resulted in a conclusion on suspicion of the so-called underground economy activity – a suspicion that the cash funds were the proceeds of sale of goods in the black market in Croatia and that these cash funds are subsequently remitted abroad, most likely with the aim of making the payment to the supplier of the goods in question.

Grounds for suspicion: frequent cash deposits of significant value and simultaneous transfer of funds abroad under a payment order issued by the foreign natural persons (non-residents 2).

Possible link with predicate crimes: tax evasion.



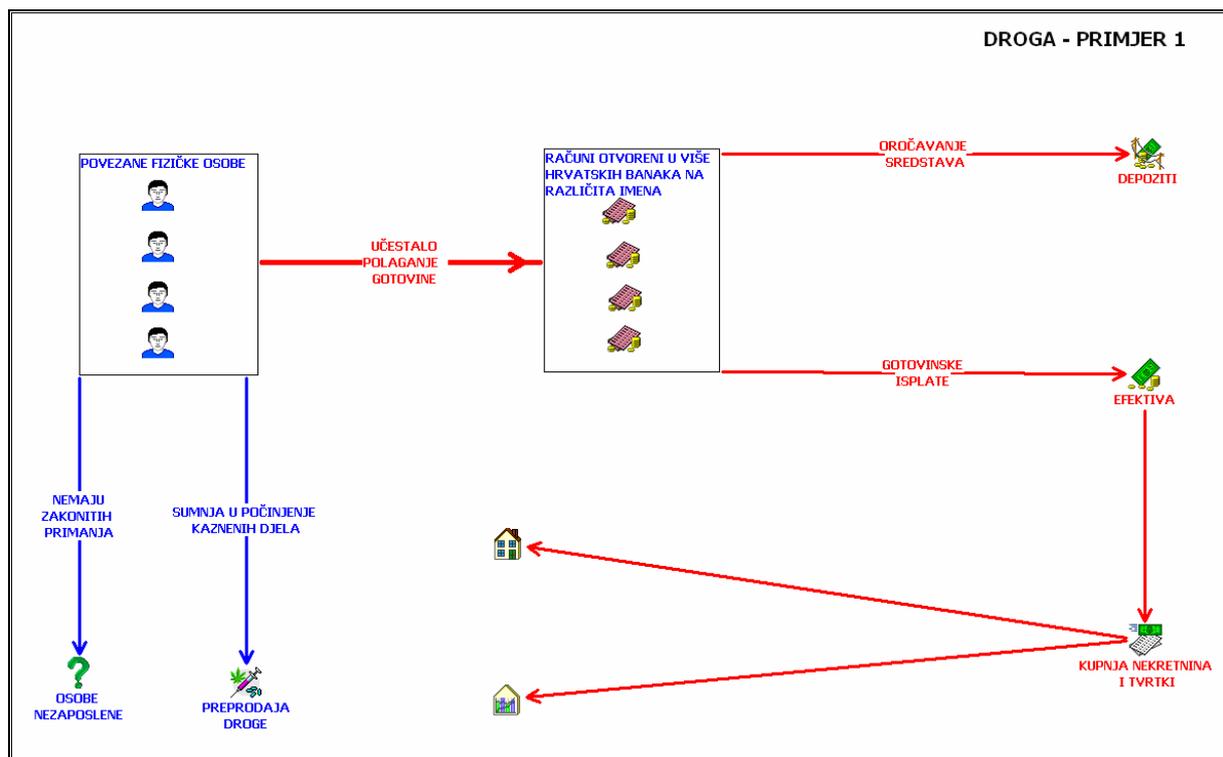
2.4. ABUSE OF NARCOTIC DRUGS

2.4.1 EXAMPLE 1:

Several mutually related natural persons with family and other ties make cash deposits (in amounts below HRK 200,000.00) over a longer period of time in favour of their own accounts or the accounts held by other related natural persons, which accounts are opened with several Croatian banks. Part of the deposited cash funds are placed in a term deposit and the rest is withdrawn in cash. The cash is later used to purchase real estate and stakes in companies in the Republic of Croatia.

The same natural persons are not employed and do not have any declared income. They are suspected of having committed a criminal offense of abuse of narcotic drugs, as well as of being part of an organized criminal group, making a substantial profit resulting from the conduct of the abovementioned offense, and therefore, there is a suspicion that the funds deposited in cash in the Croatia's banking system were the proceeds of the criminal offense of narcotic drug abuse.

Grounds for suspicion: frequent cash deposits in amounts below the legal mandatory reporting threshold² made in short intervals over a longer period of time, use of accounts held by related persons, and data on criminal activities of the participants.



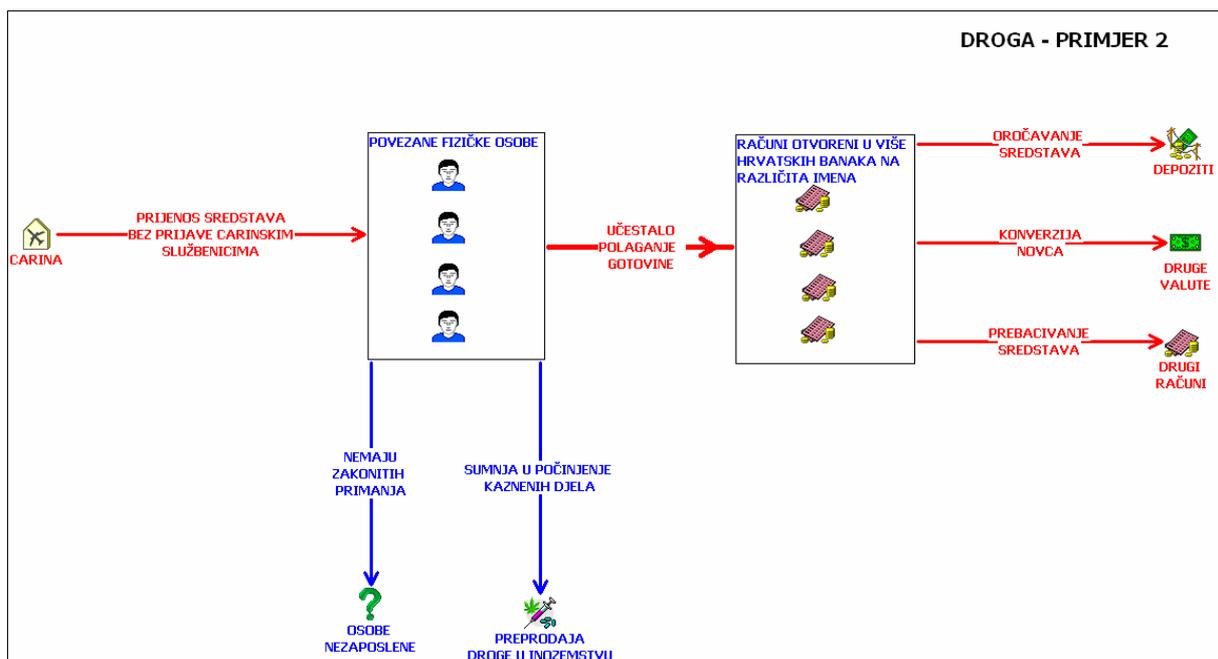
² In accordance with Art. 40 of the Anti-Money Laundering and Counter Terrorism Financing Act (Official Gazette No. 87/08)

2.4.2. EXAMPLE 2:

Over a given period of time, several natural persons that have mutual family and other ties make cash deposits in various currencies and denominations in favour of their own accounts or the accounts of other natural persons they are related with, opened with several Croatian banks. The cash funds were introduced into the banking system of the Republic of Croatia after having been physically carried over in various currencies across the state border (without declaring such funds to the competent customs authorities). Once they were brought into the banking system, the funds were placed into term deposits, converted into different currencies and moved from one account to another.

The natural persons in question do not hold a job and do not have any declared earnings and are therefore suspected of having committed the criminal offense of abuse of narcotic drugs abroad. Hence, there is a suspicion that the cash funds deposited into the banking system of the Republic of Croatia are the proceeds of the crime of abuse of narcotic drugs abroad.

Grounds for suspicion: frequent cash deposits in large amounts made over a longer period of time, use of accounts held by related natural persons, physical transfer of cash funds without declaration to the customs authorities, and data on the participants' criminal activities abroad.



2.5. USURY (SHARK LOAN CONTRACTS)

2.5.1. EXAMPLE 1:

During a set period of time, in the so-called credit offices in several major cities in Croatia, foreign natural persons and domestic legal persons (owned by the foreign natural persons) act as lenders, while the domestic natural persons act as loan beneficiaries and pledge their own property as collateral. The loan proceeds are released in cash, and the source of the funds placed into the loans granted to the domestic natural persons is not known. Upon the release of the loan proceeds, the natural persons receive amounts that are substantially lower than those contracted.

The loans are repaid by payments in favour of the giro accounts of the domestic legal persons who are not the creditors and whose founders and/or directors are also the foreign natural persons, whereafter part of the funds credited to those accounts is withdrawn in cash by several domestic natural persons – intermediaries – and part is transferred to the accounts held by third parties – domestic legal persons who are also not the creditors and whose founders and/or directors are the foreign natural persons – wherefrom cash withdrawals are made by the same domestic natural persons.

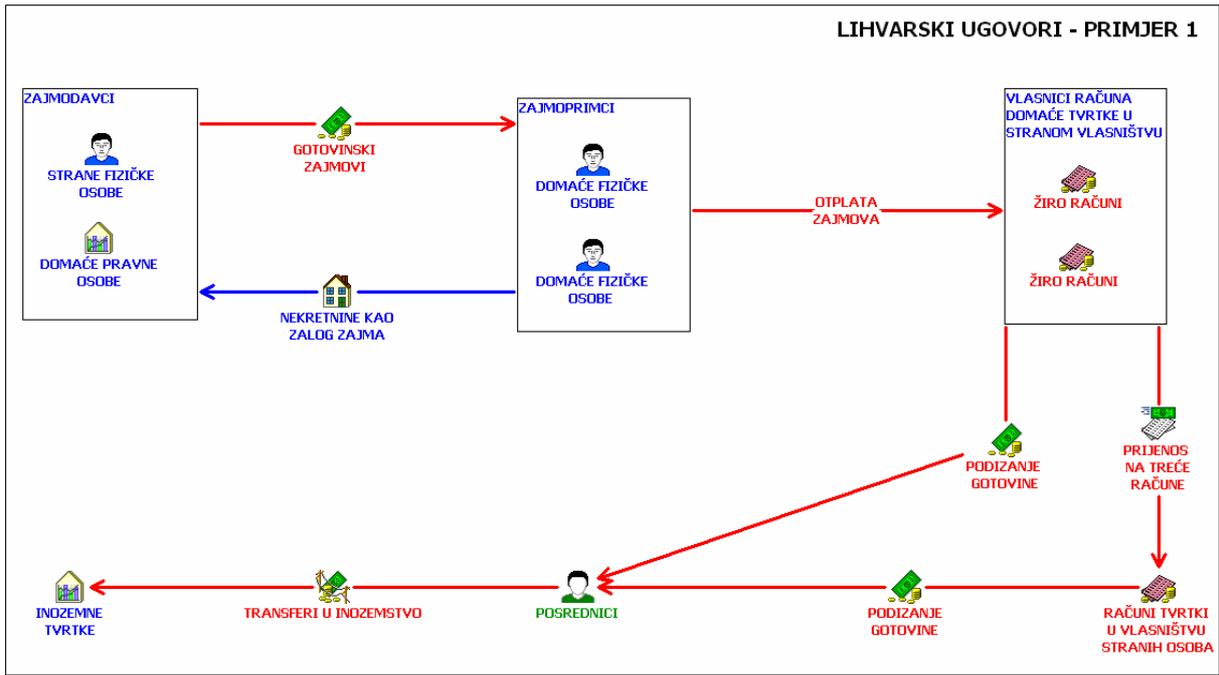
The same domestic natural person who made cash withdrawals from the accounts of the domestic legal persons, established under a power of attorney some of those mutually related legal persons for the account of the foreign natural persons, setting up their business accounts.

The same domestic natural person also has a power of attorney for a non-resident account held by one of the foreign natural persons – founders of the domestic legal persons that made the loans – and in the name of the foreign natural person converts a portion of the cash funds from the account of the domestic legal persons into a foreign currency. The funds are then paid in favour of the same non-resident account held by one of the foreign natural persons - founders of the domestic legal persons that made the loans. Later, the funds are remitted in favour of the company's account abroad.

Grounds for suspicion: the domestic natural person makes several cash withdrawals from the giro accounts of different companies on a single day and in the same commercial bank, but with different bank officers, in the total amount of HRK 200,000.00 – 300,000.00 in a single day, however the value of individual transactions never exceeded the so-called legal threshold or the amount triggering the mandatory reporting requirement.

Possible link with predicate crimes: fraud, practicing usury, tax evasion.

LIHVARSKI UGOVORI - PRIMJER 1



2.6. TRAFFICKING OF HUMAN BEINGS, ILLEGAL TRADING OF HUMAN BEINGS

2.6.1. EXAMPLE 1:

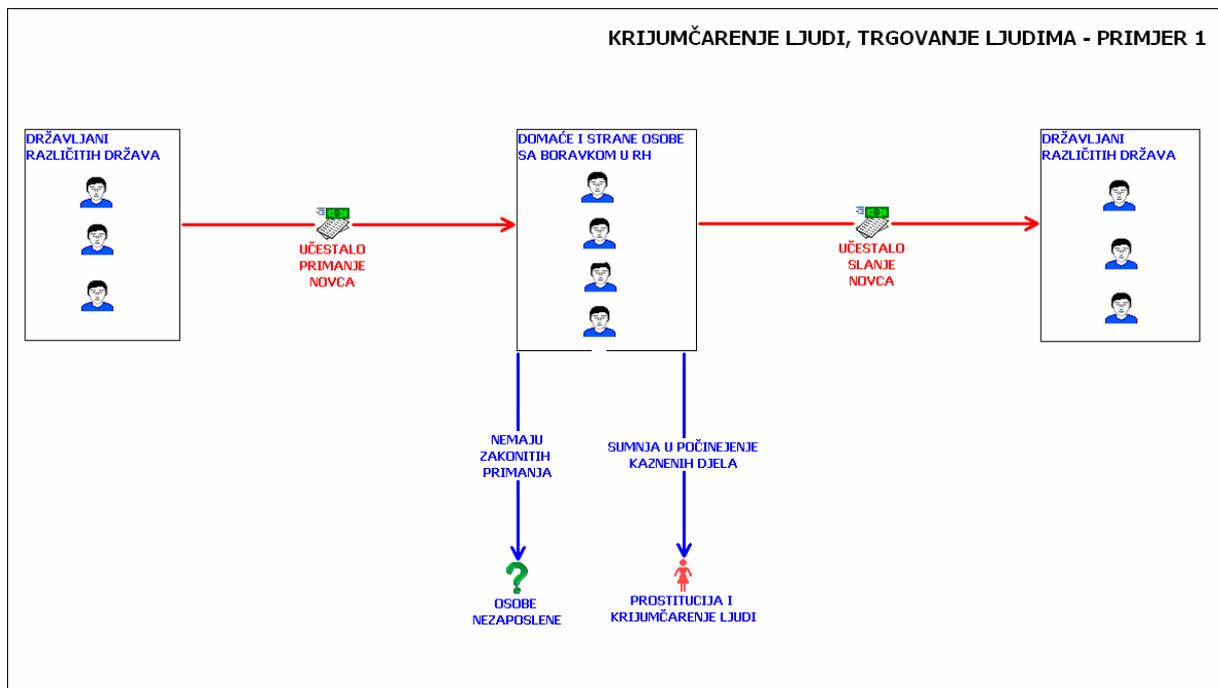
Over a period of one year, different domestic natural persons or foreign natural persons with a temporary residence in the Republic of Croatia, through a company performing certain payment services, including money transfers, remit cash funds internationally or act as beneficiaries of international cash remittances.

The receivers (beneficiaries) and the senders of these cash remittances are different natural persons from different countries – Russia, Ukraine, USA, Germany, Israel, Nigeria, Mali, Liberia, United Arab Emirates, Portugal, Italy, Moldova, Canada, Brasil, Argentina etc.

For the domestic natural persons acting as senders, there are no declared earnings that could be the source of the cash funds they manage.

Grounds for suspicion: making cash remittances through a company that performs certain payment services, including money transfer, instead of using bank accounts and the services of commercial banks; making a number of transactions in smaller amounts; different natural persons from different countries acting as receivers of cash funds.

Possible link with predicate crimes: trafficking of human beings, illegal trading of human beings, international prostitution.



2.7. FRAUD INVOLVING FOREIGN CURRENCY TRADING ON THE FX MARKET

2.7.1. EXAMPLE 1:

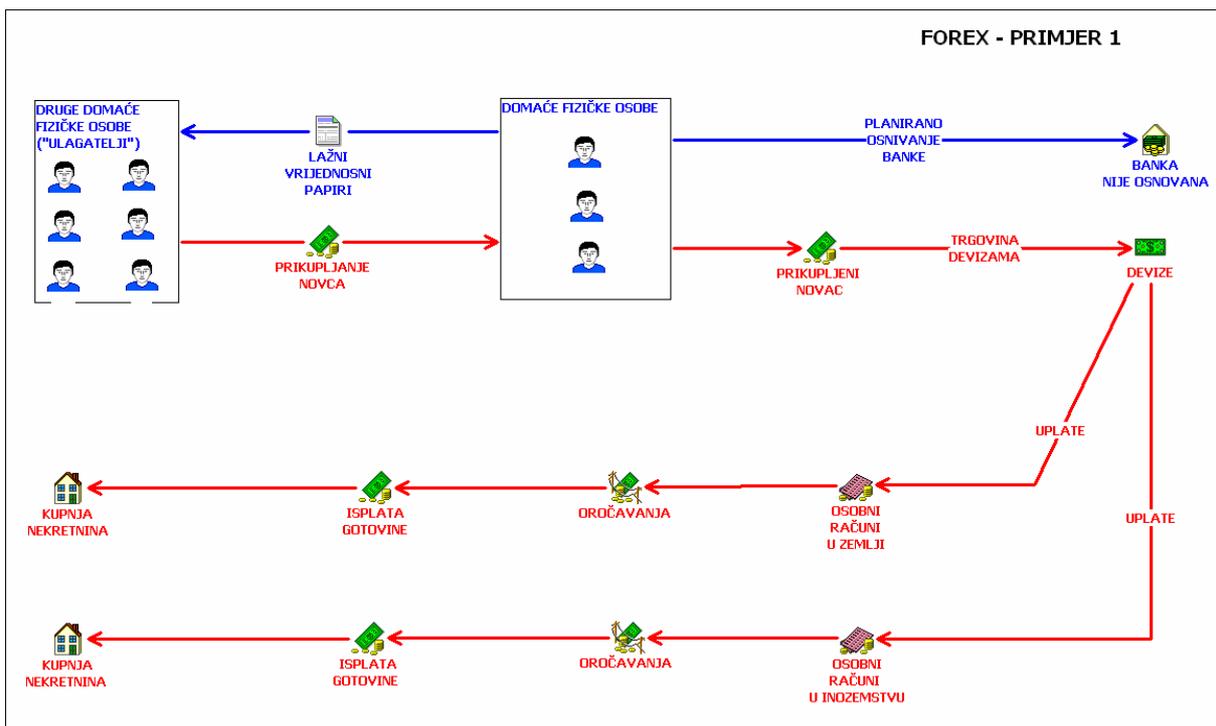
Over a set period of time, several domestic natural persons raise funds from other domestic natural persons (payments of between several thousand and several hundred thousand euro) with the aim of establishing a bank in Croatia with a foreign majority ownership stake.

The bank was never established and the raised funds were used in part for currency trading. Several natural persons who invested in the establishment of the bank were given securities that should have been negotiable but which, nevertheless, turned out to be false and hence worthless.

The raised funds were largely deposited on personal accounts in the country and abroad, placed into term deposits, moved from one account to another, withdrawn in substantial amounts of cash and used to purchase real estate in Republic of Croatia.

Grounds for suspicion: a large number of incoming payments of small value below the legal threshold over a short period of time and outgoing payment of larger amounts.

Possible link with predicate crimes: fraud, participation in an organized criminal group.



2.7.2. EXAMPLE 2:

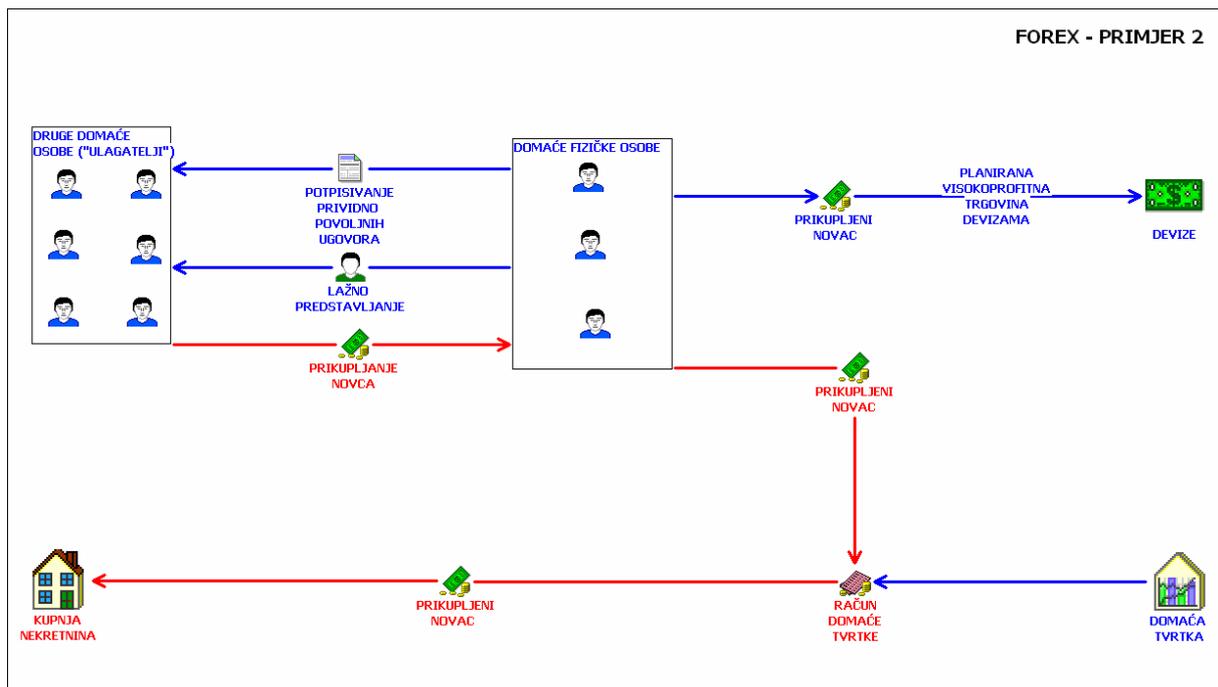
Over a given period of time, several domestic natural persons, acting through two domestic legal persons, raise funds from other domestic natural and legal persons with the intention that the funds thus raised be used for currency trading which brings the investors a substantial profit. The same domestic natural persons presented themselves to the investors as brokers and financial experts, knowingly giving them promises of large profits from such investment, although they knew that such level of profit could not be achieved.

As they raised substantial amounts of money, the above-mentioned domestic natural persons entered with the investors into contracts to safeguard and increase the value of such assets, the scope of which was investment into the capital of a domestic legal person. Such contracts were concluded in order to create a perception of a serious and safe business.

The portion of the raised funds that was withdrawn by the domestic legal person was used to purchase movables and immovables, and the rest is deposited into the accounts of other natural persons they are related with through family or other ties (business, friendship etc.).

Grounds for suspicion: depositing large amounts of cash into bank accounts, using bank accounts of natural persons with family and other ties.

Possible link with predicate crimes: fraud, participation in an organized crime group.



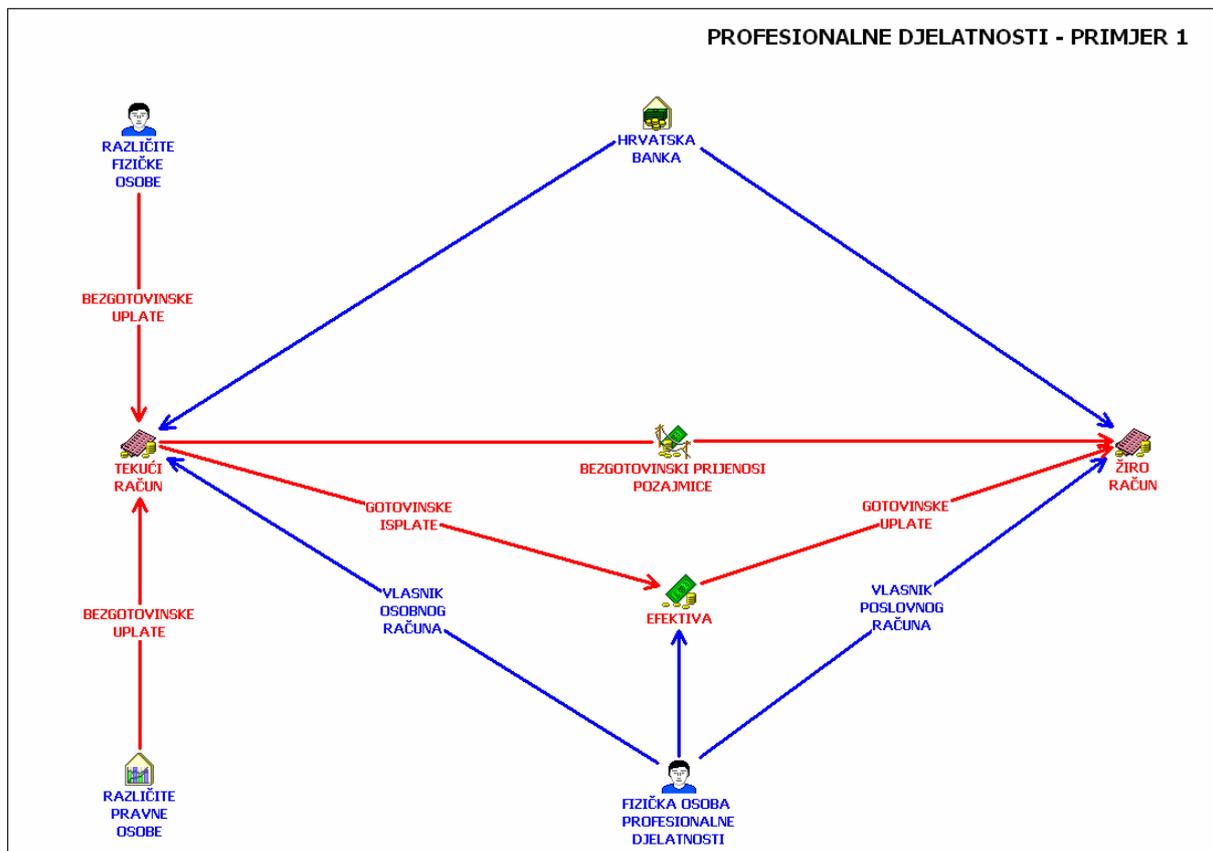
2.9. PROFESSIONAL ACTIVITIES

2.9.1. EXAMPLE 1:

There are incoming mostly non-cash payments into the account of a domestic natural person engaged in professional activities³ according to the instructions of legal and natural persons. This domestic natural person has set up, within the same bank, a business giro account as a person performing professional activity. Cash payments are made from the current account, and the same funds are then deposited in the giro accounts, or non-cash payments are made as a borrowing from the current account in favour of the giro account.

Grounds for suspicion: use of current account for business purposes.

Possible link with predicate crimes: tax evasion arising from the use of current account for business purposes in order to avoid the recording of the actual income earned.



³ Art 3(9) of the Act: Persons involved in the performance of professional activities shall be legal and natural persons acting within the framework of their respective professional activities, including lawyers, law firms, notaries public, auditing firms, independent auditors, legal and natural persons involved in the performance of accounting services and tax advisory services;

2.9.2. EXAMPLE 2:

Natural persons engaged in professional activity very often take part in procedures to establish domestic legal entities, with a power of attorney, with the founders of the domestic legal persons being the foreign natural or foreign legal persons – offshore companies.

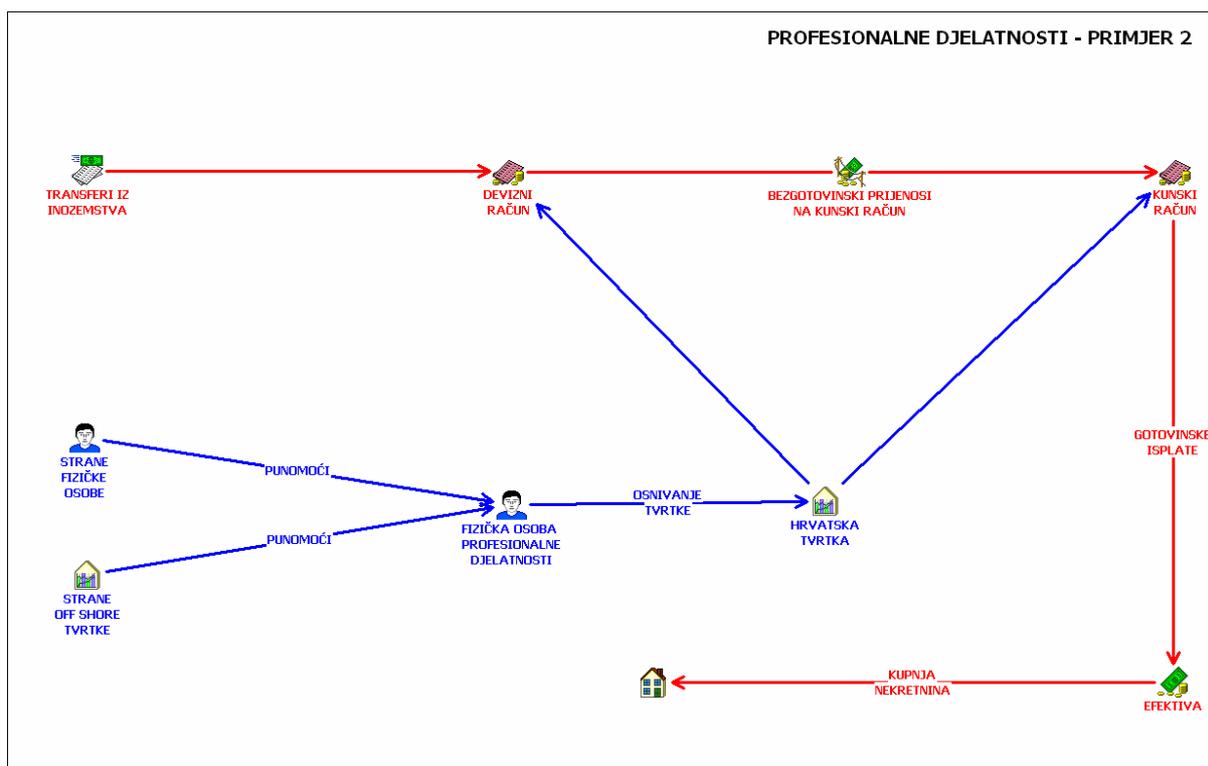
Such domestic legal entities are established with a sole purpose of acquiring real estate and do not have any other business activities.

Over a certain period of time, frequent incoming payments of high value were made – wire transfers from abroad in favour of the foreign currency account held by the aforementioned domestic legal entity. Immediately after the payment, a portion of the funds is transferred to the HRK account of the same domestic legal entity and then withdrawn in cash. Such cash funds were most likely used to make payments to the Croatian natural persons that the domestic legal entities bought the real estate from.

The real estate of the legal entity is not used for business; instead, they are solely for the private use of the owner of the legal entity.

Grounds for suspicion: frequent incoming international remittances of high value over a longer period of time, followed by cash withdrawals.

Possible link with predicate crimes: tax evasion.



3. MONEY LAUNDERING CASES – EXMAMPLES FROM THE NATIONAL PRACTICE

3.1. Suspicious transactions related to wire transfers to and from abroad through a non-resident account of offshore companies, with the predicate criminal offence of financial fraud committed internationally

How does the financial intelligence unit of Croatia (the AMLO) solve the case of suspected money laundering:

The graphic presentation of the case shows what the AMLO has undertaken in terms of the analytical-intelligence processing of suspicious transactions within a specific case of suspected money laundering, and before referring the case to other competent bodies for further intervention. The graph illustrates how complex and difficult the cases of suspected money laundering can be. In the specific case presented herein, specific details have been either changed or removed for security reasons, as well as for the purpose of protecting the personal data of all participants involved in this case.

THE CASE OF LTD

The case of LTD with suspected money laundering: suspicious transactions linked to wire transfers from and into Croatia, via non-resident accounts of an offshore company LTD. The total value of transactions is 2 million USD.

In this case, the Reporting Entity (the Bank) has reported to the AMLO the suspicious transactions involving wire transfers from and into Croatia, using non-resident accounts opened in two Croatian banks by the offshore company LTD.

Based on the analysis of transactions and other data obtained from the Croatian sources and the foreign financial- intelligence units, the AMLO confirmed the suspicion of the bank that in this specific case there was a suspicion of money laundering.

Initializing the case:

The case was initiated following a suspicious transaction report submitted to the AMLO by a Croatian Bank X for loro and nostro remittances executed via a non-resident bank account of the offshore company LTD in the same bank.

The AMLO's actions: analytical and intelligence work of the AMLO

The AMLO established that the offshore company LTD had been receiving foreign currency remittances from abroad in the total amount of approx. 2 million USD (from US, Sweden, Switzerland, Denmark, Norway, Germany, Cyprus, Republic of Ireland, Luxembourg, United Kingdom, the Netherlands, Northern Ireland, France, Israel and the United Arab Emirates) from several natural and legal persons (among other, there were significant remittances from the natural person AB, an American national). Then the natural person AB remitted the funds in question in favour of the accounts held by several natural and legal persons in several countries (in the U.S., Canada, Spain, United Kingdom, Switzerland,

Monaco, the Republic of South Africa, the Dominican Republic, and St. Kitts & Nevis and to Bahamas).

After a short time, the off shore company LTD opened another non-resident account, this time with another Croatian Bank Y, to be used in the identical manner, by means of loro and nostro remittances, to move the funds into the abovementioned countries.

In addition, it was established that the off shore company LTD entrusted the Bank X with its shares in a Croatian-based company acquired abroad, placing them in a custodian account. Acting in line with the instruction given by the off shore company LTD, the Bank X sells the shares on the domestic securities market, converting the proceeds immediately into USD and crediting the non-resident account of the off-shore company LTD. After that, the off-shore company LTD gives an instruction to transfer the funds abroad.

The cooperation with international offices (financial intelligence units) (Austrian FIU, US FIU, Swiss FIU) and the Interpol (IP BERN, IP VIENN, IP LONDON, IP WASHINGTON, IP WIESBADEN, IP COPENHAGEN) helped to establish that the natural person AB was suspected of money laundering and aggravated robbery in the US., and that there existed a valid arrest warrant against such person. In the United Kingdom, an investigation is being conducted against the natural person AB suspected of investment fraud, while German and Swiss authorities investigate the same person on suspicion of money laundering.

The result of the AMLO's activities: informing the State Attorney's Office of Croatia of the case

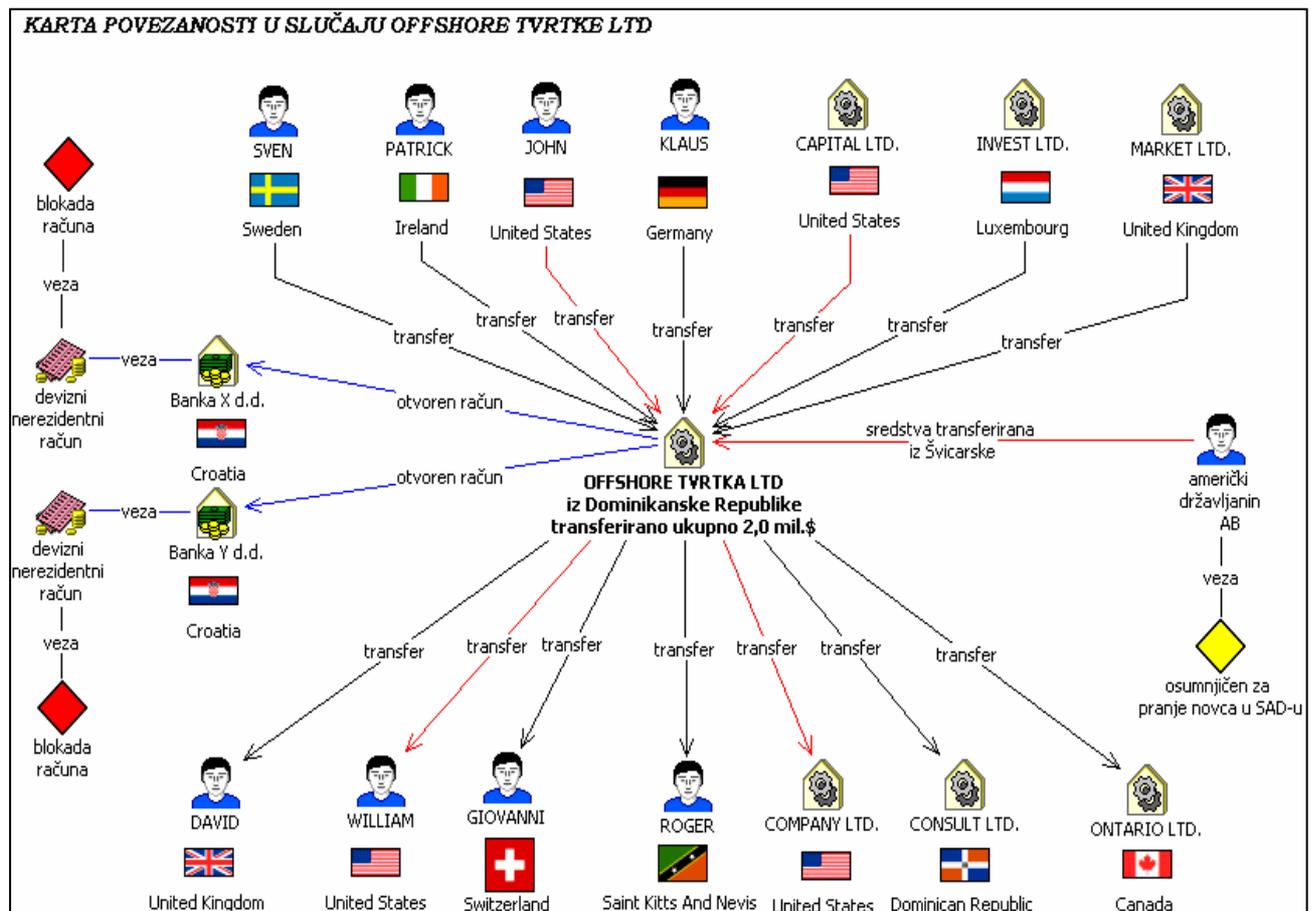
By analysing the collected data, the AMLO has, in line with its legal powers and at the most favourable moment (when the account balance was highest), issued a written instruction to Banks X and Y to temporarily suspend (block) the suspicious transactions from the non-resident accounts of the offshore company LTD (for 72 hours) and at the same time, referred the case together with the suspension warrant for suspicious transactions to the State Attorney's Office of Croatia for further proceeding, because, in the opinion of the AMLO, the transactions performed indicated money laundering and terrorism financing activities. The State Attorney's Office submitted to the judge of investigation a motion to block the funds.

The judge of investigation from the County Court in Zagreb ordered Banks X and Y to suspend and postpone the execution of financial transactions related to the non-resident accounts of the off-shore company LTD in the total amount of USD 360,000.00.

Characteristics of the case: grounds for suspicion of money laundering

- The non-resident are used for money laundering purposes, to transfer the funds from one country into another and thus create an appearance of legality;
- The off-shore company **LTD** receives remittances into its non-resident accounts held with banks in Croatia, in the majority of cases from legal and natural persons in the US and Canada (illogical and with no economic justification because the same can be done by a transfer within the US or by a direct remittance to Canada);
- The off shore company **LTD** occasionally remits funds from its own non-resident accounts held with the banks in Croatia to its accounts held with the banks in other countries, such as, for instance, the Dominican Republic or the United States;

- The companies that open non-resident accounts or those that remit and receive funds through such accounts are usually established (registered) in off-shore zones and do not have established business relationships with the economic companies of the country where the account is open;
- It is common for the loro remittances (remittances from abroad) to arrive into the account in structured remittances made by one and the same natural and legal persons, while the nostro remittances (remittances abroad) serve to integrate funds and transfer them to other natural and legal persons;
- Money laundering and fraud usually require participation of several natural and legal persons and banks in different countries, with the names of natural persons taking part in money laundering cases and frauds often being invented (usually consisting of two names and a family name, or several names and a family name). Alternately, there are people who are willing to give their own accounts in exchange for a small commission.
- **According to the data of the foreign financial intelligence units, the natural person AB (who made the remittances in favour of the non-resident account of the off-shore company LTD) was suspected of money laundering and financial fraud abroad and there is an all-points bulletin issued against her/him.**



3.2. Suspicious transactions from offshore zones related to credit operations

Suspicious transactions related to wire transfers (purpose of payment: credit) from offshore zone (Cyprus) in favor of Croatian company in the amount of 2 million Eur.

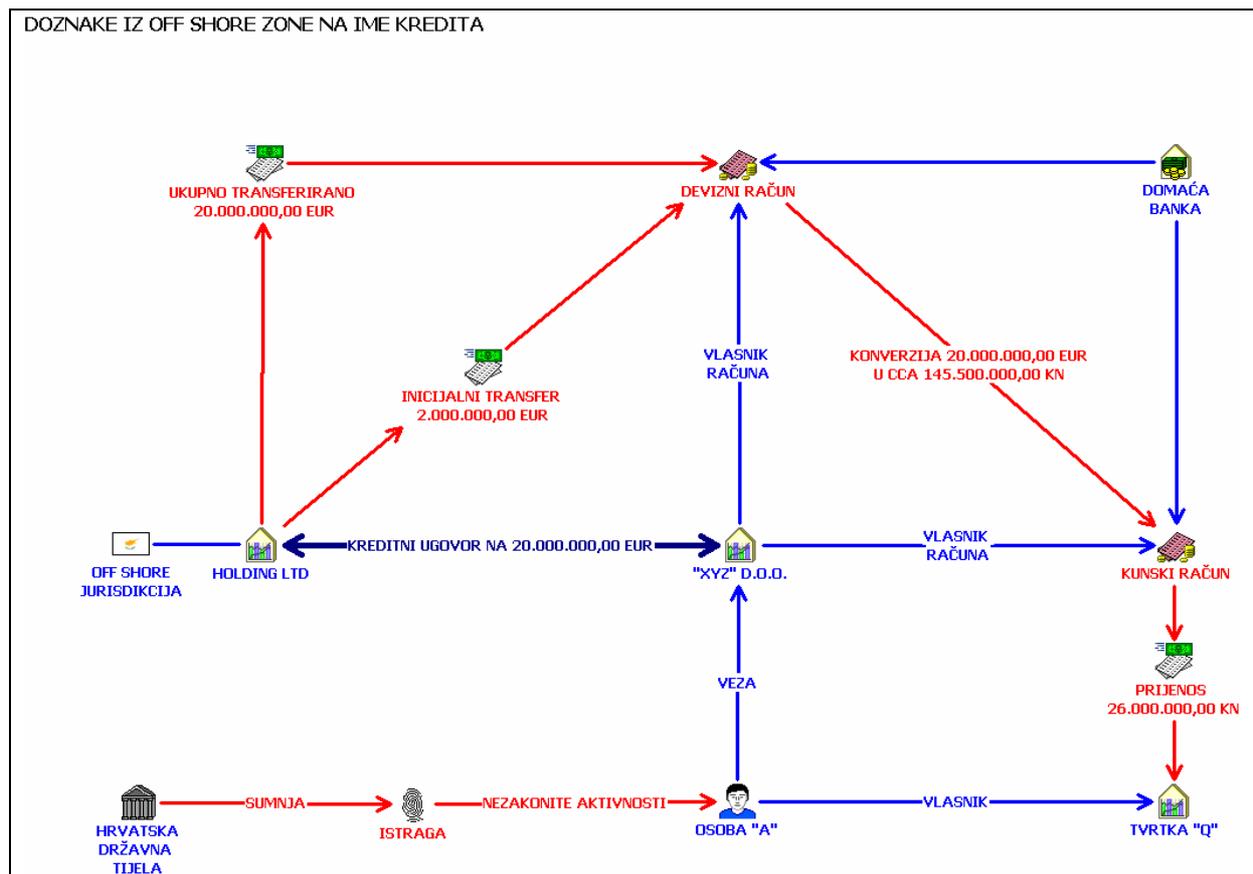
Characteristics of the case:

Karakteristike slučaja:

- wire transfers from offshore zone with purpose of credit;
- significant amount of funds;
- subject persons had previously been analysed in the Office;
- subject persons are being related with illegal activities;
- international co-operation of the Office.

Results of the Office activities:

The Office has submitted the case for further proceedings to State Attorney's Office and the Financial Inspectorate.



3.3. Suspicious transactions related to wire transfers of the funds suspected of being generated by illegal trade in narcotic drugs (2,5 million of USD) where predicate offence of abusing of narcotics had been committed abroad

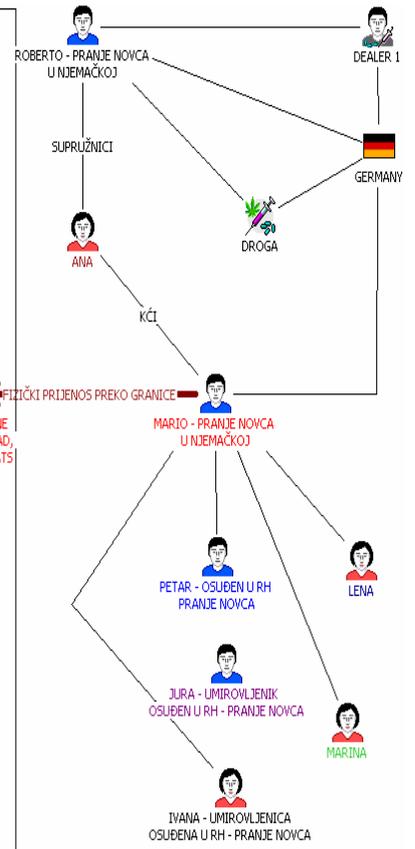
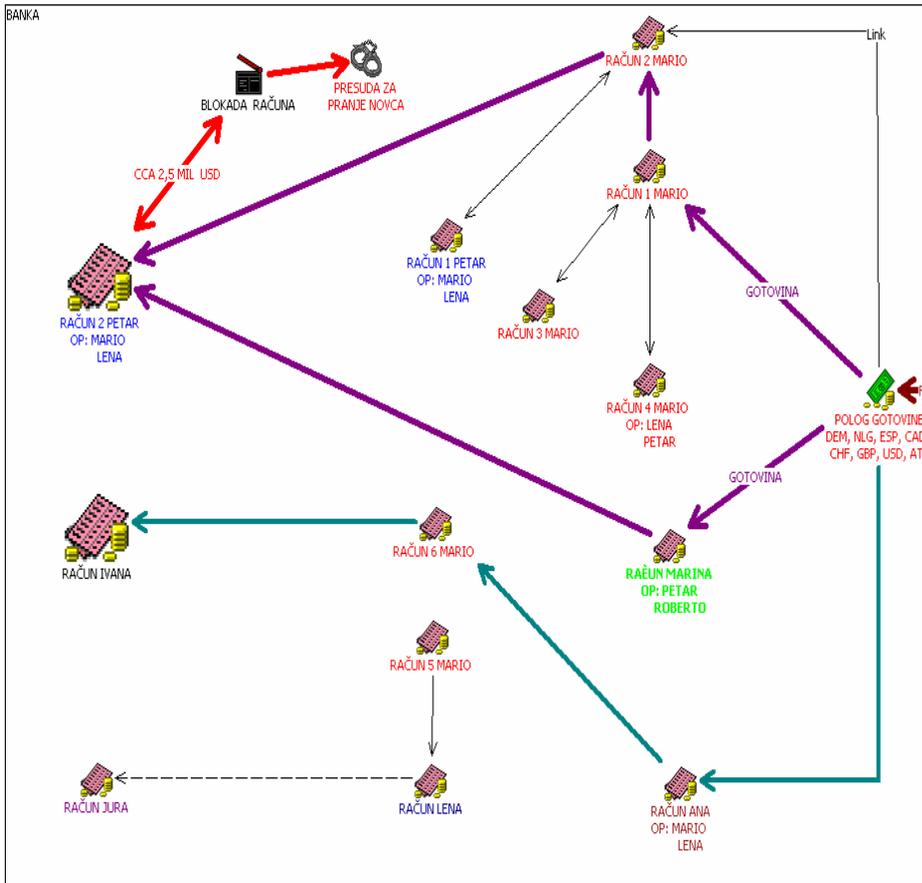
CASE «GERMANY»

Characteristics of the case:

- funds have been transferred in abroad by order of foreign resident through Croatian bank and in favor of bank account opened abroad whose holder is the daughter of ordering customer;
- there is suspicion that ordering customer is involved in committing criminal offence of sale of narcotics in abroad;
- transfer across the state border of foreign currencies has been recorded;
- foreign currency deposits in longer periods of time and in favor of the account opened in one Croatian bank. The deposits have been converted in other currencies and subsequently short term deposited;
- after termination of term deposits the funds have been paid in favor of other natural persons, among whom were two retired persons;
- the said persons did not have any declared income, no funds on their account had been covered with legal activities in the Republic of Croatia (eg.income from real estate sale)

Results of the proceedings:

- Office submit the Suspicion Transactions Report to State Attorney's Office of the Republic of Croatia with proposal to temporarily suspend the execution of suspicious transaction(s) and on this base the investigation has been initiated. According to the proposal of the Office and State Attorney's Office, the judge of investigation has issued the ruling to block the funds in the amount of 2,5 million of USD.
- By the final Court ruling the punishment has been imposed for criminal offence referred to in Art. 279 of the Criminal Code and confiscation of over of 2,5 million of USD.



3.4. Suspicious transaction related to recapitalization of financial institution by foreign investors (5 million ER) where predicate offence was committed abroad.

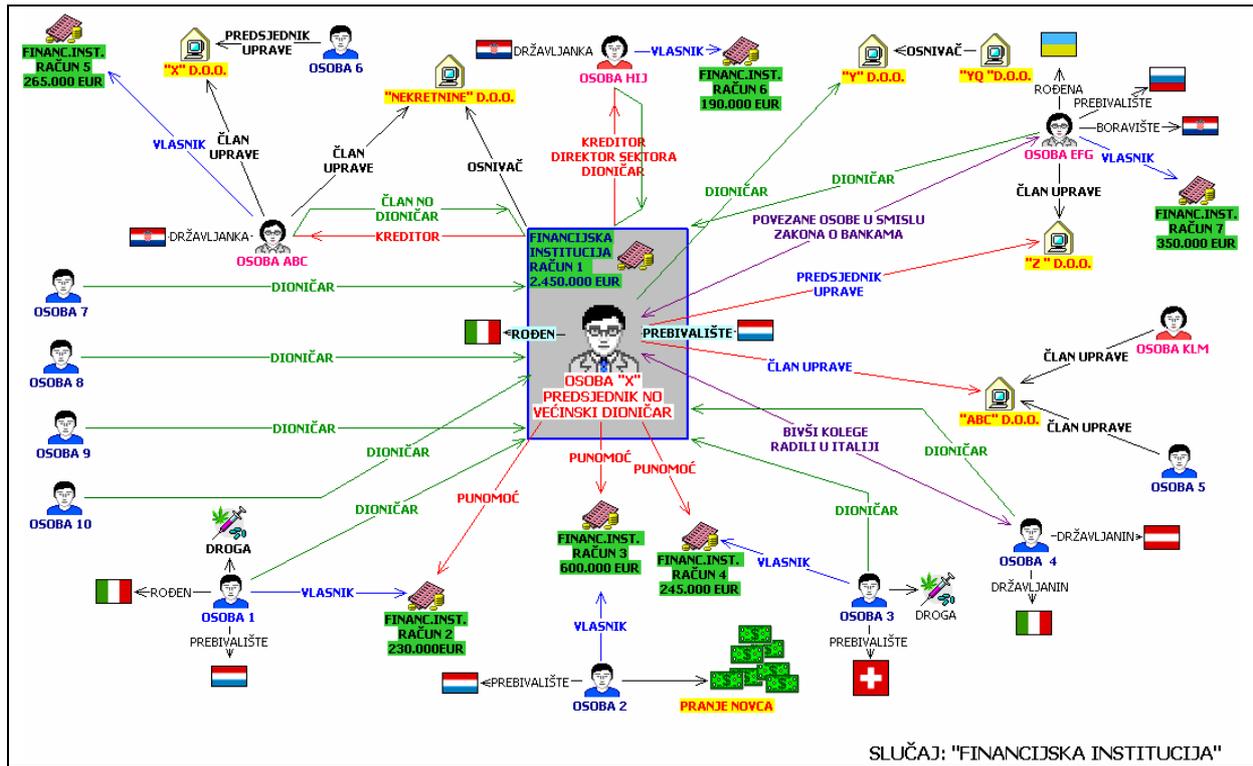
CASE «FINANCIAL INSTITUTION»

Characteristics of the case:

- The case has been initiated by submitting report to the Office by Reporting Entity on wire transfers from abroad in favor of the foreign currency accounts held by domestic and foreign natural person linked for the purpose of increasing of share capital of the «financial institution XY» ;
- Wire transfers have been made in favor of domestic and foreign natural person for the purpose of buying shares of «financial institution XY»;
- Two foreign persons have been convicted of criminal offence in foreign country of abusing narcotic drugs, while one person who was also foreign person, was interrogated by the state prosecutor of the domicile country due to suspected money laundering which was confirmed by Interpol in further investigation;
- Two domestic natural persons on which the Office received report on suspicious transactions, have established together with foreign natural person, several companies registered for trading with real estate in the area covered by financial institution XY» ;
- Office has been informed by competent regulatory body that the «financial institution XY» issued shares in order to raise capital for the process registration into a bank.

Results of the proceedings:

- as there were suspicion of illegal source of money which have been placed into the Croatian financial system, a Report on suspicious transaction was submitted to the State Attorney's Office and Ministry of Interior for further proceedings together with proposal for temporarily suspend suspicious funds; Funds in this case exceed the amount of EUR 5,6 million.

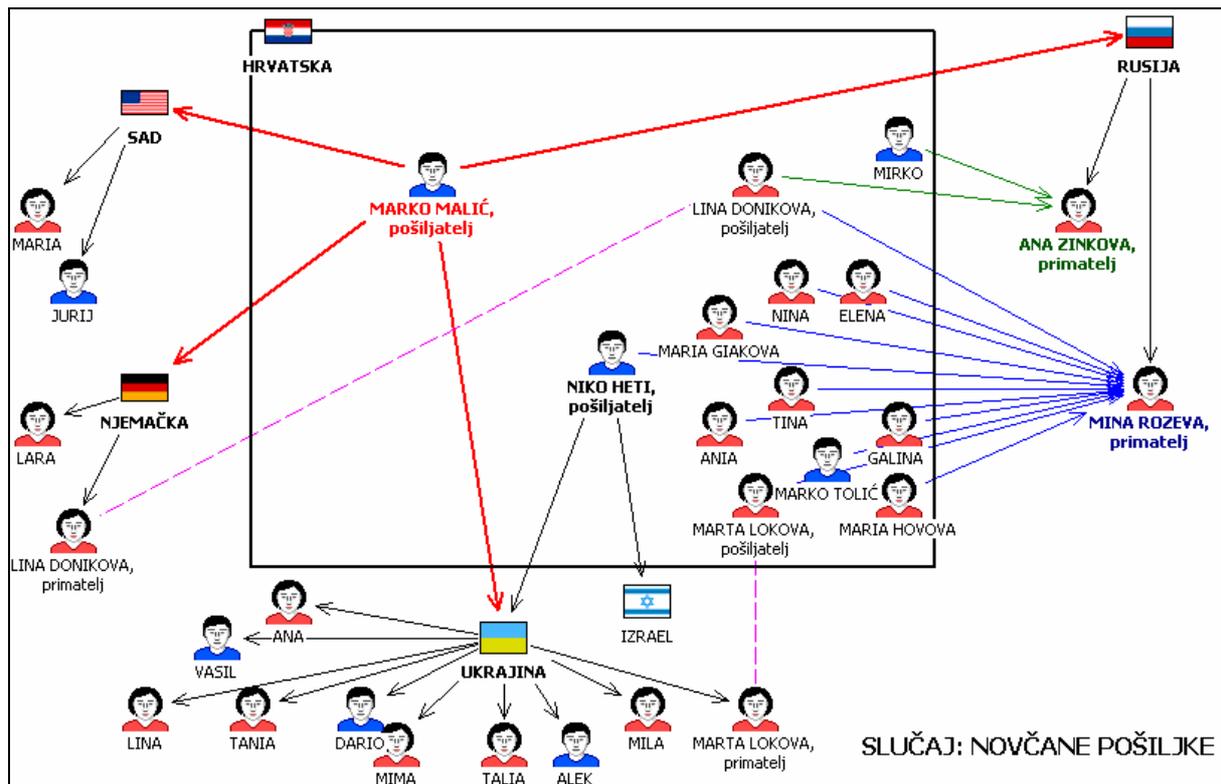


3.6. Suspicious transactions associated with sending money suspected of being related to criminal offence of human smuggling, from the Republic of Croatia, via money transfer providers, in favor of larger number of natural persons residing in several countries

CASE «MONEY REMITTANCE»

Characteristics of the case:

- Numerous cash payments were made in the Republic of Croatia by order of different natural persons where the funds being transferred via money transfer provider and in favour of different beneficiaries in Russia, Ukraine, Germany and USA.
- It was revealed that some persons ordering transfers had remitted money in small amounts in favor of different individuals related to several foreign countries.
- It was established that one person has been registered as a perpetrator of criminal activities of human smuggling across the state border;
- FIU of the country which was destination for money transfers ordered by the same person has provided the information on suspicious transactions of the person in question and the beneficiaries of the money.
- A joint investigation of the competent bodies of both countries was proposed.



3.7. Suspicious transactions related to high amounts of cash payouts (approx. 39 M of HRK) where the source of cash money are incoming wire transfers by order of foreign company being under investigation for illegal activities in abroad.

SLUČAJ “CASH “

Characteristics of the case:

- Money inflows from abroad has been done in favour of Croatian bank and by order of foreign legal person;
- Foreign legal person transferring the money from abroad is subject of investigation for possible illegal activities. Founders of this legal person in question are foreign natural persons and company registered for real estate business;
- Domestic natural person withdraws the cash from the account held by Croatian company which is also receiver of the money from abroad. The same natural person withdraws the cash from the account held by another Croatian company;
- Part of the funds was transferred in favour of the account held by legal person in abroad, and the other part of money was paid in the account of second Croatian company whose account was debited by cash withdrawals as well;
- Croatian company's scope of income does not correspond to the value of money inflows from abroad.

Results of the proceedings:

- Given the cash money is coming from accounts held by Croatian companies and originates from inflows from abroad ordered by foreign company being under investigation for possible illegal activities, the Office estimated that there is suspicion on possible money laundering related to the transactions and submitted the report to competent state bodies. The result of analysis done in the Office was provided to foreign financial-intelligence unit asking for more details on the result of the investigation related to foreign company in abroad.

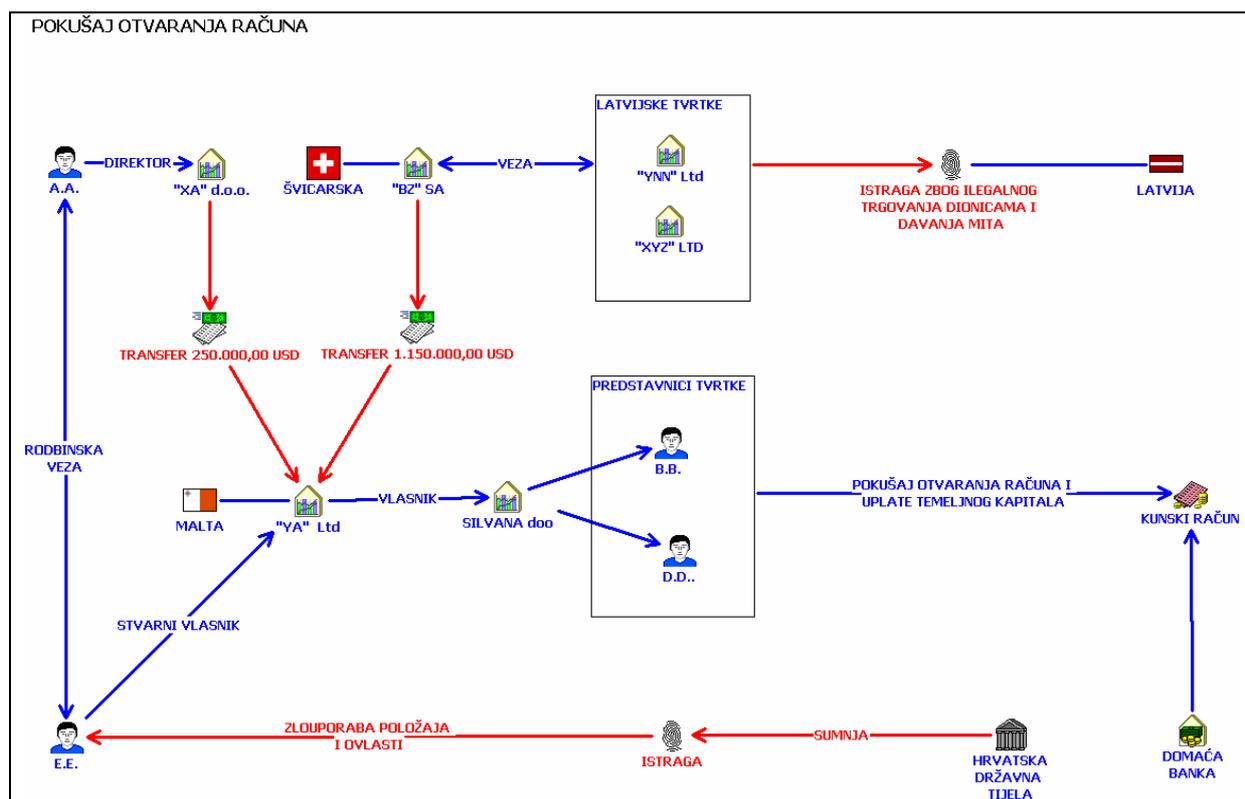
3.8. Suspicious activities: an attempt to open account of legal person avoiding identification procedure

Characteristics of the case:

- impossibility of checking identity of the beneficial owner;
- giving up of the opening of the account;
- companies from offshore zones;
- Croatian citizen is the beneficial owner of the offshore company;
- Information on subject persons' criminal offences
- International co-operation of the Office;

Results of the proceedings:

The Office submitted the report on suspicious transaction to the State Attorney's Office of the Republic of Croatia.



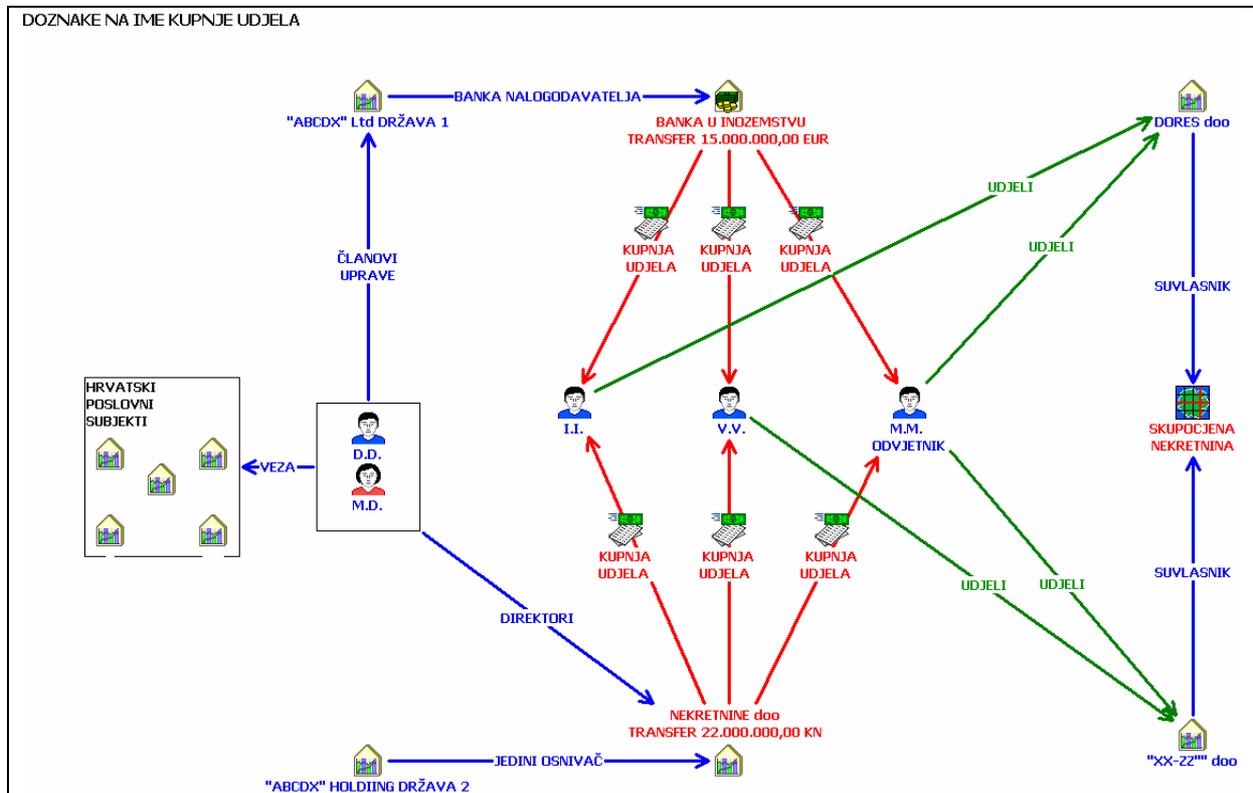
3.9. Suspicious international transactions (approx. 15 mil. EUR) related to acquisition of an ownership in Croatian companies having property rights over real estate.

Characteristics of the case:

- wire transfers from offshore zones;
- large amounts of funds;
- buy and sale of ownership stake of the company
- real estate ownership;
- subject persons are recorded as criminals;

Results of the proceedings:

The Office submitted the report on suspicious transaction to the Ministry of Interior and the State Attorney's Office of the Republic of Croatia.



3.10. Suspicious transactions (approx. 5,8 mil. EUR) related to cash deposit suspected to be the proceeds of illegal activities

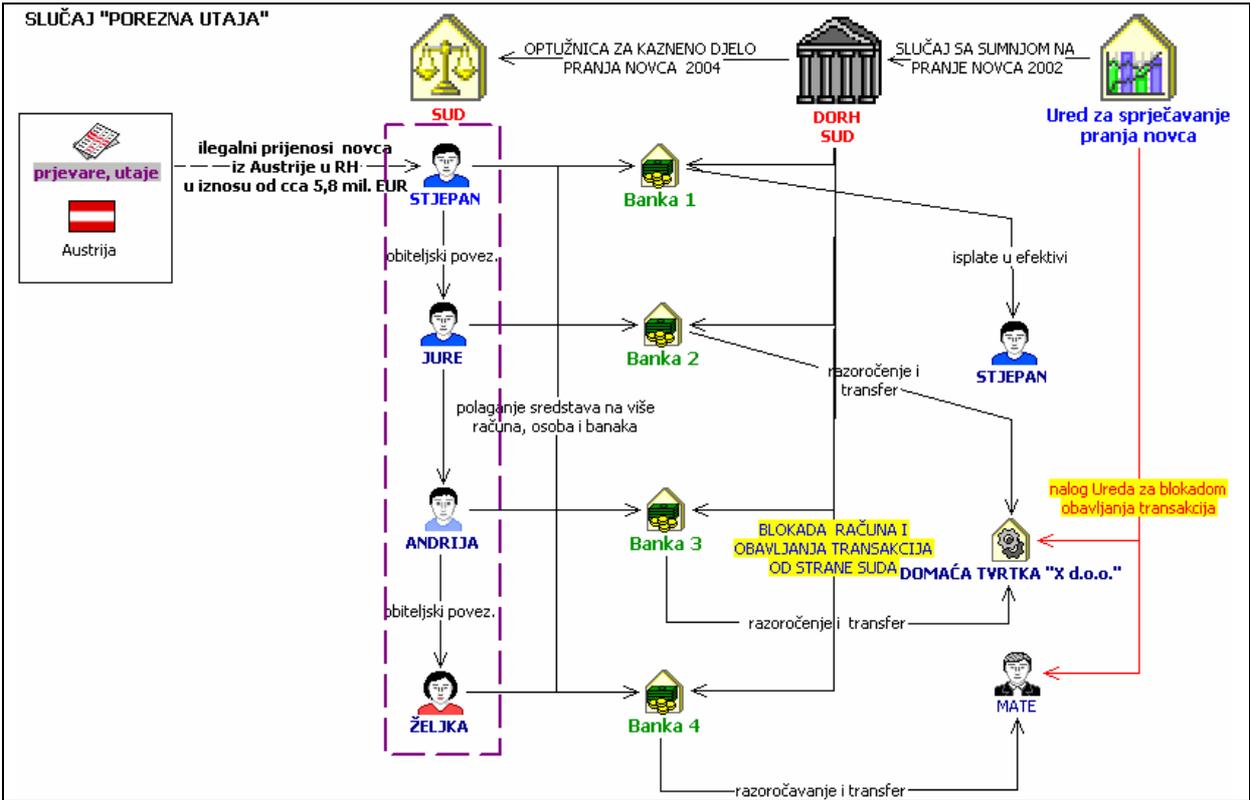
CASE «TAX EVASION»

Characteristics of the case:

- Depositing cash money in foreign currency without clear economic justification in favor of personal bank account belonging to several natural persons by order of Croatian citizen who has not declared regular income and is not related to any business subject in the Republic of Croatia;
- Frequent term deposits and termination before expiration date of the term deposit and using other forms of savings;
- Power of attorney over large number of foreign currency accounts held by different natural persons having large account balance and being related with family ties;
- Frequent conducting of financial transactions including transfers, cash deposits of smaller amounts (structuring) in the favour of numerous accounts;
- Physical transfer of the funds across the state border without declaring it to customs authority.

Results of the proceedings:

- It was established that the funds originates from tax evasion on the basis of economic activity which subject person conducted in other country;
- The Office has temporarily suspend the execution of transactions on 72 hours over accounts held by the subject person and other persons associated to him in the banks where their account were being held. In the same time the Office submitted report to the State Attorney's Office with proposal of suspending the funds on their accounts.
- Indictment for the criminal offence of money laundering has been issued.



3.11. Suspicious transactions (approx. 6,5 mil. EUR) related to money outflows from the financial system of the Republic of Croatia on the basis of fictitious invoices.

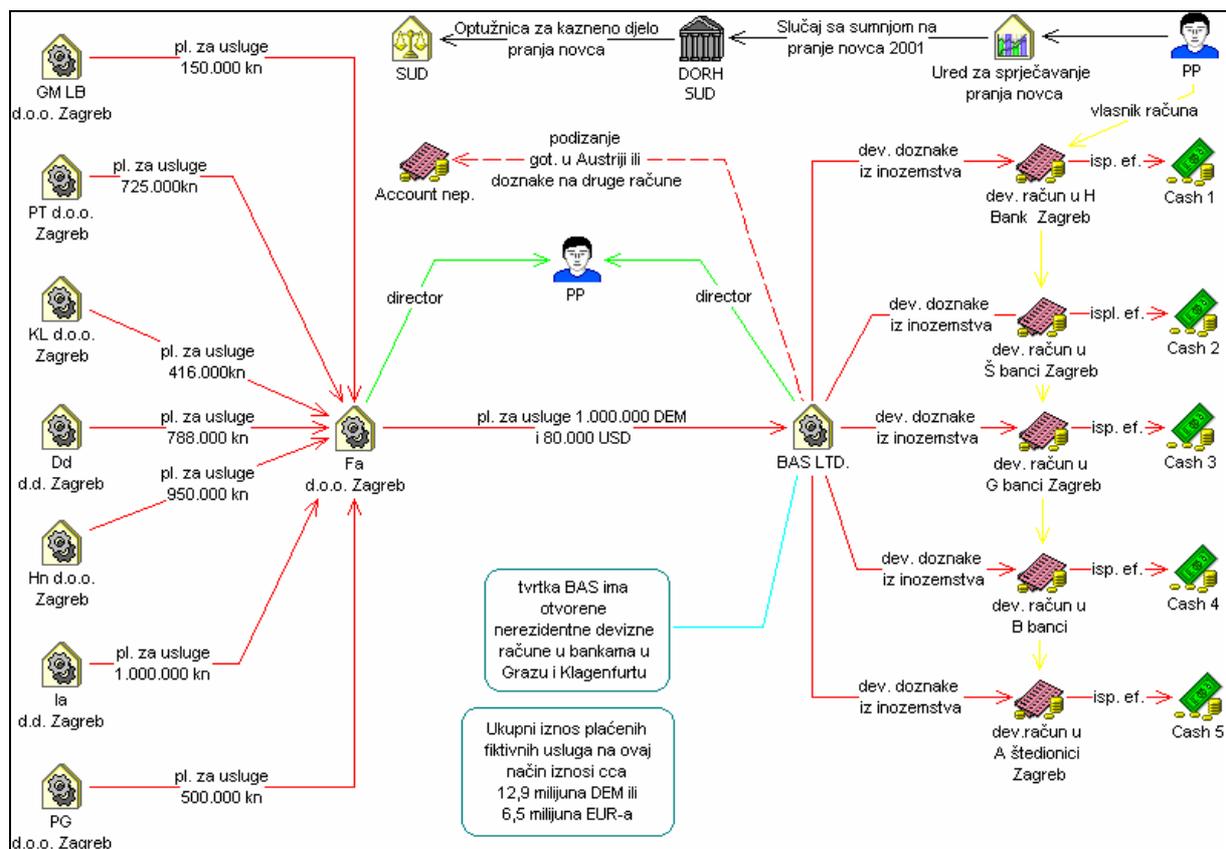
CASE «GRAZ»

Characteristics of the case:

- Numerous outgoing wire transfers by order of domestic company and through authorized person of connected companies in favor of non-resident accounts held by offshore company opened in another country;
- Payment of services that are suspected of being fictitious and never rendered;
- Authorized person within domestic company is linked to several business entities in the Republic of Croatia;
- Numerous inflows of money from the same banks from another country where underlying offshore company is holder on non-resident account; the documentation accompanying the transfers (inflows) indicated the purpose of payment as credit operations in favor of the accounts held by companies where the authorized person was the same domestic natural person.

Results of the proceedings:

The case has been submitted to the competent state bodies for further proceedings.



4. THE CASES FROM MONEY LAUNDERING TYPOLOGIES FROM INTERNATIONAL PRACTICE

4.1. CASES RELATED TO NON DESIGNATED BUSINESSES AND PROFESSIONS

(sources: FATF TYPOLOGIES and other sources)

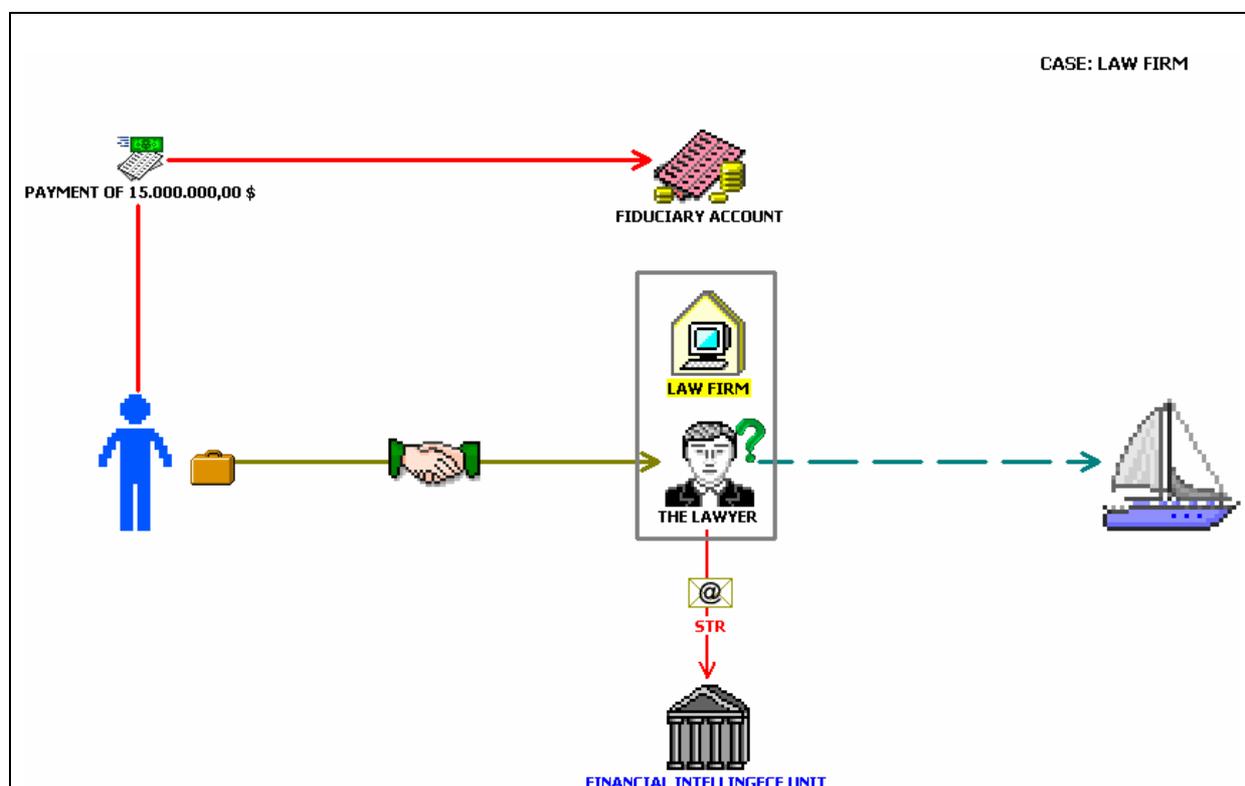
4.1.1. EXAMPLE 1:

Natural person, a member of the criminal environment with high income hires legal services from a law firm, presents himself as a businessman and explains that he wants to buy a luxury vessel. Following his explanation the law firm sees for him adequate vessel for his client.

The same natural person makes cash payment of 15 million of USD with funds that are criminal proceeds in favor of law firm's account. The amount includes also the fee for legal services.

(Source: *Twining Program CARDS 2003 «Prevention of Money Laundering»*)

Grounds for suspicion: the authorized person for prevention of money laundering within the law firm has found out the transaction suspicious due to high amount, but also was informed through the press articles that person in subject has been associated the criminal environment and thus send a report on suspicious transaction to national financial-intelligence unit.



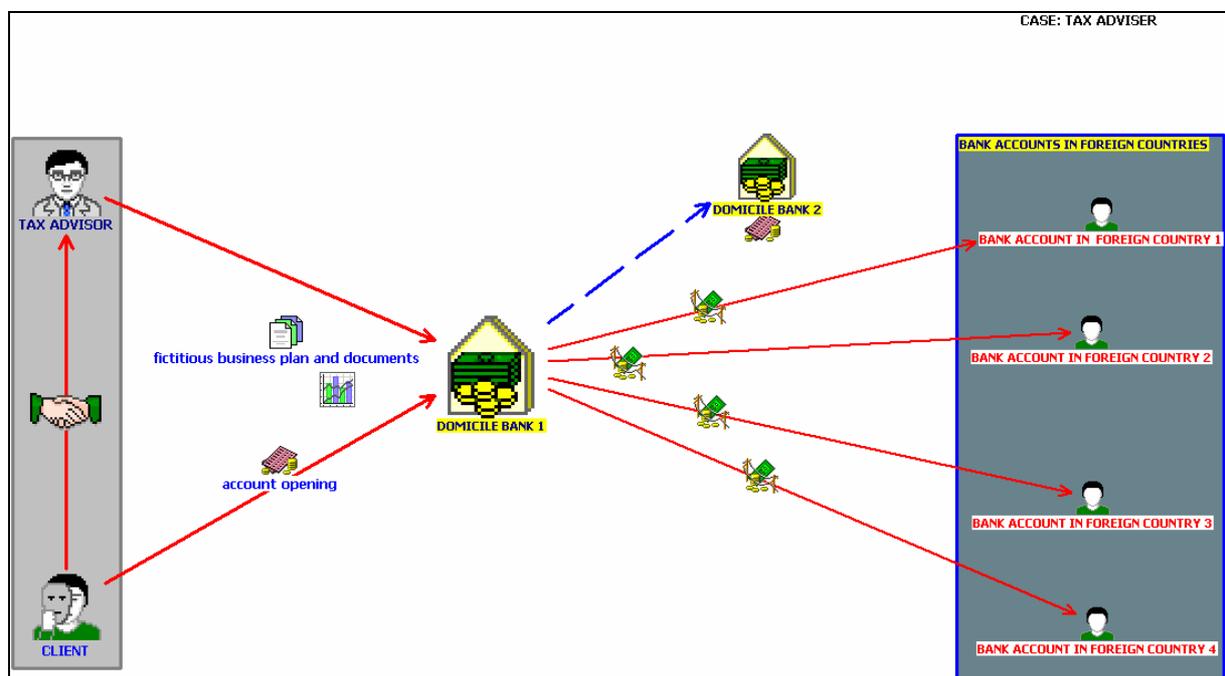
4.1.2. EXAMPLE 2:

Tax adviser brings his new client to the bank. Bank employee at the counter was presented client's business plan. After a period of time bank employee established that number of wire transfers coming from abroad in favor of client's account are not in line with business plan presented by the client, thus the business plan was obviously fictitious.

Instead of payments in favor of bank account specified in business plan which has been presented in a bank the payments are made in favor of individuals from abroad.

(Source: *Twinning program CARDS 2003 «Prevention of Money Laundering»*)

Grounds for suspicion: activity is inconsistent with the customer's business plan.



4.1.3. EXAMPLE 3:

Client from one European country prepares a project with public notary in another European country. Ordering customer is offshore company.

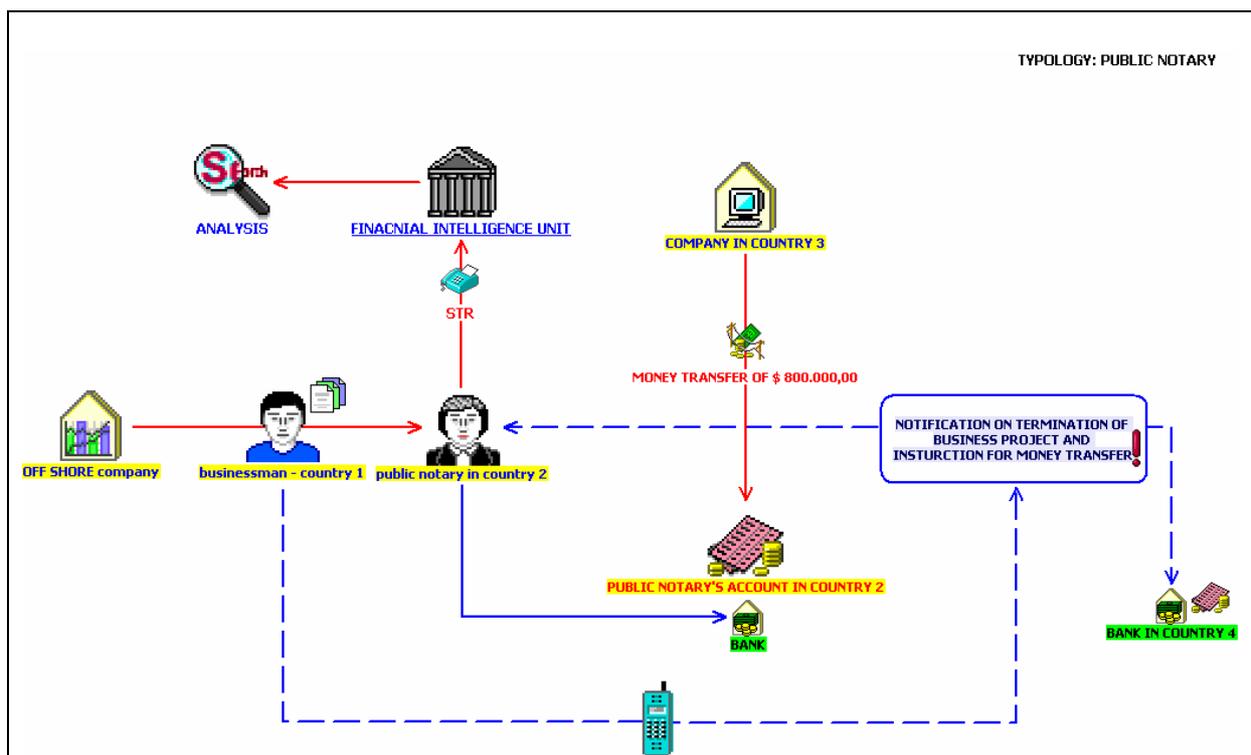
A public notary's bank account has been credited with wire transfer in amount of EUR 800 000 which came from third European country. After two days the client informs the notary he hired that the project has been suspended asking him to send funds to a bank account opened in the fourth European country and to take the money for service he had provided to the client.

The notary informs the bank on suspicious activities of his client. The bank advises him not to act according to his client's order and to submit the report to financial-intelligence unit.

If the notary transferred to money following client's order the transaction is not likely to be detected and assessed as suspicious in country of final destination. In this case it would be difficult to detect possible illegal and money laundering activities.

(Source: *Twinning program CARDS 2003 «Prevention of Money Laundering»*)

Grounds for suspicion: using of offshore jurisdictions, high amounts of money that are transferred from country to country, the suspension of the project commenced without logical explanation.

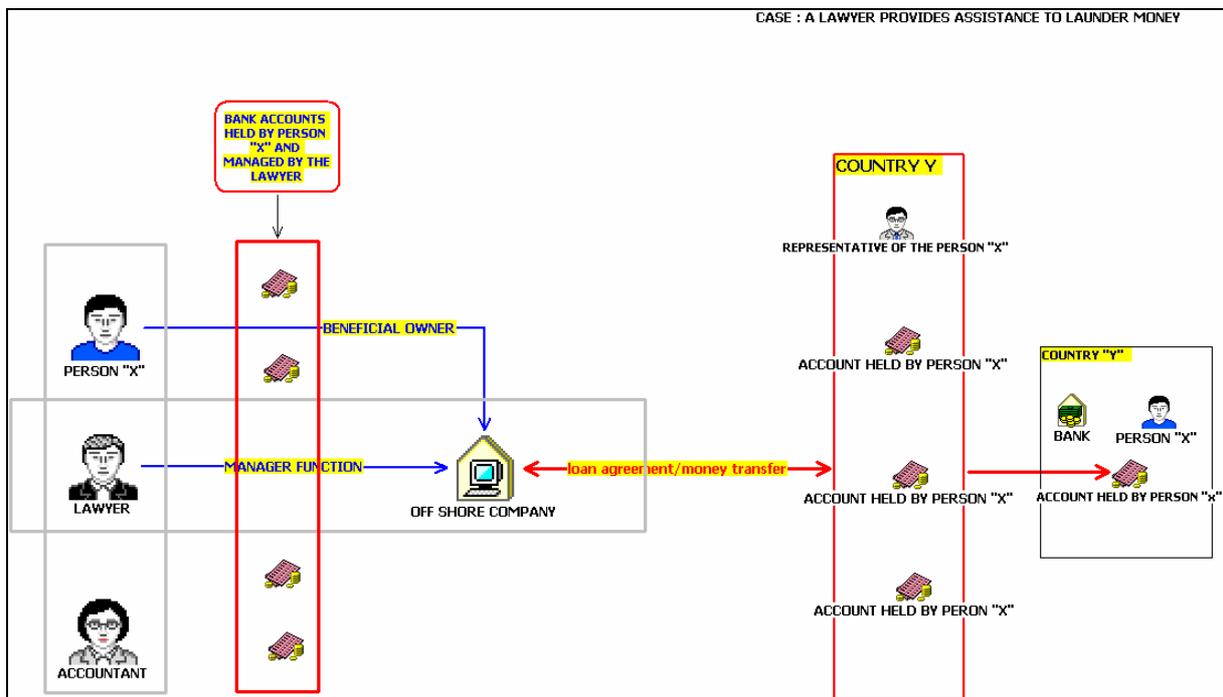


4.1.4. EXAMPLE 4:

Over a period of three years Mr. X repatriated the funds to Country Y for his use and benefit. He was assisted by lawyers and accountants using false transactions and offshore corporations. Mr. Y, formerly a lawyer, facilitated Mr. X's repatriation scheme by managing Mr. X's off shore corporation and bank accounts in several important financial centres. Mr. Y drafted documents that purported to be "loan" agreements between the off-shore shell corporation and a Mr. X nominee in Country Y. These loan agreements served as the basis for the transfer of the millions from bank accounts in several different countries to the Mr. X's home country. Upon arrival in the bank accounts opened by Mr.X's nominee, the funds were transferred to Mr. X.

Mr. Y' lawyer used the law firm's bank accounts to facilitate the transfers.

Source: FATF: Report on Money Laundering and Terrorist Financing Typologies 2003-2004



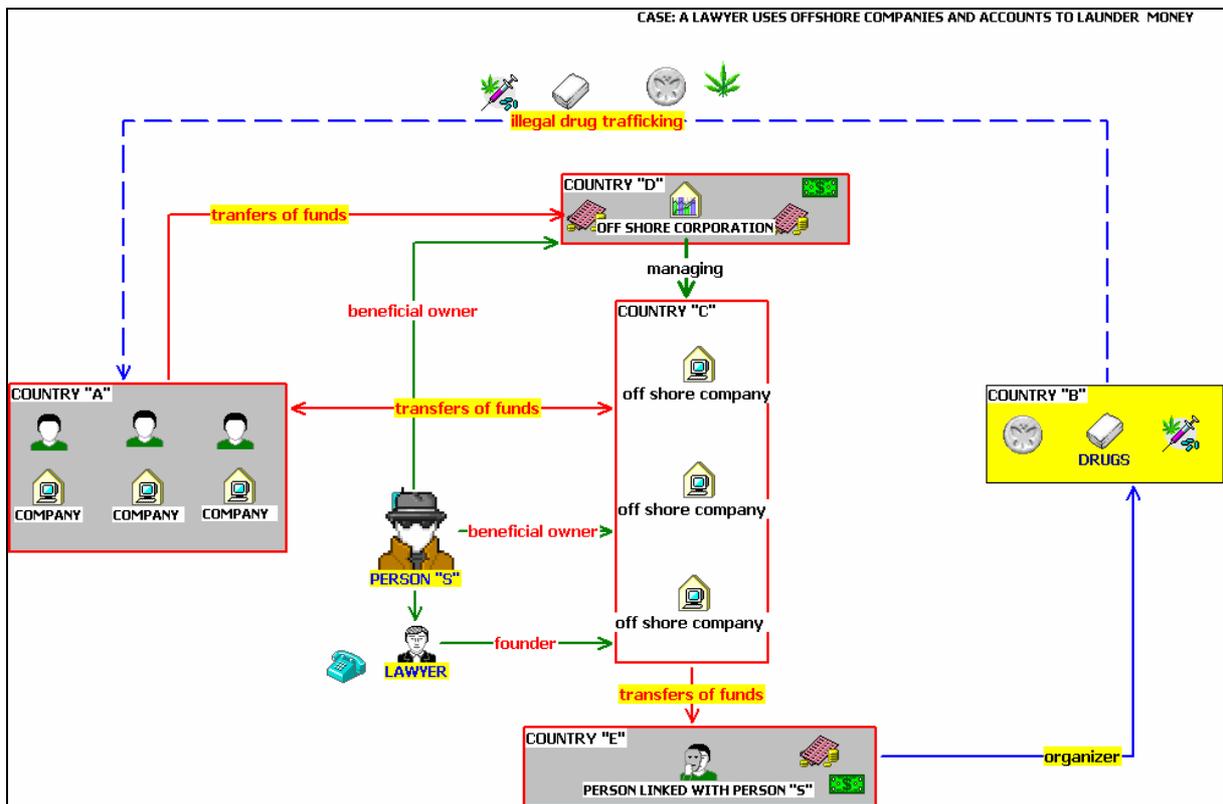
4.1.5. EXAMPLE 5:

Mr. S headed an organization importing narcotics into country A, from country B. A lawyer was employed by Mr. S to launder the proceeds of this operation.

To launder the proceeds of the narcotics importing operation, the lawyer established a web of offshore corporate entities. These entities were incorporated in a Country C, where scrutiny of ownership, records, and finances was not strong. A local management company I COUNTY d administrated these companies. These entities were used to camouflage movement of illicit funds, acquisition of asses, and financing criminal activities. Mr. S was the holder of 100% of the bearer share capital of these offshore entities.

In Country A, a distinct group of persons and companies without any apparent association to Mr. S transferred large amounts of money to Country D where it was deposited in, or transited through Mr. S's offshore companies. This same web network was found to have been used to transfer large amounts of money to a person in Country E who was later found to be responsible for drug shipments for Country A.

Source: FATF: Report on Money Laundering and Terrorist Financing Typologies 2003-2004

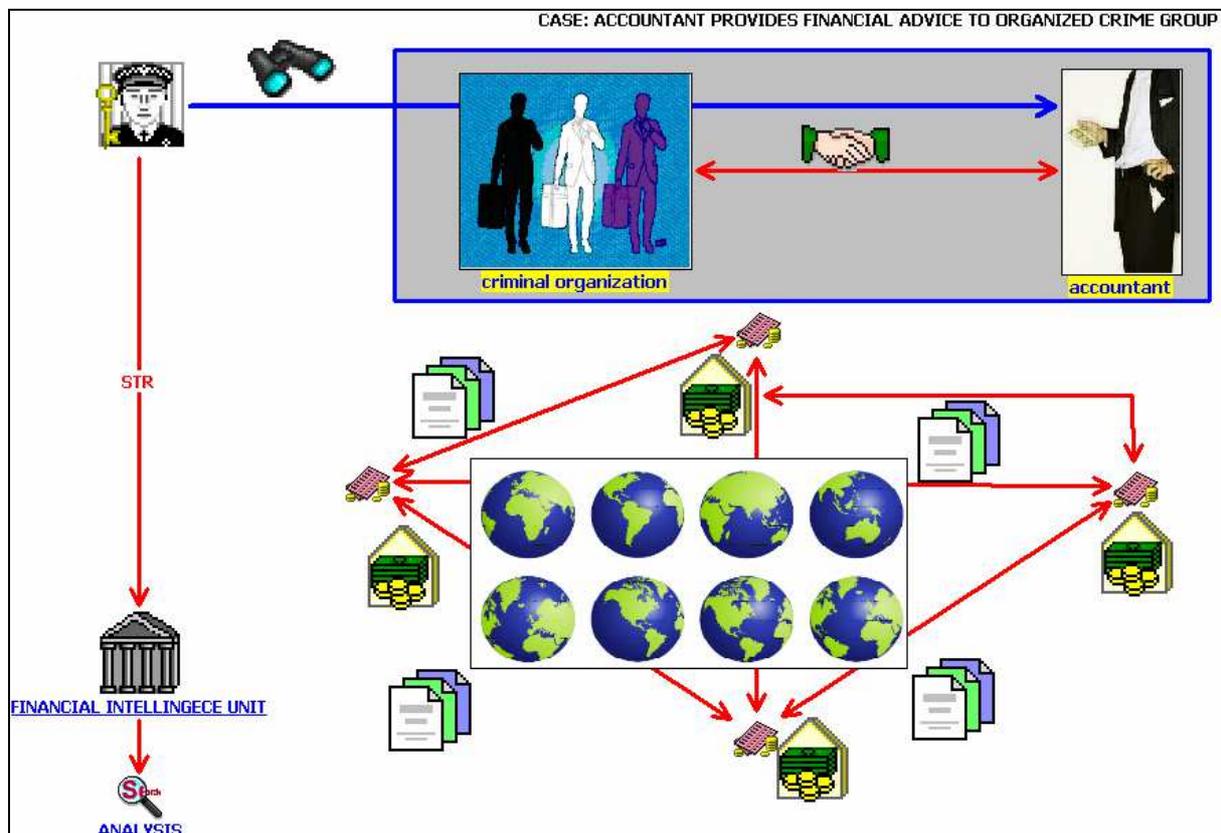


4.1.6. EXAMPLE: 6

A law enforcement operation identifies an accountant, Mr. J, who was believed to be part of the criminal organization involved in money laundering and re-investment of illicit proceeds derived from drugs trafficking led by Mr. X.

Mr. J's role was mainly that of a "legal and financial consultant". His task was to analyse the technical and legal aspects of the investments planned by the organization and identify the most appropriate financial techniques to make these investments appear licit from a fiscal stance. He was also to try as much as possible to make these investments profitable. Mr. J was an expert in banking procedures and most sophisticated international financial instruments. He was the actual financial "mind" of the network involved in the re-investment of proceeds available to Mr. X. Mr. J operated by sub-dividing the financial transactions among different geographical areas through triangle transactions among companies and foreign credit institutions, by electronic transfers and stand-by credit letters as a warrant to commercial contract which were later invested in other commercial activities.

Source: FATF: Report on Money Laundering and Terrorist Financing Typologies 2003-2004



3.2. CASES FROM LIFE INSURANCE SECTOR

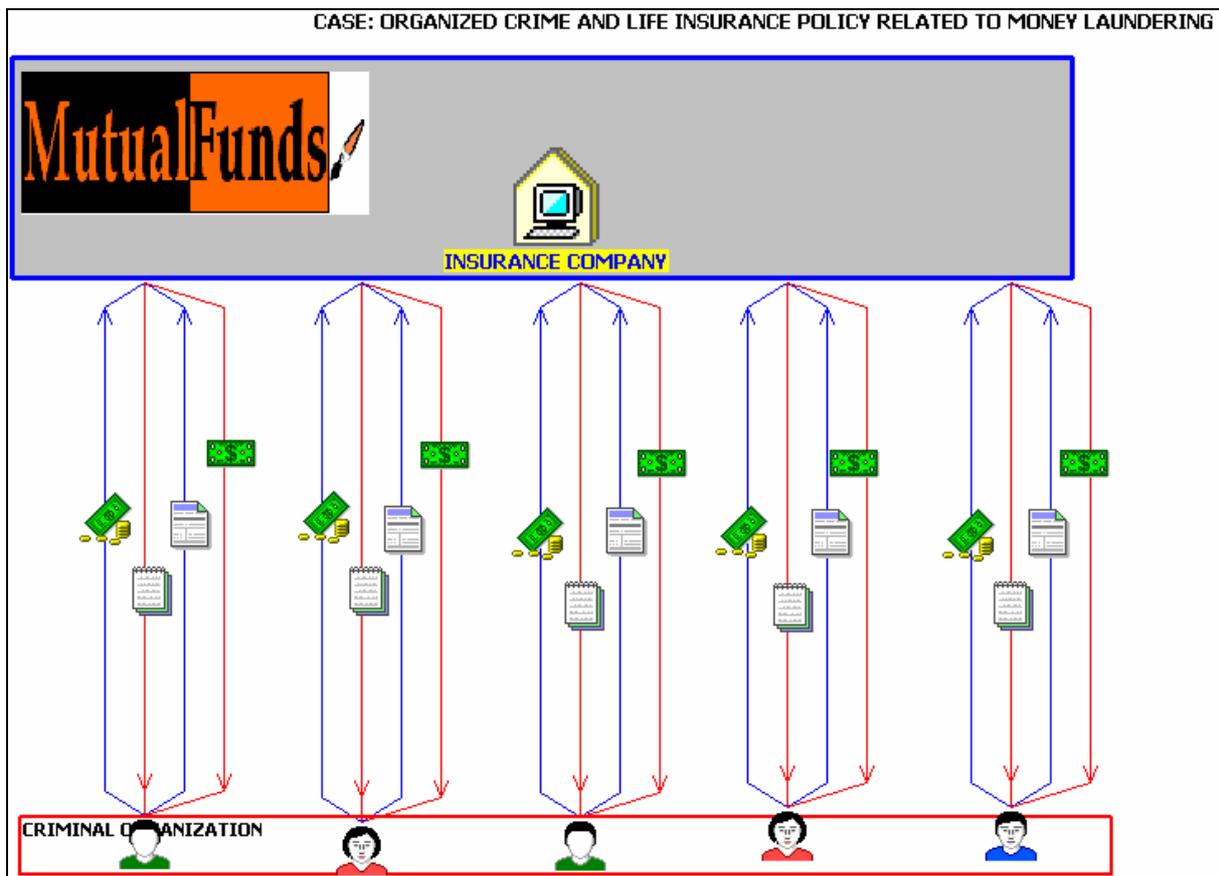
4.2.1. EXAMPLE 1:

Customs officials in Country X initiated an investigation which identified a narcotics trafficking organization utilized the insurance sector to launder proceeds. Investigative efforts by law enforcement agencies in several different countries identified narcotic traffickers were laundering funds through Insurance firm Z located in an off-shore jurisdiction.

Insurance firm Z offers investment products similar to mutual funds. The rate of return is tied to the major world stock market indices so the insurance policies were able to perform as investments. The account holders would over-fund the policy, moving monies into and out of the fund for the cost of the penalty for early withdrawal. The funds would then emerge as a wire transfer or cheque from an insurance company and the funds were apparently clean.

To date, this investigation has identified that over USD 29 million was laundered through this scheme, of which over USD 9 million dollars has been seized. Additionally, based on joint investigative efforts by Country Y (the source country of the narcotics) and country Z customs officials, several search and arrest warrants were executed relating to money laundering activities involved individuals associated with insurance firm Z.

Source: FATF: Report on Money Laundering and Terrorist Financing Typologies 2003-2004



4.3. CASES RELATED TO SECURITIES

4.3.1. EXAMPLE 1:

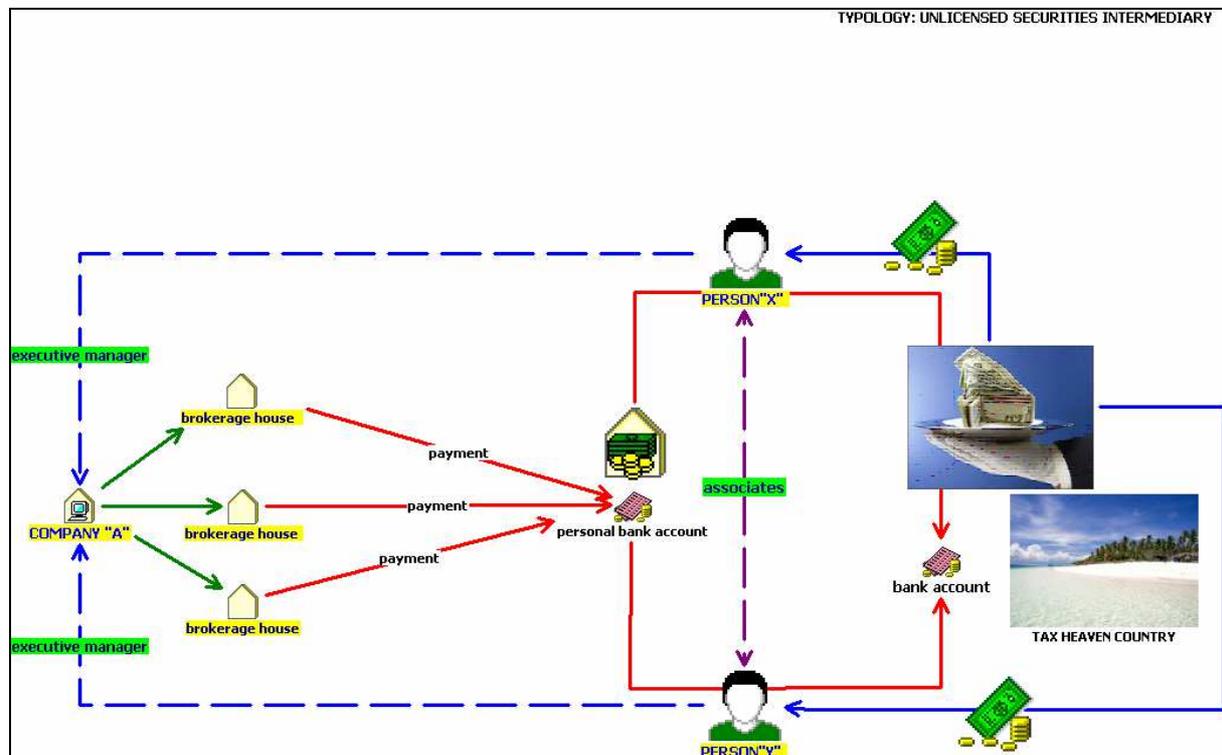
X and Y were managers of company A, active in purchasing securities for third parties. Shortly after company A's establishment, X and Y opened an account in their name for personal use. A few days later this account was credited with several transfers by order of third parties for a total amount of several thousand EUR.

The parties to the transfers were not linked to the individuals in any way. Furthermore, the references of these transfers referred to an investment fraud. The name of the account also referred to an investment fund. The debit transactions consisted of transfers to accounts opened abroad in tax heaven countries and the registration to investment product. Information from the supervision authorities showed that company A did not have a license to offer investment services.

The name of the individuals' personal account, the person receiving transfers, the regularity and the references accompanying the transfers as well as the destination of the funds showed that the transactions were not performed for X and Y but for a third party. The money was laundered through transfers abroad and registration to investment products.

Source: FATF: Money Laundering and terrorist financing in the securities sector – October 2009

Grounds for suspicion: cross-border funds transfers, use of third parties, electronic transfers by order of natural personas, messages accompanying the wire transfers referred to investment products, transactions happened shortly after opening of the bank account, account opened for personal use, account not used as anticipated.



4.3.2. EXAMPLE 2:

A number of suspicious transaction report were filed by securities dealers on three individuals suspected of involvement in wash trading⁴.

The individuals were purchasing and selling shares of three public companies for no apparent reason. The three individuals had accounts at different securities dealers.

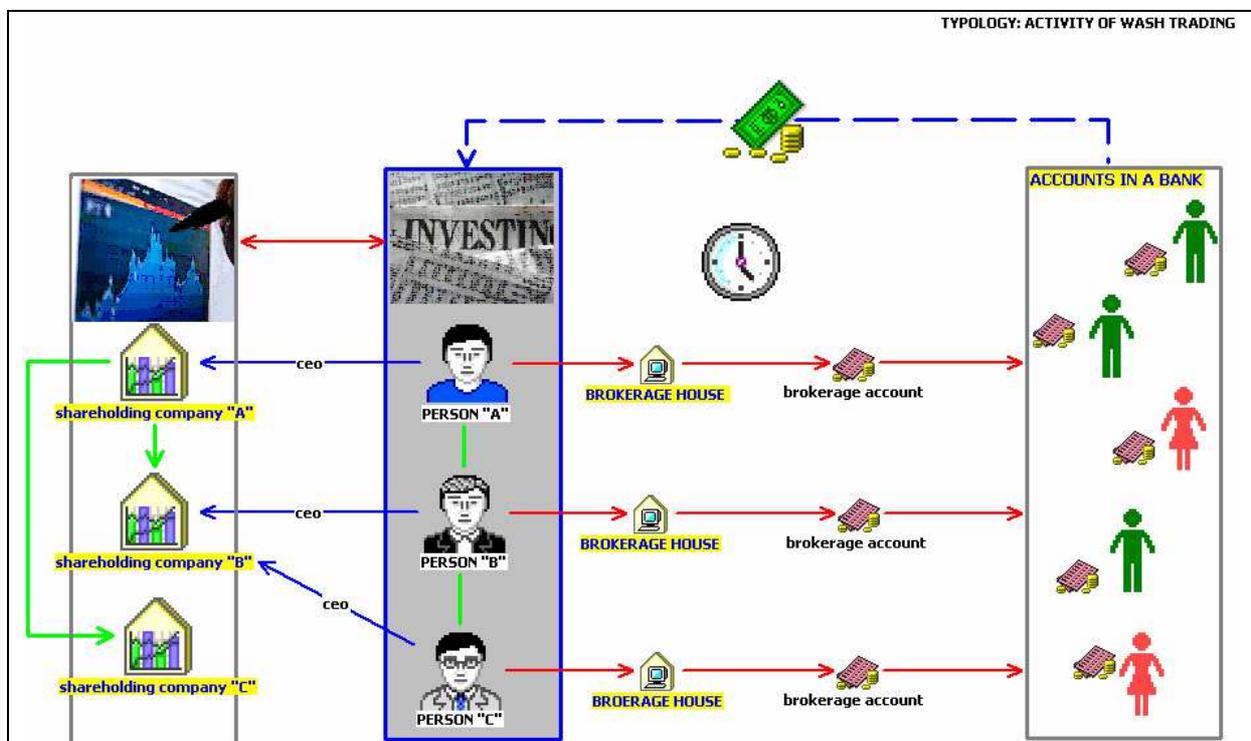
Three individuals, who appeared to be associates, were purchasing shares of three companies (A, B, and C) and selling them a short time later. One of the individuals was listed as a CEO of Company A, the other two as members of the senior management team of Company B. According to public documents, Company A was linked to Company B and Company C. The group traded shares of the companies through personal accounts held at different securities dealers. The three individuals were conducting the same transactions at the same time. The activity was similar to a money laundering technique known as structuring where they were dividing the purchase-sale scheme between them. The proceeds of sales were deposited into personal securities accounts and moved shortly held by the same individuals or others that are suspected to be nominees. The case was referred to law enforcement for investigation.

Money from the sales of shares of Company A, Company B and Company C conducted by the three associates was proceeds of crime.

Specific money laundering transactions: movement of money from securities account to bank accounts (that can be used to purchase other assets or make wire transfers); movement of money to suspected nominees.

Source: FATF: Money Laundering and terrorist financing in the securities sector – October 2009

Grounds for suspicion: use of multiple securities account, wire transfers, conducting similar transactions that appear unusual, buying and selling securities of specific companies in a short period of time.



⁴ Wash trading – simultaneously buying and selling shares through different brokerage firms in order to create the appearance of substantial trading activity that will draw in other investors. Wash trading is illegal.

4.3.3. EXAMPLE 3:

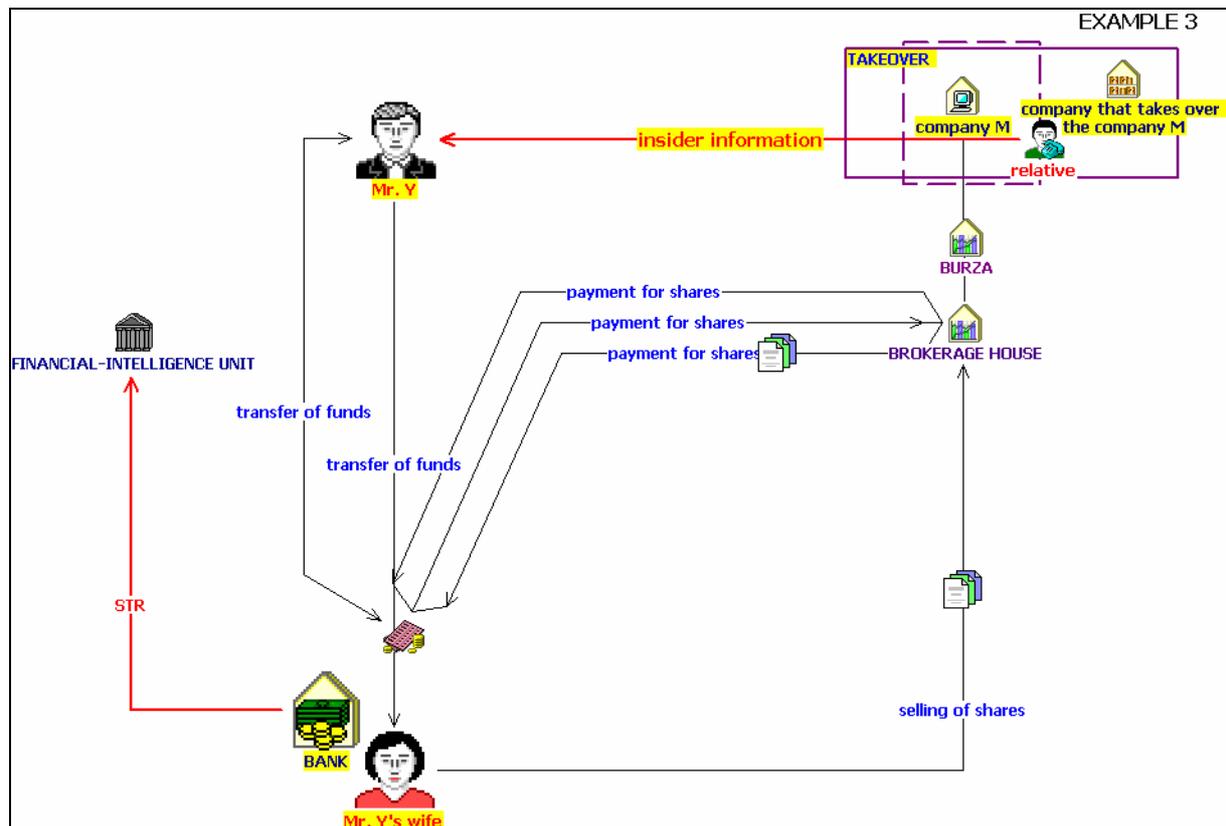
Mr. Y had insider information on company M, quoted on the stock exchange. Through relatives, he knew that company M would soon be acquired.

To avoid attracting attention, he transferred his assets to his wife's account over which he had power of attorney, and purchases shares of company M prior to the announcement of the takeover. The bank knew that Mr. Y's spouse did not usually perform stock exchange transactions and was surprised to find out that funds were transferred from her husband's account. It is believed that Mr. Y's wife carried out the transactions on his behalf and tried to conceal the transactions by using her account.

After the takeover, his wife's account was credited with the proceeds of the securities sold.

Mr. Y then laundered the money by having the funds transferred to his personal account.

Indicators: Unusual transaction; Purchases do not correspond to the customer's investment profile.

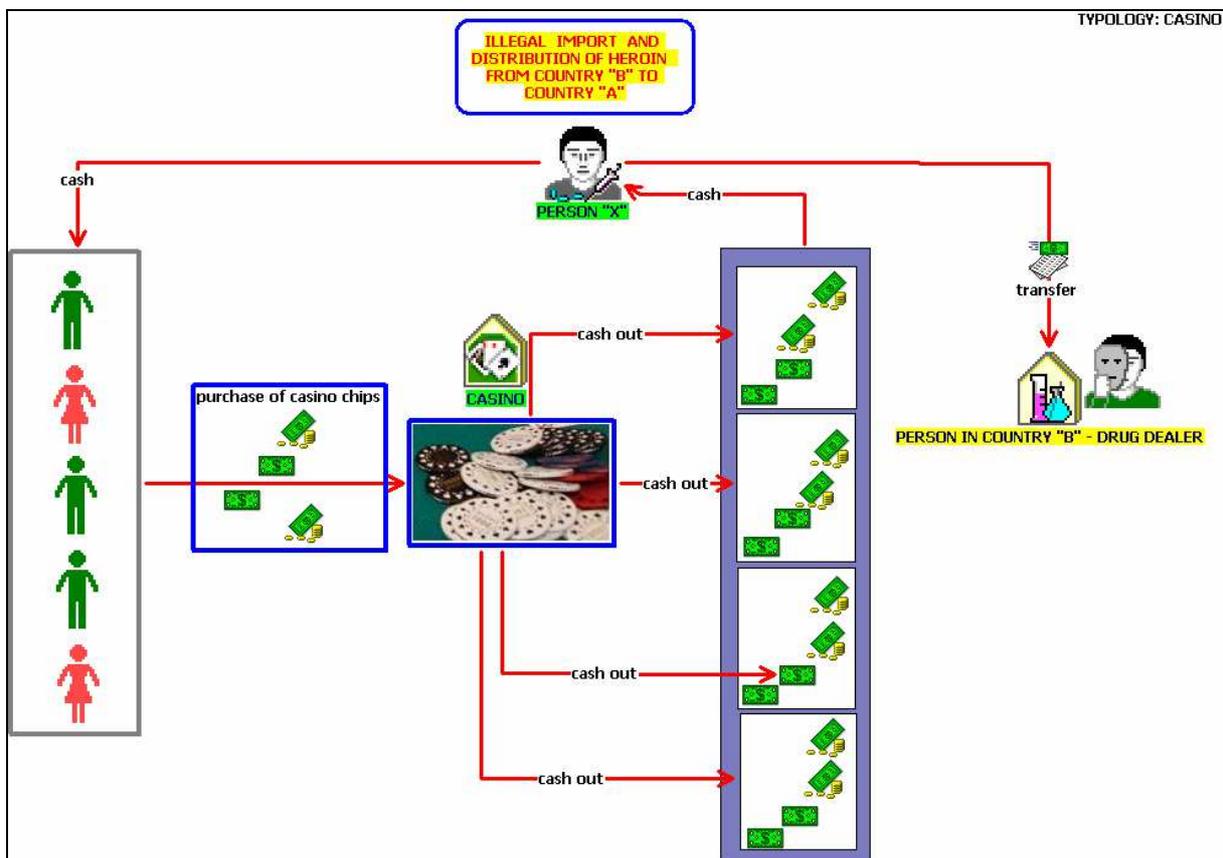


4.4. CASES RELATED TO NON-FINANCIAL SECTOR

4.4.1. EXAMPLE 1:

A person X was involved in the importation and distribution of narcotics from country B to country A. The person gambled a large proportion of the proceeds at casinos and used third parties to purchase gaming chips on his behalf. Reports from the casino noted multiple chip cash outs with some of these transactions being structured to avoid reporting threshold.

Grounds for suspicion: use of third parties, conducting multiple transactions in smaller amounts instead one transaction.

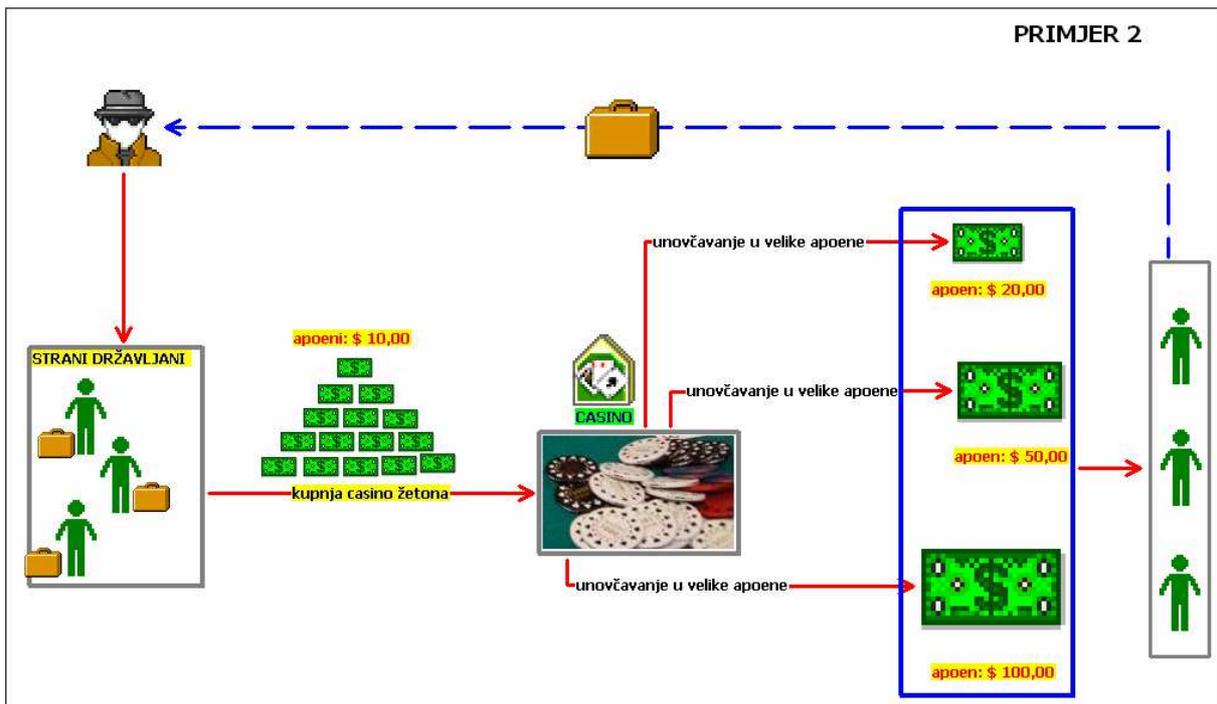


4.4.2. EXAMPLE 2:

A group of three foreign people entered separately in a casino and bought chips, paying with low denomination notes. They didn't play any game, and they changed the chips that they had bought trying to obtain high denomination notes.

Source: FATF/OECD and APG report, Vulnerabilities of Casinos and Gaming Sector, March 2009.

Grounds for suspicion: use of third parties, cash in of casino chips, cash in of casino chips requiring high denomination notes.



4.4.3. EXAMPLE 3:

Mr. X was owner of the Company A and the individual controlling its activities. Mr. X hired Mr. Y as a front man of Company A. Company A had some low-profile activities in managing and exploiting properties. During the life of Company A, Mr. Y set up a relationship with Bank EUR that provided for accounts and payment services. The property managed by Company A was used for activities by other companies owned by Mr. X (for storage, for example).

Mr. X planned to buy office buildings for EUR 8,000,000 via Company A. The office building has to be renovated to be marketable. Mr. X knew a licensed assessor (real estate agent)- Mr. Z. Mr. X and Mr. Z found a way to set up a false but plausible assessment of the market value of the office buildings after renovation (EUR 13,000,000). Mr. X ordered Mr. Y to negotiate a mortgage with Bank EUR to finance the purchase and renovation of property. Based on the assessment, Bank EUR was willing to grant a mortgage of EUR 13,000,000. Mr. Y entered into the loan agreement on behalf of Company A as the buying party. After the disbursement of the loan, the real estate was paid for. Mr. X then paid Mr. Y EUR 500,000 and had the remaining EUR 4.5 million, together with the proceeds of other criminal activities, transferred into several bank accounts in countries with strict bank secrecy.

The mortgage of Bank EUR was presented to the foreign banks as the legitimate source of the funds that were being transferred to the accounts. In this way, the money was layered and integrated. The renovation of the office buildings never took place. Meanwhile the activities of Company A rapidly decreased. Company A finally went into default. Bank EUR called the loan, but Mr. Y was not in a position to reimburse it along with the interest payment. Mr. Y stated that he was not aware of the persons behind Company A, their whereabouts and the background of the accounts to which the money was transferred.

Source: FATF//OECD, Money Laundering & Terrorist financing through the real estate sector, 2008.

Grounds for suspicion: using forged and falsified documents which did not correspond to real value of the building, using multiple bank accounts opened in jurisdictions with bank secrecy.

