

**NATIONAL RISK ASSESSMENT OF MONGOLIA ON FINANCING OF TERRORISM
AND PROLIFERATION FINANCING OF WEAPONS OF MASS DESTRUCTION**



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1.1. Understanding the risk assessment of the financing of terrorism and proliferation

Risk assessment of the financing terrorism is the “hypothesis” of analysis on a total assessment of the inspection that made by of citizens, non-government organisations and government organisations for accumulated, transferred properties and circulation that should be spent for terrorist activities of terrorist organisations, groups, and entities.

The work group has executed “National Risk Assessment of the Financing Terrorism and Proliferation” based on recommendations, reports, surveys, statistics, and related official data that received from international organisations against money laundering and financing terrorism and related government organisations with the mandate to combat such crimes under related laws.

Risk Assessment Level:: Countries use the following five levels as a guidance for risk assessment of the security sector:

LEVEL	<i>Very low</i>	<i>Low</i>	<i>Moderate</i>	<i>High</i>	<i>Very high</i>
DEFINITION	Low risk of the criminal activities	General risk of the criminal activities	Significant risk of the criminal activities	High risk of the criminal activities	Immediately dangerous condition of the criminal activities

Mongolia has prepared a risk assessment of terrorism threats from 2015 to 2018 by the above-mentioned standard. The National Risk Assessment of the financing terrorism and proliferation is based on this standard.

1.2. Risk assessment level of Mongolia of the financing terrorism and proliferation

<i>Definition: Risk assessment includes below mentioned 5 levels</i>					
LEVELS	<i>Very low</i>	<i>Low</i>	<i>Moderate</i>	<i>High</i>	<i>Very high</i>
DEFINITION	Low risk of Terrorism financing	General risk of Terrorism financing	Significant risk of Terrorism financing	High risk of Terrorism financing	Severe risk of Terrorism financing
NCTCC: TERRORISM RISK ALERT SYSTEM OF MONGOLIA					
LEVELS	NOT EXPECTED LOW Low risk of Terrorism financing	POSSIBLE GUARDED General risk of Terrorism financing	PROBABLE ELEVATED Significant risk of Terrorism financing	EXPECTED HIGH High risk of Terrorism financing	CERTAIN SEVERE Severe risk of Terrorism financing
DEFINITION	LOW TF is unlikely	MODERATE TF is possible but not likely	SUBSTANTIAL TF is strong possibility	SEVERE TF is highly likely	CRITICAL TF is expected imminently
LEVEL NUMBERS	0-1	2	3	4	5
PERCENTAGE	0-20%	21-40%	41-60%	61-80%	81-100%

Mongolia has used the recommendation and methodologies of international standards that prepared by Asia Pacific Group on Money Laundering /APG/ and Financial Action Task Force /FATF/.

This assessment evaluated risks of probable sectors and directions that could be used to finance terrorism and proliferation. In addition, it evaluated the related government organisations activities and determined their interdependence. For example, one of the possible sectors to finance terrorism and proliferation is a non-banking financial institution. During the evaluation process of this sector we, also made a risk assessment of a regulatory authority, the Financial Regulatory Commission, and compared both evaluations. This process is greatly important to determine which further necessary measures should be taken and how to implement them. For example:

This risk assessment of a non-bank financial institution and the Financial Regulatory Commission's activities has determined the risk to finance terrorism as showed below.

THE GENERAL ASSESSMENT OF NON BANK FINANCIAL INSTITUTION RISK															
Assessment comparison															
No	Risky sector, organization and direction	Threat		Weakness		Total assessment	<	Total	Authorized organization for inspection	Threat		Weakness		Result	
1	NBFI Insurance Savings and Credit Cooperative Bond market participant professional organisation	Sector dimension and range	3	Legal environment	3	25	>	21	Financial Regulatory Commission	Sector dimension and range	1	Legal environment	2		
		Understanding on criminal cases to financing of terrorism	4	Cooperation	4					3	Cooperation	3			
			3	Inspection and regulation	2						3	Inspection and regulation	3		
			Possible condition to be used products and service	3	Preventive activities from financing of terrorism and duties of reporting							3	Preventive activities from financing of terrorism and duties of reporting		3

As for the risk assessment of this sector, a non-bank financial sector was evaluated orange or at “**High Risk**” /assessment point 25/, and the Financial Regulatory Commission has been graded yellow or at “**Moderate Risk**” /assessment point 21/. In conclusion, it is needed to organize preventive, informative, and educational activities for non-bank financial institutions.

1.3. Criteria and survey of risk assessment

One. The criteria of threat: *These criteria assess the potential internal and external threats and conditions of sectors, organizations, and related activities that are at risk financing terrorism and proliferation. This questionnaire includes below mentioned four questions.*

1. **Sector dimension and range:** *It is the assessment of the potential to be subject of the financing of terrorism and proliferation by sectors, by their activity direction, their activity range, quantity, location and their activities covering range.*
2. **Understanding of the financing of terrorism and proliferation financing of weapons of mass destruction:** *It is the assessment of all employees and officers from the sector and field on their understanding and knowledge of such crimes, readiness for preventive activities, planning for counter measurements, organization, preparedness of the officer in charge, their occupation level, and their alertness.*
3. **Possible circumstances for products and services to be used:** *It is the assessment of possible circumstances to finance terrorism and proliferation using the provided activity and services, implemented works, and products and services of the sector and organization.*
4. **If there is a data or record of violation related to the financing of terrorism and proliferation:** *It is the assessment of the history of criminal records, violations and criminal and non-criminal acts to finance terrorism and proliferation in this sector, measures taken in this area, and the preventive and combating activities the financing of terrorism and proliferation.*

Two. The criteria of vulnerabilities: *It is the assessment of challenges, mistake, and vulnerabilities to combat and prevent from financing terrorism and proliferation in their respective sectors, organizations, and activities. The questionnaire includes the following four questions*

1. **Legal environment:** *It is the assessment of the implementation of relevant rules, regulations, and decrees that are regulating sector's relations, and legislation to prevent and combat the financing of terrorism and proliferation in their respective sectors, organizations and activities.*
2. **Cooperation /Information exchange/:** *It is the assessment of cooperation with the authorized government organization that performs duties to combat and prevent financing terrorism and proliferation, effectiveness of information exchange, the implementation of the requirements, recommendations, and directions provided by the authorized organization, and whether the implementation results, reports, and information is presented regularly.*
3. **Regulation and Inspection:** *It is the assessment of results, implementation of related decrees, rules, an internal organization that needed to prevent from financing terrorism and proliferation by related sectors in their activity direction.*
4. **Preventive activities from financing of terrorism and proliferation of weapons of mass destruction and the obligation to report:** *It is the assessment of sectors, organizations and related activities on their internal preventive activities from the financing of terrorism and proliferation and their reporting status of the criminal information to the related authorities and take immediate actions against the financing of terrorism and proliferation.*





1.4. Risk assessment methodology

In order to assess the terrorism financing risk and proliferation in respective sectors, a score of 0-5 was given to each question of the above-mentioned threat and vulnerability criteria. In other words, a total evaluation score of risk assessment of one sector, organization and activity shall be between 0 and 40 (total evaluation of 8 questions). The result shall determine the risk level based on the following methodology.

RISK ASSESSMENT METHODOLOGY:				
ASSESSMENT FOR EACH QUESTION TO DETERMINE RISKS OF THE ORGANISATION AND THEIR ACTIVITY DIRECTIONS				
0-1 Very low risk	2 Low risk	3 Moderate	4 High Risk	5 Very high risk
RISK LEVEL OF TOTAL ASSESSMENT FOR ALL CRITERION TO DETERMINE RISKS TO FINANCE OF TERRORISM AND PROLIFERATION BY ORGANISATIONS				
0-8 Very low risk	9-16 Low risk	17-24 Moderate	25-32 High risk	33-40 Very high risk
0-20% Very low risk	21-40% Low risk	41-60% Moderate	61-80% High risk	81-100% Very high risk

TWO. THE GENERAL ASSESSMENT OF MONGOLIA ON TERRORISM THREAT

Compared condition with previous years risk assessment of Mongolia on terrorism threats in 2018:

YEAR	2015	2016	2017	2018
LEVEL	Low risk	Low Risk	Low Risk	Probable
NOTE	Low risk of terrorism financing	Low risk of terrorism financing	Low risk of terrorism financing	Significant risk of terrorism financing
Risk increasing or decreasing direction				
Influencing external factors		ASEN-XI	Expansion of DAESH ¹ -	Return flow of FTF
Influencing internal factors				Base condition of the terrorism

Based on research from the Counter Terrorism Coordination Committee and information that is received from member organizations, the terrorism threat general assessment level of Mongolia is blue or “Higher than Low Risk” /*Although there is a low risk of terrorism in Mongolia, the level of conducive conditions for fundamental conditions for terrorism is at medium level. Therefore, the level of risk of terrorism has increased to higher than low*/. Thus, the Mongolian government, the regulatory commission, and other member organizations shall focus on the implementation of below mentioned main measures to prevent terrorism in Mongolia.

1. Improve relations and cooperation with international and regional organizations in combating and preventing terrorism, foreign entities with the same activity direction, and between domestic government and non-government organizations. Also, provide regularly a continuous information exchange, readiness, and communications between them.

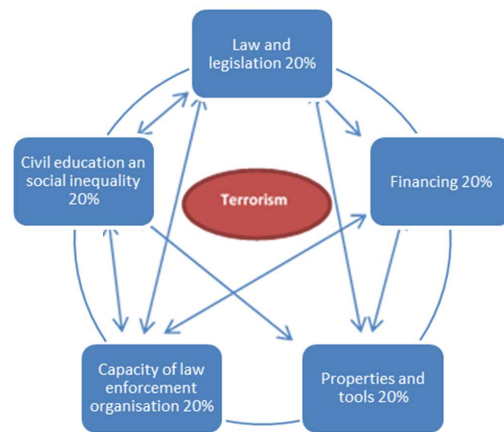
¹ DAESH or “Islamic State of Iraq and Syria” International Terrorist Group

² Foreign Terrorist Fighters risk assessment is conducted in close instruction of the assessment.

³ Risk Assessment of Mongolia on Terrorism Threat in 2018 is conducted medium risk level of terrorist criminals of Mongolia

2. Organize continuous terrorism prevention activities at all levels throughout the country. Provide the government administration with the international and regional terrorism situation and trend and data analysis of domestic situation carried out from open resources and practical work, and get work guidance/direction;
3. Complying the domestic legal structure on combating and preventing terrorism with international agreements, conventions, and standards and amend related regulations and laws. Also, build the capacity, increase job positions, specialize and train the officials, improve the planning, readiness, and coherence for a possible terrorist attack and organize regular training;
4. Identify the basic terrorism conditions that could influence to carry out a terrorist crime or attack, take measures to eliminate them on a policy level, and improve inspection of the tools that could be used in a terrorist crime.

Measuring the sum of the following five segment conditions, including their coherence, inadequacy, and achievements will determine the “fundamental conditions of terrorism” that could affect Mongolia’s potential terrorist attacks and terrorist crimes.



¹ A present assessment has made based on 5 level of Risk Level /*Very low, Low, Medium, High, Very High*/ and 5 directional situations /*Financing, Law, Tools, Organisation capacity, citizen-Education*/ and international sample standard of European Union, Great Britain and Federal Republic of Germany.

BRIEF RISK ASSESSMENT OF TERRORISM THREAT OF 2018

<i>Factors: Criterion:</i>		<i>Very low risk</i>	<i>Low Risk</i>	<i>Medium Risk</i>	<i>High Risk</i>	<i>Very high risk</i>
1.	Risk assessment on foreign factors		→			
2.	Risk assessment on domestic factors		→			
3.	Influencing factors for terrorism			→		
4.	Assessment of national capacity against terrorism				←	
5.	Factors to reducing risks		→			
6.	Factors to increasing risks				→	

According to the Risk Assessment of Mongolia in 2018, risk assessment of influencing factors for terrorist attacks is yellow or “medium risk.” and as one of the influencing factors for a terrorist attack is financing of terrorism. In Mongolia, there have not been any criminal records or court case on the financing of terrorism. But Asia Pacific Group on Money Laundering and Financial Action Task Force on Money Laundering recommended paying special attention to combat proliferation financing, and financial sanction activities in accordance with the United Nations Security Council decree.

Additionally, the recommendation underlined the importance of improving the domestic legal environment of Mongolia to combat terrorism and advised to revise, make amendments to Anti Terrorism Law”, “Law on Combating Money Laundering and Terrorism Financing” and other related laws and make new regulations and follow them.

Following the FATF recommendations, all levels of government agencies are implementing in their activities the 19/15 directive “Take Measurements to combat money laundering and terrorism” of the National Security Council dated on 19 July 2017 and carrying out detailed “National Risk Assessment of the Financing Terrorism and Proliferation.”

THREE. GENERAL SITUATIONS OF MONGOLIA TO COMBAT THE FINANCING OF TERRORISM AND PROLIFERATION

The terrorism threat general assessment level of Mongolia is blue or “Higher than Low Risk” (*Although there is a low risk of terrorism in Mongolia, the level of conducive conditions for fundamental conditions for terrorism is at a medium level. Therefore, the level of risk of terrorism has increased to higher than low/*). In terms of combating the terrorism financing, there were no cases recorded of terrorism financing from foreign countries. Also, Mongolia is not included in the list of states that trains international terrorist groups and persons and a transit country. Although, there is no information on activities related to terrorist groups such as DAESH, Al Qaeda and Taliban aimed at Mongolia. But on a regional level, the terrorism threat level has been high. Therefore, our country is under a risk to be used as a transit country of the financing of terrorism.

Even though there is no information of the financing of terrorism from overseas, based on international terrorism situation and its risk assessment, there is a risk of the source of terrorism financing could transit through Mongolian territory and its financial system. Also, there is a risk to accumulate financing of terrorism intentionally or accidentally, and secretly through illegal and legal activities.

Vulnerability: Mongolia’s weaknesses to combat the financing of terrorism are as follows. It has not reflected in its domestic legislation obligations to freeze assets and prohibit withdraw funds related to the financing of terrorism, as the UN Security Council Resolution 1373 and 1267 require. Also, there is an ineffective legislation on targeted financial sanction for the financing of proliferation of weapons of mass destruction; there are no regulations on reporting of taken measures and accumulated capital from financial institutions, non-financial businesses, and professional service providers; inadequate monitoring and understanding of non-profit organization sector and the fulfillment of the UN Security Council Resolution 1373 and 1267 by non-bank institutions is insufficient and not implemented.

The Mongolian authorized organizations’ insufficient knowledge and information on financing terrorism was expressed in the assessment conclusion made by Asia/Pacific Group on Money Laundering. Mongolia did not have any definition or assessment on the threat of terrorism financing. Thus, there have not been sufficient training and information sharing for organizations and officers related to this sector.

The National Counter-Terrorism Council has been working on National Strategy Policy to combat terrorism and decided to integrate the issue on combating terrorism financing at a policy level.

Mongolia has been making changes in its domestic legal environment related to combating the financing the terrorism, in compliance with the recommendations from FATF and the Asia/Pacific Group on Money Laundering assessment and implementing measure step by step to improve the shortcomings pointed out by FAFT. However, we need to accept that legal loopholes are unavoidable. It can not be resolved by regulations but related laws (Counter Terrorism law and Law on Combating Money Laundering and Financing of Terrorism) need to be revised again to fully comply with FAFT standards.

We admit that the current situation of our country on targeted financial sanction has created an ambivalent structure that consists of the Counter-Terrorism law and the Law on Combating Money Laundering and Financing of Terrorism. All amendments of aforesaid two laws have deepened ambivalent structure. Some countries such as Malaysia have introduced ambivalent structure by separating the financial information unit and policy agencies. But Malaysia has achieved to make more duplication and non-compliance for duties and obligations. But in Mongolia’s case, there are still legal loopholes, duplication of law and conjunction of related rules.

Current legal environment of Mongolia has been using minimalist methodology. It is implementing main regulations by rules and guidance and a law has been including a limited number of articles. It is easier to prepare domestic rules, guidance, regulation and no need to use the same stringent rule that is used to prepare laws. But its implementation, completion and serving range are not enough. Therefore, it could be one of the weaknesses.

Mongolia needs to improve all currently following rules and procedures or make amendments in laws to meet all the UN Security Council and the FAFT methodology requirements.

FOUR. NATIONAL CAPACITY TO COMBAT THE FINANCING OF TERRORISM AND PROLIFERATION

Although the terrorist threat is low, due to its vast territory, Mongolia could be affected by crimes such as trafficking of drugs, poisonous, radioactive, and explosive materials, and firearms over its borders. During the working visit of the Executive Commission of Counter-Terrorism Committee of the United Nations Security Council in May 26-30 2014, the government of Mongolia expressed its concern regarding the attempt to recruit to terrorist group through the internet in the Western province.

Although Mongolia has not been affected by terrorist attacks it has a certain capacity to take measures against terrorism. For instance, according to the article 6.4 of the Counter-Terrorism Law passed in 2004, the National Counter-Terrorism Coordinative Council provides information to the government by supporting the information exchange between General Intelligence Agency, General Police Agency, and other related authorities. Also, following Coordinative Council's rules, work procedures, and Ulaanbaatar city and aimag branch work procedure, which was approved by Mongolian Government Decree 66, rural and city branch committees of National Counter-Terrorism Coordinative Council has been responsible for immediate information exchange and carrying out preventive activities from terrorism on a local level.

General Intelligence Agency should implement main activity direction to combat terrorism based on article 10.10 of the Law on Intelligence Agency and conduct investigations of crimes stated in article 6.1 sub-section 19.8 (Organize extremist activities), article 20.1 (Deliberately providing a false information on terrorist attack), article 20.2 (call for terrorist activities and justify terrorism for the public), article 29.3 (develop, manufacture, accumulate, collect, acquire and sell weapon of mass destruction), article 29.8 (Carry out a terrorist attack), article 29.9 (Prepare for terrorist attack) and article 29.10 (financing of terrorism) of the Criminal Procedure law of Mongolia.

Below mentioned organizations are mandated to prevent and combat money laundering, the financing of terrorism and proliferation in Mongolia.

1. National Counter-Terrorism Coordinative Council

By determining the national counter-terrorism coordinative council's activity direction in Article 6 of the Counter-Terrorism Law that is approved by State Great Khural in 2004, its legal basis was established. The National Counter-Terrorism Coordinative Council should organize preventive works from terrorism, coherently coordinate preventive activities of 21 branches and government and non-government organizations, provide directions, present analyzed information on terrorism to the state administration and support them to make decisions. Based on international, regional and domestic terrorism status, it is essential to strengthen the Coordinative Council, expand the structure and increase the number of staff, improve the cooperation and effectiveness of information exchange between government and non-government organizations.

2. General Intelligence Agency

Sub-section 10.10.6 of article 10 of the Law on Intelligence Agency mandates the General Intelligence Agency to combat terrorism. In this respect, a special unit within the Agency works to combat terrorism. It is necessary a specialization of the unit officials in combating terrorism and the financing of terrorism and proliferation, expand the unit, and increase the number of staff.

3. Financial information unit (FIU)

The core functions of financial information unit is to receive reports of suspicious transactions from financial institutions and individuals, legal entities and businesses, to analyze them, and to disclose the results to local law-enforcement organizations and foreign financial information units to combating financing of terrorism and money laundering. Financial information unit must be independent authority. Egmont Group, an international network of financial intelligence units are agreed that financial information units are working as independent in developing 118 countries. The Financial Action Task Force that combats and prevents money laundering and the financing of terrorism urges other countries to establish financial information unit that complies with principles and definition of EGMONT. On 08 July, 2006, Mongolia has approved Law on Combating Money Laundering and Counter Terrorism Financing, which established fundamentals of money laundering and terrorism prevention and combating activities.

Commented [D1]: Mongol uguulberiiг ni oilgogdohgui байна.

4. Law enforcement agencies

In accordance with article 10 of the Counter-Terrorism Law and the Regulation of Coordinative Council, which was approved by the Government Decree 66 in 2006, General Staff of the Mongolian Armed Force, General Police Agency, General Authority for Border Registration, National Emergency Management Agency and General Executive Agency of Court Decision, within the scope of their mandate, shall support and participate in combating financing of terrorism.

In accordance to the Criminal Procedure Law, the authorized organisations to carry out investigations for money laundering crimes are General Intelligence Agency, General Police Agency and Independent Authority Against Corruption.

Money laundering and financing of terrorism crimes are closely related in terms of their forms, methods and characteristics. Therefore, combating against these crimes requires prompt information exchange and cooperation between above mentioned organizations.

Thus, it is necessary to organize together a training and practical activities to provide knowledge and information related to combat terrorism and to strengthen cooperation, readiness, information exchange, and capacity to combat terrorism.

5. Other member organisations of coordinative council

In accordance with “The Regulation of Coordinative Council” that was approved by the Government decree 66 in 2006, other organisations with special obligations to protect national safety (Ministry of Foreign Affairs, Ministry of Health, Ministry of Environment and Tourism, Ministry of Road and Transport, Immigration Agency of Mongolia, General Authority for Specialized Investigation and General Custom Agency) shall participate in terrorism preventive activities. So we need to improve cooperation, information exchange of aforesaid organisations, introduce ideology against terrorism and provide information to prevent terrorism.

6. Financial Regulatory Commission

Financial Regulatory Commission does not have a specialized unit to combat money laundering and the financing of terrorism and the possibility to establish such unit is restricted. By law, this commission has been responsible for regulation of the real estate intermediary, but the unit for this activity has not been established yet. Although, the action plan approved by the government decree 327 dated to 6 December 2017, mentions about establishing a specialized unit to combat money laundering and financing of terrorism, due to budget limit it has not been realized. Financial Regulatory commission approved annual planning to combat money laundering and financing of terrorism and non-bank financial institutions are following domestic inspection regulation that articulated in 14th of law on Combating Money Laundering and Terrorism Financing. By quarterly reporting on balanced ratio, total quantity and amount of suspicious transactions are delivering to financial information unit of the Bank of Mongolia from non-bank financial institutions and the FIU has been organizing inspection works for suspicious transactions.

Financial Regulatory Commission follows “Regulation to inform suspicious transaction, cash transaction and customer due diligence” that approved by 253rd Decree of Financial Regulatory Commission of 2009 and “Inspection Regulation of reporting entity other than banks to combating money laundering and terrorism” that approved by 156/45th Joint Resolution of the President of the Bank of Mongolia and chairman of Financial Regulatory Commission of 2011.

FIVE. RISKY SECTOR'S ASSESSMENT TO FINANCE TERRORISM AND PROLIFERATION

The most risky sectors that are more likely to be subject of the financing of terrorism and proliferation were selected in this National Risk Assessment for Financing of Terrorism and Proliferation

Risky sectors to financing of terrorism and proliferation:

<i>Risky sectors:</i>	<i>Authorized organisations to inspect risky sectors</i>
<i>A. Bank and financial institution sector:</i>	<i>The Bank of Mongolia, Financial Regulatory Commission</i>
1. Non banking sector	Financial Regulatory Commission, General Authority for Intellectual Property and State Registration, General Department of Taxation
1) Non-banking financial institution	
2) Insurer and insurance intermediary	
3) Savings and Credit Cooperatives	
4) Bond market participant professional organisation	
5) Real state intermediaries	The Bank of Mongolia
2. Commercial bank	
<i>B. Legal entity:</i>	
1. Profit organisation	
o Legal entity of transport intermediation	Ministry of Road and Transport Development, General Authority for Intellectual Property and State Registration, General Department of Taxation
2. Non-profit organisation	
o Non-government organisation	General Authority for Intellectual Property and State Registration, Social Insurance General Office, General Department of Taxation
<i>C. BORDER INSPECTION ACTIVITY DIRECTION</i>	Border inspection organisations

RISK ASSESSMENT METHODOLOGY														
0-8 Very low risk			9-16 Low risk			17-24 Medium risk			25-32 High risk			33-40 Very high risk		
ASSESSMENT LEVEL TO DETERMINE RISK ON FINANCING OF TERRORISM														
0-1 Very low risk			2 Low risk			3 Medium risk			4 High risk			5 Very high risk		
A. BANK AND FINANCIAL INSTITUTION SECTOR														
ONE. THE GENERAL RISK ASSESSMENT OF NON-BANKING SECTOR														
Comparison of assessment														
#	Risky sector likely to finance terrorism	Threats		Weaknesses		Total assessment	>	Total assessment	Authorized inspection organization	Threats		Weaknesses		Result
1	Non Bank Financial Sector	Sector dimension and range	3	Legal environment	3	25	>	21	FRC	Sector dimension and range	1	Legal environment	2	
		Understanding on criminal cases to financing of terrorism	4	Cooperation	4					Understanding on criminal cases to financing of terrorism	3	Cooperation	3	
			3	Inspection and regulation	2						3	Inspection and regulation	3	
		Possible condition to be used products and service	3	Preventive activities from financing of terrorism and	3					Possible condition to be used products and service	3	Preventive activities from financing of terrorism and	3	

		Previous criminal records to finance terrorism and related datas		duties reporting of				Previous criminal records to finance terrorism and related datas		duties reporting of		
2	Insurer and insurance intermediary	Sector dimension and range	2	Legal environment	3			Sector dimension and range	1	Legal environment	2	
		Understanding on criminal cases to financing of terrorism	4	Cooperation	4			Understanding on criminal cases to financing of terrorism	3	Cooperation	3	
		Possible condition to be used products and service	2	Inspection and regulation	2	24	>	21	3	Inspection and regulation	3	
		Previous criminal records to finance terrorism and related datas	3	Preventive activities from financing of terrorism and duties of reporting	4			Possible condition to be used products and service	3	Preventive activities from financing of terrorism and duties of reporting	3	
		Previous criminal records to finance terrorism and related datas	3	Preventive activities from financing of terrorism and duties of reporting	4			Previous criminal records to finance terrorism and related datas	3	Preventive activities from financing of terrorism and duties of reporting	3	
		Sector dimension and range	4	Legal environment	3			Sector dimension and range	1	Legal environment	2	
		Understanding	4	Cooperation	3			Understanding	3	Cooperation	3	

3	Savings and Credit Cooperatives	on criminal cases to financing of terrorism	3	Inspection and regulation	2	25	>	21	FRC	on criminal cases to financing of terrorism	3	Inspection and regulation	3	
		Possible condition to be used products and service	3	Preventive activities from financing of terrorism and duties of reporting	3					Possible condition to be used products and service	3	Preventive activities from financing of terrorism and duties of reporting	3	
		Previous criminal records to finance terrorism and related datas								Previous criminal records to finance terrorism and related datas				
4	Bond market participant professional organisation	Sector dimension and range	3	Legal environment	3					Sector dimension and range	1	Legal environment	2	
		Understanding on criminal cases to financing of terrorism	3	Cooperation	3					Understanding on criminal cases to financing of terrorism	3	Cooperation	3	
		Possible condition to be used products and service	2	Inspection and regulation	3	22	>	21	FRC	Possible condition to be used products and service	3	Inspection and regulation	3	
				Preventive activities from financing of	2							Preventive activities from financing of	3	

		Previous criminal records to finance terrorism and related datas		terrorism and duties of reporting				Previous criminal records to finance terrorism and related datas		terrorism and duties of reporting		
	Risky sector likely to finance terrorism	Threats		Weaknesses		Total assessment > <	Total assessment	Authorize inspection organization	Threats		Weaknesses	Result
5	Real state intermediaries	Sector dimension and range	4	Legal environment	3				Sector dimension and range	1	Legal environment	2
		Understanding on criminal cases to financing of terrorism	4	Cooperation	4				Understanding on criminal cases to financing of terrorism	3	Cooperation	3
		Possible condition to be used products and service	3	Inspection and regulation	3	28	>	21	Inspection and regulation	3	Inspection and regulation	3
		Previous criminal records to finance terrorism and related datas		Preventive activities from financing of terrorism and duties of reporting	3				Possible condition to be used products and service	3	Preventive activities from financing of terrorism and duties of reporting	3
								FRC, GAIPSR, General Department of Taxation	Previous criminal records to finance terrorism and related datas			
TWO. THE GENERAL RISK ASSESSMENT OF COMMERCIAL BANKS												
		Sector	3	Legal	2				Sector	2	Legal	2

		dimension and range		environment				dimension and range		environment		
	Commercial bank	Understanding on criminal cases to financing of terrorism	2	Cooperation	3			Understanding on criminal cases to financing of terrorism	2	Cooperation	2	
		Possible condition to be used products and service	3	Inspection and regulation	3	20	>	13		Inspection and regulation	1	
		Previous criminal records to finance terrorism and related datas	2	Preventive activities from financing of terrorism and duties of reporting	2			Possible condition to be used products and service	1	Preventive activities from financing of terrorism and duties of reporting	1	

B. THE GENERAL RISK ASSESSMENT OF LEGAL ENTITIES

ONE. RISK ASSESSMENT OF PROFIT ORGANISATION

No	Risky sector likely to finance terrorism	Threats		Weaknesses		Total assessment	>	Total assessment	Authorized inspection organization	Threats		Weaknesses		Result
1	Profit organisation /Legal entity of	Sector dimension and range	3	Legal environment	3	20	>	18	Ministry of Road and Transport	Sector dimension and range	3	Legal environment	3	
		Understanding on criminal cases to financing of terrorism	3	Cooperation	3					Understanding on criminal cases to financing of terrorism	3	Cooperation	2	
			2	Inspection and regulation	3						2	Inspection and regulation	2	

	transport intermed iation/	Possible condition to be used products and service Previous criminal records to finance terrorism and related datas	1	Preventive activities from financing of terrorism and duties of reporting	2			Developm ent, GAIPSR, General Departme nt of Taxation	Possible condition to be used products and service Previous criminal records to finance terrorism and related datas	1	Preventive activities from financing of terrorism and duties of reporting	2	
TWO. RISK ASSESSMENT OF NON-PROFIT ORGANISATIONS													
1	Non governm ent organisat ion	Sector dimension and range Understanding on criminal cases to financing of terrorism Possible condition to be used products and service Previous criminal records to finance terrorism and related datas	4 4 4 2	Legal environment Cooperation Inspection and regulation Preventive activities from financing of terrorism and duties of reporting	3 4 3 3	27	>	23	GAIPSR, Social Insurance General Office, General Departmen t of Taxation	Sector dimension and range Understanding on criminal cases to financing of terrorism Possible condition to be used products and service Previous criminal records to finance terrorism and related datas	3 3 3 2	Legal environment Cooperation Inspection and regulation Preventive activities from financing of terrorism and duties of reporting	3 3 3 3
C. RISK ASSESSMENT OF BORDER INSPECTION ACTIVITY DIRECTION													

No	Risky sector likely to finance terrorism	Threats		Weaknesses		Total assessment	> <	Total assessment	Authorized inspection organization	Threats		Weaknesses		Result
	Border inspection activities	Current situation of Mongolian border inspection organisations	3	Legal environment on financing of terrorism	3				General Customs Agency	Sector dimension and range	2	Legal environment	3	
		Understanding and knowledge of the officers of border inspection organisations	3	Cooperation and information exchange of border inspection organisations	2	21	>	18		Understanding on criminal cases to financing of terrorism	3	Cooperation	2	
		Illegal border crossing	3	Inspection process on border	3					Possible condition of products and service to involve for financing terrorism	3	Inspection and regulation	2	
		Criminal records and violations to cross border goods illegally	1	Preventive activities from financing of terrorism	3					Previous criminal records to finance terrorism and related datas	1	Preventive activities from financing of terrorism and duties of reporting	2	

RISKY SECTOR'S ASSESSMENT ON PROLIFERATION FINANCING OF WEAPONS OF MASS DESTRUCTION

RISK ASSESSMENT METHODOLOGY

0-8 Very low risk	9-16 Low risk	17-24 Medium risk	25-32 High risk	33-40 Very high risk
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ASSESSMENT LEVEL TO DETERMINE RISK ON PROLIFERATION FINANCING

0-1 Very low risk	2 Low risk	3 Medium risk	4 High risk	5 Very high risk
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A. BANK AND FINANCIAL INSTITUTION SECTOR

ONE. THE GENERAL RISK ASSESSMENT OF NON-BANKING SECTOR

Comparison of assessment

No	Risky sector likely to finance proliferation	Threats		Weaknesses		Total assessment	> <	Total assessment	Authorized inspection organization	Threats		Weaknesses		Result
1	NBFI Savings and Credit Cooperatives Bond market participant professional	Sector dimension and range	3	Legal environment	3	26	>	24	FRC	Sector dimension and range	2	Legal environment	3	
		Understanding on criminal cases of proliferation financing	4	Cooperation	4					Understanding on criminal cases of proliferation financing	4	Cooperation	3	
		Possible condition to be used products and service	3	Inspection and regulation	3					Possible condition to be used products and service	3	Inspection and regulation	3	
		Preventive activities from proliferation financing and	3		3					Preventive activities from proliferation financing and	3		3	
		Previous								Previous				

	organisat ion	criminal records of proliferation financing and related datas		duties reporting of				criminal records of proliferation financing and related datas		duties reporting of		
	Risky sector likely to finance proliferat ion	Threats		Weaknesses		Total assessment ^ >	Total assessment	Authorize d inspection organizati on	Threats		Weaknesses	Result
2	Real estate intermedi aries	Sector dimension and range Understanding on criminal cases of proliferation financing Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	3 4 4 3	Legal environment Cooperation Inspection and regulation Preventive activities from proliferation financing and duties of reporting	3 4 3 3	27	> 21	FRC, GAIPSR, General Departme nt of Taxation	Sector dimension and range Understanding on criminal cases of proliferation financing Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	1 3 3 3	Legal environment Cooperation Inspection and regulation Preventive activities from proliferation financing and duties of reporting	2 3 3 3
TWO. THE GENERAL RISK ASSESSMENT OF COMMERCIAL BANKS												
		Sector dimension and	3	Legal environment	3				Sector dimension and	2	Legal environment	3

	Commercial banks	range Understanding on criminal cases of proliferation financing Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	3 3 2	Cooperation Inspection and regulation Preventive activities from proliferation financing and duties of reporting	3 3 3	23	>	17	The Bank of Mongolia	range Understanding on criminal cases of proliferation financing Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	3 2 1	Cooperation Inspection and regulation Preventive activities from proliferation financing and duties of reporting	2 2 2	
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B. THE GENERAL RISK ASSESSMENT OF LEGAL ENTITY

ONE. RISK ASSESSMENT OF PROFIT ORGANISATION

No	Risky sector likely to finance proliferation	Threats		Weaknesses		Total assessment	> <	Total assessment	Authorized inspection organization	Threats		Weaknesses		Result
a	Profit organisation /Legal entity of	Sector dimension and range Understanding on criminal cases of proliferation financing	3 3 3	Legal environment Cooperation Inspection and	3 3 3	21		19	Ministry of Road and Transport	Sector dimension and range Understanding on criminal cases of proliferation financing	3 3 2	Legal environment Cooperation Inspection and	3 3 2	

	transport intermedia tion/	Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	1	Preventive activities from proliferation financing and duties of reporting	2		>		Developm ent, GAIPSR, General Departme nt of Taxation	Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	1	Preventive activities from proliferation financing and duties of reporting	2	
TWO. RISK ASSESSMENT OF NON-PROFIT ORGANISATIONS														
A	Non governme nt organisati on	Sector dimension and range Understanding on criminal cases of proliferation financing Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	4 4 4 2	Legal environment Cooperation Inspection and regulation Preventive activities from proliferation financing and duties of reporting	3 4 4 3				GAIPSR, Social Insurance General Office, General Department of Taxation	Sector dimension and range Understanding on criminal cases of proliferation financing Possible condition to be used products and service Previous criminal records of proliferation financing and related datas	3 4 3 2	Legal environment Cooperation Inspection and regulation Preventive activities from proliferation financing and duties of reporting	3 3 3 3	
C. RISK ASSESSMENT OF BORDER INSPECTION ACTIVITY DIRECTION														

No	Risky sector likely to finance proliferation	Threats		Weaknesses		Total assessment	>	Total assessment	Authorized inspection organization	Threats		Weaknesses		Result
	Border inspection activities	Current situation of Mongolian border inspection organisations	3	Legal environment on proliferation financing	4				General Customs Agency	Sector dimension and range	3	Legal environment	4	
		Understanding and knowledge of the officers of border inspection organisations	3	Cooperation and information exchange of border inspection organisations	2					Understanding on criminal cases of proliferation financing	4	Cooperation	2	
		Illegal border crossing	4	Inspection process and activities on border	3	24	=	24		Possible condition of products and service to involve for proliferation financing	3	Inspection and regulation	3	
		Criminal records and violations to cross border goods illegally	2	Preventive activities from proliferation financing	3					Previous criminal records to proliferation financing and related datas	2	Preventive activities from proliferation financing and duties of reporting		

DETAILED INTRODUCTION OF THE NATIONAL RISK ASSESSMENT FOR FINANCING OF TERRORISM AND PROLIFERATION

A. BANK AND FINANCIAL INSTITUTION SECTOR

ONE. RISK ASSESSMENT OF NON-BANK FINANCIAL INSTITUTIONS:

Although Mongolia is not in active region of terrorism threat, it is possible that the financing of terrorism mostly gravitates to foreign countries. Thus, non-bank financial sector could be used for remittance and foreign transactions. Most of foreign transactions in Mongolia carried out through banks.

Approximately 2100 non-bank financial institutions are registered, but they make about 10% of Mongolian financial market. Currently, there are no registrations of criminal cases to finance terrorism in non-bank financial institution sector. The Financial Regulatory Commission concludes that the terrorism financing risk of other financial services than foreign currency exchange and foreign transaction in non-bank financial institution sector is relatively low. It is due to improvements in legal environment to combat money laundering and the financing of terrorism and Mongolia is working on to specifically incorporate articles and clauses in rules and procedures related to prevention of the terrorism financing to ensure the enforcement of the law.

The Anti-Money Laundering and Counter-Terrorism Financing law states that the Financial Regulatory Commission shall enforce the implementation and monitor if non-bank financial institutions, insurer and insurance intermediaries, investment funds, investment management companies, securities companies, and savings and credit cooperatives are fulfilling their obligation under the law.

Even though the Financial Regulatory Commission has been organizing training and information distribution for non-bank financial institutions, for a regulated sector there is an insufficient knowledge and information on combating terrorism financing within the sector. This increases the risk of this sector. For instance, the regulated entities face challenges to identify and detect crimes to finance terrorism, inform instantaneously the related organizations, and take immediate measures.

Within the scope of this sector, the risk to collect earnings with aim to finance of terrorism is higher than direct financing of terrorism. Especially, non-bank financial institutions' services and transactions focused mostly on a domestic market and it could be one of the factors that increase the risk of this sector.

Articles related to the customer due diligence activities are incorporated in the internal inspection program that is included in article 14 of the Law on Combating Money Laundering and Terrorism Financing. NBFIs under the legal obligation approve the internal rules and procedures and appoint their internal inspection employee. They shall present the approved internal rules and procedures to the Commission and the Financial Information Unit. The Financial Regulatory Commission executes offsite and onsite monitoring and inspection. In order to ensure the rules and procedure enforcement, the Financial Regulatory Commission sends preventive recommendations and information together with the quarterly report. The participants of non-bank financial institutions regularly reports the cash and suspicious transactions in accordance with related laws and they are receive information on international sanctions and measures from the Financial Regulatory Commission.

The Financial Regulatory Commission conducted an onsite inspection of coordinating organisations in rural areas and Ulaanbaatar city and the FRC collected quantitative data and quality surveys, in accordance with Money laundering and the financing of terrorism risk

assessment methodology prepared by consultants of the International Monetary Fund. Based on this database, the FRC assessed the risk of stock market participant securities companies, insurer and insurance intermediaries, non-bank financial institutions, and savings and credit cooperatives.

Non-bank financial institution: Out of 534 non-bank financial institutions that are regulated by the Commission, 466 (418 from Ulaanbaatar city and 48 from rural areas) were included in the risk assessment. The risk assessment was based on the data of 392 non-bank financial institutions.

Insurer and insurance intermediary: Out of 17 insurance companies, 46 insurance intermediaries, and 28 insurance loss assessors that are regulated by the Commission, 15 insurance companies, 28 insurance intermediaries, and 21 insurance loss assessors were included. The risk assessment was based on a quantitative and qualitative data of 64 insurer and insurance intermediaries.

Savings and credits cooperative: Out of 289 SCCs regulated by the Commission, 194 SCCs (148 from Ulaanbaatar city and 46 from rural areas) were included in the assessment. Taking into the consideration the quality of the survey and whether SCCs started their operation in 2018, the risk assessment was made based on 187 SCCs quantitative data.

Securities Company: Out of 54 main and 16 branch securities companies that are operate within the regulation framework of the Commission 48 compnaies from Ulaanbaatarcity and 4 from the rural areas were included. The risk assessment was made based on totally 42 securites companies' quantitative data.

The financing of terrorism and money laundring risk assessment of non-bank financial sector was conducted in compliance with sector specific characteristics and the International Monetary Fund consultants' recommendations in two part methodology – quality survey and quantitative data. The quality survey includes 57 questions in seven chapters that are related to organisation's governance, risk management, policy and activities against money laundering and the financing of terrorism and its monitoring. In the scope of an onsite inspection, all organisations were assessed 1 – 5 points (1 being a very low risk, 5 being a very high risk).

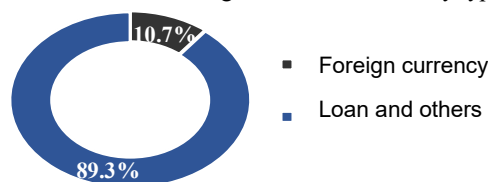
The risk assessment was based on quantitative data, the general informations such as the organization size and total operating yearswere taken into consideration. In addition, we used detailed quantitative data that was collected during the inspection and assessed the organization's risk between one and five points (1-very low risk, 5 – very high risk).

This risk assessment report consists of organization's general information and structural risk, quality evaluation result, business risk, integrated assesment results, and conclusion.

1. NON-BANK FINANCIAL INSTITUTIONS

The Criteria of the sector dimension and range: Only 31 or 8% out of 392 NBFIs that were included in the risk assessment are operating in rural areas. By the end of 2017, approximately 70 NBFIs have been operating in rural areas and half of them were included in this risk assessment. The coverage of the Central and Eastern region was about 50%, Khangai region 38.1% and the Western region 36.4%

Number of the organizations and activity types:



By quantity of the organisations and activity directions, totally 464 NBFIs are operating and 361 NBFIs or about 80% of total organisations are included into this risk assessment.

Looking at the non-bank financial institutions by type of activity, 10.7% engaged in foreign currency exchange and the remaining 89.3% is engaged in loan and other services. Organization size, ownership type, and operating years are considered when assessing structure risks of the organization in accordance with recommendations prepared by consultants of the International Monetary Fund.

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Risk level of the organisations, by the capital

Capital	Risk assessment	Percent
Lower than 800 million	1	20.7%
800 million up to 1 billion	2	25.0%
1-2.5 billion	3	38.0%
2.5-5 billion	4	11.0%
Higher than 5 billion	5	5.3%

The Financial Regulatory Commission decided to increase the joint stock capital of NBFIs from 800 million to 2.5 billion togrogs. Therefore, this index's intervals were set at lower than 800 million, 800 million to 1 billion, 1 billion to 2.5 billion, 2.5 billion to 5 billion and higher than 5 billion. As shown in the results of research related to the decision to increase joint stock capital, a non-bank financial institution needs at least 2.5 billion togrog to successfully operate and participate in financial market. Thus, the interval is set so that the risk of a non-bank financial institution with 2.5 billion togrog capital is will be at medium level. Out of all NBFIs that were included in this risk assessment, 20.7% have a capital of lower than 800 million, 25% have 800 million to 1 billion, 38% have 1 billion to 2.5 billion, 11.0% have 2.5 billion to 5 billion, and 5.3%

have a capital of over 5 billion. By capital size, **16.3%** of all NBFIs belong to potentially high risk group.

Ownership type: The money laundering and the financing of terrorism risk assessment of NBFIs included the ownership type. For example, most of the NBFIs are established by joint stock of capital of individuals. Therefore, if the stock was traded publicly the risk is the lowest, if stock is owned by individuals the risk is low, if the legal entity holds the stock, the risk level is medium, if a foreign company or individual owns the stock or the company has a foreign investment the risk assessed at a high level and if the stock is held by an individual with political influence the risk level considered high and actual.

The risk level of organizations by ownership type

Ownership type	Risk point	Percentage
Openly exchanged their stocks on stock market	1	-
Owned by an Individual	2	81.1%
Owned by legal entity	3	14.5%
With foreign investment	4	4.4%
Owned by an individual with political influence	5	-

The majority or 81.1% of participating NBFIs in this assessment are owned by an individual and all of the owners are Mongolians. 14.5% of NBFIs capital is partially owned by legal entity.

Criteria on understanding crimes on the financing of terrorism and proliferation of weapons of mass destruction: According to the survey of employees that work in NBFIs, about 50% has insufficient information on combating financing of terrorism. This increases the risk.

The assessment on understanding for financing of terrorist and proliferation of weapons of mass destruction:

Risk assessment	Risk Level	Percentage	
1	Very low	-	The NBFIs develop policies, rules and procedures and implement appropriate programs to combat money laundering and the financing of terrorism. A weak participation of board of directors in combating the financing of terrorism and proliferation operations and inadequate control system to user transaction detection increase the risk level. Because active NBFIs in the market are mostly under ownership of individuals and operate on a small scale, the number of non-bank financial institutes, which has a board of directors or organizes regular board meetings, is few.
1-2	Low	12.5%	
2-3	Medium	37.8%	
3-4	High	38.5%	
4-5	Very high	11.2%	

On the other hand, 72.1% of non-bank financial institutions that were included in this assessment received medium risk assessment in terms of policy, rules and procedures they implement against the financing of terrorism and money laundering.

Implementation of preventive measures, regulations, and policy:

Risk assessment	Risk level	Percent
1	Very low	0.5%
1-2	Low	26.8%

2-3	Medium	43.9%
3-4	High	17.3%
4-5	Very high	11.5%

The majority of the NBFIs developed and enforce sector-wide procedures for customer due diligence in accordance with the Law on Combating Money Laundering and Terrorism Financing. But the understanding of such crime and preventive measures are insufficient in this sector.

Particularly, about 10% of total NBFIs have departments to implement risk-based organizational activities, 8% of conducts the financing of terrorism and money laundering risk assessment, less than 7% have risk classification system. On one hand, it is due to limited scope of activities of non-bank financial institutions. ON the other hand, it is related to weak risk management to combat money laundering and financing of terrorism.

Inspection: 60.4% of all NBFIs got an assessment of not performing sufficient internal and external inspections. Particularly, 18.4% of aforesaid organizations are in high risk matrix by this criterion. 40.5% of NBFIs of this assessment do not have any unit dedicated to internal inspection, and about 50% of them can not perform proper monitoring on implementation of activities, rules and procedures against financing of terrorism. Also, 76.6 of all NBFIs do not have external audits and get their conclusion on their activities against financing of terrorism and money laundering.

Compliance assessment: All of the organizations' compliance assessment was at insufficient level. 66.8% of all NBFIs of this assessment belong to high and critical risk group.

Quality assessment of compliance function

Risk assessment	Risk level	Percent
1	Very low	1.5%
1-2	Low	12.8%
2-3	Medium	18.9%
3-4	High	34.4%
4-5	Very high	32.4%

34.9% of all organisations in this assessment have a compliance officer who is mandated to enforce implementation of regulations and policies against financing of terrorism and money laundering. Although 70% such position, the compliance officer implementing activities and reporting is insufficient. Also, anti-money laundering and terrorism financing training, and human resource capacity strengthening are weak in organizations. According to results of training and human resource policy assessment, 82.7% belong to high risk level. For instance, 65.4% of non-bank financial institutions do not have any training programs, do not organize training related to combating a money laundering and financing terrorism and have not

allocated enough funding for training. only 20% of all non-bank financial institutions have organized training on combating money laundering and financing of terrorism in last 6 months.

Possibility for products and service to be exploited: In calculating the risk of products and services of non-bank financial institutions, amount of money transfers, trust service payment, and foreign currency exchange in 2017 were used. In 2017, 15 non-bank financial institutions had a license for cash transaction and 4 out of organizations included in this assessment had such license.

No	Service type	1	2	3	4	5	Weight
1	Amount of cash transaction	Lower than 50 million	50-100 million	100-500 million	500 million- 1 billion	Higher than 1 billion	50
2	Trust service payment	Lower than 50 million	50-100 million	100-500 million	500 million- 1 billion	Higher than 1 billion	20
3	Amount of foreign currency exchange	Lower than 50 million	50-100 million	100-500 million	500 million- 1 billion	Higher than 1 billion	30

Risk assessment	Risk level	Percent
1	Very low	81.9%
1-2	Low	6.9%
2-3	Medium	10.7%
3-4	High	0.5%
4-5	Very high	-

The services and products risk of all organizations in this assessment received low and medium risk level. The reason is there are few institutions that are simultaneously engaged in cash transaction, trust service payment and foreign currency exchange services and their transaction amounts are low. But t we need to make further research in this field.

Customer risk: In order to estimate of the risks influenced by customers to the terrorist financing activities for organizations that are primarily engaged in loan and foreign currency exchange, which are the main services of non-bank financial institutions, classified the value of transaction by types of customer.

The weight of customers risk

No	Customers type	1	2	3	4	5	Weight
1	Nationals	Lower than 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Higher than 1.5 billion	10
2	Domestic legal entity	Lower than 100 million	100-500 million	500 million- 1 billion	1-1.5 billion	Higher than 1.5 billion	15

3	Foreign citizen	Lower than 100 million	100-500 million	500 million-billion	1	1-1.5 billion	Higher than 1.5 million	15
4	Foreign legal entity	Lower than 100 million	100-500 million	500 million-billion	1	1-1.5 billion	Higher than 1.5 million	25
5	Political exposed person	Lower than 100 million	100-500 million	500 million-billion	1	1-1.5 billion	Higher than 1.5 million	35

The majority of non-bank financial institutions of this assessment have provided loans to only Mongolian citizens and individuals. 35.2% of them provided loans to domestic legal entities, 2.8% to foreign nationals, 0.5% to foreign legal entities, and 0.3% of to a person with political affiliation. As for institutions that primarily engage in foreign exchangetrade services, they have provided service to only Monoglian citizens.

Customers risk assessment

Risk assessment	Risk level	Percent
1	Very low	12.2%
1-2	Low	86.5%
2-3	Medium	1.3%
3-4	High	-
4-5	Very high	-

We concluded that 12.2% is of all organisations of this assessment are at very low risk level, 86.5% is at low risk level, and 1.35% is at in medium risk level. The risk assessment indicates low risk level. It is due to low amount loans that non-bank financial institutions provide to individuals. However, it is important to make more detailed survey on loan frequency, dedication and utilization.

Conclusion. In 2017, out of 534 a non-bank financial institutes that have been operating in this sector only 466 were included in the inspection and assessed the risks of 392 organizations, which provided comprehensive related information. Although non-bank financial institutions have developed internal rules and procedures to combat financing of terrorism and money laundering, in compoliance with law, the organisations are not doing a adequate job to implement those regulations, inspect, train the human resources, and operate the risk system. Additionally, there are number of shortcoming such as the employees of this sector are lacking the understanding on the financing of terrorism and its prevention, compliance officers' level of reporting and carried out activites are insufficient, capacity building of human resource on combating financing of terrorism and money laundering is not sufficient, and related internal audit is not implemented.

2. INSURANCE AND INSURANCE INTERMEDIARIES

Out of 17 insurance companies, 46 insurance intermediaries, and 28 insurance loss assessors that operate in Ulaanbaatar, 15 insurance companies, 28 insurance intermediaries, and 21 insurance loss assessors, otherwise 64 compnaies in total were included in the risk assessment.

Sector size and scope:

Capital	Risk point	Percent
Lower than 100 million	1	13%
100 million to 500 million	2	-
500 million to 1 billion	3	27%
1 billion to 5 billion	4	33%
Higher than 5 billion	5	27%

13% of all insurance companies of this assessment earned revenue lower than 100 million, 27% earned 500 million-1 billion, 33% earned 1 billion-5 billion, and 27% earned higher than 5 billion. In other words, 60% of the assessed insurance companies are at high risk level.

Criteria on understanding crimes on the financing of terrorism and proliferation of weapons of mass destruction:

According to the criterion survey results, 27% of insurance companies is at high risk level, 40% is at medium risk level, 27% is at low risk level, and 7% is at very low risk level.

Risk assessment	Risk level	Percent
1	Very low	7%
1-2	Low	27%
2-3	Medium	40%
3-4	High	27%
4-5	Very high	-

Although the insurance companies, insurance intermediaries and insurance loss asseessors that included in this assessment have developed procedures to combat money laundering and the financing of terrorism, this document does not include requirements of risk management and suspicious transaction report. Also, few of these companies have a code of conduct and present reports to board of directors. This situation is related with poor knowledge and understanding on financing of terrorism and proliferation

Implementing rules, procedures, policy and activities:

In terms of insurance companies implementing rules, procedures, and policies, 7% were asseessed at high risk level and 33% is in medium risk group.

The majority of insurance companies, intermediaries and insurance loss assessor companies do not have any procedures on customer due diligence. The existing ones are not developed in accordance with the Law on Combating Money Laundering and Terrorism Financingand do not incorporate the necessary clauses. Therefore, this situation increases their risk level. Also, insurer and insurance intermediaries are not able to do proper monitoring the implementation of activites, rules and procedures related to combating financing of terrorism.

Compliance assessment: According to assessment of compliance functions of insurance companies, 20% of insurance companies are at low risk, 33% are at medium risk, 33% are at high risk, and 13% of them are at very high risk level.

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Quality assessment of compliance function

Risk assessment	Risk level	Percent
1	Very low	7%
1-2	Low	13%
2-3	Medium	33%
3-4	High	33%
4-5	Very high	13%

According to the compliance assessment of insurer and insurance intermediaries, companies have appointed compliance officer for financing of terrorism and money laundering. But compliance officers' implementing activities and reporting is insufficient.

Training and information

Risk assessment	Risk level	Percent
1	Very low	-
1-2	Low	13%
2-3	Medium	47%
3-4	High	7%
4-5	Very high	33%

The insurer and insurance intermediaries do not organize any training related to combat money laundering and financing of terrorism and no funding is allocated for such trainings. The insurer and insurance intermediaries obtain necessity information on combating money laundry and financing of terrorism from the Financial Regulation Commission and the Bank of Mongolia.

Possibility for products and service to be exploited:

Products and Service Risk

No	Service type	1	2	3	4	5	Weight
1	Personal accident	Less than 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	20
2	Assets	Less than 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	40
3	Driver responsibility	Less than 50 million	50-100 million	100-500 million	500 million-1 billion	Over 1 billion	40

Risk assessment on products and service

Risk assessment	Risk level	Percent
1	Very low	13%
1-2	Low	13%
2-3	Medium	20%
3-4	High	20%
4-5	Very high	33%

In evaluating the risk of insurance companies' products and services that included in the assessment, the risk level was high. Out of all companies, 53% is at actual and high risk while 20% is at medium risk and the remaining 26% is in risk groups.

Rate of product and service risk

No	Service type	1	2	3	4	5	Weight
1	Assets insurance	Under 100 million	100-500 million	500-1.5 billion	1.5 - 3 billion	Over 3 billion	40
2	Vehicle insurance	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	10
3	Mandatory Insurance of Driver Repsonsibility	Under 50 million	50-100 million	100-500 million	500 million- 1 billion	Over 1 billion	50

Customer risk: In estimating the risk associated with customer involvement in Money Laundering operations, following evaluation was conducted on 1-5 points depending on the customer types of the Insurer and Insurance Companies: nationalss, domestic entities.

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No	Service type	1	2	3	4	5	Weight
1	Nationals	Less than 1000	1000-10000	10000-50000	50000-100000	Over 100000	85
2	Domestic entities	Less than 1000	1000-10000	10000-50000	50000-100000	Over 100000	15

Insurance companies customer risk assessment result indicates high level. 47% of total companies fall under high and very high risk groups, 20% is in medium risk group, and 33% is in low and very low level of risk groups.

Rate of customer risk /Insurance loss assessor companies/

No	Service type	1	2	3	4	5	Weight
1	Domestic citizens	Less than 1000	1000-10000	10000-50000	50000-100000	Over 100000	88
2	Domestic legal entity	Less than 1000	1000-10000	10000-50000	50000-100000	Over 100000	12

Conclusion. A present assessment executed under mission to determine risk level of insurer and insurance intermediaries on money laundering. In assessing the insurer and insurance intermediaries' preventive measures against terrorism financing, they received a very inadequate evaluation and they were included in a very high risk group. The majority of insurer and insurance intermediaries are selling low-value insurance products and services to only Mongolian citizens and legal entities via their headquarter company and branches. In the future, it is important to conduct a risk assessment with detailed research. On the other hand, although the insurer and insurance intermediaries have internal regulations and rules developed in accordance with related laws, ensuring their enforcement and monitoring, capacity building of their human resources and operate a risk system is very inadequate.

3. SAVINGS AND CREDIT COOPERATIVES

Sector's dimension and range: The 287 savings and credit cooperatives are included in this statement and 22.5%, or 42, of all participant savings and credit cooperatives operating in locals. On the other hand, there are 182 savings and credit cooperatives operating in Ulaanbaatar city. From this number, approximately 80%, or 145, of the savings and credit cooperatives participated in this assessment.

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Risk level of cooperatives, by assets

Asset	Risk point	Percent
Less than 100 million	1	27.8%
100 million-300 billion	2	56.7%
300 million-1billion	3	6.4%
1-10 billion	4	7.5%
Higher than 10 billion	5	1.6%

27.8% of the SCCs that were surveyed have assets less than 100 million, 56.7% of them have assets from 100 million up to 300 million, 6.4% of them have assets from 300 million to 1 billion, 7.5% of them have assets from 1 billion to 10 billion, and 1.6% of them have assets over 10 billion. On the other hand, 9.1% of all the savings and credit cooperatives who participated have critical or high risk levels.

Criteria for understanding criminal cases on financing of terrorism and proliferation of weapons of mass destruction: According to the assessment on implementation of policies and activities against financing of terrorism, 65% of the organizations have high or critical risk levels. Also 31.0% of the total participants have a medium risk level and 4.8% of them are classified as having a low risk level.

Risk level

Risk assessment	Risk level	Percent
1	Very low	-
1-2	Low	4.8%
2-3	Medium	31.0%
3-4	High	32.1%
4-5	Very high	32.1%

Among all of the companies who participated in the assessment, the savings and credit cooperatives have prepared a regulation against financing of terrorism and money laundering, but their regulations do not consist of the requirements for risk management and suspicious transaction reporting. Also, some of these companies are not following the principles of ethics regulation.

These savings and credit cooperatives were assessed as noncompliant on their implementation of preventive measures against financing of terrorism and money laundering. About 40% of all participants of this assessment are labeled as having low or medium risk, 21.4% of all participants

have high risk, and 39.0% of all participants have critical risk. Such as:

Assessment on policies, regulation and activities

Risk assessment	Risk level	Percent
1	Very low	-
1-2	Low	7.5%
2-3	Medium	32.1%
3-4	High	21.4%
4-5	Very high	39.0%

The majority of savings and credit cooperatives do not have a process for regulating customer due diligence. Few of them have a process for this regulation, but their process does not follow the law on combating money laundering and terrorism financing and not articulated required clauses. About 7% of all of the participating savings and credit cooperatives have a unit to implement risk management and their units are not executing risk assessment for financing of terrorism and money laundering and don't have a stabilized risk classification system.

Commented [J6]: No idea what you are saying here.

Compliance assessment :

Risk assessment	Risk level	Percent
1	Vert low	1.1%
1-2	Low	4.8%
2-3	Medium	19.8%
3-4	High	23.5%
4-5	Very high	50.8%

The cooperatives compliance function is at an insufficient level. 74.3% of all participant cooperatives have high to very hohg risk levels. Also, 30.0% of all participant cooperatives have appointed a compliance officer that is responsible for the implementation of policies and regulations against money laundering and financing of terrorism. Although the compliance officers have this responsibility, their implementation work and reporting is insufficient.

Training and information

Risk assessment	Risk level	Percent
1	Very low	-
1-2	Low	0.5%
2-3	Medium	4.8%

3-4	High	18.7%
4-5	Very high	75.9%

The majority of all participant cooperatives of this assessment have been very deficient in terms of training and specialization of their staff against the financing of terrorism. The results of cooperatives policy on human resource and training are as follows, 75.9% of all cooperatives

have a very high risk level and 18.7% of them have a high risk level. 83.4% of all participant cooperatives do not have a training program against financing of terrorism and money laundering Due to a lack of money in their budget for training.

Therefore, the cooperatives internal system to find suspicious activities and reporting is noncompliant. Also, the cooperatives are not inspecting their members's bank account statements or transactions to prevent suspicious activities. Punishment from administrators to employees not following the regulations is also very weak

Possible condition to be used products and service: Based on the geographical location of savings and credit cooperatives, the risk level for local cooperatives is higher than cooperatives in urban area. Asset dimension classifications for the cooperatives are as follows:, it has been classified as less than 100 million, 100 – 300 million, 300 million up to 1 billion, 1 – 10 billion and higher than 10 billion. Based on this classification, the classification with higher than 10 billion is being the lowest risk level than other asset classification.

Commented [J7]: The numbers here don't match with the numbers in the table. So...either the table needs to be fixed or the numbers here need to be fixed.

No	Service type	1	2	3	4	5	Weight
1	Savings	Less than 50 million	50-100 million	100-500 million	500 million up to 1 billion	More than 1 billion	50
2	Credit	Less than 50 million	50-100 million	100-500 million	500 million up to 1 billion	More than 1 billion	50

Product and service risk

Risk assessment	Risk level	Percent
1	Very low	25.7%
1-2	Low	49.7%
2-3	Medium	15.5%
3-4	High	2.1%
4-5	Very high	7.0%

The product and service risks of the participant cooperatives in this assessment showed the following results:, 25.7% have a very low risk, 49.7% a low isk, 15.5% a medium risk, 2.1% a high risk, and the remaining 7% a very high risk.

Customer risks

No	Customer type	1	2	3	4	5	Weight
1	Domestic citizen	Lower than 50	50-100	100-500	500-1000	More than 1000	10
2	Domestic legal entity	Lower than 50	50-100	100-500	500-1000	More than 1000	15
3	Foreign citizen	Lower than 50	50-100	100-500	500-1000	More than 1000	15
4	Foreign legal entity	Lower than 50	50-100	100-500	500-1000	More than 1000	25
5	Political exposed person	Lower than 50	50-100	100-500	500-1000	More than 1000	35

93.5%, or 176, participating cooperatives in this assessment are domestic citizens and the other 12 cooperatives members are domestic citizens and legal entities. The cooperatives have 1 member at the minimum and 9,203 members at the maximum.

Customers risk assessment

Risk assessment	Risk level	Percent
1	Very low	30.5%
1-2	Low	69.5%
2-3	Medium	-
3-4	High	-
4-5	Very high	-

30.5% of the participating cooperatives belong to the very low risk level and 69.5% of them belong to the low risk level. The low risk level can be attributed to the fact that the majority of the cooperatives members are domestic citizens. On the other hand, it's relating with credit dimension of big savings and credit cooperatives and their activity direction.

Commented [J8]: I'm not sure what is being said here. By using "on the other hand," you should be making a contradiction, but there aren't any words that contradict.

Conclusion: In 2017, 290 savings and credit cooperatives were operating in this sector. Of the 290 savings and credit cooperatives, 187 of them participated in this survey of risk assessment. Although efforts were made, such as bringing the laws and procedures into conformity, there were some deficiencies, namely a lack of implementation of such laws and procedures, monitoring, and human resource training. This low performance is also affected because most SCCs are operating on a small scale with limited numbers of individuals. The results of the quality assessment indicated the risk for institutions with adequate capital was considered to be at a comparably low level.

4. BOND MARKET PARTICIPANT PROFESSIONAL ORGANIZATION

Criteria on sector dimension and range: A total of 54 bond companies are operating in Ulaanbaatar city and 42 of them, or 77.78%, of all bond companies are included in this assessment. By classification of participant bond companies activity direction, 42 companies are working in the broker sector, 36 companies in the dealer sector, 19 companies in the underwriter sector, and 12 companies are working in the investment advisory sector.

Risk level of bond companies, by assets

Assets	Risk rating	Percent
30-200 million	1	31.0%
200-300 million	2	14.3%
300 million up to 1.2 billion	3	33.3%
1.2-1.3 billion	4	-
More than 1.3 billion	5	21.4%

By a decree on bond market participant professional organisations that approved by Financial Regulatory Commission, it's required 30 million, 100 million, 200 million and 1 billion share capitals for activity directions of investment advisory, bond brokers, bond dealers and underrate. If the organization has been operating in both or more aforesaid sectors, the share capital dimension should be estimated by total amount of sector's share capital. The bond company can operate in the bond market if it has at least 30 million in capital shares and they receive official approval to operate in the investment advisory sector. To operate in the dealer and underwriting sector, the bond company

must hold a broker's license. 31% of all of the participating bond companies have assets from 30 – 200 million MNT, 14.3% of all participants have assets that between 200 – 300 million MNT, 33.3% of all participants have assests from 300 million up 1.2 billion MNT, and 21.4% of all participants have assests of more than 1.3 billion MNT and there are not any bond companies with assets from 1.2 – 1.3 billion MNT.

The risk assessment of bond companies for financing terrorism and money launderingis dependent on the activites the companies. This assessment on bond companies selected a criterion as bond company that operating in investment advisory sector – 1, bond company that operating in broker or broker and dealer sector – 2, bond company that operating in broker and dealer or broker, dealer and investment advisory sector – 3, bond company that operating in broker and underrating or underrating or broker, underrating and investment advisory sector – 4, bond company that operating in broker, dealer and underrating or operating in all sector of bond company – 5. Also the risk of bond companies has assessed by 1 – 5 point.

Risk level of bond companies, by activity direction

Activity direction	Risk level	Percent
Investment advisory	1	-
Broker (broker, investment advisory)	2	7.1%
Broker, dealer (Broker, dealer, investment advisory)	3	47.6%
Broker, underrating (Broker, underrating, investment advisory)	4	4.8%
Broker, dealer, underrating (borker, dealer, underrating, investment advisory)	5	40.5%

Criteria on understanding criminal cases on financing of terrorism and proliferation of weapons of mass destruction: All participant companies of this assessment have policies and regulations on the financing of terrorism and money laundering. However, some factors have increased risks due to low participation of board of directors and deficient inspection systems to find customer transactions. The bond company's risk management is in compliance with combating terrorism. 78.6% of all participants of this assessment are at critical risk levels. Only 9.5% of bond companies have an appointed unit to implement risk management, 4.8% of participants have risk assessment on

Commented [J9]: How can the requirement be 30 million and 100 million and 200 million and 1 billion? This is completely unclear.

Commented [J10]: Again, I can't understand any of this. I can see what the table says and the break down but the wording before you get to each activity direction is incomprehensible.

financing of terrorism and money laundering, 2.4% of participants have a risk classification system, and 7.1% of participants report risks - to the board of directors or overhead organizations.

Quality assessment on regulation, policy and activities

Risk assessment	Risk level	Percent
1	Very low	-
1-2	Low	19.0%
2-3	Medium	31.0%
3-4	High	26.2%
4-5	Very high	23.8%

All participant bond companies have governing regulations and policies for combating money laundering and financing of terrorism. The quality of their policies and regulation is considered insufficient for combating money laundering and financing of terrorism. 81% of all participant organizations range from medium risk up to very high risk.

Compliance assessment

Risk assessment	Risk level	Percent
1	Very low	2.4%
1-2	Low	-
2-3	Medium	23.8%
3-4	High	9.5%
4-5	Very high	64.3%

The compliance function of the companies surveyed showed them to be noncompliant with 73.8% of all participant companies being either a high or very high risk.

23.8% of all participant companies in this assessment have appointed compliance officer under a mission to provide implementation of regulations and policies on money laundering and financing of terrorism. Also, about 70% of them appointed a compliance officer, but implementing work and reporting by the compliance officer was seen as not sufficient. Also, the companies who have specialized training for their human resource departments against financing of terrorism is very weak. 85.7 of all participant companies are included in the highest risk levels.

50% of the bond companies do not have training in regards to money laundering, have not organized any courses related to money laundering, and have not approved funding for training against money laundering and financing of terrorism.

Only 2.4% of all bond companies have a stabilized detection system for suspicious activities and reporting. Also, 35.7% of the companies have been implementing policies on formal documents for keeping and registering. However, the inspection for suspicious transaction for money laundering and financing of terrorism is insufficient and employees are not being held accountable suspicious transaction. 90.5% of all of the participant bond companies have a process for internal regulation and policies for combating money laundering and financing of terrorism. It was also found that these companies need to improve implementation of related regulations and policies further.

Possible condition to be used products and service

No	Customers type	1	2	3	4	5	Weight
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1	Domestic citizen	Less than 500	500-1000	1000-2500	2500-5000	More than 5000	15
2	Domestic legal entity	Less than 100	100-250	250-500	500-1000	More than 1000	25
3	Foreign citizen	Less than 100	100-250	250-500	500-1000	More than 1000	25
4	Foreign legal entity	Less than 100	100-250	250-500	500-1000	More than 1000	35

61.9% of all participant companies have made less than 500 agreements with domestic citizen, 88.1% and 92.9% of all participant companies have made less than 100 agreements with domestic legal entities foreign citizens. 54.2% of all participant companies in this assessment are included in the very low risk level, 40.5% of them are included in the low risk level, and 2.4% of them are included in the medium, high and very high risk levels.

Commercial transaction risk

No	Customers type	1	2	3	4	5	Weight
1	Domestic citizen	Less than 500 million	500 million up to 1 billion	1-2.5 billion	2.5-5 billion	More than 5 billion	15
2	Domestic legal entity	Less than 100 million	100-250 million	250-500 million	500 million up to 1 billion	More than 1 billion	25
3	Foreign citizen	Less than 100 million	100-250 million	250-500 million	500 million up to 1 billion	More than 1 billion	25
4	Foreign legal entity	Less than 100 million	100-250 million	250-500 million	500 million up to 1 billion	More than 1 billion	35

59.5% of all participant companies in this assessment have made commercial transaction of amounts less than 500 million with domestic citizens. Also 85.7%, 90.5% and 88.1% of all participant companies have made commercial transaction by amount of less than 100 million with domestic legal entities, foreign citizens, and foreign legal entities.

Product and service risk

Weight of product and service risk

No	Service type	1	2	3	4	5	Weight
1	Broker	500	500 million up to 1 billion	1-1.5 billion	1.5-2 billion	More than 2 billion	50

		million>	billion				
2	Dealer	250 million>	250-500 million	500 million up to 1 billion	1-1.5 billion	More than 1.5 billion	25
3	Underrater	250 million>	250-500 million	500 million up to 1 billion	1-1.5 billion	More than 1.5 billion	25

A total of 42 bond companies are included in this assessment. By classification of participant **bond companies** activity direction, 42 companies are working in the broker sector, 36 companies in the dealer sector, 19 companies in the underwriter sector, and 12 companies are working in the investment advisory sector. The bond company must hold a broker's license to operate in the dealer and underwriting sectors

Risk assessment of products and service

Risk assessment	Risk level	Percent
1	Very low	59.5%
1-2	Low	9.5%
2-3	Medium	11.9%
3-4	High	11.9%
4-5	Very high	7.1%

Based on the total number of companies with risk assessment on products and service, the risk level is generally low 59.5% of all participant company's have a very low risk, 9.5% have a low risk, 11.9% of them have medium risk 1, another 11.9% of them have high risk, and only 7.1% of the participants had very high risk. 76.2% of all dealer services have made transactions of amounts less than 250 million MNT, 59.5% of all broker services have made transaction with amounts of less than 500 million, and 90.5% of underwriting services have made transactions with amounts of less than 250 million MNT.

Based on a company's risk assessment by their assets classification, the risk for bond companies is at a medium risk level. It has been related with bond company's activity direction and operating sectors of brokers, dealers, and underwriters.

Conclusion: The risk assessment of bond companies in terms of money laundering and financing of terrorism is at a medium risk level. The assessment provides evidence that there is an insufficient implementation of preventive measures against money laundering. In this case, the bond companies need to improve the quality of preventive measures against money laundering.

5. Real estate agent

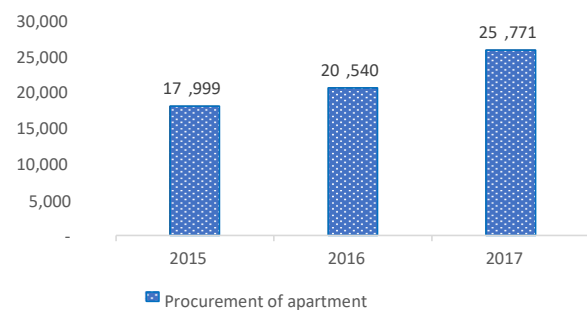
5186 enterprises are registered at the state registration to operate in sector of real estate intermediary. The risk assessment was conducted by sample survey from 174 enterprises that have been active in Ulaanbaatar city. Also these enterprises were selected from 3748 enterprises who delivered their tax statements in 2017. Also, the special feature of this sector of Mongolia is the construction companies can resell their real estates through their sales department. In this case, we selected 193 companies that have sales income of more than 2 billion in last 2 years and operate in Ulaanbaatar city. These 193 were selected from 1470 enterprises that are registered in business

registration database. According to 2005 data of real estate market of Mongolia, 74% or 157,754 families of all families that own a real estate reside in Ulaanbaatar city. In 2016, the number of families who live in apartments had increased by 7053. In terms of supply of apartments, 18,685 apartments are commissioned in 2017 and the total value of those apartments was evaluated at 1.2 trillion. This means that one apartment price is 64 million MNT. By looking at average price of 2017, we can conclude that local citizens purchased 48 million MNT worth of real estate and foreign nationals purchased a real estate of 104 million MNT. Also, value of gifted real estate by Mongolians was 96 million MNT and foreign citizens gifted real estate value was determined as 35 million MNT. Mongolian real estate market has been growing with year.

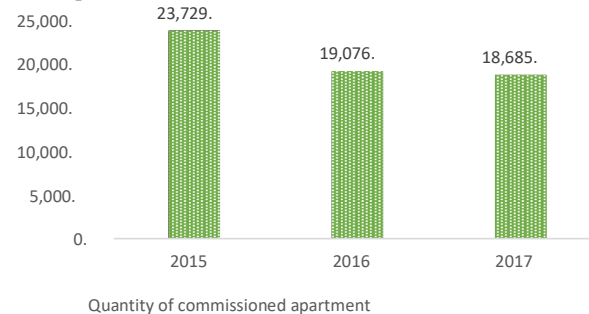
Criterion of sector size and scope: In last three years, totally 64130 real estates have changed their ownership with value of 3.9 trillion MNT. For instance, in 2015, there were made 17,999 transfers of property ownership rights at 17,999 real estates and this number has increased to 20,540 in 2016 and to 25,771 in 2017. Also, according to 2015 population and apartment census of Mongolia, 212,700 families live in apartments and 23,729 apartments or 9% of all apartments were newly commissioned that year. From 2016 to 2017, newly commissioned apartments quantity has decreased. But it is still considered high by comparison to number of all existing apartments. There are 18,685 apartments are newly commissioned in 2017 and the value of all commissioned apartment was 1.2 trillion MNT and price per apartment was 64 million MNT.

In 2015, 157,754 families or 74% of all families residing in apartments were in Ulaanbaatar city. Also, the quantity of families who are residing in apartments in Ulaanbaatar has increased by 7053 in 2016. In 2015, 77,105 citizens had taken mortgage and the number has continuously increased to 93,147 in last two years. So the majority of real estate financing has been made by mortgage. Particularly 10,499 citizens purchased apartment by mortgage loan in 2017.

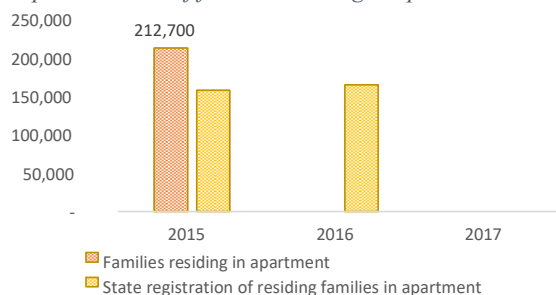
Graph 3. Procurement of apartment



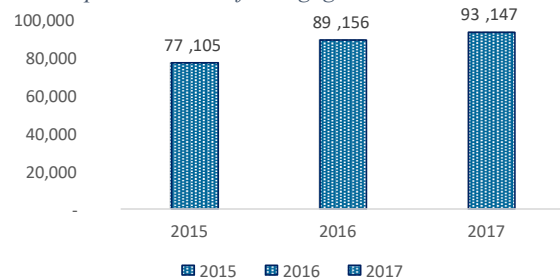
Graph 4. Number of commissioned apartments



Graph 5. Number of families residing in apartments

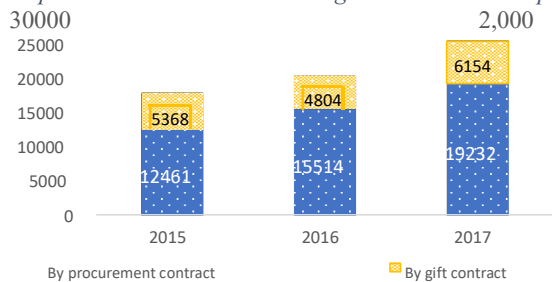


Graph 6. Number of mortgage

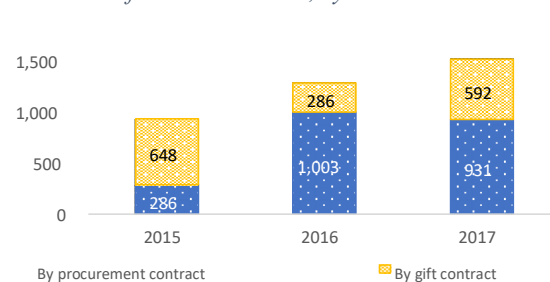


In 2017, 25 771 real estate sales and gifting contracts (value of all real estates is 1.5 trillion MNT excluding the land) were registered in the General Authority of State Registration. Ownership rights of 98.5% of them were registered Mongolian citizens. From 2015 to 2017, the number of Mongolians who purchased real estates had increased by 54%, from 12 461 to 19 232 and amount of real estate receiving gift contract by locals had increased, by 15% from 5,368 to 6,154. Total value of domestic citizens purchased real estate was 286 billion in 2015, 1,003 billion MNT in 2016, and 931 billion MNT in 2017. Also, total value of gifted real estate to Mongolians was 648 billion MNT in 2015, 286 billion MNT in 2016, and 592 billion MNT in 2017. During these years, the number of real estate purchases by foreign citizens was increased 2.8 times or from 108 to 299 and gifted real estates to foreign nationals increased by 39%, from 62 to 86. In 2015, the value of real estates purchased by foreign nationals was 27 billion MNT, 56 billion MNT in 2016, and 34 billion MNT in 2017.

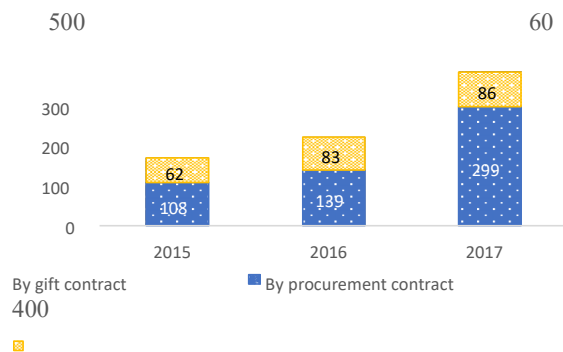
Graph 7. Domestic citizens owning real estate



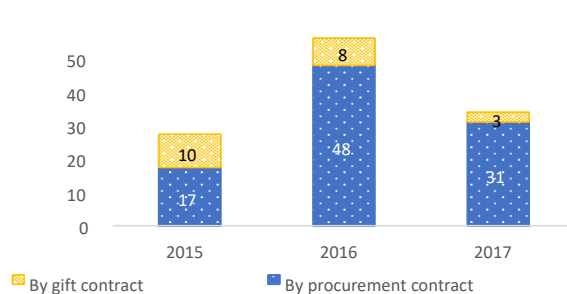
Graph 8. Real Estate of domestic citizens, by amount /billion MNT/



Graph 9. Foreign citizens owning real estate

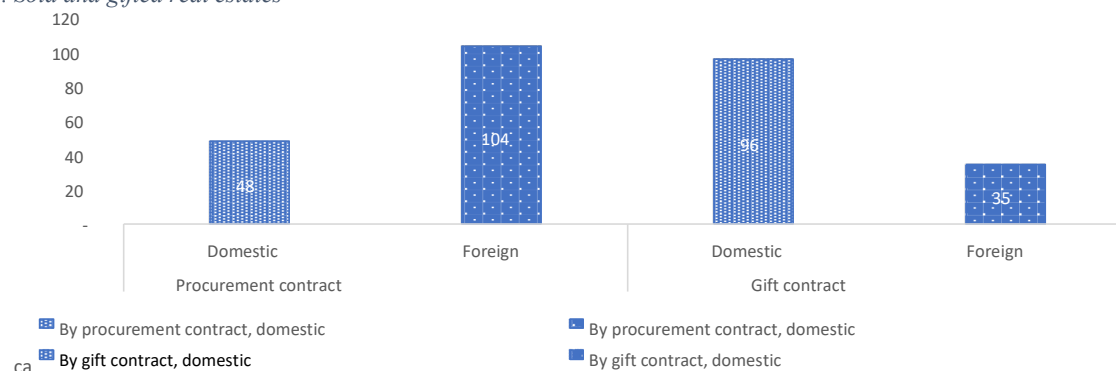


Graph 10. Real estate of foreign citizens /billion MNT/



By average price of 2017, Mongolians purchased real estates with value of 48 million MNT and foreign natioanls with value of 104 million MNT. Also, average price of gifted real estate to local residents was 96 million and to foreign natioanls was 35 million MNT.

Graph 11. Sold and gifted real estates

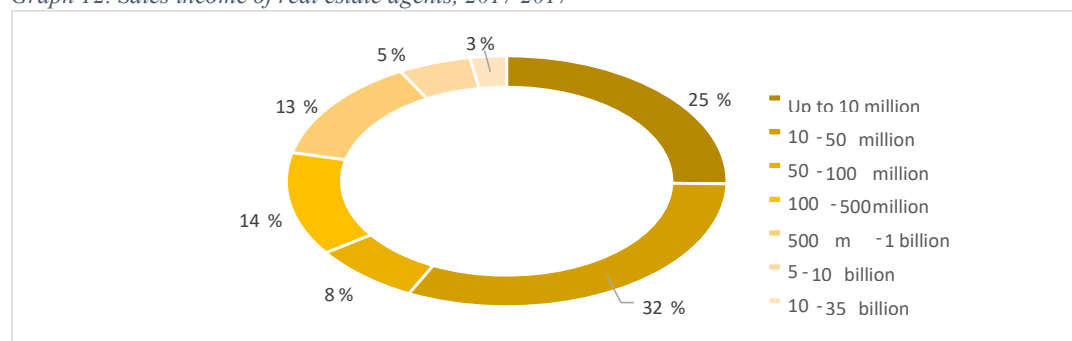


The General Department of Taxation requested to deliver sales income report from all survey participant companies from Ulaanbaatar city. Following this request, 94 enterprises delivered their statements. 81 of all enterprises were real estate agents and remaining 12 enterprises were construction companies. One company did not have any sales income.

Real estate agents:

- 29.6% of all enterprises has 10 – 50 million sales income;
- Only 2 enterprises have 24 billion up to 31 billion sales income;

Graph 12. Sales income of real estate agents, 2017 2017

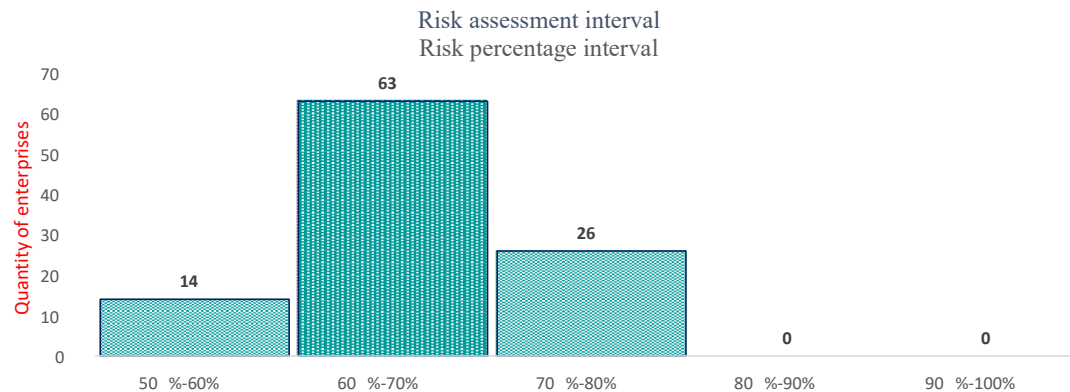


From all the survey participants, 38 enterprises have higher than 50 million sales incomes.

Here are some observations during this survey:

- Due to economic recession in recent years, the real estate agents business operations are weakening.
- The majority of real estate agents prefer to operate within the framework of 2 – 3 agents than the company.
- Real estate agents do not have sufficient knowledge on world financial system protection policy and combating money laundering, financing of terrorism and proliferation financing of weapons of mass destruction.
- Real estate agencies do not have any dedicated financial and operational records. For instance, real estate agents do not have any registration buyers from FAFT high risky countries list, politically influential persons and their family members. These enterprises could not deliver detailed information for this survey regarding their joint reporting system.
- Mainly real estate transactions are made between individuals in Mongolia. Therefore, the development of real estate sector is slow. In this case, these enterprises' human resource and structure are not fully established.
- Most real estate agents are operating as a subsidiary of construction companies.
- Most of real estate agents have been providing intermediation service between citizens of Mongolia. Also, real estate agencies are taking 1 – 2% of their sales income and they never participating any activities of transaction that making between buyer and seller. Also real estate renting agents are providing their services for 1- 2 foreign citizens annually.

Criterion of understanding of crimes related to the financing of terrorism and proliferation of weapons of mass destruction: 93% of all real estate agents are operating in Ulaanbaatar city, 1% on a national level, and 6% internationally. By result of risk assessment of 103 companies that included in this survey, 14% were assessed at 50 – 60% of medium risk level, 61% is at 60 – 70% of medium and high risk level and remaining 25% is at 70 – 80%. of high risk level.



All enterprises of this survey were evaluated insufficient in terms of combating money laundering and the financing of terrorism and preventive measures. The majority of all participants of this survey do not organize enough training and capacity building events for their employees against financing of terrorism and proliferation and employees' knowledge on the Law on Combating Money Laundering and Terrorism Financing is very poor. However, the enterprises are explaining that they have regulations on aforesaid law, but they have not formal documents and decisions to approve their regulations. Also 89% of the enterprises do not have a compliance officer.

93% of all enterprises of this survey never conducted a risk assessment to combating money laundering and financing of terrorism and have an inadequate understanding on money laundering and terrorism financing. Also the enterprises are not training their employees on this topic.

92% of 103 participated enterprises in this survey are assessed at high risk level and they do not organize any preventive works. According to onsite inspection result, the majority of all participants of this survey do not have any understanding on money laundering and financing of terrorism, do not have any preventive measures and any registration on customers and their sales income. All of these situations are directly influencing this sector's high risk level.

Expanded activities on customer due diligence: 77% of all enterprises are not implementing expanded activities on customer due diligence and that puts them in high risk level. In this assessment in case of customers, they are classified as Mongolian citizens and foreign nationals. In terms of combating money laundry and financing of terrorism, they are classified by citizen of high risky countries, politically influential person, their family members; legal entities related to the politically influential person and accredited representative of legal entity. The fact that 70% of all customers are Mongolian citizens decreases the risk. Also we are underlining that insufficient condition of customer's registration has been influencing negatively for actual result of the assessment.

Risks to finance terrorism and weapons of mass destruction: Although banking sector has been holding majority of financial market of Mongolia, the proliferation financing of weapons of mass destruction is not related with amount of cash. In this case, this sector is still one of risky ones. Especially non-banking financial sector's understanding on financing terrorism and proliferation of weapons of mass destruction is inadequate and it is making the risk actual. Also, non-banking financial sector does not have any comprehensive understanding and information. The crime of financing the terrorism and proliferation of weapons of mass destruction is transferred through a country via foreign transaction service. Other participants of financial sector have a weak methodology to recognize such crimes. Therefore, these types of crimes are not detected and there are no registrations of them. Also, non-banking financial sector does not have any specified coordination, guidance and regulations to prevent proliferation financing of weapons of mass destruction.

The Financial Regulatory Commission has not any structure to cooperate with other countries on violations and lacks for implementation of sanctions that approved by United Nations Security Council. The Financial Information Unit of the Bank of Mongolia delivers resolutions on sanctions of UN Security Council to the Financial Regulatory Commission. The Commission delivers updates of the list to coordination entities by electron form and official documents and gives guidance to take related measures. Also the commission delivers information about the list and sanctions via their official website.

Further, the commission delivers caution to renew their list and requires to close accounts, stop communication with listed legal person, seal assets of them, block all opportunity to start new collaboration in case of collaborating with a legal person who included into the list and deliver reports by quarterly offsite supervision.

The Financial Regulation Commission is cooperating on preventive measures against financial crimes, financing of terrorism and money laundering in several memorandum of understanding that signed with the Bank of Mongolia and the Ministry of Finance. But the Commission is does not cooperate with coordinative and other organisations sufficiently on combating the financing of terrorism and proliferation of weapons on mass destruction and does not share related information on sanctions of the UN Security Council related to combating financing terrorism and proliferation of weapons of mass destruction. Thus, it has been one factor to increase risk level.

TWO. RISK ASSESSMENT OF COMMERCIAL BANKS:

Risk of customer due diligence activities: By numeric reporting of the Bank of Mongolia, the bank system includes 826 customers of political exposed person category. According a definition of Law on Money Laundering and Terrorism Financing, civil representatives of provinces and capitals, higher ranked government officers, their family members and common interested persons are including in this category. In addition, by Law on Regulating Personal Interest in Public Service, within 2 years after released from above mentioned position, the person should be still included into this classification. However it seems like political exposed persons are few in bank system, Golomt Bank, Ulaanbaatar City Bank, Khas Bank and Capital Bank are not delivered their customers quantity who including in political exposed person category. Based on this situation, aforesaid banks are not implementing customer due diligence activities efficiently. On the other hand, the banks are limited logging permit to the customer's information under the name of VIP Customer. In this case, maybe supervisory workers of the bank are not included customers' information of VIP Branches in questionnaire survey.

The banks are assessed their customer's risk level as below mentioned:

No	Bank name	High risk customers	Average risk customers	Low risk customers
1	Khan Bank	1,042	30,463	2,277,387
2	Trade and Development Bank	10 ²	7,157	615,641
3	Golomt Bank	Not assessed ³	Not assessed	Not assessed
4	Khas Bank	4,672	532,671	172,088
5	State Bank	266	24,512	2,078,386
6	Ulaanbaatar City Bank	15	No data	No data
7	Capital Bank	402	24,475	293,955
8	Chinggis Khan Bank	3	3,294	28
9	Capitron Bank	80	6,560	74,382
10	National Investment bank	46	2,829	11,498
11	Arig Bank	8	50	25,179
12	Bogd Bank	0	26	167
13	Credit Bank	6	113	1213
14	Trans Bank	0	0	1242

By above assessment, banks are included their most customers into low risk customer's category. A category on low risk customer is defined as the owner of regular accounts such as pension, allowance, student scholarships and salaries etc. Also from the above assessment, the banking system has very thin private entrepreneurs and legal entities.

The banks delivered information are being absolutely insufficient about money transfer companies, jewelry and real estate agents and non government organisations. Depending on this situation, we could not estimate their risk level. So customers due diligence activities and assessment on customers risk level are being not realistic.

By questionnaire on supervision structure, the bank takes copy of the charter of legal entities in case of their customer is legal entity. But if it is articulated to own stock of legal entity by other legal entity in banks received charter, there are not any regulation to take information about final owner who are being behind this catenary.

Therefore, if the customer is individual person, banks are not clarifying about financial relationship that representing other legal person or entity. All of these factors are increasing risk level.

It's needed to make new articles in regulations of the banks as renew information of the customer in range of customer due diligence, monitor coherence of transaction of the customer and their business and organize customer due diligence works again in case of incoherent transactions detected and it's demanded to provide implementation of new articles.

² The orange colored part is unreal. By statistic of transaction report of Financial Information Unit, Trade and Development Bank and Ulaanbaatar city Bank has been making most foreign settlement. One of mostly popular methodology of money laundering is foreign trade.

³ Customers risk assessment has not executed.

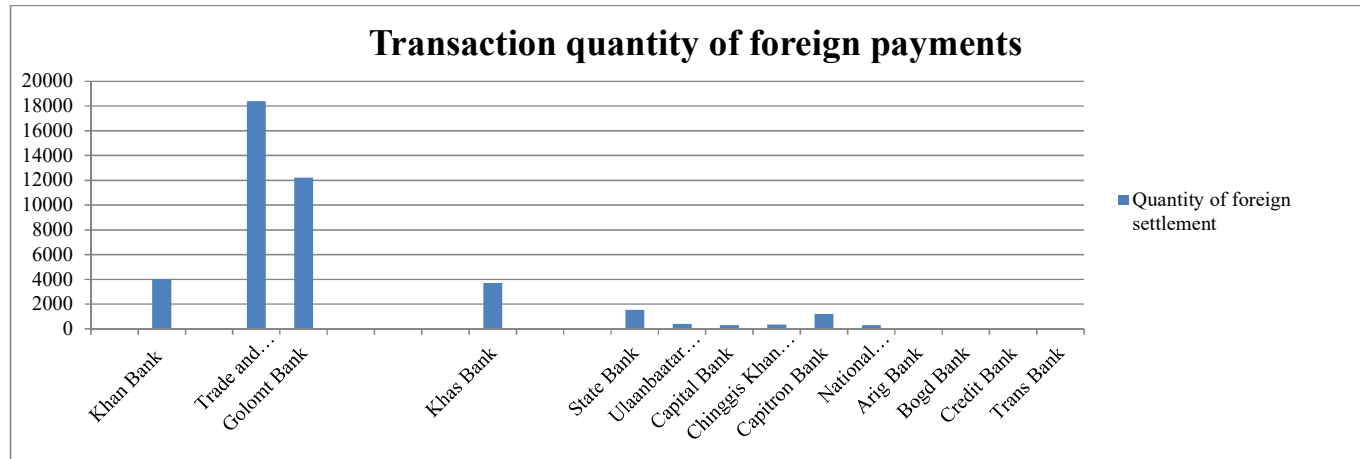
Risks on reporting duty:

The banks delivered reports to the Financial Information Unit on foreign settlement, cash transaction and suspicious transaction:

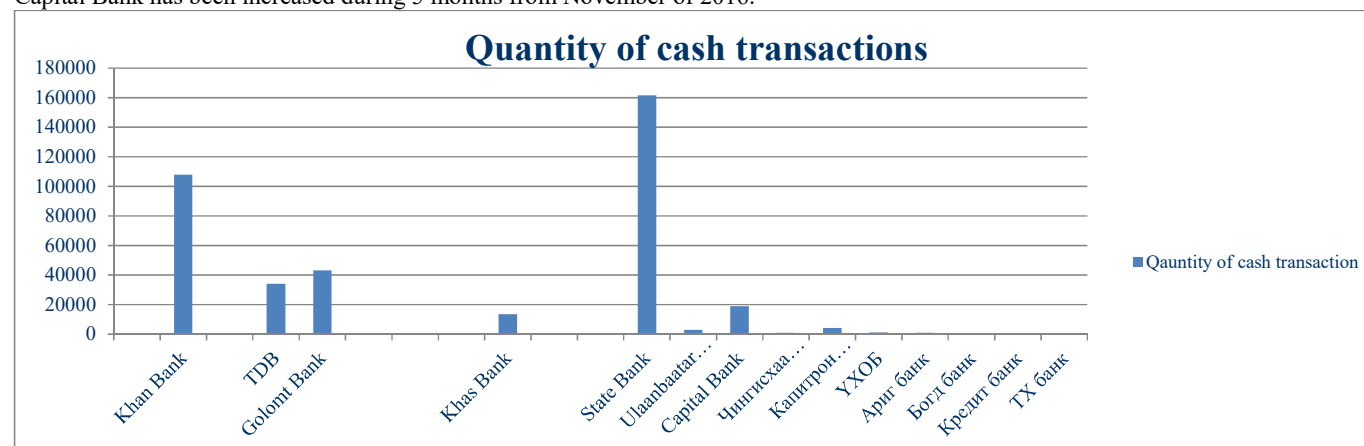
<i>Bank name</i>	<i>Quantity of cash transaction</i>	<i>Quantity of foreign settlement</i>	<i>Quantity of suspicious transaction report</i>	<i>Quality of the report /Replied condition to the request of the Financial Information Unit on additional information and clarification /</i>
Khan Bank	107,936	4,018	19	There have been many faults, corrected and remade their transactions several times, always reporting empty on transaction details, gave a definite explanation on IT Problems, so they are not reporting received transaction in foreign settlement transaction report. However they said the bank will deliver reports, but they are not still delivering any reports. Also additional information of suspicious transaction is not providing quality requirements.
Trade and Development Bank	34,036	18,388	3	Have been making few fault and always deliver their reports within approved date.
Golomt Bank	43,148	12,205	27	There have been many faults, corrected and remade their transactions several times. Reported as they transferring their systems for transaction automate reporting system since April. Also additional information of suspicious transaction is not providing quality requirements. /For example, don't annexing additional information of suspicious transaction report and missing some datas of corresponded bank account on transaction statement/
Khas Bank	13,535	3,721	13	Sometimes making faults and they had made fault that possible to influence for inspection process of suspicious transaction by their irresponsible fault that delivery of wrong cash transaction report. Also, the bank provided wrong date of transaction on their report in few case.
State Bank	161,469	1,522	58	Have been making few faults and always deliver their reports within

				approved date.
Ulaanbaatar City Bank	2,849	406	16	Have been making few faults and always deliver their reports within approved date.
Capital Bank	19,044	299	2	Have been making few faults and always deliver their reports within approved date.
Chinggis Khan Bank	934	352	8	Have been making few faults and always deliver their reports within approved date.
Capitron Bank	4,067	1,211	4	Have been making few faults and always deliver their reports within approved date.
National Investment Bank	1077	302	1	Have been making few faults and always deliver their reports within approved date.
Arig Bank	976	57	4	Have been making few faults and always deliver their reports within approved date.
Bogd Bank	46	0	0	Have not any fault registration
Credit Bank	38	10	0	Has not any fault registration
Trans Bank	0	0	0	Not delivering transaction reports and impossible to make assessment.

The foreign settlements that higher than 20 million are making by Trade and Development Bank and Golomt Bank.



Most of cash transactions that higher than 20 million have been making by Khan Bank and State Bank. And transaction quantity of Capital Bank has been increased during 5 months from November of 2016.



In determining the meaning of the cash transaction report, it is generally referred to as revenue transaction and expense transaction. It is unclear how the government securities trade is being done using the Custodian banking service. In the case of government securities trading affecting the attractiveness of the bank, the monthly reports from the FINN system do not materialize. If the cash that outer than the bank is joining for the government securities trading, it should be reported to the FIU on a cash transaction report. But such a meaningful report is not delivered yet on the FIU. It is also unclear how real estate agents and trading in the stock exchange are being carried out. Therefore, it is necessary to conduct a check on cash transaction and foreign settlement transaction report.

The number of foreign-settlement and cash transaction reports of Ulaanbaatar city banks is lower than the same level of banks. However, reporting of suspicious transactions is relatively high. As for the Trade and Development Bank, the identification, detection and reporting of suspicious transactions are lower than those of other similar operations. For example, Golomt bank reported 27 suspicious transactions while the Trade and Development Bank submitted 3 suspicious transaction reports. During the same period, Arig Bank and Capitron Bank submitted 4 suspicious transaction reports.

Khan Bank does not report on foreign currency settlements since March 2017, which violates article 7.1 of the Law on Combating Money Laundering and Terrorism Financing. Furthermore, banks such as Golomt Bank and Trade and Development Bank have reported foreign settlement transactions reports that delayed from approved date by related law. Some of the transactions that have been delayed are due to the fact that there may be transactions with law enforcement agencies. In this case, these factors are increasing their risks.

Risks on correspondent relationship:

Over the past two years, US and European banks such as Wells Fargo, HSBC, Citibank, Mashreq Bank PSC, Deutsche Bank AG, Commerzbank, Barclays Bank PLS and Standard Chartered closed our US dollar accounts. The reasons for closing includes below mentioned 2 reasons. It includes:

1. Decided to close accounts that making low transactions based on a decision to reduce compliance costs.
2. Decided to reduce their business range based on the banks business planning

The two reasons are basically just one reason. In the United States and the European Union, supervision and penalties for money laundering and financing of terrorism have been extremely strong, leading to a drop in correspondence with high-risk and low-risk relationships among major banks. For example, Deutsche Bank AG fined by \$ 630 million in January 2017 and \$ 41 million in May. HSBC Bank fined by 1.92 billion dollars and Citibank fined by \$ 97.44 million.

The following factors are influencing for our commercial banks to summarize as a risky. It includes:

1. Previous and current mutual evaluation report on structure of country for combating money laundering and financing of terrorism;
2. Basel AML Index Report /Evaluated on 69th country from 146 countries in 2017 as higher than medium risk level. /
3. International evaluation reports and indexes on corruption and criminal recors;;
4. Geographical location /*Sanctions on legal person and enterprises of Russian Federation, sanctions against Democratic Republic of North Korea, economic and social relationship of Mongolia is close with these countries /;*
5. Lack of information transparency and cooperation /*The Bank of Mongolia's insufficient condition on independently work and cooperation with other banks to provide information on the risk-based supervision strategy, general level of activities to combating money laundering and financing terrorism, preventive measures, good examples and training etc/;*
6. Responding to the clarifications from inquiries from commercial banks with correspondent banks /*delay and can not give additional information about customers and their transactions /;*
7. The SWIFT transaction detail is unclear, it is too general, there is no transaction pattern, and it is highly probable that the suspicious transaction filter will be exposed;
8. Non professional responding for fraud transaction. /*Returning cash by ISO 4550 or ISO 4763 Swift message, but recalling returned cash without any additional information and documents. Also this process has been repeating during 120 days of recalling/*

Structure of commercial banks to combating money laundering and financing of terrorism:

The management of 12 commercial banks has been approved by the executive management for policies on combating money laundering and financing of terrorism. It's being deficient to mitigate risk of money laundering and financing of terrorism before to introduce new products, service and new technology.

The participation of committees and board of directors is insufficient in the activities of combating money laundering and financing of terrorism. According to the quarterly reports from the banks, two common weaknesses are observed. These include:

1. The report preparing compliance unit has not including risk assessment of their banks on combating money laundering and financing of terrorism and the reporting unit permanently reports only transaction quantity that reported for financial information unit, organized training, and additional information of the customer and updated condition of sanction list of UN. So depending on one form of the reports, has not organizing discussion on meeting of board of directors and the members are only introducing with reports. Also, the compliance units still have not any providing by participation and information to prepare new service that developing by other bank units that have not any methodology on risk assessment, dedicatory softwares and have not rights to log in their bank customer's information.
2. The participation of auditing committee and internal audit unit is insufficient. Also there are not any banks that have a internal policy, regulation and methodology to combating money laundering and terrorism financing. But internal audit unit has general regulations for inspection but their regulations have not any detailed coordination for money laundering and financing of terrorism.
3. The bank's specialized monitoring activity is insufficient. The transaction quantity of banks specialized monitoring has been as below mentioned during 6 months of assessment.⁴:

	Bank name	Transaction quantity of specialized monitoring
1	Khan Bank	0
2	Trade and Development Bank	0
3	Golomt Bank	22
4	Khas Bank	0
5	State Bank	172
6	Ulaanbaatar city Bank	0
7	Capital Bank	9356
8	Chinggis Khan Bank	0

⁴ The banks has duty to make specialized monitoring for transactions that made by insufficient structured country against money laundering and terrorism financing, transactions of political exposed person, transactions without any economical justification and high value transaction amount

9	Capitron Bank	1
10	National Investment Bank	0
11	Arig Bank	8
12	Bogd Bank	0
13	Credit Bank	2
14	Transport Bank	0

In the future, we need to improve effectiveness of cash transaction report and foreign settlements. For this work, must make risk assessment twice in a year on approved months (not by form of ad-hoc). It should be so effective to make comparison for annual cycle and determine change reason of attitude directions.

In this case, we need to establish information resource for foreign banks and financials institutions by methodology to establish lists on English for all works that organizing for combating money laundering and financing of terrorism, preventive measures and policies on inspection.

THE OPERATION OF THE BANK OF MONGOLIA

More than 95% of the financial system of Mongolia constitutes the banking sector alone. Currently, 14 commercial banks are operating with 1,511 branches. In 21 provinces and 330 soums are located in the banking and settlement centers. There is a risk that a wide range of banking products will be subject to terrorism financing in the sector as the banking sector operates in large market such as internal and external payments, corresponding, loans, currency exchange and e-banking services. Despite the risks, however 14 commercial banks of our country have not any branches in foreign country and any branch of foreign banks os not operating in Mongolia, as well as our correspondent relation banks have high levels of regulatory and regulation framework to combating money laundering and financing of terrorism. So it has been main factors to mitigate risks.

On the other hand, Law on Money Laundering and Terrorism Financing of 2006 has amended in 2013 and 2018 based on 40 recommendations that delivered from FAFT. Also international organisations such as International Monetary Fund and Asian Development Bank and some countries such as the United States of America and Australia has been supporting the Bank of Mongolia and commercial banks to combat money laundering and financing of terrorism and our country has been organizing development works for moniting, coordination and specializing of our staffs. All of these works are influencing positively for preventive measures against financing of terrorism and money laundering.

Furthermore, the products of the banks should be delivering rapidly in all over the world. But some negative results are being factors to increasing risk level. In this case, we established a structure under mission to inspect implementation and monitoring for related sectors to mitigate risk level. Particularly the structure has been completing to reporting foreign settlement transaction that higher than 20 million MNT and cash transactions to the Financial Information Unit, checking customer's information comparing with list of sanction and terrorists that approved by United Nations Security Council, if the customer is being listed in sanction list, immediatelly free their

corresponding accounts and their transaction. Also during this term, there is not any registration of criminal records on terrorism financing in Mongolia.

In order to prevent money laundering and terrorist financing crimes, the Bank of Mongolia has been established in the structure of the Mongolian banks. The Bank has been working on mutual experiences and solving their positions and finding solutions. In addition, the National Coordination Board is established by the Cooperative Council and the Government of the Financial Information Service of the Bank of Mongolia as a realistic practice of preventing future risks.

The Supervision Department of the Supervision Department of the Bank of Mongolia is responsible for the prevention of commercial banks' terrorist acts, including the relevant regulations, guidelines and manuals, in the context of "preventive action rules" and "risk-based approaches". the risk management process in the banking sector and the banking sector has been completely transformed into a risk-based approach, which is another factor in risk reduction.

In order to prevent money laundering and terrorism financing crimes, the Bank of Mongolia has been established Compliance Council in the structure of the Mongolian banks. The Bank has been working on mutual experiences and solving their positions and finding solutions. In addition, the National Coordination Council of the Government and Cooperation Board of the Financial Information Unit of the Bank of Mongolia has established as a realistic practice of preventing future risks.

The Specialized Monitoring Department of Supervision Unit of the Bank of Mongolia is monitoring the commercial banks operations against terrorism. In range of their works, aforesaid department has processed relevant regulations, guidelines and handbooks such as "Preventive Measures Regulation" and "Handbook to Introduce Risk Based Approach". Also the supervision procedures of the banking sector have been fully integrated into risk based approaches, which is a key factor in risk reduction.

B. TYPES OF LEGAL ENTITIES

ONE. PROFIT ORGANIZATION RISK ASSESSMENT

Concept and data on Money laundering and Financing terrorism among legal entities, specifically for-profit organizations, is very scarce. Risk assessment regarding Financing terrorism was never conducted before and this conduct was based on the suggestion of Asia Pacific Group on Combatting Money Laundering. As of today, common regime is in effect among legal entities sector in relation to governance. Legal entities sector might be affected by UNSC sanction on financing proliferation of Mass destructive weapons might. This is mainly due to engagement of the North Korean and Iran citizens in labor force and legal entities registered in those countries. On the other side, Mongolian legal entities have held and are holding shares in state owned enterprises in North Korea. Lack of legal system regarding implementation of financial sanctions against North Korea and Iran also contributes to the high risk indication.

As of June 2018, total number of legal entities registered in Mongolia is 174732⁵, of which 12072 were removed from the State Registraton as a result of liquidation. Legal entities types are as follows:

Indicators		2017	2018	June 2018
Total number of state registered legal entities		158173	173506	1226
Of which				
1. Public Company		279	284	-
2. Limited Liability Company		124002	135551	888
Of which	Foreign Investment	8340	8786	41
3. Non-government organization		16346	18727	216
4. Self-financing State owned enterprise		91	89	-
5. Self-financing Locally owned enterprise		365	384	-
6. Government organizations, administraiions, state budgeted enterprises		4623	4693	8
7. Partnership		3654	4438	85
Of which	Foreign investment	8	9	-
8. Cooperative		3940	3999	4
9. Savings and Loan Cooperative		474	499	6
10. Fund		1225	1373	7
11. Trade Union Institutions		1139	1295	7
12. Religion institutions		481	505	-
13. Press institutions		1031	1075	3
14. Education and training institutions		521	592	2
15. Scientific institutions		2	2	-
Number of wound-up legal entities		11359	11966	106

⁵ General Authority of State Registration report, June 2018

From the state registered legal entities, Foreign Investment LLC amounts to 8827 and Foreign Inversment Partner amounts to 9. Number of Foreign Investment Legal Entities is 9619 with double counting as the table below demonstrates the investing countries.

State registered Foreign Investment Legal entities

1	USA	304	39	Austria	26	77	Estonia	4
2	Canada	111	40	England	296	78	Armenia	2
3	Egypt	1	41	Isle of Man	1	79	Moldovia	5
4	Algeria	1	42	Denmark	3	80	Lebanon	3
5	Gambia	1	43	Sweden	11	81	Ukraine	54
6	Nigeria	1	44	Norway	5	82	Cayman Island	5
7	Mauritus	5	45	Poland	34	83	Bermuda	2
8	Barbados	1	46	Germany	173	84	Bahamas Island	3
9	Seychelles Islands	9	47	Belize	3	85	Syria	3
10	Kenya	1	48	Nicaragua	1	86	Dominican Republic	2
11	Anguilla	1	49	Panama	6	87	Japan	675
12	Comoro Islands	1	50	Peru	3	88	South korea	2016
13	Republic of South Africa	1	51	Mexico	2	89	Vietnam	238
14	British Virgin Island	69	52	Cuba	3	90	North Korea	3
15	Greece	4	53	Argentenina	1	91	Hong Kong	79
16	Netherland	60	54	Chile	1	92	Makao	4
17	Belgium	17	55	Columbia	1	93	Cambodia	1
18	France	65	56	Venezuela	1	94	China	7539
19	Spains	14	57	Malaysia	62	95	Saint Kitts and Nevis	1
20	Gibraltar	3	58	Australia	98	96	Bangladesh	13
21	Luxembourg	19	59	Indonesia	3	97	Taiwan	24
22	Ireland	6	60	Phillipines	9	98	Turkey	80
23	Cyprus	12	61	New Zealand	26	99	India	55
24	Finland	7	62	Singapore	189	100	Pakistan	15
25	Bulgaria	14	63	Thailand	9	101	Afghanistan	2
26	Hungary	44	64	Emirat	7	102	Myanmar	1
27	Republic of Malta	1	65	Saipan	1	103	Jordan	6
28	Belarus	11	66	Palau	2	104	Saudi Arabia	6
29	Yugastovia	1	67	Samao	3	105	Yemen	1
30	Slovanie	4	68	Micronesia	2	106	Oman	4
31	Italy	71	69	Marshall Islands	7	107	Israel	13

32	Romanie	3	70	Russian federation	660	108	Bahrain	13
33	Liechtenstein	1	71	Tadjikistan	5	109	Quatar	4
34	Switzerland	52	72	Uzbekistan	13	110	Nepal	5
35	Kyrgyztan	10	73	Kazakhstan	70	111	Iran	11
36	Slovakia	8	74	Azerbaijan	12	112	Crotia	1
37	Czech Republic	51	75	Latvia	3	113	Georgia	1
38	Switzerland	2	76	Litvia	2	114	Kuwait	3

ONE. PROFIT ORGANIZATION RISK ASESMENT

Monitoring with regard to combatting of Money laundering and Financing terrorism

As of 21 Decmeber 2017, 46 State Inspector statements were referred to the Police Department on the grounds of tax evasion of 737.6 billion MNT. No case associated with weapon proliferation and terrorism financing was registered during the tax inspection that was conducted among 19 companies which are invested by Islam countries operating in Mongolia between 2013-2017. Tax Authority is conducting the relevant inspection based on the General Authority of State Registration Report of newly registered companies. As to the non-government organizations, they had been registered and certified by Ministry of Justice and Home affairs since 2008.

As a result of amendment made on “Law on Income tax of legal entities”, non-government organizations, private schools, hospitals are no longer subject to profit tax starting from 1 January 2007. This can be explained as legal grounds for registering them as tax payers had become limited in scope, weakening State control therefor increasing the risk of financing terrorism and proliferating weapons. Currently, Non-profit organizations are registered as tax payers of Personal Income tax and remuneration, bonus, pension benefits, real esteate tax adhering to tax laws and regulations. Non-profit organizations are operating in compliance with the tax laws such as Personal Income tax, Renumeration, bonus and pension benefit tax and Real Estate tax laws.

Transportation and Freight forawrdng is considered as the most suceptible sector to the risk of financing terrorism, proliferating weapons specifically, among all the legal entities. Number of freight forwarding companies that are licensed by Ministry of Road and Transportation Development is around 300, however only 100 of them are actively engaged in the transportation operations with extended licenses in Mongolia. Freight forwarding companies are operating within the special license which makes them subject to taxes. Tax Authority register them and keep the records, furthermore calculate the risk of adherence to tax laws and regulations and in cases of high risk indications, they carry out an inspection.

Although relevant requirements are checked and rules on Shipping dangerous goods are followed when receiving the goods, due to lack of understanding of financing terrorism, weapon proliferation and its prevention, the risk chances are likely to increase. Ministry of Road and Transportation Development exercises control in this sector however it is not adequate for the reasons that they are not very

considerate about the high risk of this sector being used in financing terrorism and proliferation of weapons, as well as, there is no monitoring force.

Eventhough there is no data available on terrorism financing and weapon proliferation among Transportation and Freight forwarding operations, monitoring system is slightly weak. Thus competent state authorities shall collaborate on exchanging information and conducting supervision. General Authority of Customs and General Police Office are conducting supervision in relation to information of the persons who ordered shipping, examining of their tax report, safety on shipping and labor, dangerous and toxic goods. In the absense of information database of the sector, only the registration database is being used. Therefor, joint supervision shall be conducted among monitoring agency and policy implementation regulatory ministry, legal institutions, professional association in order to prevent potential risk.

TWO. RISK ASSESSMENT ON NON PROFIT ORGANIZATION

Overall 18,943 non government organizations have been registered as legal person and conducting activities in Mongolia. In regard to non profit organizations, the registration shall be made at General Authority for Intellectual Property and State Registration and at Mongolian Immigration agency. Moreover, they shall be registered as tax payer at tax authority, and required to submit tax statements in accordance to the tax types to controlling body as tax authority. For instance, non profit organizations are registered as tax payers obliged to report its statement on payroll remuneration and immovable tax statement, and become subject to pay them. Throughout the state, totally 505 religious organizations were registered at local administration in charge of state registration. The religious organizations are also registered as tax payers obliged to report its statement on payroll remuneration and immovable tax statement to tax authority. Tax authorities carry out joint supervisory works organized by state and participate in working groups.

In 2017, 3862 from 18,943 non government organizations in Mongolia submitted their tax statements within the time limit defined by law. According to the assessment made by the working group of Asia Pacific region in charge of counterfeiting money laundering and financing of terrorism, there exists high risk of committing money laundering and financing of terrorism crime through non government organizations, and it warned that tis type of crime could be identified in that sector of the country.

About the subsidiaries or representatives of the non government organization conducting activities in Mongolia

Currently, 95 subsidiaries or representatives of foreign non government organizations are officially registered in Mongolia, and 85 of them actively conducting their activities in the fields as politics, economics, environment, education, health, humanitarian and social welfare, majority of them are originated from the USA, Germany, France, Great Britain and South Korea. For instance, "Asia Foundation", "International institute of republicans", "Mercy corps international", "George Soros Open society foundation", "Peace corps" from USA, "Konrad adenauer foundation", "Hanns Seidel foundation", "Friedrih Ebert foundation" from Germany are the main examples. International and foreign non government organizations are mostly raising the history and importance of the civil organizations at the seminars, conferences or broadcasting the subject through media, and they started to advise the need to actively collaborate with civil society in order to enhance the supervision on state activities. These organizations are actively and freely conducting their activities in field of development tendency of social, political, economic sphere of the society, human rights, freedom, cultural and educational sectors. Within the programs and projects, the expenses of parliament members, state administrative officers, political party's cadres for participating in the short or long term trainings are born by these organizations. It's notable that foreign NGOs have contacted and supporting civil society organizations as priority.

As of year 2016, subsidiaries or representatives of international and foreign non-governmental organizations have being implemeted the programs and projects mainly in sphere of environment, humanitarian, strengthening of governance transparency, capacity building of institutes conducting activities in agricultural and civil society field, and prepare young leadres in Mongolia. Totally 130,040,817,388 /in increased amount/ tugrugs have been funded to implement the projects and programs, and it is expected to grow further.

There exist below common shortcomings of NGOs and circumstances that might increase the risk:

- NGOs with foreign investment use information and small or large quantity of data related to our country through the implementation of projects and programs through their own subsidiaries and representative offices. The purpose of the usage of these information is unclear.
- Under the financial statements of some NGOs, it revealed occurances that high amount of money were collected in the debit accounts of at the commercial banks with no clear reason.
- Representative offices of most NGOs in humanitarian field implicitely conduct religious activities as refering to financilay support the citizens, therefore, caary out the activity as breaching the law have been ocured.
- Some representative offices of NGOs with foreign investment have occasionally received the fund from donors or contributors not to their official bank account of the organization but used the private account of their head or manager, which implies unclear usage of the budget.

The majority of non governmental organizations do not inform and submit their financial statements to respondent financial institutions and supervisory state competent authorities. Particularly, how much capital is funded from central and external donors, and how it is spent and donated to the relevant state central

C. BORDER CONTROL:

Operation of Border Control Institutions: Majority of the border points are not equipped with designated custom control equipments and some of the equipments were outdated or inadequate. Border institutions are not centered in one network, some of them are not connected to internet, thus there is no condition to exchange information which creates obstacle of many repeated stages in keeping records of the control among transitting passengers and vehicles.

Goods and vehicle inspection is conducted through 18 custom points and units on state borders. Isolation of border points, weak development of infrastructure, bad inadequate supply of technical equipments preclude substantial implementations such as organizing trainings related to combatting and preventing financing terrorism and proliferation of weapons. No data and information was reported on Border Point engagements in Financing terrorism and proliferation of weapons, however, concept or rule on how and what kind of feasible measures can be taken is very scarce when the risk is once faced. Furthermore, border points and knowledge and skills of the persons working in those border points, deficiency in equipment adequacy and supplement, transportation and logistics, and different transportation loads in different areas are counted as risk increasing factors.

Customs institutions are entitled to implement Article 15 of the Law on Money laundering and Terrorism Financing, and Article 11.29.4 of Law on Offense, however there is no special policy or rule regarding Financing Terrorism and Weapon proliferation.

Customs institutions exercise day-to-day control on cash, precious metals and jewellerys. Table below demonstrates past 3 years' data.

Securities, paper money, stamped paper, share certificate

/HS:4907.00.20/

Year	Export, import	Quantity	Unit	Value.\$
2016	Export	2,014,897.00	Piece	53,498,351.92
2016	Import	72,514,697.00	Piece	548,112,343.90
2017	Export	2,272,526.00	Piece	84,838,463.10
2017	Import	68,956,687.00	Piece	391,262,646.39
2018	Export	324,041.00	Piece	9,315,638.12
2018	Import	2,539,311.00	Piece	54,522,912.99

Precious metal /HS item: 7106-7115/

2016	Export	28,169.36	kg	759,851,728.09
2016	Import	430.21	kg	847,953.99
2017	Export	22,386.40	kg	693,604,976.41
2017	Import	844.11	kg	838,504.82

2018	Export	2,208.67	kg	64,649,568.64
2018	Import	97.88	kg	267,076.70

Jewelry /HS item: 7101-7105/

2016	Export	3,392.00	kg	46,944.86
2016	Import	111.66	kg	29,941.68
2017	Export	1,494.00	kg	22,410.00
2017	Import	1,560.31	kg	25,647.00
2018	Export	1,059.00	kg	15,885.00
2018	Import	1,059.00	kg	15,885.00

UN resolution regarding “prohibited goods control” is not being regulated, only prohibited goods listed by Government and Parliament are under control. Dual purpose goods are being monitored within methods provided by Customs law, rather within special methods highlighting “dual purpose”. List of dual purpose goods shall be available as well. It also increased risk of financing terrorism and weapons proliferation because database of export, import and transition does not contain any information regarding Dual Purpose goods. On the other side, preparedness and internal management and planning, information exchange rules are unavailable once the problem is faced which counts as risk increasing factor.

In the current system of customs institutions, there is no specialized monitoring unit and legal environment is not pleasant enough. For these reasons, combatting money laundering and financing terrorism functions must be incorporate to the policies, programs and legal regulations, also training the officials and financia and structural change must be made.

Six. Risk assessment on usage of Mongolian economic in a direct and an indirect way to prevent a financial sanction from the Security Council of United Nations

Issues of Financial Prohibitional Step

As of June 2018, there are 16 citizens from Islamic Republic of Iran and 797 citizens from Democratic People’s Republic of Korea (DRRK), whom have been imposed financial sanction by UN Security Council, are permanently or temporarily residing in Mongolia. There were no case of transaction matched with the list, therefore no recognition of transaction or account frozed incident. However, it might be indicating that control in Financial Institutions (except for large banks) is weak. There are no individuals or legal entities listed on the sanction lists of resolution number 1267 and 1373, from Security Council of UN. However, this is in line with the country's risk forecasts.

The DPRK is working to ensure an implementation of the workforce of the country, and the workforce has been reduced to 731 from 1191 in 2017, and the work permit is extended to June 2, 2018, based on an agreement made between the Government of Mongolia and the Government of the DPRK on 20 July, 2007, about the exchange of workforce, memorandum of understanding on cooperation made on April 28, 2017, between the Ministry of Labor and Social Welfare of Mongolia and the Ministry of Foreign Trade of DPRK, the quota

agreements negotiated between both countries in every year about working in economic sectors, and the sanctions issued by the UN Security Council to DPRK, on August 5, 2017 and December 10, 2017.

There is a need to improve the legal framework for UN Security Council resolution 1267 and 1373. In particular, it is appropriate to impose penalties that prevents repeated actions from those who have violated the requirements about freezing assets, preventing to use funds, and reporting about NBFIs and LSISs sealed assets and actions taken. Following the visit of the Mutual Evaluation, Mongolia has ratified legislation to address these deficiencies.

In case of terrorist financing can not be imposed an sentence, there were no criminal, administrative or other legal measures to stop terrorism financing.

There appears to be a moderate deficiency in Mongolia's legislation relating to sanctions in financial targets. There is no clause of imposing punishment to those who violates the requirements of freezing assets, preventing to use funds, and reporting about NBFIs and LSISs sealed assets and actions taken, in the Law on Combating Terrorism, and the policy on "Including terrorist into the list or to suspend the movement of assets of terrorist who is in the list".

Our organization is unable to exchange information due to lack of any cooperation agreement with law competent authorities, as well as those in the blacklisted Islamic State and the Financial action force tasks /FATFs/ countries, have been working without any information in the UN Security Council list of countries to issue employment permits, A unified policy and action directed towards working in Mongolia.

The number of people in the blacklisted countries of FATF, the violations, and their data

№	Country	Year	Number of people who had been punished	Number of deported people
1	South Korea	2015	478	-
		2016	433	6
		2017	389	23
2	Islamic republic of Iran	2015	-	-
		2016	1	1
		2017	5	-

Number of residents on temporary and private business as 2018.07.05

Д/д	Residence form		South Korea	Islamic republic of Iran	Total
1.	GB-1	Married to Mongolian citizen	-	5	5
2.	GB-4	HG,T,S's family	14	-	14
3.	HG	Employer	640	2	642
4.	NR	Temporary attendant	-	3	3
5.	O	NGO's and international humanitarian organizations	3	-	3
6.	S	Student	8	-	8
7.	T	Investor	30	4	34
	Total		695	14	709

Iran and South Korea citizens who have been charged with imprisonment and deported from Mongolia / as of the last 5 years /

Deported	South Korea	Iran	Violated	South Korea	Iran
2014 year	19	-	2014 year	205	2
2015 year	-	-	2015 year	44	-
2016 year	6	1	2016 year	132	1
2017 year	23	-	2017 year	18	-
First 6 months of 2018	42	-	First 6 months of 2018	26	-
Total	90	1	Total	425	3

Implementation of financial targets is different in the financial sector, but NFBPSP's doesn't implement it at all. Influential banks automate all accounts and transactions with the UN Security Council terrorist list. Small banks are controlled manually by non-bank financial institutions. Other MUEs do not have any control over it.

It is important to decide if a regime of financial sanctions is required under the Anti-Terrorism Law under the revision of the financial targets of sanctions in Mongolia and the financing of the spread of weapons measures. The advantages and disadvantages of the

two options (ambiguous and integrated structure) are discussed in Section IV of this Working Group. During a workshop with relevant organizations, a number of proposals were discussed, to simplify and streamline the process of financial targets in Mongolia. For instance, financial institutions and NFBPSPs have been proposing to simplify the reporting of names of persons to facilitate the fulfillment of the FATF's requirement to suspend or freeze assets "immediately" (or within a few hours). These are agreed upon during the amendment of the Regulations.

The amendment to the Anti-Terrorism Law is an easy way to integrate the issue of combating the weapon in the financial target sanctions. However, it is a question of doubt whether the technical requirements by the recommendation of the FMMD and the overlap between the Law on Anti-Terrorism and the AML/CFT are duplicating. Additionally, the amendment failed to address the gaps in effective oversight of financial targets.

Measures to take in the event of a breach of the financial sanctions need to be introduced. Mongolia does not report criminal offenses related to financial targets, which creates serious risks for Mongolia to meet FATF requirements. It is unclear whether the amendments to the Non-compliance Law are meant to address all the issues required for financial targets. Penalty amount is low and it also make it difficult to meet the FATF requirements.

GENERAL CONCLUSION

Based on the data and information submitted from member organizations and survey conducted by the working group, it concluded that general assessment level of the risks to financing of terrorism and proliferation of weapons of mass destruction is "yellow" or "high risk level" /Although there is a low risk of terrorism in Mongolia, the level of conducive conditions for fundamental conditions for terrorism is at medium level. Therefore, the level of risk of terrorism has increased to higher than low/. Therefore, it is required to take basic measures of combat the financing of terrorism and implement preventive measures for these crimes in Mongolia. When assessing the risks to finance terrorism and proliferation of weapons of mass destruction, the working group identified sectors, organizations, and businesses with high potential risk to be involved and exploited in such crimes, and compared to activities of competent authorities in charge of inspection.

This assessment evaluated banking, finance, legal entities, and border control and provided general conclusions. In order to assess the particular sector, we evaluated and compared the risk of each sector, organization, and activity direction's to finance the terrorism and proliferation of weapons of mass destruction.

See below results of the risk assessment of sectors, organizations, and activity directions:

Risk assessment summary			
	RISK ASSESSED SECTOR	RISK ASSESSMENT OF TERRORISM FINANCING	RISK ASSESSMENT OF weapon of mass destruction proliferation financing
BANKING AND FINANCE SECTOR	FINANCIAL ENTITIES NON BANK SECTOR	57,5%	62,5%
	REAL ESTATE AGENT	60%	62,5%

Commented [D11]: Based on research from the Counter Terrorism Coordination Committee and information that is received from member organizations, the terrorism threat general assessment level of Mongolia is blue or "Higher than Low Risk" - do not match!!!

	COMMERCIAL BANK	41,25%	50%	
LEGAL PERSON TYPES	PROFIT ORGANIZATION	47,5%	50%	
	NGO	62,5%	65%	
BORDER INSPECTION	BORDER CONTROL	48,75%	60%	
TOTAL ASSESSMENT IN PERCENTAGE: 55,4%				
Risk assessment on financing of terrorism and weapon of mass destruction proliferation concludes that Mongolia is in average risk level with "yellow" evaluation				
SUMMARY OF RISK ASSESSMENT				
0-20% No risk	21-40% Low risk	41-60% Medium risk	61-80% High risk	81-100% Extreme risk

The summary of each risk assessment indicator lacks understanding, knowledge and information on the risks of financing sectors, directions, organizations, and their staff in the financing of terrorism financing and the proliferation of weapons of mass destruction, their preparedness and prevention, responsive planning, organizational, trained and skilled personnel, professional level, unnecessary alertness failure occur, which is a key factor in increasing the risk.

In addition, it is also a crime that can be used or exploited and contingency conditions depending on the legal environment to combat the financing of terrorist financing and the mass destruction of weapons of mass destruction, as well as the activities, services, activities and activities undertaken by the sector, the organization, and the products being developed, are inadequate.

Otherwise, loss of information exchange, lack of mutual cooperation between sectors and organizations, lack of knowledge and information on combating terrorism financing and the proliferation of weapons of mass destruction and lack of qualified agent also liable unit for authorities in charge of the sector, organization and direction at risk is also increases the risk.

Following is the evaluation made on the BANKS AND FINANCIAL SECTOR's risk assessment. It is imperative that the banks and financial sector staff to be directed to the targeted financial sanctions and actions to be implemented for these sanctions. Banks and financial sector inspectors should develop an effective way to ensure prevention of violations or repeated actions relating to these TFS. The lack of understanding of terrorist financing crimes in the sector has led to compliance activities, such as identification of customers, internal controls and preventive activities, are not adequately implemented and furthermore, it is necessary to increase awareness of the crime and implement compliance activities on the basis of methods of operation.

Besides, it is important to develop guidelines for banks and financial sector employees on combating terrorist financing such as finance in mass destruction weapons, and increasing an awareness of this type of crime is also necessary in the context of common prevention measures.

LEGAL ENTITY SECTOR: Due to the over regulation of the domestic legal environment that governs the legal entity sector's relations, it is difficult to monitor the sector from the state central administrative body, which is in charge of issuing legal entity permits. In particular, there are several laws governing the registration, extension, and reporting of foreign non-government organizations and legal entities with foreign investments.

In 2013, the Ministry of Finance submitted a letter to the representative offices stating that foreign non-governmental representative offices should not be required to file a financial report, which could be one of the reasons underlying such weakening of controls. It is necessary to create a legal environment for registering all non-registered entities, organizations and non-legal entities (such as the CHP, Forestry Association, etc.), that operate in Mongolia, to a registration agency and a tax office. If all entities with legal or non-legal statuses is

registered with the tax office and connected to the electronic systems, it will enable them to determine their balance sheet and receive tax incentives and exemptions, and further has the benefit of monitoring the enforcement of tax law.

The proposal to liquidate 9935 non-registered NGOs was submitted to the legal entity registration office in 2016, but it has not been resolved until now, and furthermore it is not possible to monitor and enforce accountability to these entities. Therefore, it will be a positive step forward in engaging non-profit taxpayers with the tax authorities, if following actions are made: studying the legal environment of the so-called non-profit organization, making amendments to the relevant laws, and furthermore changing the name of the current corporate tax law as "Corporate Law and Corporate Income Tax Law".

According to the risk assessment, there is a high level of risk in the legal entity sector, particularly in the non-government organizations, so it is necessary to conduct training and information dissemination to non-governmental organizations and conduct preventive measures based on the assessment.

RECOMMENDATIONS ON PROPOSED WORKS UNDER THE RISK ASSESSMENT TO BE IMPLEMENTED

It is required to take the following measures in regard to eliminate and mitigate the risks in accordance with the risk assessment:

One. The Risk assessment and report on Financing of terrorism and weapon of mass destruction proliferation shall be presented to National Security Council, Cabinet Secretariat, National Council counter money laundering and financing of terrorism, develop recommendations to eliminate and mitigate risk rated as high risk sectors and reflect them in conducting activities.

Two. It is required to make comprehensive risk assessment on financing of terrorism and weapon of mass destruction proliferation. In regard to it, need to ambiguously establish and develop standardized risk assessment methodology, and request appropriate data and information to be included in the risk assessment under the developed standard from relevant organizations; hence, developing detailed assessment by risky sector, organization and in line of activity will likely to have more realistic results.

Three. Make proposals, recommendations and develop guideline on measures to be taken in order to eliminate and mitigate the risks directed to organizations relevant to national strategy on counter terrorism in accordance with the risk assessment on Financing of terrorism and weapon of mass destruction proliferation

Four. Not only within all level of state organizations but also within the sphere of non government organizations and civil society, the need to conduct continuous training to give knowledge and information on the subject preventing from and combating money laundering, financing of terrorism, weapon of mass destruction proliferation financing, and its risks originated from these activities.

Five. Strengthening and improving activities of preventing from financing terrorism crime through correlation of state regulating bodies counterfeiting financing terrorism and weapon of mass destruction proliferation, cooperation between supervising authorities and private sector entities, provide promptness of information exchange, improve legal norms of regulations

Six. It is required to improve the regulations and legal environment related to financing terrorism and weapon of mass destruction proliferation or targeted financial sanctions, eliminating the overlap of the functions, mitigate the legal gap and regime.

Seven. It is required to undertake step by step measures as specilizing and preparing professional cadre of competent authorities in charge of financial inspection in regard to counter financing terrorism and weapon of mass destruction proliferation coherent with international standards.

FINANCIAL INFORMATION UNIT OF THE BANK OF MONGOLIA
GENERAL INTELLEGECE AGENCY,
NATIONAL COUNTER TERRORISM COORDINATIVE COUNCIL