



## **Report on Deloitte's analysis of suspicious transactions by Client No. 1 and the actions of employees of MDO Imon International**

For discussion purposes  
1 March 2019

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# 1. Glossary of terms and abbreviations

AML/CFT/PWMD (abbreviated as AML/CFT or AML)	Measures for counteracting money laundering (Anti-Money Laundering, AML) and Combatting the Financing of Terrorism (CFT) and the Proliferation of Weapons of Mass Destruction (PWMD)
Apt.	Apartment
Art.	article
bn	billion
CCD	Cargo Customs Declaration
Deloitte	Deloitte & Touche LLC
DFM	Department of Financial Monitoring
EGRUL	Uniform State Register of Legal Entities
Entity	legal entity
EUR	euro
excl.	excluding
incl.	including
Individual	individual (physical person)
m	million
MDO	Microcredit Deposit-taking Organisation (MDO) Imon International
NBT	National Bank of Tajikistan
OAo	Russian open joint stock company (Russian abbreviation: OAo)
OGRN	Main State Registration Number
OOO	Russian limited liability company (LLC)
p.	paragraph
PAO	Russian public joint stock company (Russian abbreviation: PAO)
PRC	People's Republic of China
RUB	Russian ruble
SWIFT	Society for Worldwide Interbank Financial Telecommunication (SWIFT)

TIN	Taxpayer Identification Number
USD	US dollar
VAT	Value Added Tax
ZAO	Russian closed joint stock company (Russian abbreviation: ZAO)

## **Names and positions of individuals referred to in this report**

(Positions held are shown as of 2H 2017 [July-December 2017], unless indicated otherwise.)

<b>Name</b> (first name, surname)	<b>Position</b>
Abdurakhim Murodov	Specialist in the Department of Financial Monitoring and Compliance (DFM) of MDO's Compliance Division
Akbarchon Murodov	MDO's Senior Specialist for Economic Security
Akbarjon Inoyatov	Deputy Head of MDO's Small and Medium-sized Enterprise (SME) Division / Head of MDO's SME Department
Anvar Mamarajabov	Head of MDO's Finance Division
Azimchon Gayratov	Head of the Legal Compliance Department of MDO's Compliance Division
Bakhodur Akbarov	Head of MDO's Operations Division
Bakhrom Khalikov	Director of an MDO branch office
Boymirzo Boymirzoev	Head of MDO's Compliance Division
Daler Sharipov	Manager in MDO's Operations Department
Dilovar Mavlonov	Head of MDO's Treasury Department
Firdavs Mukhidinov	Specialist in the Department of Financial Monitoring and Compliance (DFM) of MDO's Compliance Division
Gulbakhor Makhkamova	General Director of MDO (April 2016-April 2018)
Inom Dodoev	Manager of the Operations Department at the Firdavsi Branch, Dushanbe, Tajikistan
Khasan Vokhidov	Head of MDO's Internal Audit function
Khumay Karimov	Head of MDO's Banking Transactions Development Department
Kosim Nurmakhamdov	Specialist in MDO's Methodology and Control Department
Mukhibchon Mamadchonov	Specialist in MDO's Information Security Department
Munisa Rustamova	Specialist in MDO's Methodology and Control Department
Naim Nazarov	Manager in MDO's Operations Department



Nargis Davlatova	Transactions Processing Officer at the Firdavsi Branch, Dushanbe, Tajikistan
Nargiz Tuychieva	Head of MDO's Operational Controlling Department
Nigina Alieva	Specialist in the Legal Compliance Department of MDO's Compliance Division
Nilufar Rukhulamin	Specialist in Department of Financial Monitoring and Compliance (DFM) of MDO's Compliance Division
Ravshan Soliev	Deputy General Director of MDO
Sanavbar Sharipova	Member of MDO's Supervisory Board
Saodat Zoidova	Head of the Department of Financial Monitoring and Compliance (DFM) of MDO's Compliance Division
Sharifboy Murodov	Director of the Firdavsi Branch, Dushanbe, Tajikistan
Sipekhru Niezovu	Senior Specialist in in MDO's Operations Division
Umed Yusupov	Risk Director
Zakir Abdrashitov	Acting General Director of MDO (January-November 2018)
Zaynurakhon Solieva	Accountant/Transactions Processing Officer in MDO's Cash Transactions Department

## 2. Scope of work

### 2.1. Introduction

This report on the analysis of transactions by Client No. 1, which conducted suspicious transactions in the period from July through December 2017 ("Client No. 1"), and the actions of employees of MDO Imon International has been prepared in accordance with Consulting Services Agreement No. CON 02-18-01 of 20 December 2018 between Deloitte & Touche LLC ("Deloitte" or "we") and ZAO MDO Imon International (hereinafter referred to as "MDO") for the purpose of conducting an independent analytical review of suspicious transactions conducted by MDO's Client No. 1 and the actions of certain MDO employees (the "Services").

It sets forth relevant facts and our observations as regards Client No. 1 and the actions of certain MDO employees with respect to Client No. 1 in accordance with MDO's internal control rules, and with the requirements of Republic of Tajikistan legislation on AML/CFT as well as international law and recommendations by the Financial Action Task Force (FATF)<sup>1</sup> and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).<sup>2</sup>

The work was conducted in the period from 24 December 2018 up to 1 March 2019.

### 2.2. Scope of work

In the course of providing the Services, we conducted an analysis of Client No. 1 and its transactions as well as of the actions of certain MDO employees. Our Services included:

- Analyzing Client No. 1's profile, including its electronic files and documents that it submitted to MDO;
- Examining Client No. 1's transactions for the purpose of identifying any signs of suspicious activity in accordance with the laws of the Republic of Tajikistan on AML/CFT as well as international practices;
- Reviewing the history of MDO's business relationship with Client No. 1;
- Identifying signs of violations of Tajikistan's laws on AML/CFT and relevant international practice;
- Determining the list of MDO employees who were involved in the process of soliciting and accepting business from Client No. 1 as well as working with Client No. 1;
- Copying (imaging) and analyzing the contents of computers and email correspondence of selected MDO employees of interest;
- Conducting interviews with selected MDO employees of interest;
- Analyzing the actions taken by such employees and recreating the chain of key events, including the solicitation and acceptance of business from Client No. 1 and the period that MDO worked with Client No. 1;
- Determining the relevant search criteria and conducting a search for MDO clients and transactions displaying similar signs of violations of Tajikistan's laws on AML/CFT and relevant international practice.

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<sup>1</sup> <http://www.fatf-gafi.org/>

<sup>2</sup> <https://eurasiangroup.org/ru>



## 3. Limitations

This preliminary report has been prepared in accordance with the terms of Consulting Services Agreement No. CON 02-18-01 of 20 December 2018 between Deloitte and MDO for the purpose of conducting an independent analysis of Client No. 1's suspicious transactions and the actions of certain MDO employees.

It sets forth the results of Deloitte's work conducted up to 1 March 2019. Had further work been conducted, it is possible that our findings may have been different or that we may have identified additional matters to bring to your attention.

This report does not describe all work performed and is not intended to serve as a comprehensive review of the subject companies' operations. The risks, issues and problem areas outlined in this report may not constitute a complete list of all possible issues and risks that exist in this respect. It should be read in the context of the limited time that we were able to spend on conducting our analytical procedures.

For the purposes of this report, where we have not been able to corroborate information, we have had to assume that the documents or other information (including electronic materials) provided to us were reliable and complete. Our work was heavily dependent on the cooperation and honesty of the people with whom we spoke and the completeness and integrity of the documentation that we reviewed. This document should be considered in that light and we cannot accept any liability for any potential distortion of or bias in our calculations due to the provision of incomplete or unreliable information or materials.

Our judgments and findings herein are based on the banking laws and regulations in effect in the Republic of Tajikistan. In addition, our conclusions are based on our understanding and knowledge of applicable requirements, existing practice and regulatory expectations. However, we cannot guarantee that our conclusions coincide with the regulators' point of view.

The information contained in this report should not be treated as the opinion of Deloitte on whether MDO should maintain or terminate business relationships with its existing providers of goods and services and/or employment relationships with its employees.

Our analysis does not constitute an audit of financial statements and differs from audit or assurance engagements by both the scope of work and the specific tasks involved. Consequently, the result of Deloitte's work does not represent an audit opinion or any other assurance on MDO's financial statements or internal controls.

Any references to legal or tax issues made by Deloitte in this report should not be construed as representing legal consultations, legal opinions or conclusions on tax-related matters.

We bear no responsibility for any decisions or the realisation or achievement of any results, or any similar actions, regardless of whether or not they were made on the basis of this report.

In preparing our report, we made use of public information sources,<sup>3</sup> which we believe to be reliable, as well as the information and materials provided to us by employees of MDO. However, we have not sought to independently confirm the information provided, except to

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<sup>3</sup> Within the context of this report, open or public sources of information are understood to mean information that is accessible from such Internet resources as the SPARK-Interfax database, EGRUL, and the website of the Russian Federal Tax Service (FTS), among others.



the extent explicitly stated herein. Public information sources in the CIS can be inaccurate and subject to bias.

We are not responsible for updating this report in connection with events that took place after its issue (including, but not limited to changes in the legislation of the Republic of Tajikistan) or for any facts that were not known to us and contained in documents not provided to us. Where necessary, we would be glad to provide you with additional services on the basis of a separate request.

We have not discussed the results of our work with the persons named or referred to in this report based on what they or other individuals concerned have told us.

Please note the following material limitations on our work, namely:

- In performing our procedures, we received documents, accounting records and information from MDO's staff. We assume that all explanations given to us are true and accurately reflect the essence of the transactions carried out by MDO. We also assume that all signatures on these documents are authentic and that all documents, either originals or copies, are authentic as well (unless expressly specified otherwise);
- Accounting records and copies of documents were reviewed on a sample basis;
- We did not hold meetings or conduct interviews with any third parties, including suppliers and customers of the entities under review.

The figures presented herein may be subject to immaterial rounding or forex-related differences.

***Restrictions on the use of this report***

This report has been prepared for MDO as part of our Services for conducting an independent analysis of Client No. 1's suspicious transactions and the actions of certain MDO employees. As such, it must be treated as strictly confidential. It must not be used, reproduced or distributed, either in full or in part, to any third parties for any purpose whatsoever without our prior written consent.

## 4. Executive summary

In the course of our analysis, we identified facts related to instances of non-compliance by employees of Microcredit Deposit-taking Organisation (MDO) Imon International with the requirements of applicable domestic and international AML/CFT-related laws and recommendations (FATF<sup>4</sup> and EAG<sup>5</sup>), which could result in regulatory, reputational and other risks for MDO and its shareholders.

### **Facts and observations pertaining to Client No. 1:**

1. When accepting business from and providing services to Client No. 1, MDO employees failed to meet the necessary requirements of applicable domestic AML/CFT legislation for conducting in-depth verifications of the following: client information; purpose and presumed nature of the business relationships; economic rationale of planned and completed transactions; and the source of funds used in opening accounts and completing subsequent transactions.
2. Client No. 1 exhibits suspicious features, which, taken both separately and as a whole, corresponded to the criteria of a “high-risk” client under AML/CFT rules. According to the requirements of applicable laws and international practice, such clients require a high level of scrutiny, both when accepting them as clients and when providing services to them. Such clients' transactions also require constant monitoring and control:
  - Client No. 1 was registered only six days before its account was opened. The organisation's incorporation documents were signed only one day before the account was opened and, moreover, contained inaccurate information about the founder of Client No. 1;
  - Client No. 1 was registered in a residential building, although for conducting its declared business activities of supplying and selling construction materials, it would have needed a warehouse and an office;
  - The participation of Client No. 1's General Director in its transactions was purely perfunctory. As early as the account opening stage, Client No. 1 filed a notification stating that all transactions would henceforth be carried out by the General Director's representatives. Subsequently, Client No. 1's General Director next appeared in MDO's office only to close the entity's account;
  - On the day the account was opened, Client No. 1 made a major cash deposit, which was then converted into foreign currency and transferred to a counterparty in the PRC under a contract signed on the same day that the account was opened;
  - Client No. 1 filed no documents pertaining to counterparties in Tajikistan, for whom goods had purportedly been acquired in the PRC;
  - Client No. 1 did not file any documents confirming that the goods had been shipped, although in certain instances (as per contractual requirements) it arranged for the goods to be received at customs and filled out the relevant CCD;

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<sup>4</sup> <http://www.fatf-gafi.org/>

<sup>5</sup> <https://eurasiangroup.org/ru>

- Client No. 1 submitted documents filled out in Russian (contracts with the Chinese counterparty, specifications, etc.), which had clearly been copied from other templates and contained errors and inaccuracies.
- 3. Cashiers from MDO's Firdavsi Branch in Dushanbe, Tajikistan, regularly received cash deposits from various individuals without verifying their identity documents, but instead recorded them "at their word" as the depositor under the name of one of Client No. 1's representatives.
- 4. When working with Client No. 1, the client relations and operations managers at MDO's Firdavsi Branch in Dushanbe never asked Client No. 1 for information or documents verifying the source of its funds.
- 5. Despite the clear indications of "high risk," between July and September 2017, the only steps taken by the staff of MDO's Department of Financial Monitoring and Compliance (DFM) with respect to Client No. 1 was simply to forward information to the Financial Monitoring Department of the National Bank of Tajikistan (NBT) about transactions that were deemed suspicious and, so, required mandatory control. An in-depth investigation of Client No. 1 was initiated only after numerous emails and telephone calls from the Director of MDO's Firdavsi Branch in Dushanbe to the DFM.
- 6. Each day, MDO's operational and financial management staff, including in the Treasury Department, compiled a Daily Report on the Volume of Foreign Currency Purchases and Sales on Domestic and International Markets. Such reports reflected a considerable volume of foreign currency transactions, showing that MDO was aware of Client No. 1 and its transactions, but they made no attempt to flag that these transactions were of an identical nature and had suspicious attributes.
- 7. MDO's management tacitly encouraged Client No. 1 to deposit large sums of cash, which at that time helped MDO to resolve its shortage of cash funds in the national currency at its branches.

**Facts and observations pertaining to clients similar to Client No. 1:**

- 8. An analysis of the files on MDO's top 10 clients by volume of cross-border transfers showed both direct and indirect evidence of connections between them, specifically in terms of having:
  - the same joint owner or CEO;
  - the same or a similar registered address;
  - transfers to the same counterparties;
  - similar wording in contracts for delivery of goods;
  - the same client representatives who communicated from the same email address;
  - the same client representatives who deposited cash in the accounts of MDO clients.
- 9. An analysis of transactions conducted by MDO's top 10 clients (excluding Client No. 1), in terms of their cross-border transfers, showed that nine out of ten had deposited large cash sums in the national currency, which were then converted into USD and transferred abroad, mainly to the PRC. Between 1 January 2014 and 26 December 2018, the overall volume of foreign-currency transfers abroad originating from these clients (excluding transactions by Client No. 1) was USD 61 million. If we included five more interrelated companies identified during our analysis, that figure would rise to USD 68.1 million. At the same time, the total volume of transfers abroad by MDO's top 15 clients (Clients 1-15) for the review period was USD 115.9 million, which accounts for 47.2 percent of MDO's total transfers abroad (USD 245.6 million).



10. During our transactions analysis, we identified various signs of suspicious transactions, including the lack of original versions of supporting documents, errors and inaccuracies in contracts with counterparties, the same individual depositing large sums of cash in the accounts of various companies, etc.
11. Even though the DFM staff identified indications of suspicious transactions by other MDO clients similar to Client No. 1, they did not perform a detailed analysis of these clients' activities and the transactions that they carried out.

**General comments:**

12. Based on email correspondence dated 30 June 2018, the General Director of Imon International had been made aware that intermediary companies active within Tajikistan were involved in "grey" importing of goods. Although General Director was also made aware that these entities were MDO clients, she took no action to prevent further business dealings with them.
13. In the course of our analysis, we got the impression that MDO's General Director was not particularly focused on AML/CFT issues and, moreover, that MDO's existing AML/CFT function was incapable of instituting sufficient barriers and checks that would enable the timely identification of and response to suspicious transactions.
14. The Chairman of MDO's Supervisory Board informed the Board of Directors about Client No. 1, its suspicious transactions, and the investigation being conducted by the National Bank of Tajikistan only on 23 May 2018, fully six months after the NBT had initiated its investigation.

## 5. Detailed analysis

### 5.1 Overview of the main requirements of AML/CFT Legislation in the Republic of Tajikistan

The legislation of the Republic of Tajikistan in the area of Counteracting Money Laundering (Anti-Money Laundering, AML) and Combatting the Financing of Terrorism (CFT) and the Proliferation of Weapons of Mass Destruction (PWMD) ("AML/CFT Legislation") is based on the Constitution of the Republic of Tajikistan and consists of the Tajikistan Law "On Counteracting the Legalization (Laundering) of Proceeds from Crime, Financing of Terrorism and Financing the Proliferation of Weapons of Mass Destruction" (as enacted in the following Tajikistan laws: Law No. 967 of 13 June 2013; Law No. 968 of 13 June 2013; Law No. 1100 of 26 July 2014; Law No. 1404 of 24 February 2017; and Law No. 1521 of 17 May 2018) (hereinafter referred to as the "AML Law"), other Tajikistan regulatory acts (see Appendix 1 to this report), and international legal acts recognized by Tajikistan.

The AML Law requires organizations that conduct transactions with cash funds or other assets (including credit organizations) in Tajikistan to carry out the following primary measures:

- develop a set of formal Internal Control Rules for carrying out internal controls aimed at counteracting the legalization (laundering) of criminal proceeds, the financing of terrorism and financing the proliferation of weapons of mass destruction (the "AML Rules"), which should provide information about all measures stipulated by AML/CFT Legislation and an implementation plan for the AML Rules;
- designate specific employees with responsibility for implementing the AML Rules (the "Designated AML Officer");
- identify the organization's customers and clients and their representatives, as well as their beneficiaries and beneficiary owners; scrutinize their activities; and record and archive relevant customer data for at least five years after business relationships with customers are terminated and their accounts closed (the archiving period for documents may be extended by the authorized corporate body with approval by the relevant regulatory bodies);
- update information on customers, customer representatives, beneficiaries and beneficiary owners at least once every three years, and regularly update information maintained by organizations that conduct transactions with cash funds or other assets regarding any politically exposed persons (PEPs) that the organization serves;
- conduct in-depth vetting of customers and scrutinizing of the transactions they carry out when accepting business from them and in the process of serving them, specifically requesting information on the purpose and presumed nature of the business relationship, the economic rationale of planned and completed transactions, and the source of the funds to be used:
  - conduct monitoring of the customer's activities (including cash and non-cash settlements) to gain assurance that they correspond to the nature of the customer's business, as well as its risk profile and source of funds;
  - take measures for identifying complex transactions, major transactions or atypical deal structures, which have no clear economic or legal purpose and which may



indicate the legalization (laundering) of criminal proceeds, the financing of terrorism and financing the proliferation of weapons of mass destruction ;

- regarding customers that are legal entities, gain an understanding of the nature of the customer's business activity as well as its ownership and management structure;
- identify and submit to the authorized body information on suspicious transactions and transactions that are subject to mandatory control;
- organize and hold staff training sessions.

## **5.2 Credit organizations' liability for violations of Tajikistan AML/CFT Legislation**

The legal and organizational basis of Tajikistan's AML/CFT regulatory structure is governed by the AML Law, the Republic of Tajikistan (RT) Criminal Code, the RT Criminal Procedure Code, the RT Code of Administrative Violations (CoAV), the RT Civil Code (CC), the RT Law "On Banking," the RT Law "On the State Registration of Legal Entities and Sole Proprietors," the RT Law "On the Securities Market," and other pieces of legislation.

Under Tajikistan law, legal entities bear civil and administrative liability for AML/CFT violations. Administrative liability is stipulated under Article 527.1 of the RT CoAV "Non-Compliance with the Requirements of Republic of Tajikistan Legislation on Counteracting the Legalization (Laundering) of Criminal Proceeds and the Financing of Terrorism." Legal sanctions include the imposition of fines on the responsible parties, ranging from 50 to 100 settlement units (SU) for corporate officers; from 100 to 200 SU for sole proprietors; and from 200 to 500 SU for legal entities with confiscation of the object of the administrative violation (the fine for legal entities is from USD 1,100 to USD 2,800). Legal entities are also subject to civil liability (upon court order, a legal entity may be liquidated for gross violations of the law or illegal activities in accordance with RTCC Article 62).<sup>6</sup>

As well, the NBT has been authorized to impose sanctions for violations of the requirements of the AML Law (Article 48, Law "On the National Bank of Tajikistan"), which include disciplinary and financial penalties, and the suspension and revocation of licenses.

<sup>6</sup> According to data from the 2018 Mutual Evaluation Report for the Republic of Tajikistan, as posted on the Internet at <https://eurasiangroup.org/ru/mutual-evaluation-reports>



### 5.3. General information about Client No. 1

**Table 1. Information and documents regarding Client No. 1**

Information / documents	Data / information about Client No. 1
<b>PRIMARY INFORMATION OBTAINED FOR IDENTIFICATION PURPOSES</b>	
	Date of establishment of Client No. 1 as per the Articles of Incorporation: 10 July 2017
<b>Information on Client No. 1's establishment and incorporation</b>	Date of registration as per the Certificate of Incorporation of a Legal Entity: 5 July 2017
<b>TIN (Tax ID)</b>	020049*** [Note: the data is partially redacted]
<b>OGRN</b>	0210024*** [Note: the data is partially redacted]
<b>Information on the legal entity's corporate bodies (structure of and membership in the legal entity's management bodies)</b>	General Director: N.Sh. A*****, appointed to the position on 10 July 2017 [Note: the data is partially redacted]
	Chapter 5.3 of Client No. 1's Articles of Incorporation states that "the charter capital consists of one equity share. The equity share of participant A.R. Kh***** consists of a 100% stake in the charter capital – TJS (Tajikistani somoni) 500" [Note: the data is partially redacted]
<b>Information on the volume of the legal entity's registered and paid-in charter (share) capital, or the volume of the authorized capital and assets</b>	The relevant excerpt from the EGRUL indicates that the charter capital is TJS 1,000; the column "Information on the founders" lists the name N.Sh. A***** [Note: the data is partially redacted]
<b>Address of the entity's physical location and its postal address</b>	[**] Pushkin Street, Apt. [**], Dushanbe, Republic of Tajikistan [Note: the data is partially redacted]
<b>Telephone and fax numbers</b>	908807*** [Note: the data is partially redacted]
<b>OTHER INFORMATION</b>	
<b>Financial statements and accounting reporting</b>	No documents were requested from Client No. 1 at the time it opened its account.
	No information or documents confirming its representatives' identification data were requested from Client No. 1 at the time it opened its account and subsequently in the process of providing services to it.
<b>Representatives of Client No. 1</b>	
<b>Information on whether the legal entity's permanently operating management body, or other bodies or persons who are authorized to act on the legal entity's behalf without a power of attorney, are present at or absent from its physical location</b>	The online questionnaire does not contain such a question; Client No. 1 was not asked to provide such information.
<b>Information on the legal entity's beneficial owners</b>	The online questionnaire does not contain such a question; Client No. 1 was not asked to provide such information.
<b>Information on the degree or level of risk, including grounds for assessing risk</b>	Client No. 1 was assigned a low risk level by default.
<b>OPENING AND CLOSING DATES OF CLIENT NO. 1'S ACCOUNTS</b>	
<b>Account opening date</b>	On 11 July 2017, Client No. 1 was provided with documents for opening accounts in TJS, USD, RUB and EUR at the MDO's Firdavsi Branch in Dushanbe (KRM-000188160)
<b>Account closing date</b>	On 5 December 2017, at Client No. 1's request all of its accounts at MDO were closed (KRM-000163986)
<b>DOCUMENTS</b>	
<b>Documents confirming the execution of transactions on the accounts</b>	23 contracts for the supply of goods from the PRC 10 Cargo Customs Declarations (CCD)
<b>Other documents</b>	Statements for accounts at MDO
<b>PUBLIC INFORMATION</b>	
<b>Website</b>	None found
<b>News and other public information</b>	None found

Source: Documents provided by MDO

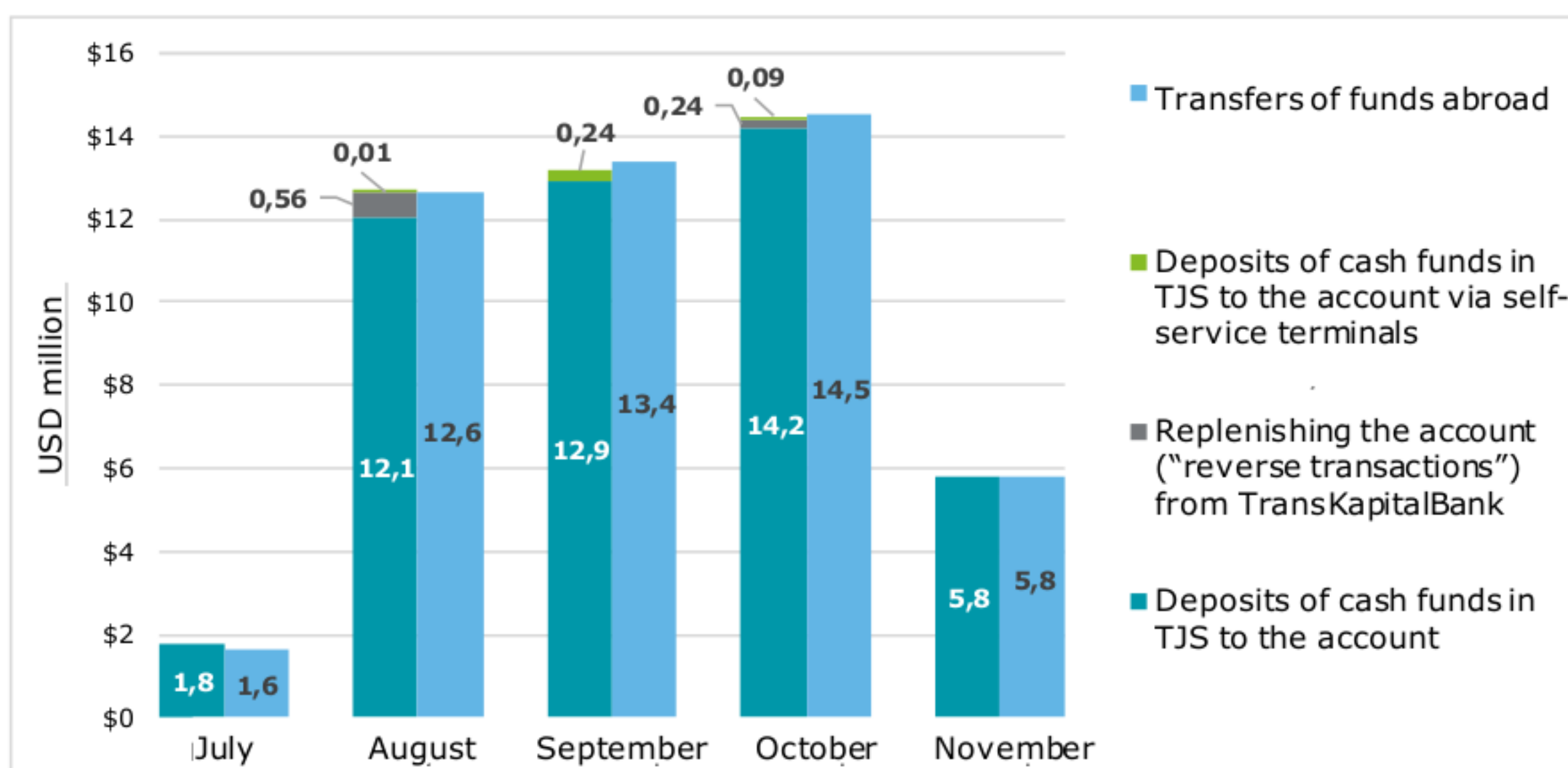


#### 5.4. Analysis of Client No. 1's transactions

During the period that MDO provided services to it (11 July to 5 December 2017), Client No. 1 deposited TJS (Tajikistani somoni) 411.6 million (USD 46.7 million) in cash funds in its account, representing 97.6% of all of its incoming payments on its accounts. In addition, TJS 3.1 million (USD 346,600) was deposited on Client No. 1's accounts via self-service terminals, whereas USD 804,300 was credited to Client No. 1's account as a "reverse transaction" from its account at PAO TransKapitalBank.

During the same period, Client No. 1 remitted USD 47.9 million in cash funds to its counterparties abroad.

**Diagram 1. Deposits to its account and transfers of funds abroad by Client No. 1 for the period 11 July-5 December 2017, USD m**



Source: Statements for Client No. 1's accounts

In accordance with its Articles of Incorporation, Client No. 1's core activity is the "purchase and sale of construction materials." An analysis of Client No. 1's contracts and transactions showed that:

- 151 transactions for USD 34.1 million pertained to purchases of construction materials;
- 52 transactions for USD 11.7 million pertained to purchases of textiles;
- In 9 transactions for USD 2.0 million the purpose of the payment was shown simply as "goods" without any detailed description (in the relevant contracts Client No. 1 indicated textiles). Based on standard business practice, the currency control authorities should have flagged these discrepancies and blocked the execution of the relevant transactions.

**Table 2. Client No. 1's transfers to foreign counterparties in July-November 2017**

Recipient	Number of transactions	Amount, USD	Contract No.	Purpose
HONG KONG TUOHAI TRADE CO LIMITED, HONG KONG, CHINA	17	2,947,200	No. 003/17 of 11.07.2017	Construction materials
GAO YANG HUA AO TEXTILES CO., LTD GAO YANG COUNTY INDUSTRIAL CITY HEBEI PROVINCE, CHINA	3	565,000	No. 004/17 of 04.08.2017	Construction materials
HK XIN CHUANG WEI DA TECHNOLOGY LIMITED, HONG KONG, CHINA	90	20,092,606	No. 005/17 of 07.08.2017 No. 013/17 of 07.08.2017	Construction materials



Recipient	Number of transactions	Amount, USD	Contract No.	Purpose
SHENZHEN FRIENDSHIP FOREVER TRADE CO.,LTD, SHENZHEN, CHINA	6	1,006,000	No. 010/17 of 18.08.2017	Construction materials, textiles & fabrics
FULAIRUI TRADING LIMITED HONG KONG, CHINA	10	2,498,000	No. 012/17 of 30.08.2017	Textiles & fabrics
KAILAIDI TRADING LIMITED, CHINA	16	4,257,500	No. 015/17 of 22.09.2017	Textiles & fabrics
SHAOXING BAIMEI TRADE CO.,LTD. ZHEJIANG, CHINA	1	199,300	No. 018/17 of 02.10.2017	Goods
DEER KING YARN LTD. HEBEI PROVINCE, CHINA	7	720,000	No. 019/17 of 03.10.2017	Textiles & fabrics
KAITE TRADE CO., LIMITED. CHANZHOU, CHINA	31	8,972,300	No. 020/17 of 03.10.2017 No. 031/17 of 02.11.2017	Construction materials
TENGZHOU YONGHAOXIANG PLASTICS CO.,LTD. TENGZHOU SHANDONG, CHINA	2	400,000	No. 023/17 of 06.10.2017	Construction materials
LIANYUNGANG JINSINA GARMENTS CO., LTD. CHENGTOU, CHINA	14	3,355,600	No. 024/17 of 09.10.2017 No. 034/17 of 13.11.2017	Goods, textiles & fabrics
YUNGXIN INDUSTRIAL CO., LIMITED. HONG KONG, CHINA	1	240,800	No. 025/17 of 10.10.2017	Textiles & fabrics
DEZHOU TIANLI INDUSTRIAL CO.,LTD. SHANDONG, CHINA	1	100,000	No. 016/17 of 16.10.2017	Textiles & fabrics
MEVIUS INDUSTRIAL CO., LIMITED HONG KONG, CHINA	3	760,000	No. 032/17 of 10.11.2017	Textiles & fabrics
JINRUIDA TRADING CO.,LIMITED. HONG KONG, CHINA	2	509,900	No. 033/17 of 13.11.2017	Textiles & fabrics
LIANYUNGANG SULU GARMET CO., LTD. JIANGSU, CHINA	3	769,900	No. 035/17 of 14.11.2017	Textiles & fabrics
HANGZHOU ZHENGYING IMPORTS AND EXPORTS CO.,LTD. HONG KONG, CHINA	1	99,800	No. 037/17 of 14.11.2017	Textiles & fabrics
N& M GLOBAL CO.,LIMITED. JINHUA, CHINA	1	80,000	No. 036/17 of 14.11.2017	Construction materials
SHANGHAI SANJIN IMPORTS EXPORTS CO.,LTD. SHANGHAI, CHINA	2	200,000	No. 038/17 of 15.11.2017	Construction materials
ANHUI SANBAO COTTON SPINNING AND KNITTING INVESTMENT CO.,LTD ANJUI, CHINA	1	108,000	No. 040/17 of 20.11.2017	Textiles & fabrics
<b>Total</b>	<b>212</b>	<b>47,881,906</b>		

Source: KRM-000014109, analysis of Client No. 1's transactions

As per information obtained from the head of MDO's Treasury Department, the reduction in the volume of Client No. 1's foreign transactions in the period October-November 2017 may have been connected with MDO's seasonal shortage of hard currency, which, in his view, is typical of Tajikistan's banking sector.

#### 5.5. Analysis of Client No. 1's counterparties

As part of our investigation, we conducted a high-level analysis of Client No. 1's counterparty companies incorporated in Hong Kong and the People's Republic of China (PRC). This analysis was aimed at identifying any signs of dishonest or unscrupulous practices among these companies and the potential risks associated with doing business with them.



### Risk indicators used in our analysis

Risk factors	Description of associated risk
1	The company was incorporated less than three years ago (as at the date the counterparty and the object of the investigation entered into contractual relations)
2	The company's owner and chief executive are the same individual
3	The company has no profile or a very low profile in public information sources; no contact information is available
4	The company is registered at a mass registration address or the registration address is connected to other indicators of dishonest or unscrupulous practices

**Table 3. Summary data on Hong Kong (HK)- or PRC-based counterparties**

Entity name	Registration date	Location	Type of activity	CEO	Owner(s)	Risk factors*
Hong Kong Tuohai Trade Co., Limited	30 July 2015 (liquidated on 2 February 2018)	HK	Not ascertained	Zhang Yungyung (张永勇)	Zhang Yungyung (张永勇; 100%)	1, 2, 3, 4
HK Xin Chuang Wei Da Technology Limited	13 May 2015	HK	Not ascertained	Mo Caihung (莫彩虹)	Mo Caihung (莫彩虹; 100%)	1, 2, 3
Jinruida Trading Co., Limited	8 January 2014	HK	Not ascertained	Hung Guorun (洪国荣)	Hung Guorun (洪国荣; 100%)	2, 3, 4
Kailaidi Trading Limited	17 March 2017	HK	Not ascertained	Lin Yanhung (林嫣红)	Lin Yanhung (林嫣红; 100%)	1, 2, 3, 4
Kaite Trade Co., Limited	21 January 2013	HK	Not ascertained	Wu Yanjun (吴燕君)	Wu Yanjun (吴燕君; 100%)	2, 3
Mevius Industrial Co., Limited	11 January 2017	HK	Not ascertained	Hung Qingkai (洪清凯)	Hung Qingkai (洪清凯; 100%)	1, 2, 3, 4
N&M Global Co., Limited	31 October 2012	HK	Not ascertained	Abdul Matin Bariolay	Abdul Matin Bariolay (100%)	2, 3, 4
Yungxin Industrial Co., Limited	20 October 2015	HK	Not ascertained	Sun Mingbing (孙明斌)	Sun Mingbing (孙明斌; 100%)	1, 2, 3, 4
Fulairui Trading Limited	17 March 2017	HK	Not ascertained	Huang Fengnu (黄凤女)	Huang Fengnu (黄凤女; 100%)	1, 2, 3
Shenzhen Friendship Forever Trade Co., Ltd.	13 December 2000	PRC	Import-export of various goods <sup>7</sup>	Chen Xiezhong (陈协中)	Sung Xinmin (宋新民; 31.6% beneficiary control); Pang Jing (庞静; 29.91% beneficiary control) and other minority shareholders who are PRC nationals <sup>8</sup>	Undetermined
Gaoyang Huaao Textiles Co., Ltd.	18 March 2002	PRC	Sales of textile products <sup>9</sup>	Wang Jiangbing (王建兵)	Wang Jiangbing (王建兵; 100%)	2
Tengzhou Yonghaoxiang Plastics Co., Ltd.	26 September 2014	PRC	Processing, sales and import-export of fabric and plastic bags <sup>10</sup>	Wu Guangwei (吴光伟)	Wu Guangwei (吴光伟; 100%)	2
Shanghai Sangin Import Export Co., Ltd.	8 March 2013	PRC	Import-export agent for various goods and technologies <sup>11</sup>	Wan Jitao (万季涛)	The PRC gov't holds a >25% stake, other shares held by minority	Undetermined

\* See the "Risk indicators used in our analysis" table above for the risk designation terms

<sup>7</sup> Corporate website of Shenzhen Friendship Investment Holdings Co. Ltd. (<http://en.friendshipco.com/>) as of 24 January 2019

<sup>8</sup> Official PRC corporate registry as of 24 January 2019

<sup>9</sup> Corporate website of Gaoyang Huaao Textiles Co., Ltd. (<http://huaaotextile.company.weiku.com/>) as of 24 January 2019

<sup>10</sup> Corporate website of Tengzhou Yonghaoxiang Plastics Co., Ltd. (<http://www.cn-yhx.com/cn/gywm/>) as of 24 January 2019

<sup>11</sup> Corporate website of Shanghai Sangin Import Export Co., Ltd. ([http://www.sanjinie.com/En\\_about.html](http://www.sanjinie.com/En_about.html)) as of 24 January 2019



Entity name	Registration date	Location	Type of activity	CEO	Owner(s)	Risk factors*
					shareholders who are PRC nationals <sup>12</sup>	
Shaoxing Baimei Trade Co., Ltd.	4 February 2008	PRC	Type of activity as per official PRC registry data: sales and import-export of various goods	Tang Guangsheng (汤光生)	Tang Guangsheng (汤光生); Tang Yuixian (汤玉仙) (share undetermined)	2
Anhui Sanbao Cotton Spining And Knitting Investment Co., Ltd.	21 January 1998	PRC	Purchasing and processing cotton; produing items from cotton <sup>13</sup>	Zhang Li (张丽)	Zhang Liangcun (张连存; 90 %); Zhang Li (张丽; 10 %)	2
Dezhou Tianli Industrial Co., Ltd.	8 April 1993	PRC	Processing and producing items from polyethylene <sup>14</sup>	Wu Yuchun (吴玉春)	Cui Yunping (崔云平; about 55 % beneficiary control) <sup>15</sup>	Undetermined
Hangzhou Zhengying Imports And Exports Co., Ltd.	15 January 2008	PRC	Exporting various goods, textile & fabric items and paints	Cai Xingmei (蔡杏梅)	Cai Xingmei (蔡杏梅; 100 %)	2, 3
Lianyungang Jinsina Garments Co., Ltd.	27 October 2015	PRC	Exporting various goods, clothing and accessories	Tian Xiangfu (田相富)	Zhang Chunjiang (张春健; 100 %)	1, 3
Lianyungang Sulu Garment Co., Ltd.	17 February 2017	PRC	Exporting various goods, clothing and accessories	Tian Jingchang (田金昌)	Tian Jingchang (田金昌; 60 %); Liu Yuli (刘玉丽; 40 %)	1, 2, 3
Deer King Yarn Ltd.	25 August 2006	PRC	Producing and processing fiber <sup>16</sup>	Zhao Wei (赵淼)	Zhao Wei (赵淼; 80 %); Wang Lei (王磊; 20 %)	2

Source: Hong Kong and PRC corporate databases, public information sources

In our analysis of public information sources, we found no mentions of the abovelisted companies in a negative light.

At the same time, however, in our analysis of information from public sources we identified a number of indicators that may point to potential risks in doing business with these companies.

In particular, the Hong Kong-incorporated companies, which account for the greatest volume of financial dealings with Client No. 1, display a number of potential risk factors:<sup>17</sup>

- According to data from the official Hong Kong corporate registry, a single individual is simultaneously the executive body and beneficiary of all identified companies (as well as of several companies operating in the PRC);
- Our comparative analysis of the data available in the official Hong Kong corporate registry showed that more than half of the companies incorporated in Hong Kong are registered at the address of their corporate secretarial services providers. This could indicate that such companies have no actual physical registration address and do not actively conduct any business;

<sup>12</sup> Official PRC corporate registry as of 24 January 2019

<sup>13</sup> Corporate website of Anhui Sanbao Cotton Spining And Knitting Investment Co., Ltd. ([http://www.jixiangsanbao.net/about\\_cn.html](http://www.jixiangsanbao.net/about_cn.html)) as of 24 January 2019

<sup>14</sup> Corporate website of Dezhou Tianli Industrial Co., Ltd. (<http://www.ccc-cceda.org.cn/famousdb/qiye1242/intro.html>) as of 24 January 2019

<sup>15</sup> A 61.54% stake in the company is owned by the Chinese company Dezhou Tianrong Industrial Co., Ltd. (德州天荣进出口有限公司), which is 90% controlled by PRC citizen Cui Yunping (崔云平; beneficiary control of around 55%) and 10% controlled by Wu Yuchun (吴玉春). A 38.46% stake is owned by the Hong Kong company Yihui Industry Co., Limited (in Chinese: 香港怡晖实业有限公司).

<sup>16</sup> Corporate website of Deer King Yarn Ltd.

([http://www.deerkingyarn.com/comcontent\\_detail\\_about.html](http://www.deerkingyarn.com/comcontent_detail_about.html)) as of 24 January 2019

<sup>17</sup> Official Hong Kong corporate registry as of 24 January 2019



- Six (out of nine) counterparty companies incorporated in Hong Kong use the same corporate secretarial services provider, Unite-Win Int'l Business Co., Limited;
- There has been no media coverage and no mention in any other public information sources of the activities of the subject Hong Kong-incorporated companies;
- More than half of the subject companies were incorporated after 2015, meaning they existed for less than three years before they entered into contractual relationships with Client No. 1.

According to public information sources, several subject companies incorporated in the PRC also exhibit some of the potential risk factors:<sup>18</sup>

- In more than half of such companies a single individual is both the executive and beneficiary. Moreover, Lianyungang Sulu Garment was incorporated in the same year that it began working with Client No. 1, i.e. 2017, but there was no mention of its activities in public information sources;
- According to the official PRC corporate registry, the PRC government holds a stake of around 25% in Shanghai Sangin in the person of the Chongqing Municipal Committee for State Property Control and Management. Given this fact, it is inevitable that the company would be linked to PEPs.

#### **5.6. Framework of import transactions for supplying goods from the PRC**

According to public information sources, as well as information obtained from interviews with MDO staff, one of the murkiest "gray areas" in Tajikistan's economy is the import of fast-moving consumer goods (FMCG). On the business advertising website <https://somon.tj/>, there are numerous offers from intermediary companies, which pool funds from small-scale importers for the purpose of making joint purchases and deliveries of goods from the PRC.

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<sup>18</sup> Official PRC corporate registry as of 24 January 2019



**Diagram 2. Example of an Internet offer for purchasing and delivering goods from the PRC via intermediary companies**

**5 reasons why you should entrust us with buying your goods and delivering them to Tajikistan**



We've been working with China for 10 years already and, so, we know all the nuances involved in optimizing transport costs. Plus, we understand Chinese business culture and have our own warehouses and staff.

Let's say, for example, that you want to go to China yourself to buy equipment:

1. You could end up wasting a lot of time searching for what you need;
2. You could end up buying goods from unscrupulous, dishonest suppliers;
3. If you don't speak Chinese, you'll have to hire an interpreter, and they usually raise their rates by at least 10%;
4. You may not know the proper procedure for shipping goods to Tajikistan, and if your cargo is very heavy, your transport costs may end up being extremely high. But, by bundling various shipments into large lots, we can achieve a relative reduction in the weight of your freight, which in turn will help us to realize significant savings in transport costs.
5. Many factories are located in central China, which means that you would have to ship your cargo first to Ürümqi [in the far northwestern PRC] before dispatching it on to Tajikistan. And, you could face difficulties with warehousing on the first leg of the trip.

But, the main thing here is that many factories will sell their goods at non-inflated prices only if you send the money directly from a Tajik entity. If you pay by any other means, Chinese factories could boost their prices by 17% on account of VAT. But, we have our own company that has the ability to transfer funds to the accounts of Chinese companies and, this way, we could save you at least 10-17% on account of VAT alone.

So, in a word, while you might save from 5% to 10% by not working with us, you could well end up losing 20% to 30% by trying to buy goods on your own. And, that's not counting what you'd have to pay for airfare, hotel accommodations, meals, etc.

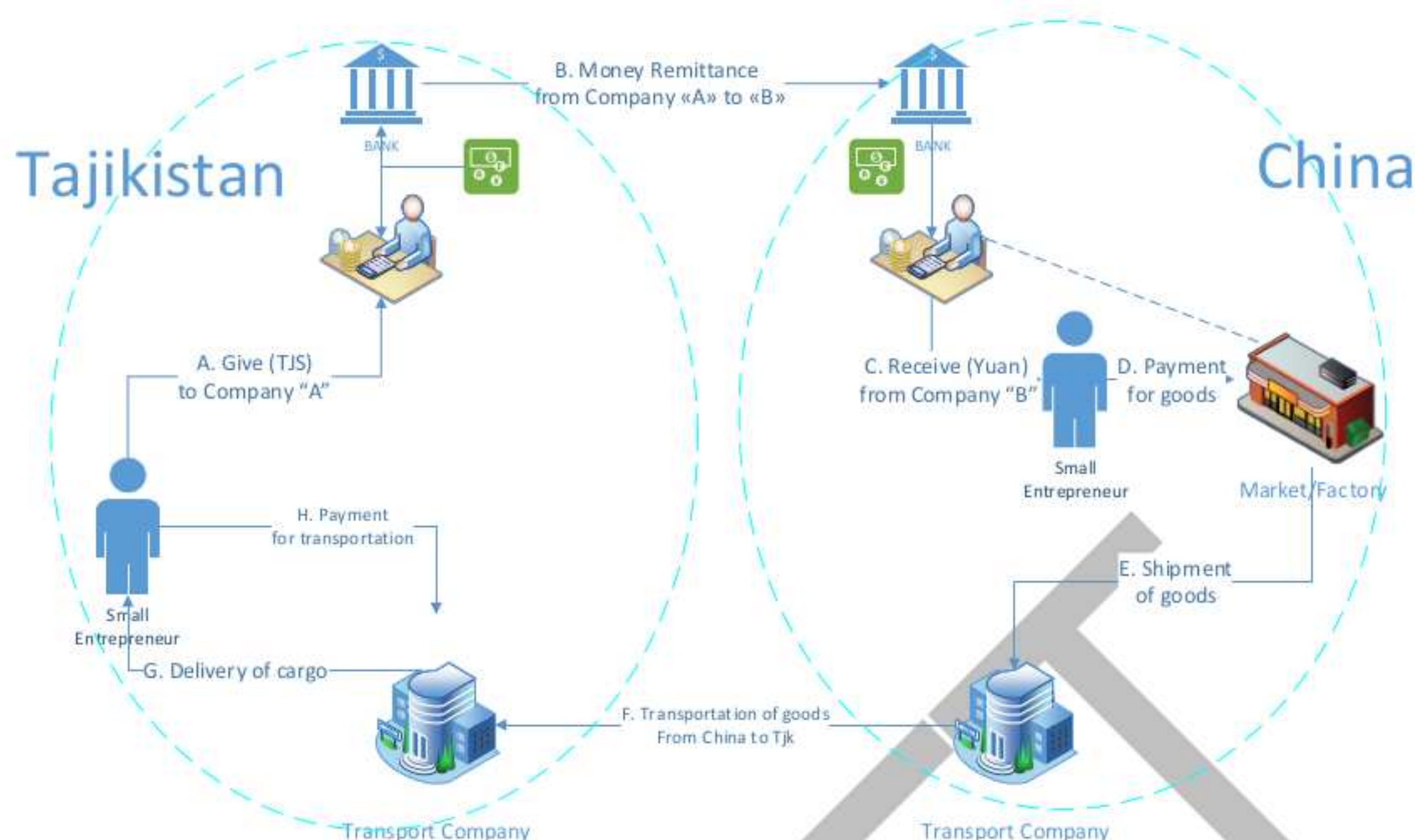
Source: <http://www.chin.tj> (Translated)

This was confirmed by Gulbakhor Makhkamova in a letter dated 30 June 2018 to Zakir Abdrashitov: **"The structure of the country's economy is such that there are intermediary companies that carry out all transactions for small and medium-sized businesspeople. Usually, such middlemen companies aren't in business for very long but enjoy patronage protection while they are actively carrying out transactions. They primarily deal in staple consumer goods and construction materials, 90% of which are imported from China"** (KRM-000014328). This letter demonstrates that Ms. Makhkamova was well aware of the activities of such intermediary companies in Tajikistan's semi-legal "gray" sector for importing goods.

We discovered a document titled **"Import schemes used by small businesses in Tajikistan,"** which outlines the main schemes used for importing goods from the PRC. This document had been sent on 11 November 2018 to Mr. Abdrashitov by Umed Yusupov, head of the Risk Department at MDO, together with other documents for the Supervisory Board (KRM-000030606).



**Diagram 3. Questionable “gray” schemes for supplying goods from the PRC and related payment methods**



Source: KRM-000030606

### Description of schemes

- Representatives of Tajikistan's small business sector transfer funds in the national currency, Tajikistani somoni (TJS), to intermediary companies via currency dealers;
- The intermediary companies in turn deposit the cash funds received in TJS in their bank accounts and convert them from TJS into USD;
- The intermediary companies then transfer the hard currency funds from Tajikistan to intermediary companies in the PRC;
- Then, on the instructions of the Tajikistani small businesses, the Chinese intermediaries transfer the funds to the accounts of Chinese sellers/manufacturers;
- Upon receipt of the funds, the Chinese sellers/manufacturers ship the relevant goods via freight forwarders;
- The freight forwarders transport the goods from the PRC to Tajikistan and deliver them to the relevant sole proprietors and small businesses in Tajikistan;
- Representatives of the Tajikistan-based small businesses pay for the freight forwarders' services.

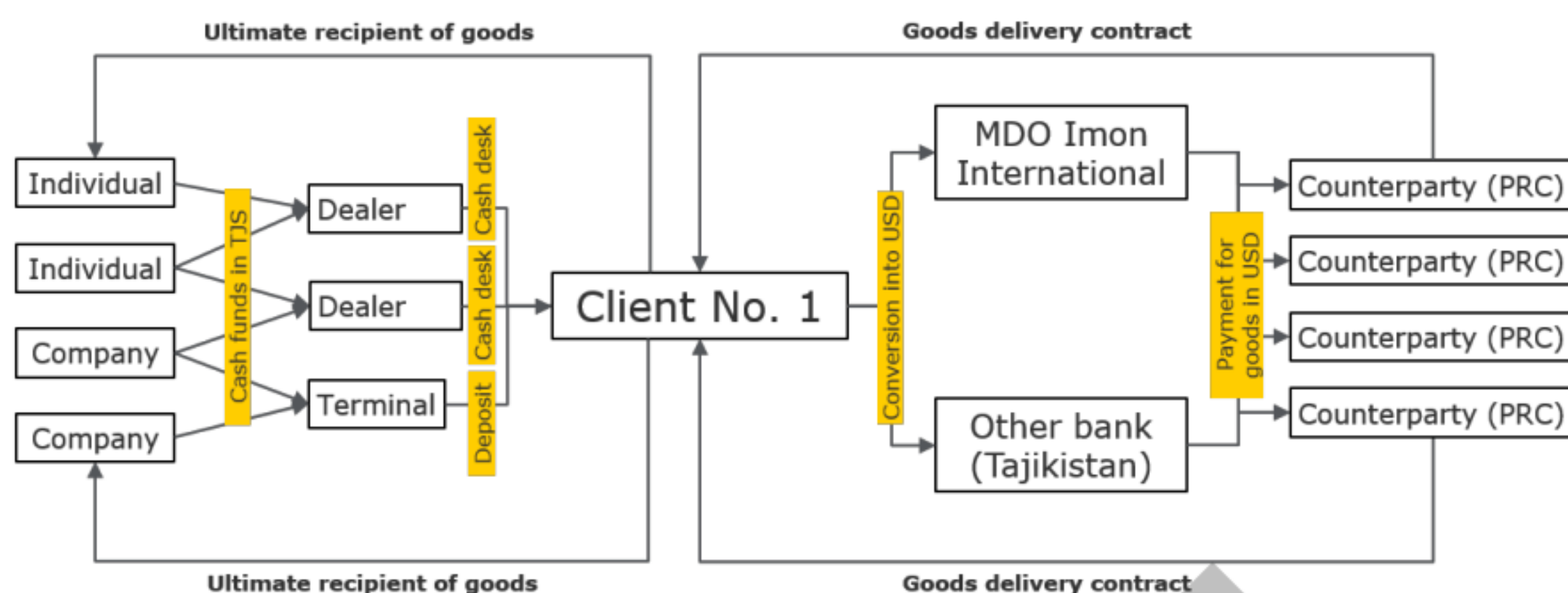
In this case, the intermediary company is responsible for transferring the client's funds from Tajikistan to the PRC. The cost of wire transferring funds is roughly up to 0.3% of the amount being transferred. The freight forwarder is responsible for carrying out the delivery of the goods from the PRC to Tajikistan, clearing them through customs, and paying the customs duties.

### Scheme for working with Client No. 1

In analyzing Client No. 1's cash transactions, delivery contracts and customs declarations, we reconstructed the likely scheme for import transactions potentially used by Client No. 1 in supplying goods from the PRC.



**Diagram 4. Scheme for supplying goods from the PRC used by Client No. 1**



Tajikistani small businesses and sole proprietors engaged in buying and selling Chinese-made goods agree with Client No. 1 on the following deal structure:

- Small business representatives agree with Client No. 1 on the delivery of goods from the PRC;
- The small business representatives then transfer cash funds in TJS to Client No. 1 via currency dealers;
- The currency dealer deposits the cash funds received in Client No. 1's settlement account at MDO or in another Tajikistan-based bank;
- Client No. 1 converts the funds from TJS to USD;
- In its own name, Client No. 1 then concludes contracts for the delivery of goods with counterparties in the PRC and transfers funds to them in USD;
- The Chinese counterparties ship the goods to Client No. 1;
- Client No. 1 delivers the goods to Tajikistan and carries out all necessary customs procedures;
- Client No. 1 transfers the goods to the Tajikistani small businesses and sole proprietors who initially ordered them.

We reconstructed this scheme exclusively on the basis of documents and commentary provided by MDO employees who work directly with Client No. 1. In the course of our work, we did not verify the authenticity of the documents, whether the deliveries were actually made, or whether the goods actually corresponded to the specifications stipulated in the delivery contracts.

Based on our practical experience, such semi-legal "gray" schemes for delivering goods are often used to move money abroad or offshore. Often, companies will conduct a number of perfectly legal transactions and provide all necessary documents, particularly CCDs, while the goods are actually delivered to the destination country. Further, however, such legitimate import-export transactions are alternated with transactions designed to siphon money out of the country. Thus, performing what are ostensibly perfectly legal transactions can then become a cover for the subsequent siphoning of money abroad.



## **5.7. Identifying signs of suspicious transactions by Client No. 1**

In analyzing the file on Client No. 1 and its transactions, we identified the following signs that it had performed suspicious transactions in accordance with Tajikistan AML/CFT Legislation<sup>19</sup> as well as international practices:

### **5.7.1. Identification of Client No. 1**

- **In identifying itself to clients, it uses incomplete, inaccurate or false documents (or information):** Client No. 1 was incorporated only one week before it opened its account; its corporate Articles of Incorporation were signed only one day before it opened its account and, moreover, contained inaccurate information about Client No. 1's founder; and the first contract for the import of goods was signed on the same day as it opened its account.
- **Clients' identification data are identical; entirely unrelated deals involve unrelated clients with identical addresses and telephone numbers, and the address is the same as the registration address of a specific legal entity; an authorized person carries out various deals for several affiliated clients:** During an in-depth inspection by MDO's Department of Financial Monitoring (DFM), as well as our analysis, at least 15 clients were identified with similar data or related transactions. In certain cases, the clients in question conducted transactions between themselves. According to MDO employees, the transactions for depositing cash in the accounts of these clients were carried out by the same individuals.
- **A credit organization cannot obtain sufficient information or information is inaccessible for directly identifying the owner of the account or for identifying the initiator of other banking activities:** The participation of Client No. 1's General Director in conducting transactions was purely perfunctory. As early as the account opening stage, Client No. 1 filed a notification stating that all transactions would henceforth be carried out by the General Director's representatives. Subsequently, Client No. 1's General Director next appeared in MDO's office only to close the entity's account.

### **5.7.2. Performance of large-scale cash transactions**

- **The client refused to disclose the identification data of the actual beneficiary(ies) of such transactions; moreover, the client insisted on conducting these financial transactions with unjustified haste:** Cash deposits to Client No. 1's account were made by various individuals, about whom no information was requested by MDO employees. In addition, as several MDO employees interviewed stated, in certain cases such deposits were made by one individual, whereas the data about the depositor (where such data was available) indicated an entirely different individual.
- **The client carried out the identified transaction by cash payment, although by law or the standard requirements for such transactions, payment for such transactions must be made via non-cash means:** As of the date that Client No. 1 opened its account, a large-scale cash deposit was made for subsequent conversion into foreign currency and wire transfer in accordance with the contract, and, moreover, Client No. 1 was not asked for any information or documents regarding the source of the cash funds. According to several MDO employees, Client No. 1 obtained the cash funds from various transactions with its counterparties, but it did not appear feasible to establish the

<sup>19</sup> In accordance with the Register of Indications of Suspicious Transactions, with amendments and additions approved by Resolution No. 112 of the National Bank of Tajikistan Management Board of 10 May 2013



legitimacy and origin of these funds for the purposes of carrying out the transaction in question.

- **Having placed cash or assets in safe deposit custody, the client then took an unusual course of action; it conducted a financial transaction valued at more than TJS 14,000 using foreign cash in small denomination bills; moreover, the foreign cash accepted for payment collection ("incasso") purposes was suspiciously stained with dirt and grease:** In the words of MDO employees, the process of counting the cash funds deposited to Client No. 1's account virtually "paralyzed" the work of the branch's cash desk. Moreover, these MDO employees stated that the cash was brought into the branch "in bags," and many of the bills were old and worn out. Servicing Client No. 1 required engaging additional cashiers, purchasing counting machines, and verifying the cash, as well as operations for counting the cash before depositing it to the cash desk, which often took longer than normal business hours and had to be carried out after the branch had closed for business for the day.

#### 5.7.3. Performance of cross-border transit transactions

- **The client was an entity engaged in commercial activities, or was an individual or an authorized individual who carried out transactions only periodically, from which they were not expecting to earn any profit or which made no logical sense:** Client No. 1 did not submit a single document with its counterparties in Tajikistan on behalf of which it was purchasing goods and did not submit any documents confirming the actual transportation of the goods, and moreover in several cases (according to the contractual terms) it independently accepted the goods at customs and filled out the relevant CCDs.
- **The client's average income or profit did not correspond to the amount invested in carrying out the deal or the amount of expected earnings from the deal; the client carries out transactions involving large amounts that do not correspond to its income; the transactions performed were clearly uncharacteristic for the given enterprise's core activity, and often involved large amounts; the amounts credited to the account of a client purportedly engaged in small-scale retail sales significantly differed from amounts credited to the accounts of other individuals engaged in similar business activity:** Based on our analysis of the transactions carried out, Client No. 1 continuously had a zero balance on its settlement account (all cash funds deposited were converted into USD and transferred to the PRC; no other transactions were conducted on the account), thus making it impossible to determine what amount of profit Client No. 1 earned and from what types of activity. The cumulative turnover on the account amounted to over USD 47.9 million.

#### 5.7.4. Submission of unreliable documents

- **It is impossible to certify that the documents submitted are genuine:** The contracts submitted by Client No. 1 with counterparties in the PRC had an identical format and were drawn up in Russian. In the words of Inom Dodoev, Client No. 1 had initially submitted a contract drawn up in Chinese, but subsequently started providing contracts in Russian at the request of MDO employees. In accordance with paragraph 15 of Instruction No. 200 "On Identifying and Verifying the Identity of Clients and Beneficial Owners":  
  
*"... All documents for identifying clients and beneficial owners must be valid as of the date they are submitted. Documents drawn up in full or in part in a foreign language must be presented by clients with a translation into Tajik and duly notarized ..."*
- Client No. 1's contracts for delivery of goods with counterparties in the PRC were submitted in Russian only, and moreover contained irregularities and discrepancies (see Table 4).



**Table 4. Irregularities and discrepancies identified in Client No. 1's contracts for delivery of goods**

<b>Identified discrepancies and irregularities</b>
<b>Contracts and/or appendices thereto where the place the contract was concluded is shown as "Moscow"</b>
Contract No. 003/17 of 11 July 2017 with HONG KONG TUOHAI TRADE CO., LTD.
Contract No. 004/17 of 4 August 2017 with GAO YANG HUA AO TEXTILES CO., LTD.
Contract No. 005/17 of 7 August 2017 with HK XIN CHUANG WEI DA TECHNOLOGY, LTD.
Contract No. 010/17 of 18 August 2017 with SHENZHEN FRIENDSHIP FOREVER TRADE CO., LTD.
Contract No. 012/17 of 30 August 2017 with FULAIRUI TRADING, LTD.
Contract No. 013/17 of 7 August 2017 with HK XIN CHUANG WEI DA TECHNOLOGY, LTD.
Contract No. 036/17 of 14 November 2017 with N&M GLOBAL CO., LTD.
Contract No. 037/17 of 14 November 2017 with HANGZHOU ZHENGYING IMPORTS AND EXPORTS CO., LTD.
<b>Contracts where it is indicated that "... in cases where it proves impossible to settle disputes through negotiations, all disputes between the Parties shall be resolved in accordance with current Russian Federation legislation ..."</b>
Contract No. 005/17 of 7 August 2017 with HK XIN CHUANG WEI DA TECHNOLOGY, LTD.
Contract No. 010/17 of 18 August 2017 with SHENZHEN FRIENDSHIP FOREVER TRADE CO., LTD.
Contract No. 012/17 of 30 August 2017 with FULAIRUI TRADING, LTD.
Contract No. 020/17 of 3 October 2017 with KAITE TRADE CO., LTD.
Contract No. 023/17 of 6 October 2017 with TENGZHOU YONGHAOXIANG PLASTICS CO., LTD.
Contract No. 037/17 of 14 November 2017 with HANGZHOU ZHENGYING IMPORTS AND EXPORTS CO., LTD.;
Contract No. 038/17 of 15 November 2017 with SHAOXING BAIMEI TRADE CO., LTD.
<b>Contracts in which paragraph 1.2 shows the address for delivery of goods as 40/9 Pushkin Street, whereas Client No. 1's incorporation documents show a different registration address [Note: [Bldg. No. *] Pushkin Street, Apt. [No. *]]</b>
Contract No. 020/17 of 3 October 2017 with KAITE TRADE CO., LTD.
Contract No. 023/17 of 6 October 2017 with TENGZHOU YONGHAOXIANG PLASTICS CO., LTD.
Contract No. 031/17 of 2 November 2017 with KAITE TRADE CO., LTD.
Contract No. 038/17 of 15 November 2017 with SHAOXING BAIMEI TRADE CO., LTD.
<b>Contracts in which paragraph 5.2 calls for "... drawing up documents verifying the actual export shipment of goods from the customs territory of the Russian Federation ..."</b>
Contract No. 024/17 of 9 October 2017 with LIANYUNGANG JINSINA GARMENTS CO., LTD.
Contract No. 034/17 of 13 November 2017 with LIANYUNGANG JINSINA GARMENTS CO., LTD.
<b>Appendices to contracts showing incorrect data for the primary contract (i.e. number and/or date) [Note: the number given differs from the actual number of the primary contract]</b>
Contract No. 003/17 of 11 July 2017 with HONG KONG TUOHAI TRADE CO., LTD.: the contractual specifications refer to a contract with the same number but with a different date: 11 <b>June</b> 2017.
Contract No. 010/17 of 18 August 2017 with SHENZHEN FRIENDSHIP FOREVER TRADE CO., LTD.: the contractual specifications refer to another contract entirely: No. <b>008</b> /17 of <b>15</b> August 2017.
Contract No. 013/17 of 7 August 2017 with HK XIN CHUANG WEI DA TECHNOLOGY, LTD.: the invoice and contractual specifications refer to a contract with the same number but with a different date: <b>14 September</b> 2017.
Contract No. 016/17 of 16 October 2017 with DEZHOU TIANLI INDUSTRIAL CO., LTD.: the contractual specifications refer to another contract entirely: No. <b>015</b> /17 of <b>18</b> October 2017.
Contract No. 020/17 of 3 October 2017 with KAITE TRADE CO., LTD.: the invoice and contractual specifications refer to a contract with the same number but with a different date: 3 <b>September</b> 2017.
Contract No. 025/17 of 10 October 2017 with YUNGXIN INDUSTRIAL CO., LTD.: the contractual specifications refer to another contract entirely: No. <b>025</b> of 10 October 2017.
Contract No. 032/17 of 10 November 2017 with MEVIUS INDUSTRIAL CO., LTD.: the contractual specifications refer to another contract entirely: No. <b>032</b> of 10 November 2017.
Contract No. 033/17 of 13 November 2017 with JINRUIDA TRADING CO., LTD.: the contractual specifications refer to another contract entirely: No. <b>033</b> of 13 November 2017.
<b>The invoice was drawn up before the primary contract</b>
Contract No. 024/17 of 9 October 2017 with LIANYUNGANG JINSINA GARMENTS CO., LTD.: the invoice is dated 3 October 2017, prior to when the contract was drawn up.



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#### Identified discrepancies and irregularities

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Contract No. 032/17 of 10 November 2017 with MEVIUS INDUSTRIAL CO.,LTD.: the invoice is dated 11 October 2017, prior to when the contract was drawn up.

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#### Other irregularities and discrepancies

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Contract No. 003/17 with HONG KONG TUOHAI TRADE CO LIMITED of 11 July 2017: in the text of the contract the counterparty's name is spelled as HONG KONG **TU**OHAI TRADE CO LIMITED, whereas in the company stamp it is spelled as HONG KONG **TY**OHAI TRADE CO LIMITED.

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Contract No. 016/17 of 16 October 2017 with DEZHOU TIANLI INDUSTRIAL CO.,LTD.: in the preamble of the contract the general director is shown as **LIN YAN HON**, but the individual signing the contract is shown as **ZI JUN YAN**; in the invoice to this contract, the field "company name" shows ZI JUN YAN (according to the information we obtained, however, the company's general director is another individual, Wu Yuchun, whereas the individual indicated, LIN YAN HON, is actually general director of KAILAIDI TRADING LIMITED, CHINA (see paragraph 5.5 of this report);

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Contract No. 040/17 of 20 November 2017 with ANHUI SANBAO COTTON SPINNING AND KNITTING INVESTMENT CO,LTD.: in the contract and specifications, the signature of Client No. 1's general director is missing.

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Source: Copies of Client No. 1's contracts

- In the words of Inom Dodoev, for a long period of time Client No. 1 refused to submit CCDs, citing the contractually stipulated 180-day period for shipment of goods. Following numerous requests from MDO, Client No. 1 was able to submit only copies of CCDs for several delivery contracts. In practice, MDO employees did not ask for original copies of documents for comparison purposes and accepted copies from clients that had been made by the clients themselves. Thus, it does not appear possible to certify that the original copies of the documents submitted are genuine.

In accordance with paragraph 18 of Instruction No. 200 "On Identifying and Verifying the Identity of Clients and Beneficial Owners":

*"... If copies of documents are submitted, the entity shall be entitled to require that the genuine original versions of such documents also be submitted so as to verify that they have been drawn up correctly ..."*



## 6. Analysis of the actions of MDO employees involved in working with Client No. 1

### 6.1. Conducting interviews with MDO employees

In the course of our investigation, we conducted in-person interviews (or telephone interviews) with key MDO employees who had been directly involved in working with Client No. 1 (see Table 5). We used the results of these interviews to assess the actions of MDO staff with respect to Client No. 1.

**Table 5. MDO employees interviewed**

Name (first name, surname)	Position	Role in Client No. 1's transactions	Interview date	Format
Abdurakhim Murodov	Specialist in the Department of Financial Monitoring and Compliance (DFM) of MDO's Compliance Division	Sending information about the suspicious nature of Client No. 1's transactions (as part of mandatory control procedures)	23.01.2019	In-person interview
Inom Dodoev	Manager of the Operations Department at the Firdavsi Branch, Dushanbe, Tajikistan	Opening of Client No. 1's account and further servicing of the account	23.01.2019	In-person interview
Khasan Vokhidov	Head of MDO's Internal Audit (IA) function	Carrying out IA functions at MDO	24.01.2019	Telephone interview
Khumay Karimov	Head of MDO's Banking Transactions Development Department	Consulting Client No. 1 prior to the opening of its account	24.01.2019	In-person interview
		Monitoring and control of MDO's hard currency position		
		Participating in setting and allocating currency limits among MDO clients		
Dilovar Mavlonov	Head of MDO's Treasury Department	Monitoring SWIFT transactions	24.01.2019	In-person interview
Sharifboy Murodov	Director of the Firdavsi Branch, Dushanbe, Tajikistan	Sending inquiries about Client No. 1 to the Department of Financial Monitoring (DFM)	24.01.2019	In-person interview
Ravshan Soliev	Deputy General Director of MDO	Participating in setting and allocating foreign currency limits among MDO clients	24.01.2019	Telephone interview
Bakhodur Akbarov	Head of MDO's Operations Division	Participating in setting and allocating foreign currency limits among MDO clients	25.01.2019	In-person interview
Saodat Zoidova	Head of the Department of Financial Monitoring and Compliance (DFM) of MDO's Compliance Division	Managing DFM staff	25.01.2019	In-person interview
		Communicating with branch employees about Client No. 1 and the transactions it was carrying out		
Boymirzo Boymirzoev	Head of MDO's Compliance Division	Drafting informational memos for the NBT	29.01.2019	Telephone interview



## 6.2. Analysis of communications among MDO employees

We were provided with electronic data for 20 MDO employees, which included: work stations, email accounts from the email server, email archives and copies of internal instant messaging (IM) chat sessions.

During our analysis of employee files and email correspondence, we identified 278 unique relevant documents, which we used for assessing the actions of MDO staff with respect to Client No. 1.

We should note here that the information and data we were provided with was incomplete and covered only a limited number of MDO employees for a limited period, which may not fully reflect the entire history of interactions between MDO employees with respect to Client No. 1.

**Table 6. List of employees and data provided**

Name (first name, surname)	Computer / laptop	Email account	Corporate IM chats
Zakir Abdrashitov		+	
Bakhodur Akbarov	Profile on another computer		
Nigina Alieva			+
Boymirzo Boymirzoev		+	
Nargis Davlatova		+	
Inom Dodoev	+	+	
Azimchon Gayratov			+
Saodat Zoidova		+	+
Mukhibchon Mamadchonov			+
Gulbakhor Makhkamova		+	
Abdurakhim Murodov		+	+
Akbarchon Murodov	+	+	
Sharifboy Murodov	+	+	
Firdavs Mukhidinov			+
Naim Nazarov	Profile on another computer	+	
Munisa Rustamova			+
Nilufar Rukhulamin			+
Bakhrom Khalikov	Profile on another computer		
Daler Sharipov		+	
Sanavbar Sharipova		+	

Source: Data provided by MDO

Several computers/laptops contained profiles of other MDO employees. Altogether, we received and copied 1,648.6 GB of data. As a result of processing and filtering by file type, we extracted 188 GB of data containing text information for subsequent indexation and key word-based searches conducted via the Relativity system.



**Table 7. Overall statistics regarding the data analyzed**

Name	Quantity
Number of devices copied	4
Overall volume of data received, GB	1,744
Volume of information extracted for processing in Nuix, GB	437
Volume of data uploaded to Relativity, GB	188
Number of documents at the processing stage	854,251
Number of documents uploaded in the project	375,271
Number of documents found via key word searches	1,511
Number of documents examined during the project	8,349
Number of relevant documents found	278

Source: Analysis of documents in the Nuix (v7.4) and Relativity (v9.5) systems

### 6.3. Analysis of the actions of employees of MDO's Firdavsi Branch in Dushanbe, Tajikistan

In the course of our work, we established that the following key employees of MDO's front office had been aware of, informed about, and participated in conducting Client No. 1's transactions:

- Inom Dodoev – Manager of the Operations Department at the Firdavsi Branch, Dushanbe, Tajikistan;
- Khumay Karimov – Head of MDO's Banking Transactions Development Department;
- Sharifboy Murodov – Director of the Firdavsi Branch, Dushanbe, Tajikistan.

Based on the interviews we conducted and our analysis of the email communications of MDO staff provided to us, we established the following facts:

- According to the information obtained from MDO employees, the process of accepting Client No. 1 as a client included only a request for the standard set of documents necessary for opening an account. When opening its account and subsequently being provided services, Client No. 1 was never asked to provide information and documents about the source of its funds and planned (or already performed) transactions neither by those managers who took part in opening its accounts nor by the DFM staff.
- No monitoring was carried out of Client No. 1's business activities (including both cash and non-cash settlements) in order to verify that they corresponded to the declared nature of Client No. 1's business, as well as of its risk profile and the source of its funds.
- In the words of MDO employees, clients with "high" risk levels are usually approved with the Department of Financial Monitoring and Compliance (DFM) by telephone or email. No such approval process was conducted for Client No. 1, however.
- Client No. 1 was not designated as a "high" risk client when it opened its account. Consequently, the DFM was not notified about Client No. 1 as at the date it was accepted as a client, despite the existence of signs that it merited a "high" risk level.
- According to DFM staff, when clients are accepted for receiving MDO services their risk level is deemed to be "low" by default. Based on subsequent analysis of a given client's transactions, however, the client can then be designated as "high" risk. In the course of our testing of MDO's automated billing system, we observed that the client information card form contains a field titled "risk level"; however, there is no field titled "basis for assignment of risk level." That is, technical staff can assign a risk level to a client at the time they open their account. Nevertheless, we did not see a single instance where the "risk level" field had been filled in for a client.



- In the words of Inom Dodoev, when Client No. 1 began carrying out transactions and the relevant amounts began to increase, at the recommendation of friends he contacted the DFM. In his words, he was in contact on several occasions by both telephone and email with both Abdurakhim Murodov and Boymirzo Boymirzoev.
- On 17 July 2017, Sharifboy Murodov received an email from Khumay Karimov, which mentioned the significant cash deposits and currency conversions made by Client No. 1 (KRM-000312402).
- On 18 July 2017, Sharifboy Murodov forwarded in his own name a previously received email about Client No. 1 to Ravshan Soliev (KRM-000312407).
- From 25 July to 20 August 2017 Sharifboy Murodov was on vacation, and Akbarjon Inoyatov was temporarily charged with carrying out Mr. Murodov's job responsibilities.
- According to Sharifboy Murodov, as soon as he returned from vacation he paid close scrutiny to Client No. 1's transactions and immediately contacted Mr. Boymirzoev in the DFM.
- On 11 September 2017, Sharifboy Murodov sent an email to Bakhodur Akbarov and Mr. Boymirzoev requesting that they examine Client No. 1's transactions and advise as to whether MDO should continue working with this company **(transliterated passage from the Tajik text: "digar az nazar guzaronda khulosai khudro peshnikhod kuned, oidi minbada kor bo mizochi mazkur")**. In his email, Sharifboy Murodov expressed certain doubts with respect to the transactions conducted by Client No. 1 **(transliterated passage from the Tajik text: "dar khamin cho shubkha paydo shudaistodaast")**. He pointed to the large amounts of cash transfers to the PRC without any accompanying CCDs in connection with the fact that the contractual goods delivery deadline had not yet expired (KRM-000327545).
- In our interview with him, Mr. Dodoev noted that when Client No. 1's transactions started increasing in size, the branch started to experience a sharp deficit of the technical and human resources necessary for counting the cash funds involved in these transactions. Servicing Client No. 1 required hiring additional cashiers and purchasing equipment for counting and verifying the cash funds. Operations for counting cash funds for their deposit in the branch's cash desk frequently took longer than the branch's normal working hours and had to continue after the branch had closed for business for the day. According to the information provided to us, for the period 1 July-30 November 2017 MDO's Firdavsi Branch in Dushanbe hired three new employees to fill cashier positions and purchased seven additional pieces of equipment (banknote counters and vacuum sealing machines).
- On 12 September 2017, Sharifboy Murodov received a response from Mr. Boymirzoev, which was also sent to Mr. Akbarov. From this email it followed that the DFM was already aware of Client No. 1 and was looking into its transactions **(transliterated passage from the Tajik text: "Raesati komplaens mizochi mazkurro allakay takhlil karda istodaast")**. Mr. Boymirzoev reminded Sharifboy Murodov that, in accordance with the Order "On Currency Control Obligations" of 1 May 2017, if the contractual timeframe for delivering goods or for refunding payments for undelivered goods is more than one year, then notification of that fact must be made to the DFM and the NBT (KRM-000314009).
- On 12 September 2017, Sharifboy Murodov forwarded an email from Mr. Boymirzoev to Mr. Dodoev, requesting that he get to the bottom of the situation **(transliterated passage from the Tajik text: "khamina dida baroyed")** (KRM-000314008).
- Also on 12 September 2017, Sharifboy Murodov replied to Mr. Boymirzoev's email, stating that all requirements set forth in the Order "On Currency Control Obligations" of



1 May 2017 were being met (the contractual timeframe for delivering goods or for refunding payments for undelivered goods was less than one year) (KRM-000141139). According to Mr. Dodoev and Sharifboy Murodov, during that period the DFM gave verbal comments on the advisability of working further with Client No. 1.

- On 20 September 2017, Mr. Dodoev sent Sharifboy Murodov, Mr. Akbarov and Sipekhru Niezovu a copy of Client No. 1's contract with the Chinese company HONG KONG TUOHAI TRADE CO LIMITED. The email indicated that it was **"for analyzing Client No. 1's transactions"** (KRM-000314331).
- On 6 October 2017, Khumay Karimov sent an email to Mr. Dodoev, Naim Nazarov and Mr. Niezovu with attached documents regarding Client No. 1, i.e. a delivery contract with the Chinese company DEER KING YARN LTD, a money transfer order and an invoice (KRM-000271419).
- In the period 6-19 October 2017, Mr. Karimov sent documents pertaining to Client No. 1 to Mr. Dodoev and Mr. Nazarov several times. The attachments included contracts between Client No. 1 and Chinese companies KAITE TRADE CO.LIMITED and SHAOXING BAIMEI TRADE CO., LTD, as well as accompanying money transfer orders and invoices (KRM-000271426, KRM-000271497).
- On 23 October 2017, Mr. Dodoev sent Abdurakhim Murodov an email containing a signature card and impression of Client No. 1's corporate seal (KRM-000188161). According to DFM employees Abdurakhim Murodov and Boymirzo Boymirzoev, during this period the NBT had requested information on Client No. 1 and documents confirming that Client No. 1 had conducted transactions to transfer funds to the PRC.
- On 13 December 2017, Sharifboy Murodov in an email to Gulbakhor Makhkamova discussed the measures he had taken with respect to Client No. 1. As Sharifboy Murodov stated, in late August 2017 he had personally called MDO's Head Office, and then in early September 2017 he submitted a written request to the DFM, the Operations Division, and the Treasury Department to examine Client No. 1's transactions. As well, Sharifboy Murodov wrote that already **"in September I wanted to stop all further transactions" with this company but that the Head Office responded that "there are no problems with Client No. 1 and we must continue providing services to it."** Moreover, all amounts subject to currency conversion had been approved by the Treasury Department (KRM-000118582).
- On 30 June 2018, Mrs. Makhkamova sent Zakir Abdrashitov an email from which it follows that she was well aware of the activities of such intermediary companies in Tajikistan's semi-legal "gray" sector for importing goods, and that they were MDO's clients, but took no action to prevent MDO from doing business with them (KRM-000014328).

During the course of our analysis, we noted that **MDO employees** failed to fulfill the requirements for in-depth vetting of Client No. 1 when accepting it as a client as well as in the process of providing services to it, specifically as regards requesting information on the objectives and anticipated nature of the business relationship, as well as the economic rationale of the planned and performed transactions and the sources of Client No. 1's funds, used both for opening its account and in funding subsequent transactions.

The employees of the branch also failed to inform MDO's General Director that the DFM had not taken any action in response to their requests with respect to Client No. 1 and the transactions it was carrying out.



#### 6.4. Analysis of the actions of employees of MDO's Department of Financial Monitoring and Compliance (DFM)

In the course of our work, we established that the following key DFM employees had been aware of and participated in conducting Client No. 1's transactions:

- Boymirzo Boymirzoev – Head of MDO's Compliance Division;
- Saodat Zoidova – Head of the DFM;
- Abdurakhim Murodov – Specialist in the DFM;
- Kosim Nurmakhmadov – Specialist in MDO's Methodology and Control Department.

Based on our interviews of MDO staff and our analysis of their electronic communications provided to us, we established the following facts:

- On 11 September 2017, Mr. Boymirzoev received an email from Sharifboy Murodov requesting that he examine Client No. 1's transactions and advise on whether MDO should continue working with this company (**transliterated passage from the Tajik text: "digar az nazar guzaronda khulosai khudro peshnikhod kuned, oidi minbada kor bo mizochi mazkur"**). Bakhodur Akbarov was copied on this email. In his email, Sharifboy Murodov expressed certain doubts with respect to the transactions conducted by Client No. 1 (**transliterated passage from the Tajik text: "dar khamin cho shubkha paydo shudaistodaast"**). He pointed to the large amounts of cash transfers to the PRC without any accompanying CCDs in connection with the fact that the contractual goods delivery deadline had not yet expired (KRM-000327545).
- On 12 September 2017, Mr. Boymirzoev responded to Sharifboy Murodov and Mr. Akbarov that the DFM was already aware of Client No. 1 and was looking into its transactions (**transliterated passage from the Tajik text: "Raesati komplaens mizochi mazkurro allakay takhlil karda istodaast"**). Mr. Boymirzoev reminded Sharifboy Murodov that, in accordance with the Order "On Currency Control Obligations" of 1 May 2017, if the contractual timeframe for delivering goods or for refunding payments for undelivered goods is more than one year, then notification of that fact must be made to the DFM and the NBT (KRM-000314009).
- On 12 September 2017, Mr. Boymirzoev received a response from Sharifboy Murodov, who affirmed that all requirements stipulated in the Order of 1 May 2017 were being met (the contractual timeframe for delivering goods or for refunding payments for undelivered goods was less than one year) (KRM-000141139).
- On 20 September 2017, Abdurakhim Murodov received a file titled "Client No. 1" from Kosim Nurmakhmadov. However, he was unable to ascertain the contents of the attachment as the file was corrupted (KRM-000187938).
- During our interview with him, Abdurakhim Murodov repeatedly stated that his role with respect to Client No. 1 was as an intermediary, specifically he carried out Mr. Boymirzoev's requests to prepare documents and statements pertaining to Client No. 1's accounts, after which he "automatically" [Note: without a detailed analysis or in-depth vetting] sent information on Client No. 1's transactions to the NBT. In addition, when asked whether he had any personal suspicions or doubts about Client No. 1's transactions, Abdurakhim Murodov commented that they were "normal" transactions.
- On 19 October 2017, Abdurakhim Murodov emailed Mr. Boymirzoev and the DFM a list of all of Client No. 1's counterparties, indicating the overall number and amounts of money transfers as well as the numbers of the relevant contracts (KRM-000188117).
- On 23 October 2017, MDO's Compliance Division prepared an informational fact sheet and analytical memorandum (the "Memo") for the NBT's Department of Financial



Monitoring regarding Client No. 1's activities that were serviced by MDO's Firdavsi Branch in Dushanbe. In the Memo, the Compliance Division requested that the NBT "provide instructions regarding the necessity of taking additional measures." In the Memo, the Compliance Division highlighted several suspicious characteristics of Client No. 1 (KRM-000014108), namely:

- *Client No. 1 is a recently established company with an insignificant charter capital fund, but nevertheless concludes deals for large sums of money and conducts transactions while lacking evidence of prior activity;*
- *Large sums of money are regularly deposited on Client No. 1's account but only in cash, whereas the usual business practice is that large sums from product sales are deposited on the seller's account via non-cash transfers;*
- *The goods delivery timeframe under the contracts provided by Client No. 1 is six months. As of the current date, more than three months has passed since the date of the first transaction but no documents confirming that Client No. 1 had actually delivered the goods were available. According to information obtained from Client No. 1, the goods have still not been received. However, as a rule, goods can usually be delivered from the PRC to Tajikistan within this timeframe;*
- *Information about Client No. 1's beneficiary owners is contradictory.*
- On 20 November 2017, Abdurakhim Murodov sent Client No. 1's incorporation documents and contracts with its Chinese counterparties to the NBT (KRM-000188764).
- On 28 November 2017, Abdurakhim Murodov emailed statements for Client No. 1's bank accounts to the NBT and MDO's Compliance Division, as well as CCDs and a list of all Chinese companies that received funds indicating the number and amounts of the relevant transactions (KRM-000188817, KRM-000188813).
- On 7 December 2017, Abdurakhim Murodov resent documents regarding Client No. 1 to the email address s\*\*\*\*\*@nbt.tj, bank statements, parts of contracts, CCDs, and a list of all Chinese companies that received funds indicating the number and amounts of the relevant transactions (KRM-000188870).
- On 15 December 2017, Abdurakhim Murodov sent a copy of Client No. 1's application to close its accounts to the email address of an NBT employee s\*\*\*\*\*@nbt.tj and to the Compliance Division (KRM-000188976).

In the course of our analysis, we noted that the responsibilities of DFM employees (until September 2017) only included sending information on suspicious transactions to the NBT as a part of mandatory control measures. The DFM did not conduct any detailed analysis or in-depth vetting of Client No. 1 and its transactions, but throughout the period that MDO serviced Client No. 1 all of its transactions were of a uniformly suspicious character. In-depth vetting of Client No. 1 was initiated only after the head of the Firdavsi Branch in Dushanbe emailed the DFM in this regard.

In addition, DFM employees failed to notify MDO's General Director that the NBT had not reacted to their requests (despite repeated calls and emails by the branch's staff) and, thus, they had independently decided to continue working with Client No. 1, even though its transactions were of a uniform character and featured suspicious indicators, while the client's conduct was also suspicious.<sup>20</sup> Taken separately and as a whole, such suspicious indicators correspond to the criteria of a "high" risk level.

<sup>20</sup> In accordance with the Register of Indications of Suspicious Transactions, with amendments and additions approved by Resolution No. 112 of the National Bank of Tajikistan Management Board of 10 May 2013



In accordance with the requirements of current Tajikistan legislation: "... The resources necessary for operating a [credit organization's] compliance function must be sufficient and appropriate for effectively managing compliance risks.

"The compliance controller and participants in the compliance process should have the required qualifications, work experience, and professional and personal qualities for carrying out their responsibilities.

"The compliance controller and participants in the compliance process should be knowledgeable about Republic of Tajikistan legislation, as well as the credit organization's corporate bylaws and internal rules and procedures.

"The professional skills of the compliance controller and participants in the compliance process should be improved and enhanced through regular, systematic training ..."

#### **6.5. Analysis of the actions of MDO's back-office employees**

In our analysis, we established that the following key employees of MDO's back-office function were aware of and participated in carrying out Client No. 1's transactions:

- Bakhodur Akbarov – Head of MDO's Operations Division;
- Dilovar Mavlonov – Head of MDO's Treasury Department;
- Anvar Mamarajabov – Head of MDO's Finance Division;
- Ravshan Soliev – Deputy General Director of MDO.

Each day, MDO's operational and financial management staff, including in the Treasury Department, compiled a Daily Report on the Volume of Foreign Currency Purchases and Sales on Domestic and International Markets. Such reports reflected a considerable volume of foreign currency transactions, showing that MDO employees were aware of Client No. 1 and its transactions, but they made no attempt to flag that these transactions were of an identical nature and had suspicious attributes. In turn, MDO's management tacitly encouraged Client No. 1 to deposit large sums of cash, which at that time helped MDO to:

- resolve its shortage of cash funds in the national currency;
- evade NBT restrictions and commissions on making cash payments;
- optimize expenses for delivery of cash funds to branches.

#### **6.6. Analysis of the actions of MDO's management**

Based on the information at our disposal, we cannot confirm that MDO's management had in any way exerted influence on the performance, or restriction thereupon, of Client No. 1's transactions in the period from July to December 2017.

According to the email correspondence, MDO's General Director, Gulbakhor Makhkamova, learned about Client No. 1 and its suspicious transactions only on 13 December 2017. However, in the course of our interviews, several MDO employees expressed the opinion that, given her position as General Director of MDO, Mrs. Makhkamova could not have been unaware of the significant volume of transactions being conducted by Client No. 1 in the period from July to December 2017.

- On 13 December 2017, Sharifboy Murodov in an email to Mrs. Makhkamova discussed the measures he had taken with respect to Client No. 1. As Sharifboy Murodov stated, in late August 2017 he had personally called MDO's Head Office, and then in early September 2017 he submitted a written request to the DFM, the Operations Division, and the Treasury Department to examine Client No. 1's transactions. As well, Sharifboy Murodov wrote that already **"in September I wanted to stop all further**



transactions” with this company but that the Head Office responded that **“there are no problems with Client No. 1 and we must continue providing services to it.”** Moreover, all amounts subject to currency conversion had been approved by the Treasury Department (KRM-000118582).

- In the course of our interviews with MDO employees and analysis of email correspondence, we found no confirmation that Mrs. Makhkamova had conducted the necessary work with MDO staff to properly analyze the situation with Client No. 1 after its account was closed and the NBT had conducted an inspection, as well as to assess the potential consequences of serving such clients. The employees that we interviewed still have no clear understanding that Client No. 1 and the transactions it carried out were of a suspicious nature. In particular, when asked whether he had any personal suspicions or doubts about Client No. 1’s transactions, Abdurakhim Murodov commented that they were “normal” transactions.

According to the information provided to us, MDO’s Board of Directors was informed about Client No. 1 and its suspicious transactions as well as the NBT inspection only on 23 May 2018, or six months after the NBT had initiated its inspection.

In addition, on 30 June 2018 Mrs. Makhkamova sent Zakir Abdrashitov an email in which she wrote that she had been aware of the large volume of transactions at the Firdavsi Branch in Dushanbe and had posed a number of relevant questions to Dilovar Mavlonov, Head of MDO’s Treasury Department. In turn, Mr. Mavlonov explained to her that, **“Several major legal entities in Dushanbe were supplying us [MDO] with cash in the local currency and, so, we’re saving on withdrawals. The NBT’s [withdrawals] commission was very high at that time.”** Mrs. Makhkamova also noted that, **“The structure of the country’s economy is such that there are intermediary companies that carry out all transactions for small and medium-sized businesspeople. Usually, such middlemen companies aren’t in business for very long but enjoy patronage protection while they are actively carrying out transactions. They primarily deal in staple consumer goods and construction materials, 90% of which are imported from China.”** She was certain that such companies could not be charged with criminal offences (KRM-000014328). This letter demonstrates that Ms. Makhkamova was well aware of the activities of such intermediary companies in Tajikistan’s semi-legal “gray” sector for importing goods.



## 7. Analysis of related and similar clients

We selected the top 10 clients that executed the greatest number of currency transfers abroad (in USD or EUR) and featured the same risk indicators as Client No. 1 (namely, depositing large amounts of cash funds in the national currency for subsequent conversion into foreign currency and transfer abroad) in the period from 1 January 2014 to 26 December 2018. In the course of our in-depth analysis of the transactions, documents, and bank statements of those clients that fell within the perimeter of our analysis, we identified 15 related clients altogether.

See Appendix 2 for a diagram showing the overall connections among these related companies.

### 7.1. Concurrences in counterparties receiving funds (overlap with Client No. 1)

Our analysis of transactions showed that three other MDO clients also transfer funds to the same PRC-based counterparties as Client No. 1. Overall, foreign currency transfers to these counterparties during the review period amounted to USD 43 million.

**Table 8. MDO clients with concurrent counterparties receiving funds (overlap with Client No. 1)**

Name of counterparty	Number of transactions	Amount of cross-border funds transfers, USD
<b>HK XIN CHUANG WEI DA TECHNOLOGY LIMITED</b>		
Client No. 1	90	20,092,606
Client No. 7	7	1,131,017
Client No. 2	4	565,979
<b>Total</b>	<b>101</b>	<b>21,789,602</b>
<b>KAITE TRADE CO. LIMITED</b>		
Client No. 1	31	8,972,300
Client No. 7	2	537,173
Client No. 2	2	339,235
<b>Total</b>	<b>35</b>	<b>9,848,708</b>
<b>HONG KONG TUOHAI TRADE CO. LIMITED</b>		
Client No. 1	16	2,849,000
Client No. 7	17	1,546,704
Client No. 2	27	3,495,787
<b>Total</b>	<b>60</b>	<b>7,891,491</b>
<b>JINRUIDA TRADING CO. LIMITED</b>		
Client No. 1	2	509,900
Client No. 10	4	893,620
<b>Total</b>	<b>6</b>	<b>1,403,520</b>
<b>SHENZHEN FRIENDSHIP FOREVER TRADE CO. LIMITED</b>		
Client No. 1	6	1,006,000
Client No. 2	2	366,558
<b>Total</b>	<b>8</b>	<b>1,372,558</b>
<b>YUNGXIN INDUSTRIAL CO. LIMITED</b>		



Name of counterparty	Number of transactions	Amount of cross-border funds transfers, USD
Client No. 1	1	240,800
Client No. 10	2	449,000
<b>Total</b>	<b>3</b>	<b>689,800</b>
<b>Overall total</b>	<b>213</b>	<b>42,995,679</b>

Source: Statements on transactions of MDO clients

## 7.2. Concurrences in counterparties receiving funds (without accounting for overlap with Client No. 1)

Our analysis of transactions showed that MDO clients carried out funds transfers to the settlement accounts of the same counterparties around the world, but particularly in the PRC, Russia, Belarus, Kyrgyzstan and Lithuania. Table 9 shows MDO clients with concurring counterparty recipients to which funds were transferred by more than one of the companies under review, with the exception of Client No. 1's counterparties. We were unable to identify the names of several counterparties due to gaps in the information provided. Overall, foreign currency transfers to these counterparties during the review period amounted to USD 5.7 million.

**Table 9. MDO clients with concurrent counterparties receiving funds (without accounting for overlap with Client No. 1)**

Account number, name of counterparty	Amount of outgoing transactions, USD
<b>PAO Chelyabinsk Metallurgical Plant</b>	
Client No. 6	408,636
Client No. 9	1,096,000
<b>Total</b>	<b>1,504,636</b>
<b>URUMQI KANG CHENG BAI SHENG INTERNATIONAL TRADE CO., LTD,</b>	
Client No. 7	238,952
Client No. 2	1,003,092
<b>Total</b>	<b>1,242,044</b>
<b>OOO KRONOSHPAN BASHKORTOSTAN</b>	
Client No. 7	320,406
Client No. 9	441,846
<b>Total</b>	<b>762,252</b>
<b>GAOYANG COUNTY JIANYUE TEXTILE MANUFACTURING CO.,LTD</b>	
Client No. 7	441,514
Client No. 2	115,520
<b>Total</b>	<b>557,034</b>
<b>LANGFANG GERUIMA IMPORT AND EXPORT CO., LTD</b>	
Client No. 7	293,811
Client No. 2	250,353
<b>Total</b>	<b>544,164</b>
<b>ZAO Yuzhno-Kyrgyzsky Cement</b>	
Client No. 9	204,200
Client No. 6	135,000
<b>Total</b>	<b>339,200</b>
<b>J AND J INTL.(LANGFANG) CO., LTD</b>	
Client No. 7	136,300
Client No. 2	123,159
<b>Total</b>	<b>259,459</b>
<b>UAB RAILANA</b>	
Client No. 8	126,465



Account number, name of counterparty	Amount of outgoing transactions, USD
Client No. 9	74,144
<b>Total</b>	<b>200,609</b>
<b>OA0 MMK-METIZ</b>	
Client No. 6	42,680
Client No. 9	70,000
<b>Total</b>	<b>112,680</b>
<b>OA0 BELORUSSKAYA LESNAYA KOMPANIYA</b>	
Client No. 7	57,999
Client No. 6	12,030
<b>Total</b>	<b>70,028</b>
<b>A/c # 20204972321033400264</b>	
Client No. 3	5,513
Client No. 5	10,855
Client No. 4	45,341
<b>Total</b>	<b>61,709</b>
<b>A/c # 20202972106000000178</b>	
Client No. 7	136
Client No. 2	41,243
<b>Total</b>	<b>41,379</b>
<b>Overall total</b>	<b>5,695,194</b>

Source: Statements on transactions of MDO clients

### 7.3. Concurrences in depositors (individuals) of cash funds on the account

In analyzing the clients' transactions, we noted that the same individuals deposited cash funds on the accounts of various companies. If a payment description shows a surname and first name or a surname and a first initial beginning with the same letter as the first name, then we consider this to be the same individual. Additionally, when calculating the transaction amount, we have allowed for the possibility that MDO employees could have made a one-letter typographical or spelling error and may have written the surname and name of the depositor incorrectly.

**Table 10. MDO clients with concurring depositors (individuals) of cash funds on accounts**

Surname and name of the depositor of cash funds	Amount of cash funds deposited, USD
<b>Group_Individual #1</b>	
Client No. 3	1,641,689
Client No. 5	699,740
<b>Total</b>	<b>2,341,429</b>
<b>Group_Individual #2</b>	
Client No. 7	1,700,409
Client No. 2	3,379,506
<b>Total</b>	<b>5,079,915</b>
<b>Individual #1</b>	
Client No. 1	1,302,250
Client No. 2	69,567
<b>Total</b>	<b>1,371,817</b>
<b>Individual #2</b>	
Client No. 1	417,145
Client No. 8	14,972
<b>Total</b>	<b>432,116</b>
<b>Group_Individual #3</b>	
Client No. 3	142,678



Surname and name of the depositor of cash funds	Amount of cash funds deposited, USD
Client No. 4	95,475
<b>Total</b>	<b>238,154</b>
<b>CEO #1</b>	
Client No. 3	155,225
Client No. 5	13,156
Client No. 8	29,222
<b>Total</b>	<b>197,603</b>
<b>Individual #3</b>	
Client No. 4	23,710
Client No. 2	125,210
<b>Total</b>	<b>148,920</b>
<b>Individual #4</b>	
Client No. 9	74,720
Client No. 6	49,813
<b>Total</b>	<b>124,533</b>
<b>Individual #5</b>	
Client No. 3	82,618
Client No. 6	28,672
<b>Total</b>	<b>111,290</b>
<b>Group_ Individual #4</b>	
Client No. 5	33,472
Client No. 8	62,000
<b>Total</b>	<b>95,472</b>
<b>Individual #6</b>	
Client No. 5	2,088
Client No. 7	10,348
<b>Total</b>	<b>12,436</b>
<b>Overall total</b>	<b>10,364,266</b>

Source: Statements on transactions of MDO clients

#### 7.4. Concurrences in addresses

In analyzing the addresses of the top 10 clients and five clients related to them, we noted that several clients are located at the same three addresses. Additionally, two clients are located at the address of a public market without any house numbers. See Table 11 for the results of our analysis.

**Table 11. MDO clients with concurring registration addresses**

Address	Number of companies registered at address
[house number **] Pushkin St., Apt. [**], Dushanbe, Tajikistan [Note: information is partially redacted] (without accounting for apartment numbers)	2
Client No. 1	
Client No. 14	
[house number **] Bolshaya Azizi St., Istaravshan, Tajikistan [Note: information is partially redacted]	2
Client No. 9	
Client No. 7	
Gulkhona St., Ashroff Market, Chabbor Rasulov District, Sughd Region, Tajikistan	2
Client No. 13	
Client No. 11	

Source: MDO client files



## 7.5. Concurrences in company representatives and general directors

After conducting an in-depth analysis of the documents and email correspondence of MDO staff provided to us, we identified indications of interrelationships among clients due to them having the same corporate representatives and general directors.

**Table 12. MDO clients with concurring representatives and/or directors**

Full name	Position	Period
<b>CEO #1</b>		
Client No. 8	General Director	Since 16.01.2014
Client No. 12	General Director	Since 26.11.2008
<b>Representative #1</b>		
Client No. 8	Representative	13.01.2016-13.01.2017
<b>Representative #2</b>		
Client No. 8	Representative	30.01.2015-31.12.2015
Client No. 12	Representative	20.09.2016-20.09.2017
Client No. 13	Chief Accountant	Since 22.11.2017

Source: KRM-000155868

## 7.6. Concurrences in the text of goods supply contracts

We analyzed contracts for the supply of goods and identified significant concurrences in both the text and formatting of such contracts.

**Table 13. MDO clients with goods supply contracts featuring concurring text and formatting**

Name of client	Contract number
<b>Identical text</b>	
Client No. 1 (buyer) and HONG KONG TUOHAI TRADE CO LIMITED (seller)	No. 003/17 of 11.07.2017
Client No. 14 (buyer) and HEBEI HEFU TEXTILE MANUFACTURING CO., LTD (seller)	No. 001 of 25.12.2017
<b>Identical text</b>	
Client No. 11 (buyer) and TOO KOFKO International Kazakhstan (seller)	No. 4 of 10.08.2017
OOO Ordi Fatir (buyer) and TOO Gross Ost Time (seller)	No. 08-0Φ-01-17 of 20.02.2017

Source: Contracts of MDO clients (KRM-000314332, KRM-000271767, KRM-000209093, KRM-000413904)

## 7.7. Overall volume of cross-border money transfers by similar suspicious clients

Among the MDO clients we analyzed, we identified interrelationships between 15 clients. The overall volume of cross-border funds transfers made by these clients in the period from 1 January 2014 to 26 December 2018 was USD 115.9 million, representing 47.2% of the overall volume of MDO's cross-border funds transfers during that period (USD 245.6 million).

**Table 14. Overall volume of cross-border funds transfers by similar suspicious clients in the period from 1 January 2014 to 26 December 2018**

Name of client	Amount of cash funds deposited on the account in the national currency, in USD equivalent	Amount of cash funds deposited on the account in the national currency, as % of all deposits	Amount of cross-border funds transfers, USD
Client No. 1	46,738,938	97.60%	47,881,906
Client No. 2	8,874,706	85.34%	9,981,268
Client No. 3	9,149,120	91.19%	9,496,956
Client No. 4	7,658,402	94.44%	7,343,753
Client No. 5	6,376,066	91.36%	6,408,988
Client No. 6	6,493,774	94.60%	6,528,604
Client No. 7	5,006,252	81.69%	5,641,444



Name of client	Amount of cash funds deposited on the account in the national currency, in USD equivalent	Amount of cash funds deposited on the account in the national currency, as % of all deposits	Amount of cross-border funds transfers, USD
Client No. 8	5,312,000	79.01%	5,957,054
Client No. 9	4,960,504	89.86%	5,141,499
Client No. 10	4,176,666	91.36%	4,503,853
Client No. 11	no data	no data	2,535,888
Client No. 12	no data	no data	1,890,748
Client No. 13	no data	no data	1,733,761
Client No. 14	no data	no data	585,000
Client No. 15	no data	no data	304,831
<b>Total</b>	<b>104,746,428</b>		<b>115,935,553</b>

Source: Bank statements of MDO clients



## **Appendix 1. List of Republic of Tajikistan regulatory documents governing AML/CFT issues**

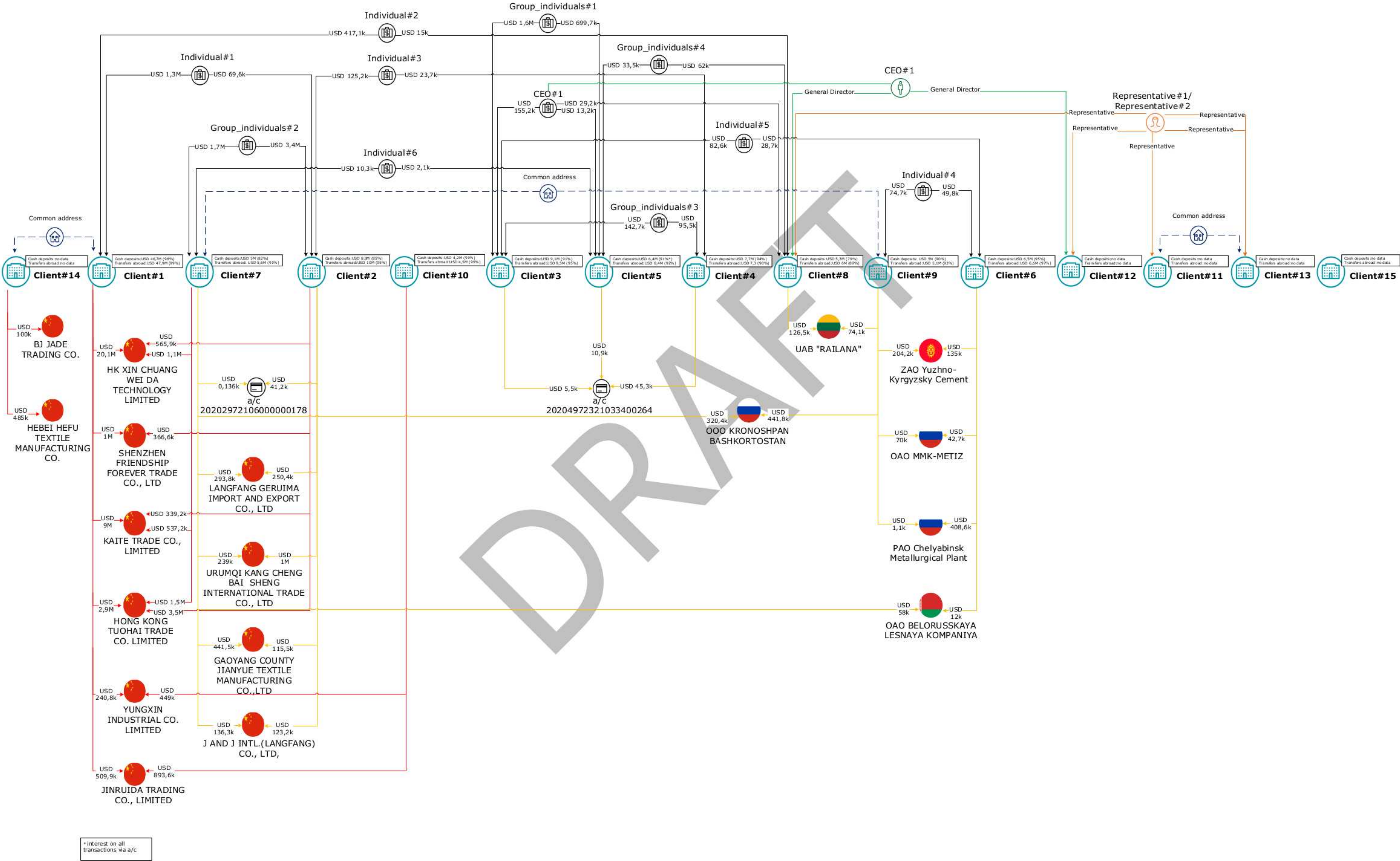
The legislation of the Republic of Tajikistan in the area of Counteracting Money Laundering (Anti-Money Laundering, AML) and Combatting the Financing of Terrorism (CFT) and the Proliferation of Weapons of Mass Destruction (PWMD) ("AML/CFT Legislation") is based on the Constitution of the Republic of Tajikistan and consists of the Tajikistan Law "On Counteracting the Legalization (Laundering) of Proceeds from Crime, Financing of Terrorism and Financing the Proliferation of Weapons of Mass Destruction" (as enacted in the following Tajikistan laws: Law No. 967 of 13 June 2013; Law No. 968 of 13 June 2013; Law No. 1100 of 26 July 2014; Law No. 1404 of 24 February 2017; and Law No. 1521 of 17 May 2018), other Tajikistan regulatory acts, and international legal acts recognized by Tajikistan.

Tajikistan's AML/CFT Legislation includes the following regulatory documents:

- Instruction No. 200 "On Identifying and Verifying the Identity of Clients and Beneficial Owners" (Republic of Tajikistan Ministry of Justice [RT MOJ] Registration No. 726 dated 20.01.2014, with amendments and additions approved by Resolution No. 29 of the National Bank of Tajikistan [NBT] Management Board of 12.03.2018);
- Instruction No. 171 "On the Procedure for Opening, Transferring and Closing Bank Accounts by Credit Institutions in the Republic of Tajikistan" (RT MOJ Registration No. 545a dated 10.06.2011, approved by Resolution No. 44 of the NBT Management Board of 12.04.2018);
- Instruction No. 181 "On the Requirements for Risk Management and Internal Control Systems at Credit Institutions" (RT MOJ Registration No. 620 dated 26.08.2011, with amendments and additions approved by Resolution No. 20 of the NBT Management Board of 31.03.2017);
- Rules for Executing Transactions With Entities Incorporated in Offshore Zones (RT MOJ Registration No. 624 dated 26.09.2011, with amendments and additions approved by Resolution No. 93 of the NBT Management Board of 20.05.2011);
- Instructions for Private Sector Entities for Carrying Out United Nations Security Council Resolutions (approved by Order No. 36/ff of the Chairman of the NBT of 06.02.2014);
- Instructions on Internal Control Rules for Counteracting Money Laundering (Anti-Money Laundering, AML) and Combatting the Financing of Terrorism (CFT) and the Proliferation of Weapons of Mass Destruction (PWMD) (approved by Resolution No. 182 of the NBT Management Board of 28.12.2016);
- Register of Indications of Suspicious Transactions (approved by Resolution No. 87 of the NBT Management Board of 28.04.2011, with amendments approved on 10.05.2013, and amendments and additions approved by Resolution No. 28 of the NBT Management Board of 12.03.2018);
- Recommendations for Identifying and Describing Suspicious Transactions when Assessing Risks (approved by Decision No. 121 of the NBT Management Board of 20.06.2011);
- Instructions for Counteracting Money Laundering (Anti-Money Laundering, AML) and Combatting the Financing of Terrorism (CFT) and the Proliferation of Weapons of Mass Destruction (PWMD) issued by the NBT Department of Financial Monitoring (2018).



Appendix 2. Diagram of interrelated MDO clients





### **Appendix 3. List of relevant documents**

<b>Document identification number</b>	<b>Number of pages</b>
KRM-000014108	3
KRM-000014109	7
KRM-000014328	9
KRM-000030606	15
KRM-000118582	18
KRM-000141139	19
KRM-000155868	20
KRM-000163986	21
KRM-000187938	22
KRM-000188117	23
KRM-000188160	24
KRM-000188161	25
KRM-000188764	26
KRM-000188813	27
KRM-000188817	28
KRM-000188870	29
KRM-000188976	30
KRM-000209093	31
KRM-000271419	36
KRM-000271426	37
KRM-000271497	38
KRM-000271767	39
KRM-000312402	48
KRM-000312407	49
KRM-000314008	50
KRM-000314009	52
KRM-000314331	53
KRM-000314332	54
KRM-000327545	63
KRM-000413904	64



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