

MONEY LAUNDERING,
TERRORISM FINANCING,
WMD PROLIFERATION
FINANCING RISK
ASSESSMENT



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EXECUTIVE SUMMARY

Immediate Outcome 1 of the Financial Action Task Force - FATF¹ Methodology is aimed at ensuring that countries thoroughly understand their risks from money laundering and terrorism financing, and reflect this in their national policies and strategies. The FATF emphasizes the importance of a dynamic, comprehensive and inclusive approach to the fight against money laundering and terrorism financing, taking into account the constant changes that are present in the fight against money laundering, terrorism financing, and the financing of the proliferation of weapons of mass destruction (ML/TF/WMDPF).

The national-level risk understanding is reflected in the comprehensive AML/CFT policies and strategies and the processes the government implements. The government decisions must be flexible and adapt to the challenges of the environment, i.e. risks of ML/TF/WMDPF, risks related to the digital asset sector, to legal entities and legal arrangements, potential abuse of the civil society sector for illegal activities.

The continuous review of the risks helps in overseeing the national threats and vulnerabilities, the resources that the government engages to fight against illegal activity, the manner in which the government (re-)allocates resources, the mechanisms it uses to eliminate and/or mitigate the risks so that they can be "put under control" and monitored. The extent to which the legislative, regulatory and operational measures of the State are proportionate to the established risks is also assessed.

Following this approach, Serbia constantly improves its AML/CFT frameworks and, through the regular three-year risk assessment exercises, it tries to identify threats and reveal system weaknesses in a timely manner. The goal of the State is to effectively oppose all forms of financial crime and illegal activities, and to enable seizure of illegal proceeds.

Regular risk assessments allow for ongoing evaluation of the AML/CFT system, and this ensures that the AML/CFT frameworks remain adaptable to the constantly changing environment in the AML/CFT system. Recognizing new challenges, threats and changes in the financial, non-financial and regulatory environments is essential for maintaining the efficiency and effectiveness of government.

In 2024, Serbia reassessed the 2021 ML/TF/WMDPF risks by conducting the:

Money laundering risk assessment

Terrorism financing risk assessment

AML/CFT risk assessments in the digital asset sector

WMD proliferation financing risk assessment

Risk assessment of misuse the NPO sector for terrorism financing

Legal entities and legal arrangements risk assessment

Serbia will adopt a plan of measures and activities in accordance with risks found in order to protect its financial and DNFBP system from crime.

These improvements will help Serbia to more effectively meet FATF recommendations and strengthen its overall AML/CFT framework.

¹Financial Action Task Force (FATF) - an international body that sets standards in the fight against money laundering, countering terrorist financing and the financing of the proliferation of weapons of mass destruction

The risk assessment update process

On June 20, 2024 Serbian Government adopted a Decision Establishing a Working Group for the Preparation of the National ML/TF/WMDPF Risk Assessments. Working group was tasked with reviewing the risks found by the previous NRA and verify existence of any potential emerging risks and challenges detected in the AML/CFT/WMDPF system as well as sector-specific for NPOs, legal entities and legal arrangements and digital assets sectors.

The Government's decision mainly appointed the same representatives of institutions that had already participated in previous risk assessments, which ensured a better understanding of the risk assessment process and of the system, as well as contributed to the consistency and efficiency of the process.

Jelena Pantelić, a financial forensic expert at the Public Prosecutor's Office for Organized Crime, was appointed National Coordinator of the entire NRA process and Chair of the Working Group.

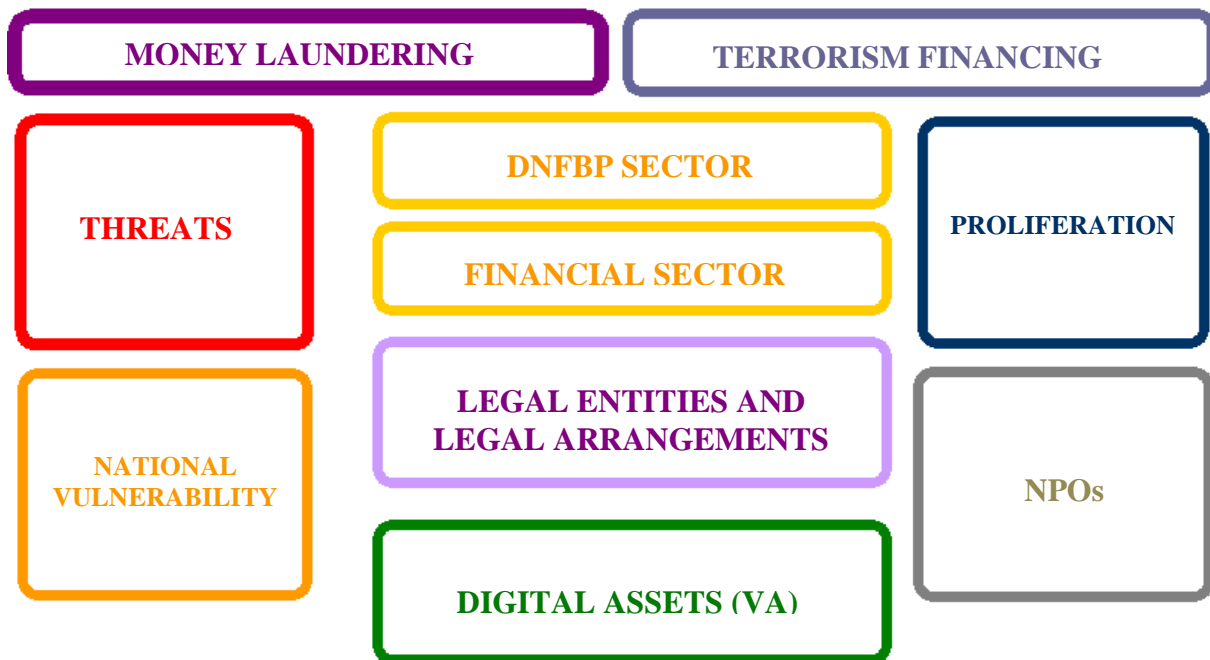
The following subgroups were established for the purposes NRA development: Threats, National vulnerability, Financial and DNFBP sector vulnerability, and Terrorism financing, led by representatives of respective institutions.

The following experts coordinated specific segments of work in the following groups:

- I. Threats (Miljko Radisavljević, Deputy Prosecutor, Republic Public Prosecutor's Office and Jasmina Milanović Ganić, Deputy Prosecutor, Prosecutor's Office for Organized Crime);
- II. National vulnerability (Marijana Simić Vujašević, senior advisor, Prosecutor's Office for Organized Crime and Tatjana Jerosimić, Administration for the Prevention of Money Laundering);
- III. Financial sector vulnerability (Violeta Bojić, senior supervisor, National Bank of Serbia and Goran Kuprešanin, Securities Commission secretary);
- IV. DNFBP sector vulnerability (Danijela Tanić Zafirović, senior adviser, Administration for the Prevention of Money Laundering);
- V. TF and WMDPF risk assessment (Vladimir Stevanović, senior advisor, Public Prosecutor's Office for Organized Crime and Sanja Dašić, senior advisor, Office of the National Security Council and Classified Information Protection).

More focused teams (subgroups) were also established and coordinated by:

- Risk assessment of legal entities and legal arrangements subgroup (Jasmina Milanović Ganić, Public Prosecutor's Office for Organized Crime);
- Risk assessment of ML/TF in the VA sector subgroup (Filip Savić, independent expert associate, National Bank of Serbia, and Aleksandar Božović, senior adviser, Securities Commission);
- Risk assessment of the NPO misuse for TF subgroup (Dragana Vidaković, chief advisor, Security Intelligence Agency)



In addition to the above process managers, the Working Group also included representatives of the Supreme Court, Ministry of Interior, Security Intelligence Agency, and the Ministry of Justice.

Other relevant institutions were also involved, such as the Serbian Business Registers Agency, Tax Administration, Ministry of Economy, Ministry of Finance, National Statistical Office, High Judicial Council, High Prosecutorial Council, Chamber of Public Notaries, Bar Association, Ministry of Internal and Foreign Trade, Ministry of Trade, Tourism and Telecommunications, Ministry of Public Administration and Local Self-Government, Office for Cooperation with Civil Society, Customs Administration etc.

The process was also supported by international experts through workshops intended for developing strategic documents and through the exchange of ideas, independent assessment of the risk analysis findings, prioritization of the data and how to consider it.

Several hundred stakeholders were engaged in the entire process, both from the public and private sectors (obliged entities, professional associations, chambers, civil society organizations, etc.).

The process included academic conclusions and analyses, as well as analyses of relevant international organizations and associations.

Participation of the private sector

Private sector partners had a key role in improving the effectiveness measures and identifying the risks in the AML/CFT system.

The Serbian Chamber of Commerce, the civil society sector (representatives of NPOs) and other sectoral associations (Association of Serbian Banks, Association of Insurers, Association of Real estate brokers, JUTA - Association of Tourist Organizations, etc.), facilitated direct communication private sector partners who had the opportunity to objectively and impartially express their opinions and conclusions relevant to the changes in risk to date. In addition to face-to-face meetings, numerous questionnaires were used to assess threats, vulnerabilities, to look at terrorism financing, proliferation and the digital assets sector. Questionnaires were also used to collect information on data transparency. The private sector

were also consulted about the legal framework, institutional framework, data transparency, registration of business entities and identification of beneficial ownership.

Public-private partnership is particularly evident in the AML/CFT system when it comes to the process of reviewing and identifying risks, where private sector participants are equal partners in making conclusions.

Used methodologies and risk profiling

The World Bank methodology was used to assess the ML/TF risk, and it was also used to assess the risk of legal entities and legal arrangements, and the risk of NPO misuse for TF.

The Council of Europe methodology was used to assess the ML/TF risk in the digital (VA) assets sector, while Serbia's own methodology was used to assess the WMDPF risk with the support of the FATF Methodology and FATF proliferation guidance documents, and the experiences gained from the previous NRA which used the UK RUSI Institute methodology.

In the course of the exercise, certain criteria in the methodologies were supplemented in such a way as to take into account the specificities of the country – established legal concepts, geopolitical location, Serbia's geographical position, Serbia's position in an international setting, so some criteria were, therefore, adjusted appropriately in order for the risk to be assessed as objectively as possible.

In this way, the unique economic geopolitical and cultural context of the country was acknowledged.

Moreover, an Expert Team of the AML/CFT Coordinating Body tasked with reviewing cross-border threats, established in 2019, supplemented the World Bank criteria related to cross-border threats, taking into account the Serbia's geographical position, international cooperation, the structure of clients and risks by residency of the obliged entity and the data exchange. This innovated list of criteria was used both for the assessment of cross-border threats and in the 2021 risk assessment that followed the World Bank methodology, as well as in the current risk assessment.

In addition, the NRA Working Group (national coordinator and Group leaders) developed their own criteria for assessing risky forms of business entities during the 2018 NRA exercise, taking into account the legal and institutional frameworks, the registration process, and business operations of business entities in Serbia. Thus the country-specific risks could be identified and objectively assessed. These criteria were also used for the final assessment of risk in the present NRA.

Data collection, analysis and management

This is the fourth national ML and TF risk assessment, third for legal persons and arrangements, second for the VA sector and also the second for WMDPF.

Effective data collection and management is key for a successful implementation of the process. The process required detailed data from various sources, namely data from financial and non-financial institutions, regulatory bodies, criminal prosecution authorities, police, prosecutor's offices, courts, registrars, relevant ministries, competent inspectorates, and civil society organizations.

All collected data and the method of their use will be elaborated in more detail in the NRA document itself, while we list here only some of the data that was used for the purpose of risk assessment:

- the following data on ML criminal prosecutions were collected and analyzed to ascertain the ML threat: the amount of estimated proceeds, the value of property involved in ML, the value of confiscated property, data on the number of reported,

investigated, indicted and convicted persons, and involvement of organized crime, data on "dark figures", seized and confiscated property from predicate crimes, data on criminal complaints (i.e. reports, charges), SARs, feedback and domestic cooperation, international cooperation, cross-border cash transportation, cross-border threats, inflows and outflows of money of suspicious origin, ML typologies, ML *modi operandi*, etc.

- data collected on products and services that can be used/abused for the ML/TF/WPDPF purposes and those related to the VA sector, financial transactions data, services, the country's balance of payments, corporate information, VA-related transactions, business relationships, utilized sectors, involved legal entities, registered business entities, residents, non-residents in both the financial and DNFBP sectors and the digital asset sector, civil society data, etc.
- the initial step in risk assessment of the financial, DNFBP and digital asset sectors involved an assessment of the criteria, and collection of data on AML control mechanisms (comprehensiveness of the legal AML network; effectiveness of supervisory procedures and practices; availability and application of administrative and penal sanctions; availability and application of sanctions for committed offences; availability and effectiveness of input control mechanisms; integrity of the sector employees; effectiveness of monitoring and suspicious activity reporting; availability and accessibility of beneficial ownership (BO) information; availability of reliable identification infrastructure and access to independent sources of information). The second step involved an assessment of the total size/scope of the sectors, client profile, geographic exposure, products and services, transactions, delivery channels, etc. Then the remaining risk that emerges in each sector after mitigation efforts have been applied was assessed, i.e. the existence of residual risk. The efficiency of the AML risk management system at all institutions and the quality of risk mitigation efforts were assessed to this aim.
- data on the national institutional and legal framework, and the changes that followed after the previous NRA was collected and analyzed, as were established cooperation mechanisms, working bodies and groups, expert teams, data related to tax transparency, the level of formalization of the economy, the effectiveness of border controls and of customs controls, personnel capacities and integrity of employees in AML/CFT institutions, data transparency in the system, audit institutions operating in the country, beneficial ownership, etc.
- already implemented activities and measures taken as a result of the national action plan to mitigate and eliminate risk were also analyzed, activities still pending implementation or those partially implemented, as well as activities that did not produce results and which require revising or changing the approach.

Data from scientific and academic studies were also used. Academic research, relevant conclusions of international organizations, analysis and research done by CSOs, etc. were also consulted.

PERIOD COVERED

The present risk assessment covers a period of three years, from January 1, 2021, when the previous risk assessment was completed, until December 31, 2023.

Competent authorities express special thanks to the Chamber of Commerce and Industry of Serbia and international donors for their assistance and technical support in the NRA process,

especially to the OSCE Mission in Serbia, the Council of Europe-implemented AML/CFT Project in Serbia funded by the Kingdom of Sweden, UNDP Project 'Support to strengthening technical capacity and institutional development of the Ministry of Finance and coordination in the field of economic governance' and UNODC in Serbia (United Nations Office of Drugs and Crime) with respect to understanding the FATF Recommendation 1 and other issues related to the ML/TF/WMDPF NRA.

MAIN CONCEPTS

Risk assessment in the context of money laundering, terrorism financing and WMD proliferation financing requires a structured approach that includes an understanding of materiality, context, threats, vulnerabilities, and the resulting probabilities and consequences.

- **Materiality** is the starting point for the assessment and means significance of various sectors of the financial system and economy and their relevance to potential ML/TF/PF risks. These include exposure to cross-border transactions, regional influences and interconnected financial institutions within the country. Assessing materiality helps determine which areas require more focus and control within the broader risk assessment framework.
- **Context** includes the broader regional and national circumstances that shape the risk landscape, including geopolitical factors, regional instability and cross-border influences that may affect the propensity for ML/TF/PF activities in Serbia. Regional factors, such as proximity to conflict zones, economic ties to neighboring countries, and migration patterns contribute to the overall context in which financial crimes may occur. This understanding of the context provides the information necessary to identify specific threats - such as criminal networks, terrorist groups or actors involved in PF - that may pose a risk to the financial system and national security.
- **Threats** include individuals, groups, entities and activities with the potential to harm the state, society or financial system, through criminal or other illegal means. This includes criminal actors, organized criminal gangs, individual terrorists or terrorist organizations, professional launderers acting as individuals and in organized groups, individuals or organizations subject to targeted financial sanctions (TFS), who seek to conceal illegal income or to channel legal income for illegal purposes, often using sophisticated schemes and complex structures.
- **Vulnerabilities** identify weaknesses in financial and institutional systems that can be exploited by threats. Vulnerabilities can range from inadequate regulatory oversight and weak controls to sector-specific features, such as features of certain financial products that can be used for illicit purposes.
- **Probability of** a ML/TF/PF scenario is a product of these factors and reflects the likelihood that threats will exploit the identified vulnerabilities in a given context and sector materiality.
- **Consequence** is the impact or harmful effect that ML/TF/PF activities can have, including potential damage to the economy, social stability, financial sector, international financial position, domestic, regional and international security.

Therefore, **the risk** in this framework becomes a function of how consequences of ML/TF/PF activities affect Serbia's strategic goals in various areas of development and security. By assessing the materiality, context, threats, vulnerability, probability, and ultimately determining the risks of ML/TF/PF activities, the country can prioritize measures to effectively mitigate such risks, strengthen security, and support comprehensive national development goals.

MONEY LAUNDERING AND TERRORISM FINANCING PREVENTION SYSTEM

Strategic framework

The Government of Serbia takes its AML/CFT policy as a critical component of its broader national development and security strategies. These strategies, articulated in key documents such as the National Security Strategy of the Republic of Serbia, the Revised Fiscal Strategy for the period 2023-2025 and the Economic Reform Program for the period 2023-2025, set the country's primary goals for economic stability, governance and security. AML/CFT objectives are integrated into these broader national priorities, as they play a vital role in protecting the integrity of the economic system, social security and stability. The government recognizes that uncontrolled ML/TF could undermine these broader strategic goals, posing significant risks to Serbia's long-term stability and national security. Therefore, by integrating measures to prevent ML and TF into these broader frameworks, Serbia prioritizes mitigating the ML/TF risks that could threaten its economic development and security goals. Based on this approach, the Serbian authorities have prioritized a number of contextual objectives from these strategies to ensure that efforts in the fields of AML/CFT are aligned with broader national development and security objectives. Developing a risk assessment is therefore focused on assessing how and to what extent these broader objectives are threatened by ML.

The following overarching objectives have therefore been identified and linked to money laundering risk:

ML RISKS FOR SERBIA'S KEY STRATEGIC GOALS	
High risk	<p>Goal: Reducing economic stratification in Serbia (2021 National Security Strategy Goal, Section 4.6 Economic Development and Overall Prosperity)</p> <p><i>Explanation:</i> The economic progress of Serbia in the last three years has been accompanied by an unprecedented growth in construction, development of the real estate sector and the real estate market, which are of essential importance for the existence of the local population. Such positive trends must be protected by strong measures to ensure fair economic competition and prevent unfair market disturbances resulting in negative social consequences. For this purpose, Serbia should prioritize actions to prevent the integration of laundered funds originating from domestic and foreign criminal capital into the market, which can worsen market conditions and social stratification. Therefore, this risk assessment prioritizes comprehensive measures to combat threats posed by certain professions (gatekeepers) serving this market, as well as other aspects of the Serbian economy.</p>
High risk	<p>Goal: Preventing the criminalization of economic activity (2021 National Security Strategy Goal, Section 4.6 Economic Development and Overall Prosperity)</p> <p><i>Explanation:</i> Recent trends in organized economic crime indicate an increasing sophistication of financial techniques, including professional money laundering channels managed by members of certain professions (gatekeepers). There are constant attempts to violate the AML/CFT preventative regime in order to create safe and stable channels for laundering</p>

	<p>the proceeds of crime through the Serbian economy, thus affecting domestic and international financial system. Therefore, it is imperative that such attempts are continuously addressed and that resources for prevention and law enforcement are strengthened.</p>
Medium to high risk	<p>Goal: Citizens' trust in state institutions and the level of their democratic development will increase by strengthening professional ethics and preventative anti-corruption activities. <i>(2021 National Security Strategy Goal, Section 4.2. Preservation of Internal Stability and Security of the Republic of Serbia and its Citizens)</i> <i>Explanation:</i> ML represents a risk to the anti-corruption objectives of the Serbian Government when sophisticated laundering techniques prevent the detection of proceeds from previous crimes related to corruption, especially when an attempt is made to breach the AML/CFT system with the participation of corrupt officials acting in collusion with obliged entities under AML/CFT Law.</p>
Medium to high risk	<p>The ML Risk to Fiscal Stability and Public Finance <i>(Economic Reform Program and Revised Fiscal Strategy (2023-2025))</i> <i>Explanation:</i> This risk assessment has found that ML generates significant amounts of illegal income from tax evasion, which represents a significant risk to the government's goals in ensuring fiscal stability and resources for public finance. Although there is a reduction in the shadow economy, gains in this area may be eroded if anti-money laundering resources are not increased to prevent coordinated breaches of AML systems by sophisticated criminals aiming to create stable avenues for tax evasion.</p>
Medium risk	<p>Terrorism financing represents a medium risk for preserving internal stability and security of the Republic of Serbia and its citizens Terrorism financing represents a medium risk to Serbia's objectives to prevent the instigation, organization and participation of its citizens in foreign wars or conflicts, as well as to suppress the rise of violent extremism in the region <i>(2021 National Security Strategy Goal, Section 4.2 Preservation of Internal Stability and Security of the Republic of Serbia and its Citizens)</i> <i>Explanation:</i> Numerous threats related to terrorism have manifested in and around Serbia and neighboring regions, including self-radicalized individuals, ethnic separatist movements, ideological and religious extremism, regional networks, combatants on foreign battlefields and foreign conflicts – all of which potentially support terrorism financing activities through numerous channels of choice for the financiers of terrorism (payment institutions, exchange offices, financial technologies and non-profit organizations), which could partially penetrate the Serbian financial system. Weighing the environment of inherent threat and existing controls, terrorism financing represents a medium risk to the stability and security of Serbia and its citizens, as well as to efforts to prevent terrorism in neighboring regions.</p>
Medium risk	<p>ML represents a medium risk to creating conditions for foreign and domestic investments in economic development <i>(2021 National Security Strategy Goal, Section 4.6 Economic Development and Overall Prosperity)</i></p>

	<p><i>Explanation:</i> Foreign direct investments in Serbia, led by large international and European investments in the real economy, have been steadily increasing over the observed period. Bearing in mind Serbia's enhanced reputation founded in its AML/CFT system reforms, transparency of beneficial ownership (in the context of AML and Tax Administration) and the shrinking of its shadow economy, the risks of money laundering on domestic and foreign direct investments have been reduced. Any future change in Serbia's financial profile (e.g. an increase in the volume of speculative financing) would justify a review of this factor in the medium term.</p>
Medium to low risk	<p>The ML risk to the development of the capital market in Serbia (2021-2026 Republic of Serbia Capital Market Development Strategy)</p> <p><i>Explanation:</i> Given the underdevelopment of the capital market in Serbia due to macro-financial factors, the risk of money laundering currently plays a negligible role in the development of this market. However, it is necessary to make preparations so as to prevent potential disruptions in the market in connection with ML if the trend of capital market development becomes pronounced in the next reporting period.</p>
Low to medium risk	<p>PF represents a low to medium risk for Serbia's contribution to preserving peace and stability at the global level (2021 National Security Strategy Goal, Section 4.4. Preservation of peace and stability in the region and the world)</p> <p><i>Explanation:</i> Bearing in mind the profile of materiality, the level of inherent threats and the effectiveness of controls, Serbia does not represent a favorable environment for financiers of WMD proliferation, although there is still a low to medium probability of rare, one-off transactions of legal entities engaged in re-export operations using certain vulnerabilities and money laundering based on trade as camouflage.</p>

MONEY LAUNDERING RISK ASSESSMENT

STRATEGIC FRAMEWORK FOR THE PREVENTION OF MONEY LAUNDERING

There is political commitment and support for the fight against money laundering in Serbia, which is reflected in the existence of national coordination and cooperation mechanisms, the fact that the coordination mechanism is headed by a high-level Government representative² and continuous strategic planning in this field in line with the national risk assessment findings.

The 2020-2024 National AML/CFT Strategy is currently being implemented. The Action Plan for its implementation³ was updated to take into account the 2021 National ML/TF Risk Assessment findings.

The National AML/CFT Coordination Body, established by Serbian Government to achieve effective cooperation and coordination between the competent authorities, is tasked with monitoring the implementation of the 2022–2024 National AML/CFT Strategy and its Action Plan. Its permanence is provided and guaranteed by the Law on the Prevention of Money Laundering and the Financing of Terrorism (AML/CFT Law).

The AML/CFT policy is based on a current, formal and comprehensive ML/TF NRA, which involved the widest range of government and private sector stakeholders.

The NRA is updated once in three years, while risk analyses are performed in the meantime, the results of which are taken into account when updating the NRA. The competent authorities and obliged entities began harmonizing their operation and regulations with the current NRA findings as was also the case with the previous three NRAs (2013, 2018, 2021). More specifically, the obliged entities made their own risk assessments to harmonize them with the NRA, and took steps to mitigate the ML risks. The fulfilment of this duty is scrutinized by AML/CFT supervisors under the AML/CFT Law, which provides for appropriate sanctions for non-fulfilment of these obligations.

Context

GEOGRAPHICAL FACTOR

Serbia is a Balkans, Central European continental country covering an area of 88,361 km² and ranks 12th in Europe in terms of size.

Serbia borders on eight countries – Hungary, Romania, Bulgaria, North Macedonia, Albania, Montenegro, Bosnia and Herzegovina, and Croatia. There are a total of 80 international border crossings on the Serbian border (approximately 2,400 km long).

Serbia has an extremely favorable transportation and geographical position. All important traffic routes from Northern, Western and Central Europe to South-Eastern Europe and Asia pass through the Serbian territory. Corridor X is the most important road, connecting with the branch coming from the North from Hungary and continuing through North Macedonia to Greece, with one branch of the corridor separating in Serbia towards Bulgaria and Turkey.

The estimated population size of Serbia was 6,605,168⁴ on January 1, 2024.

² The coordinating body was chaired by the Minister of Internal Affairs and Deputy Prime Minister from its establishment until July 4, 2019, when he was replaced by the Minister of Finance by a Government decision on July 4, 2019.

³ On March 17, 2022, at the proposal of the Ministry of Finance, the Government passed a new Action Plan for the implementation of the National Strategy for 2022-2024

⁴ The estimates are based on the results of the 2022 Census of Population, Households and Dwellings and the results of the annual statistics of natural movements and internal migration of the population, and do not include AP Kosovo and Metohija. See at: <https://www.stat.gov.rs/oblasti/stanovnistvo/procene-stanovnistva/>

TRANSPARENCY AND LEVEL OF CORRUPTION

According to the OECD assessment (Integrity in the Western Balkans | OECD), Serbia has made significant progress in strengthening its legal and institutional systems to fight corruption and increase transparency. The Anti-Corruption Law, which has been in effect since 2020 and was amended in 2021, established a stronger framework for dealing with issues such as conflicts of interest and the declaration of assets and income by public officials. Whistleblower protection mechanisms have also been developed, covering both the public and private sectors and providing safeguards for those exposing corruption. These mechanisms work, with a significant number of whistleblowers emerging. Sectors such as energy and industry, which are particularly vulnerable due to extensive investment and public procurement, are increasingly targeted by anti-corruption efforts. Considering the importance of these sectors for the economy of Serbia, increasing their transparency is essential both for national growth and for the country's goal of joining the EU.

GRECO's latest report on Serbia indicated progress in combating corruption in the highest executive positions. A key factor is the strengthened role of the Agency for the Prevention of Corruption (APC), which now has expanded responsibilities, including monitoring integrity plans in public institutions, asset and income reports, and regulating lobbying activities. Under the Law on the Prevention of Corruption, the increased powers of the APC have increased transparency and accountability in state bodies. In addition, the preparation of the Operational Plan for the prevention of corruption in areas of special risk represents a significant step in the formalization of anti-corruption policies at the highest administration levels. Another positive development is the increased focus on asset and income reporting and the APC's role in resolving conflicts of interest. GRECO emphasizes that the Law on Lobbying provides formal rules for lobbying, including mandatory written notifications and record keeping of lobbyists' interactions with public office holders, encouraging more transparent relations between lobbyists and government officials. However, challenges remain, such as the constraints posed by immunities, insufficient transparency regarding informal lobbying, and the lack of integrity checks for appointments to key public positions. The 2024-2028 Anti-Corruption Strategy seeks to address these shortcomings with comprehensive reforms. Crimes related to corruption as a predicate for money laundering are a priority issue (explained in more detail in the "Threats" section).

The Appendix to the Second Report on the Compliance of the Republic of Serbia with GRECO recommendations within the Fourth Round of Evaluations stated that Serbia fulfilled or addressed ten of the thirteen recommendations contained in the Report on the Fourth Round of Evaluation satisfactorily. Three recommendations remained partially fulfilled. The recently adopted constitutional amendments enabled Serbia to fulfil most of GRECO recommendations related to judges and public prosecutors. The High Judicial Council (HJC) is now made up of a majority of judges elected by their peers, and the *ex officio* membership of representatives of executive and legislative branches has been abolished. The High Judicial Council was recognized as an independent body by the Constitution, which guarantees the independence of courts and judges. Measures were taken to strengthen the transparency of its work and budgetary autonomy. Also, a significant portion of the members of the High Prosecutorial Council (HPC) are now prosecutors chosen by their peers, and the members of the council appointed by the National Assembly are appointed through a procedure that strengthens the pluralism of opinion and ensures a certain depoliticization in these appointments. In 2021, the HJC introduced a protection mechanism against undue influence, which was additionally formalized in 2023 through a Rulebook. From 2021 to 2023, 21 judges requested protection from undue influence, and the Council found undue influence in three cases.

According to the assessment of the World Bank as part of the World Governance Indicators⁵, the rule of law score shows an upward trend and was rated at 49.06, which is a lower score than Slovenia (82.55) and Croatia (61.32), but higher than Montenegro (48.58) and Bosnia and Herzegovina (41.51).

SHADOW ECONOMY

The latest analysis of the volume of the shadow economy in Serbia from 2022, conducted by NALED with the support of the German Development Cooperation⁶, showed that the volume of the shadow economy decreased in the registered economy from 14.9 to 11.7% of GDP over the previous five years. This is a sum as large as 6.5 billion Euros that companies lose at an annual level thanks to unregistered employment, payments of part of salaries ‘cash in hand’, and concealing profits. It is estimated that one in four companies are involved in the shadow economy, while five years ago it was one in three.⁷ To ensure the greatest possible reliability of the findings, NALED estimated the extent of the shadow economy using another, monetary method, which monitors legal and some of financial flows in the unregistered economy. The findings of this study also showed a downward trend in the shadow area - from 22.2 to 20.1% of GDP in the past five years. According to the study, together with the so-called *black economy*, the value of business outside regulations reached almost 11 billion Euros.

The activity most susceptible to the shadow economy is construction, where one in five companies are in the grey zone (as in the processing industry) and as many as 13% of workers are informally engaged (agriculture takes second place). In the entire legal economy, the share of illegally employed people has dropped from 11 to 8.5% over the past five years, and the number of informally engaged workers has decreased by 200,000, which is another confirmation of the decline of the grey zone.

The Coordination Body for the Suppression of the Shadow Economy has continued its work based on the decision from December 2022. This body coordinates the work of state administration bodies and guides activities related to the preparation, revision and implementation of the Program for the Suppression of the Shadow Economy with the accompanying action plan, as well as reporting on the implemented activities. Measures of the 2023–2025 Program are aligned with the Fiscal Strategy, through the continuous implementation of economic and fiscal policy measures that contribute to the fight against tax evasion and the shadow economy.

As explained in the previous risk assessment, inspectorates and the Tax Administration play a very important role in suppressing the shadow economy. Joint coordinated work to suppress the shadow economy through coordinated and joint inspections of unregistered entities by several inspection services within the formed working groups are some of the ways they achieve their targets.

As non-registration of employees and/or partial or full payment of wages in cash represent the dominant forms of the shadow economy, the focus of public policy measures continues to be on reducing informal employment. According to data provided by the Statistical

⁵ <https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access>

⁶ <https://boljinacin.rs/filemanager/Siva-ekonomija-u-Srbiji-u-2022.pdf>

⁷ The research results also show the following:

- The hiring of illegal workers and payment of part of the salaries cash in hand are still key elements of the shadow economy, and 64 out of RSD 100 companies earn in the grey zone are acquired in this way, with the remaining RSD 36 Dinars coming from undeclared profits.
- Companies and entrepreneurs who started businesses no more than three years ago, companies with related parties, and companies without employees have a greater tendency to shadow economy activities. The probability for companies in financial difficulties to reach out to the shadow economy has increased significantly.

Office of the Republic of Serbia, registered employment increased by 2.2% in 2023, continuing the years-long trend of increasing formal and decreasing informal employment. The rate of informal employment was 12.5% in the observed year, which is a difference of almost 4 percentage points compared to 2020, when the rate of informal employment was 16.4% across businesses. Part of the growth is due to the creation of new jobs, but part is the result of the fight against unregistered work.

The Tax Administration carried out controls on the performance of unregistered/undeclared activities in 304 entities between 2021 and 2023. Irregularities were found in 223 entities, representing 75% of the total number of performed checks, and tax duties in the total amount of 336,025,330 Dinars were established.

As one of the characteristic activities in the plan to suppress the shadow economy, checks were carried out on **the recording of transactions through fiscal cash registers**. This control was carried out for 23,873 obliged entities in the territory of the Republic, during which the labor law status of the hired workers was also checked. During the exercise, temporary bans on doing business on these two grounds were imposed in 10,121 facilities (42.39% compared to the total number of inspections). More checks were performed in 2022 and 2023 because of a new model for recording transactions through fiscal cash registers – E-fiscalization – introduced in 2022.

The Tax Administration also dealt with the control of sales of excise goods in its effort to suppress the shadow economy. The total value of confiscated excise goods by the Tax Police Sector of the Tax Administration amounts to 64,642,3752.90 Dinars in this risk assessment's reference period.

In terms of taking measures and actions in their jurisdiction between 2021 and 2023, the tax police sector pressed a total of 1,540 criminal charges to the competent prosecutor's offices. Various goods (excise products – loose tobacco, leaf tobacco, cigarettes, alcoholic beverages, oil and oil derivatives and coffee) in the total value of 330,372,315.60 Dinars were seized by the aforementioned criminal charges, as evidence to the perpetration of criminal offences.

Based on the performed risk assessment as well as on the basis of its own operational work, the tax police sector identified a large number of businesses established with fraudulent intentions in order to avoid payment of public revenues, and which, based on previously established criteria, can be qualified as so-called "phantom" and "launderer" companies that are the biggest generators of the shadow economy. A total of 1,279 such businesses were identified in the specified period of time.

Entrepreneurs are more than twice as likely to find themselves in the shadow economy as are companies, but the rates decrease for entrepreneurs submitting financial statements. Therefore, the Strategy for suppressing the shadow economy for the period 2020-2025 includes a series of measures aimed at entrepreneurs.

Summary

Serbia has a strategic geographical position that serves as a key transit route for connections between Europe and Asia. Some progress has been made in the fight against corruption and in achieving greater transparency through the Law on the Prevention of Corruption and increased supervision by the Agency for the Prevention of Corruption (APC). Reforms in the independence of the judiciary and stronger rules on declaring assets and income have improved transparency in public institutions. Despite these improvements, challenges such as informal lobbying and political immunities still exist, although the Anti-Corruption Strategy for 2024-2028 aims to improve the situation in this area. The shadow economy has shrunk, contributing to the reduction of unregulated financial activities, which helps reduce the risk of money laundering.

<i>Factors that indicate a higher likelihood of money laundering:</i>
<i>Long borders:</i> Long borders and a large number of border crossing points are challenges in preventing illegal cross-border criminal activities.
<i>Political immunities:</i> Formal immunities for certain public office holders can limit accountability and hinder anti-corruption efforts.
<i>Informal lobbying practices:</i> The lack of transparency in informal lobbying creates opportunities for undisclosed financial transactions that could be used for money laundering.
<i>Remaining shadow economy:</i> Despite the reduction, the shadow economy still makes up a significant part of Serbia's GDP, especially in high-risk sectors such as construction.
<i>Factors that indicate a lower likelihood of money laundering:</i>
<i>Strengthened legal framework:</i> The Law on the Prevention of Corruption and improved APC oversight mechanisms improve transparency and reduce opportunities for corruption-related money laundering.
<i>Judicial reforms:</i> Constitutional amendments that improve the independence of judges and prosecutors help ensure a more impartial legal system that is critical to solving money laundering cases.
<i>Reduced shadow economy:</i> A declining shadow economy reduces the flow of unregulated financial activities.
<i>Asset and income reporting and lobbying oversight:</i> Increased focus on public officials' asset and income reporting and formalized lobbying rules limit avenues for illegal financial activity.
<i>Whistleblower Protection:</i> Whistleblower protection mechanisms encourage the reporting of corrupt practices, helping to prevent and address money laundering issues as well.

Materiality: general and comparative analysis

The gross domestic product (GDP) in 2023 was RSD 8,817,763 million (approximately EUR 75 billion). Compared to the previous year, the GDP is nominally higher by 18.2%, and higher by 3.8% in real terms. Thus, Serbia shows one of the highest GDP growth rates in Europe, driven by a balanced economic policy, strong efforts in tax transparency, which resulted in a significant inflow of foreign direct investments from the world's leading economies. Similar or increased growth rates are expected in the coming years, due to a number of large infrastructure projects underway in Serbia and increased investment attractiveness following the recent upswing in Serbia's investment rating.

Despite the extremely positive dynamics of economic growth, the overall size of the Serbian economy remains relatively small compared to other EU economies. For example, the value of Hungary's economy was around EUR 180 billion, and the GDP of the Czech Republic was over EUR 300 billion. Larger economies, such as Poland with more than EUR 700 billion and Germany with over EUR 4 trillion, further emphasize the small size of the Serbian economy despite its significant growth.

Although relatively stable and growing, and sizeable in terms of balance sheet total compared to other countries in its vicinity, the financial sector of Serbia is simultaneously small compared to other European countries, so it does not have the depth or international reach necessary to support the type of financial transactions that are present in global financial centers.

As of 2023, the total assets of the Serbian banking sector amounted to approximately EUR 50.71 billion, which is modest in comparison with the financial sectors of established European financial centers such as London, Frankfurt or Paris. For example, the total assets of the banking sector in Germany exceed EUR 9 trillion, and in the United Kingdom it exceeds

EUR 10 trillion. Even compared to regional players such as Poland, where the assets of the banking sector amount to around EUR 600 billion, Serbia's financial system is significantly smaller.

This limited scope of the financial sector is also reflected in the stock exchange activities in the country. The Belgrade Stock Exchange, which is the primary stock exchange in Serbia, has a low trading volume and limited market capitalization, which makes it a negligible player in the global financial markets.

The Serbian banking sector, although well capitalized and profitable, does not have the depth or international reach necessary to support the type of financial transactions seen in global financial centers. The sector is dominated by several large local banks and subsidiaries of foreign banks, with foreign-owned banks holding around 75% of total assets. However, these banks primarily serve the local market and the Western Balkans region, with limited participation in global finance.

Domestic credit markets are relatively underdeveloped, with total domestic loans to the private sector amounting to around 45% of GDP, compared to the European Union average of over 100%. In addition, the banking sector still mainly focuses on traditional banking products and services, rather than complex financial instruments or services typical of major financial centers. The absence of significant derivatives markets, limited foreign exchange trading, and minimal presence of international financial institutions further emphasize the insignificant role of Serbia in the global financial system.

While stable and growing, the Serbian insurance sector also reflects the overall modest size of the country's financial industry. As of 2023, the Serbian insurance market has generated premiums of around EUR 1.3 billion, which is relatively small compared to other European countries. For example, in neighboring Croatia, the annual premiums of the insurance sector amount to around 1.5 billion euros, while in more developed markets such as Poland, annual premiums exceed 15 billion euros.

The insurance market in Serbia is dominated by several large companies, with the first five insurers accounting for over 70% of the market share. The sector primarily focuses on non-life insurance products such as motor vehicle insurance and property insurance, which account for the majority of calculated premiums. Life insurance, despite growing, still represents a smaller part (0.5%) of the market compared to more developed economies. The insurance penetration rate in Serbia, measured as the ratio of gross invoiced premium to GDP, is about 2%, which is below the European Union average, indicating further room for growth.

However, the limited scope and focus on core insurance products means that the insurance sector in Serbia does not have the depth or diversity needed to significantly contribute to the country being considered a global financial hub.

Serbia's trade profile also reflects its position as a smaller, regionally focused economy rather than a global trade hub. In 2023, the total volume of Serbian trade, including imports and exports, was around 85 billion euros. Although this is significant in relation to Serbia's GDP, it is small compared to large European countries. For example, Germany's trade volume exceeds 2 trillion euros per year, and even smaller EU countries such as Hungary and the Czech Republic have trade volumes exceeding 200 billion euros.

Serbia's trade is largely focused on the European Union, with around 60% of total trade. The country's export base is relatively narrow, and lacks the diversity of high-volume trade necessary to be considered a major import-export hub.

Compared to the countries in the region, the financial sector and the volume of trade in Serbia show relative strength, although they are still modest by European standards. Croatia, for example, has a more advanced financial system, with banking assets of approximately 79 billion euros, which is significantly higher than Serbia's 50.71 billion euros. In contrast, North Macedonia and Montenegro have much smaller financial systems, with banking sector assets

in North Macedonia of around €10 billion and in Montenegro around €6.7 billion. These economies also show a smaller volume of trade, with North Macedonia recording an annual trade value of around 15 billion euros, and Montenegro around 3 billion euros.

Albania and Bosnia and Herzegovina similarly have smaller financial and trade volumes. The banking sector of Albania, for example, has assets of about 19 billion euros, while the volume of trade is about 9 billion euros per year. Bosnia and Herzegovina, although larger than Albania, still lags behind Serbia and Croatia, with banking assets of around 22 billion euros and trade volume of around 18 billion euros. These figures put Serbia in a stronger, but not the strongest, position in the Western Balkans.

Sectoral analysis of materiality shows that the banking sector represents about 90% of the total balance of the financial sector of Serbia, while the remaining 9% is covered by insurance, financial leasing, and voluntary pension fund sectors.

Serbia's financial sector, banking system and trade profile are more suited to a medium-sized, local and to some extent regionally focused economy, rather than a global financial or trade hub.

All in all, the materiality profile of Serbia reflects the positive dynamics of economic growth and the trend of investment transparency, although still with a negligible impact on international and even European financial systems. This, on the other hand, indicates that the inherent structural and macro risks in terms of money laundering or the financing of proliferation of weapons of mass destruction originating in Serbia are lower, compared to the potential inherent risks of larger European and global economies.

For a detailed analysis of materiality for sectors, see the section on sectoral vulnerability.

Summary:

In terms of comparative materiality, the Serbian economy recorded strong growth in 2023, but is still small compared to medium and larger European economies. The Serbian financial sector, with modest banking assets and limited global reach, focuses primarily on local markets. The insurance, securities, and trading sectors are also underdeveloped compared to most European countries. Although the Serbian financial system is smaller than some, it remains stronger than the financial sectors of other countries in the Western Balkans region. Overall, the limited size of Serbia's financial sector and the predominant focus on the local market result in lower inherent money laundering risks compared to medium and larger European economies.

Factors that indicate a higher likelihood of money laundering:

Growing foreign direct investment and large infrastructure projects: *Although foreign direct investment in Serbia boosts economic growth, it can also attract actors involved in illegal activities who want to launder money through real estate investments or stakes in large construction projects.*

Factors that indicate a lower likelihood of money laundering:

Small economy and limited financial sector: *Serbia's modest economic and financial strength limits its exposure to major money laundering risks.*

Banking focused on the local market: *Banking primarily serves local markets, reducing exposure to cross-border risks.*

Traditional financial products: *A focus on core banking services minimizes exposure to money laundering that uses sophisticated financial instruments.*

Narrow trade base: *A focus on regional trade minimizes the high risks of trade-based money laundering.*

Limited global financial role: *Serbia's financial system is small at the global level, which reduces exposure to international money laundering.*

No characteristics of a global financial hub: The lack of complex financial markets and institutions limits the likelihood of complex money laundering.

ACTIVITIES IMPLEMENTED FOR THE PURPOSE OF MITIGATING 2021-2024 RISKS

The points below describe the measures taken by Serbia, which are aimed at the entire spectrum of risks identified in the NRA 2021.

Awareness and dissemination of NRA findings

- After the adoption of the NRA, its findings were presented to a wide range of public and private sector representatives - AML/CFT preventive stakeholders. Workshops were held in many Serbian cities for representatives of state authorities and entities falling under the scope of the AML/CFT Law, and printed version of the NRA document were distributed.
- The NRA findings were also presented at the strategic level to coordinating bodies that deal not only with the AML, but also with areas of inspection oversight (Coordinating Commission for Inspection Oversight), the fight against terrorism (National Coordination Body for the Fight against Terrorism) and the fight against proliferation of weapons of mass destruction (National Coordination Body for the Prevention of the Proliferation of Weapons of Mass Destruction).
- The NRA findings were presented at a session of the Serbian Government

Cooperation and coordination

- Increased cooperation and coordination between competent authorities, including informing the heads of these authorities about the national risk assessment results, contributed to a better understanding of the identified risks, awareness raising concerning the importance of this process, as well as establishing priorities in each authority's operation based on the risk assessment results – updating acts (guidelines, decisions, etc.), questionnaires, creating a monitoring plan, indicators for recognizing grounds for suspicion of money laundering, etc.
- The AML/CFT Coordinating Body established nine expert teams in order to implement the 2022-2024 Action Plan items related to vulnerabilities found in the money laundering prevention system. These interagency expert teams continuously informed the AML/CFT Coordinating Body and all interested parties in the AML/CFT system about their work results. Also, private sector representatives greatly contributed to the work of the expert teams through participation, but also through providing data and information, providing inputs for the analyses necessary for the execution of the tasks of the expert teams.

Improvement of the legal and regulatory framework

- *Recommendations for filing SARs to the APML* were passed and published, with a view to help obliged entities in implementing AML/CFT measures, and especially in terms of timely detection, prevention, or reporting of suspicious activities.
- *ML/TF Risk Assessment in the real estate sector* was prepared as a special risk assessment of this high-risk sector, representing an attempt by private and government sectors representatives to determine the reasons for the high risk assessment of the real

estate sector on the one hand, and on the other hand to propose a solution for risk elimination and/or mitigation through recommendations relative to the activities that need to be carried out in the following period.

- In 2023, an expert team established by the AML/CFT Coordinating Body developed the *Typologies of Money Laundering*, which were published, presented to the public and distributed to all categories of obliged entities and competent state authorities in order to facilitate their identification.

Institutional reforms and system development

- A web platform was created with the aim of keeping uniform records of ML and TF cases, to enable monitoring of the progress of ML and TF cases from the initial information to the final court decision. The web platform has been in operation since mid-2024.
- An analysis of the legal framework regulating the transportation of bearer negotiable instruments across the state border was made, and recommendations were given for overcoming the vulnerabilities found. In addition, the Customs Administration improved their existing list of indicators for identifying suspicious activities related to declared and undeclared cross-border transportation of payment instruments.
- An expert team established by the AML/CFT Coordinating Body made an analysis of risk assessments performed by obliged entities (both FIs and DNFBPs) at the institutional level (under Article 6 of the AML/CFT Law) and developed a list of recommendations for improving their analyses so that they are an objective review of the institutions applying the AML/CFT Law;
- A decision was made on the form, content and method of using payment order forms for the execution of payment transactions in RSD in order to identify and effectively monitor all transactions in the banking system made in connection with/on the basis of payment/collection for real estate and digital assets;
- The 2021 NPA found the need to improve the regulatory framework on seizure and confiscation of assets. Therefore, an analysis was made of the regulatory framework for seizure and confiscation of property and proceeds in criminal proceedings and proceedings for the confiscation of proceeds from crime, especially in terms of their compliance with FATF recommendations and shared with the Ministry of Justice. Based on the results of the analysis, the Minister of Justice established a working group to draft a Law Amending the Law on Seizure and Confiscation of Proceeds from Crime. The text of the amendments to this law is planned to be drafted by the end of 2024.
- The action plan for implementing the AML/CFT Strategy includes an item to amend the Law on the Central Records of Beneficial Owners, which will improve the content of the Central Records (introducing the duty to record the a registered entity's BO on each of the applicable grounds, the duty to upload documents and ownership structure charts to the Central Records of BOs) and an item for the development/improvement of the software application. In September 2023, a public hearing was held on the Draft Law on the Central Records of Beneficial Owners, and the adoption of this law is expected.

Prioritization of money laundering cases

- In 2021, the Prosecutor for Organized Crime issued a Mandatory Instruction on the Prioritization of Money Laundering and Terrorism Financing Cases. The special anti-corruption departments of the Higher Public Prosecution Offices in Belgrade, Novi Sad,

Niš, and Kraljevo list money laundering cases as a priority in their annual operational plans and programs.

- In 2022, the mandatory instruction of the Ministry of Interior's General Police Directorate on consistent criminal prosecution of legal entities involved in the perpetration of ML/FT crimes, as well as instructions on how to act upon learning that a criminal offense has been committed and instructions on operational procedures for conducting financial investigations, were all updated.
- The Chief Public Prosecutor for Organized Crime established a Permanent Task Force to identify and prosecute OCG members who commit the crime of money laundering.
- The newly established financial forensics function and available mechanisms for providing MLA helped the competent Serbian authorities seize the assets of defendants and third parties connected to them in Montenegro and Spain between 2021 and 2023.

Strengthening national and international cooperation

- Numerous cooperation agreements between state authorities were signed, including between the Customs Administration and the General Public Prosecution Office. This agreement led to criminal trials against 12 persons for the transportation of bearer negotiable instruments in the amount of EUR 16,843,289.00 between 2021 and 2023;
- The continuous exchange of information between supervisors and the APML, especially regarding suspicious activities, led to the sanctioning of several obliged entities. Owing to this cooperation and the information obtained from the APML, a large number of irregularities in one bank and the organizer of games of chance were found, an authorization for engaging in currency exchange operations was temporarily revoked from one exchange office, and in another case the exchange office was temporarily closed and a report for an economic offence was filed, and a report for an economic offence was also filed against another organizer of games of chance. In addition, an entity that used a personal bank account for the unauthorized provision VA services was banned from conducting VA business, i.e. operations related to virtual currencies. and fined;
- In addition, the agreement between the National Bank of Serbia (NBS) and the Securities Commission (SEC) contributed, among other things, to the improvement of the efficiency of entry mechanisms into the digital assets sector. Under this agreement, the NBS and SEC exchange information regularly and without obstacles in the VA licensing procedures, and in other VA-related administrative decision-making procedures. The NBS sent 67 letters to the Securities Commission in accordance with this agreement in between the two assessments.
- In accordance with the current agreement, four workshops in Belgrade, Kragujevac, Novi Sad and Niš contributed to the improvement of the operational cooperation between the NBS and public prosecutor's offices in the area of criminal and other proceedings related to digital assets. In relation to this, the National Bank of Serbia also filed to the public prosecutor's office a criminal complaint for unauthorized digital asset service provision.
- Cooperation between supervisory, inspection and other relevant authorities and competent police units and public prosecutor's offices tasked with prosecuting the crime of money laundering had the form of regular meetings. Modalities and areas of possible further cooperation were particularly considered.
 - As a result of this cooperation, the Games of Chance Administration filed 19 criminal complaints to the competent public prosecutor's offices.

- The Chamber of Public Notaries continuously follows up on the Ministry of Interior's requests for data and documentation, as well as requests for information submitted by public prosecutor's offices. Based on these requests, the Chamber decides on and conducts extraordinary oversight of public notaries and informs the requesting authorities of the outcome. In the assessment period, the Ministry of Interior sent 5 requests to the Chamber, and the higher public prosecutor's offices sent 10 requests⁸ that were followed up on.
- A number of agreements were signed between the competent Serbian authorities and other those of other countries with the aim of improving international cooperation in the fields of criminal prosecution and MLA, as well as the international cooperation between supervisory authorities.
- After the adoption of the previous ML/TF NRA, the supervisory authorities examined the procedures used for identifying the obliged entities' beneficial owner(s), but also carried out supervision over the accuracy and updating of the recorded data, and the storage of data and documents. Targeted oversight was carried out by the APML Supervision Department, Market Inspection, Games of Chance Administration, while the NBS and Securities Commission also paid special attention to these issues as part of their inspections. These inspections led to economic offense and misdemeanor proceedings, and fines imposed by the supervisory authorities, which will be discussed in more detail in variable 2.22.

Capacity building and training

- Ongoing capacity building efforts focus on strengthening human and technical resources, as well as improving knowledge of identified risks. These efforts include continuous training of AML/CFT stakeholders.
- A series of training sessions of competent authorities⁹ tasked with identification, criminal prosecution and trial in financial and economic crime cases, including money laundering, was carried out on various topics, including the topic of confiscation of property. Special training for judges of commercial and misdemeanor courts¹⁰, as well as supervisory authorities, is also implemented continuously.

The risk assessment of different sectors, as well as the list of criminal offenses that pose a higher level of risk, has changed in the last three risk assessments, as can be seen from the following chart.

⁸ Higher Public Prosecutor's Office in Belgrade - 4 requests, in Niš - 2 requests, in Novi Sad - 2 requests and Higher Public Prosecutor's Office in Kraljevo - 2 requests.

⁹ Activities 2.3.13, 2.3.14, 3.1.8, 3.1.9, 3.1.10, 3.1.11, 3.1.12, 3.1.13, 3.1.14, 3.1.15 of the Action plan

¹⁰ Activity 2.3.12. of the Action plan

2018		2021		2024	
	Banks		Real estate		Real estate
H	Online gambling operators	H	Online gambling operators	H	Lawyers
	Real estate		Banks		Accountants
	Casinos		Accountants		Banks
MH	Accountants	MH	Currency exchangers		Currency exchangers
	Currency exchangers		Casinos		Notaries public
	Notaries public		Real estate brokers		Real estate brokers
M	Lawyers	M	Lawyers		Online gambling operators
	Capital market		Factoring companies		Digital asset service providers
	Payment and e-money institutions		Capital market	MH	Casinos
ML	Auditors	ML	Payment and e-money institutions		Postal operators
	Voluntary pension funds		Auditors	M	Auditors
	Insurance companies		Notaries public		Payment and e-money institutions
L	Financial leasing providers		Financial leasing providers	ML	Capital market
			Insurance companies		Factoring companies
		L	Voluntary pension funds	L	Financial leasing providers
			Postal operators		Insurance companies
					Voluntary pension funds

Graph 1. Risk levels in various sectors

The real estate sector has been assessed as posing the highest ML risk since 2018, and this is also the case for the 2024 NRA. Owing to significant cash turnover, ‘dirty’ money investments and integration, as well as the scale of activities in the real estate sector, it has lost any of its appeal to money launderers for years. Real estate sale and lease brokers and public notaries who are directly related with this sector are also assigned higher risk. Other DNFBP stakeholders were assessed in the same way. The set of actions and measures that were taken and the effective detection and prosecution rates of the obliged entities’ employees in the financial segment of the system also had an effect on the change in the risk for the banking sector to a slightly lower level of risk. The capital market carries a somewhat higher risk compared to other financial institutions that are rated as lower risk. Risks in the DNFBP sector are growing.

DNFBP stakeholders, accountants and lawyers, use their professional skills to devise money laundering schemes. Bearing in mind the number of obliged entities in the sectors, the number of SARs filed by accountants, real estate brokers and lawyers is insignificant or non-existent.

	2018	2021	2024
H	Tax crimes	H Abuse of position of a responsible person	H Tax crimes
	Abuse of position of a responsible person		Abuse of position of a responsible person
	Abuse of office		Abuse of office
	Illegal manufacturing and trafficking in narcotics		Illegal manufacturing and trafficking in narcotics
	Crimes perpetrated by organised crime gangs		Crimes perpetrated by organised crime gangs
	Illegal border crossing and human smuggling		Fraud
M	Grand larceny	M Fraud	M Illegal border crossing and human smuggling
	Robbery		Forgery of identification documents (CC Art 355 & 357)
	Fraud		Human trafficking
	Extortion		Mediation in prostitution
	Illicit trade		Illicit trade
	Crimes connected to corruption		Fraud in the conduct of business activity
			Unauthorized construction
			Illegal warehousing of goods from LTPTA Art 176a

Chart 2. Crimes with high and medium money laundering threat levels

Tax crimes, abuse of position of a responsible person, abuse of office, unauthorized production and trafficking of narcotic drugs and crimes perpetrated by organized crime groups were classified as high threat crimes in the 2018 and 2021 NRAs, and this trend remained unchanged also in the present NRA. The crime of illegal border crossing and human smuggling was assessed in the 2021 NRA as a high threat crime, as a result of the peak of the "migrant crisis" and the fact that Serbia was previously part of the main Balkan route for the movement of migrants, so its territory was inevitably affected by the illegal activity of the involved OCGs. The proceeds levels from this criminal activity show a decrease for the period, they are spent on daily needs, and the OCG members that engage in this criminal activity are at the lowest levels of organization and are established *ad hoc*. Also, there is a decrease in the frequency and number of migrants. All of these factors had an impact on this criminal offense being classified at a medium threat level in the 2024 NRA.

EMERGING RISKS

Pawnshops

Pawnshops were identified as posing an ML risk given that this sector appeared in ML cases in the timespan covered by this risk assessment.

Pawnshops are not included in the AML/CFT Law as obliged entities. A special license is not required to operate in the pawnshop sector, it is sufficient for a company or entrepreneur to register with the Serbian Business Registers Agency. Previously pawnshops were mostly registered in the form of LLC or entrepreneur, which were assessed as being high-risk forms under the previous NRA. Their number, as well as total income, is growing from year to year. Inspection oversight over this sector is highly limited and reduced to checks performed by the Market Inspectorate, which carries it out only in cases when pawnshops purchase items made of precious metals.

Of particular concern is the observed practice that is not consistent with the pawnshop business, which is that they buy checks from citizens for a smaller amount than the amount stated on the check, and provide loans in the form of attachment of earnings. In this way, pawnshops assume the role of banks, and engage in illegal lending to citizens.

In this regard, the NBS issued an opinion in which it stated that while was not prohibited for a natural person, entrepreneur or legal entity to lend money to another person in a certain situation (by entering into a loan agreement, agreeing also on any interest), yet *engaging* in the business of lending (or lending money with interest) is not only prohibited, but already constitutes a criminal offense under Article 136 of the Law on Banks, regardless of what term is used for that activity and regardless of the name of the contracts that persons who illegally engage in this activity conclude with citizens to whom they make money available. The NBS considers that pawnshops cannot engage in the lending with interest business or cashing checks for a fee, regardless of the legal form in which they are registered.

Therefore, in the coming period, it will be necessary to pay special attention to further regulating this field in more detail, as well as to control the sector in order to prevent any consequences that the absence of clearly set out rules for the operation of pawnshops can cause for the AML system.

Investors (Developers)

The assessment of ML risk in the real estate sector has shown a growing threat involving a special category of entities that do not have the status of business entities. These are natural persons – investors (developers). According to a Tax Administration analysis, where these persons are not registered in the VAT system, i.e. where they have not registered their construction business activity with the Serbian Business Registers Agency, they most often try to avoid paying taxes. These are persons who, after constructing the building, sell residential or business premises, and do not report the money from the sale to the tax authorities, but keep it for themselves, without paying public revenues.

The risk of money laundering through the DNFBP sector lies in the real estate sector, especially taking into account that numerous natural persons appear in the Serbian VAT system as investors and then sellers of newly built real estate. The number of natural persons who have submitted a VAT return is constantly increasing from year to year. Between 2019 and 2023, natural persons - investors saw a noticeable increase in turnover in the construction of residential and non-residential buildings. The turnover generated in 2023 is higher than the 2019 turnover by 46.94%.

The real estate construction business carries an increased ML risk because payments for building materials can be made in cash. What also increases the risk is insufficient legal regulation of this sector. More specifically, the VAT Law enabled **natural persons – investors (developers)** to register in the VAT system, without having to be registered as taxpaying entrepreneurs.

Therefore, natural persons registered in the VAT system are not registered in the SBRA or with any other competent organization, but file an application for registration in the VAT system to the Tax Administration, in accordance with the VAT Law. These persons do not have the duty to submit financial statements, nor open a business account. All transactions related to the construction of the building (procurement of products and services, as well as turnover from sales) are recorded on the private current accounts of these natural persons. The Tax Administration only has the data that is shown in the VAT returns and POPDV¹¹ reports, which makes it difficult to identify risky obliged entities due to insufficient business data.

Also, natural persons in the VAT system were not obliged to record transactions through fiscal cash registers until May 2022. With the introduction of Electronic Fiscalization in Serbia, there is an obligation to register natural persons in the VAT system in the e-fiscalization system.

¹¹ POPDV is translated as ‘overview of VAT breakdown’

Bearing in mind all the above, it is necessary to carry out a comprehensive analysis of the legal framework, methods and conditions of doing business, supervision and control of doing business for natural persons - investors (developers) and introduce a duty for all natural persons who are in the VAT system and who are engaged in construction of buildings – investors (developers), to open a dedicated account for this purpose and conduct their business through that account. In addition, it is necessary to define the activities of the institutions in accordance with the conducted analysis.

Crowdfunding

Vulnerability from ML/FT related to crowdfunding in Serbia stems from the absence of a specific legal regime regulating this field, the application of a flexible financing model by service providers¹² currently operating on the market, and the presence of crowdfunding platforms based abroad.¹³ This is the conclusion of the Crowdfunding Analysis conducted as part of this ML/FT risk assessment process.

More specifically, the field of crowdfunding has not been comprehensively regulated in Serbia until now, which may have an effect on the increase of abuses for ML/FT purposes. Crowdfunding can be defined as an alternative form of organized and publicly available financing of business or other commercial activities, carried out through a crowdfunding platform, through collecting funds from a large number of independent investors.

The crowdfunding market shows a growing tendency at the global level, and the estimated value of this market worldwide was 19 billion dollars at the end of 2023. The European market is the most developed one. When compared to the global and European crowdfunding markets, it can be concluded that the Serbian market is still in development.

Investment and loan crowdfunding models have the greatest representation in Serbia. There are currently two crowdfunding service providers operating on the market. A total of 22 crowdfunding projects were implemented in Serbia between 2020 and 2024, with investments to the tune of 120,091,852.00 Dinars paid by 1,065 investors, which indicates that the market of crowdfunding in Serbia is still in development compared to other financial sector market participants.

On foreign platforms from the USA, United Kingdom and Switzerland, citizens of Serbia are in the role of project holders for a total of 544 open projects, which requires further attention in the future, given that activities on these platforms may be beyond the scope of the supervisory authorities of Serbia.

A total of 4,079 transactions related to crowdfunding were carried out in Serbia between 2021 and 2023, to the tune of 129,606,783.99 Dinars, of which ten times more were carried out through payment institutions and e-money institutions (3,720) than through banks (359), but with significantly lower total value of transactions.

The obliged entities recognized that the sector's vulnerability is reflected in its inability to adequately implement CDD, and to monitor the source of the funds invested in the project, as well as the inability to determine the basis of the investor's participation in the project and its connections with the project holder. AML/CFT risks associated with crowdfunding in

¹² The flexible financing model is currently present with only one provider of crowdfunding services in Serbia. As the flexible crowdfunding model allows retention of collected funds, in case of project failure, it can represent a significant risk due to inadequate control over the invested funds, especially if the project holder is not subject to strict requirements in terms of reporting and disclosure of information about the project.

¹³ The activity of foreign platforms on the Serbian market is not very significant at the moment, considering these platforms allow Serbian citizens to exclusively invest funds in small/medium-sized EU companies, and the possibility to be project holders (launch a project) within their project portfolio, mostly for personal and creative fundraising purposes.

Serbia, therefore, stem from insufficient recognition of crowdfunding models and transactions related to them, as well as possible abuses.

Comprehensive regulation of crowdfunding must be carried out in the upcoming period, after deciding on the method and scope of applicable supervision and regulation, which will take into account the results of the ML/TF risk assessment. A special emphasis should be placed on ML/FT measures, which are essential for preserving the integrity of the country's financial system.

Cryptocurrencies

Cryptocurrencies represent a growing ML risk. Although cryptocurrencies are not necessarily intended to be used for criminal activities, their anonymity, decentralization, lack of sufficient control, easy availability, speed and ease of use make them very attractive for criminal transactions, i.e. payment of criminal products and services. Proceeds from crime may already be in the form of virtual currency or may be easily converted into these currencies.

The use of virtual currencies for trading in products whose circulation is prohibited is on the rise, while almost all payments on the dark web are made through cryptocurrencies.

Although, regulation has progressed in this, until recently unregulated area, including in Serbia, which has a Law on Digital Assets in force since 2021, countries still face a number of difficulties in monitoring transactions related to cryptocurrencies and their seizure.

For purposes of money laundering through digital assets (VA), criminals today mainly use the services of mixers (*mixers/tumblers*), decentralized platforms and exchange offices for the conversion of a currency to another, in addition to traditional structured payments for the purchase of cryptocurrencies via crypto machines (*smurfing*) and direct buying and selling (*Peer to Peer*), in order to conceal the source of money and any the connection with a specific crypto-wallet, i.e. the person using it. On the other hand, not all jurisdictions apply the so-called *travel rule* procedures, making it difficult to establish the identity of users of cryptocurrencies and transactions.

More information on this growing risk can be found in the ML/TF Risk Assessment in the Digital Assets Sector.

REGULATORY FRAMEWORK AND RELEVANT AML/CFT STAKEHOLDERS

Serbia has a very broad normative framework that deals with the regulation of various areas that are relevant to the AML policy, but the following laws are of greatest importance:

- Law on the Prevention of Money Laundering and Terrorism Financing (AML/CFT Law)
- Criminal Code
- Law on Seizure/Confiscation of Proceeds from Crime

INSTITUTIONAL FRAMEWORK

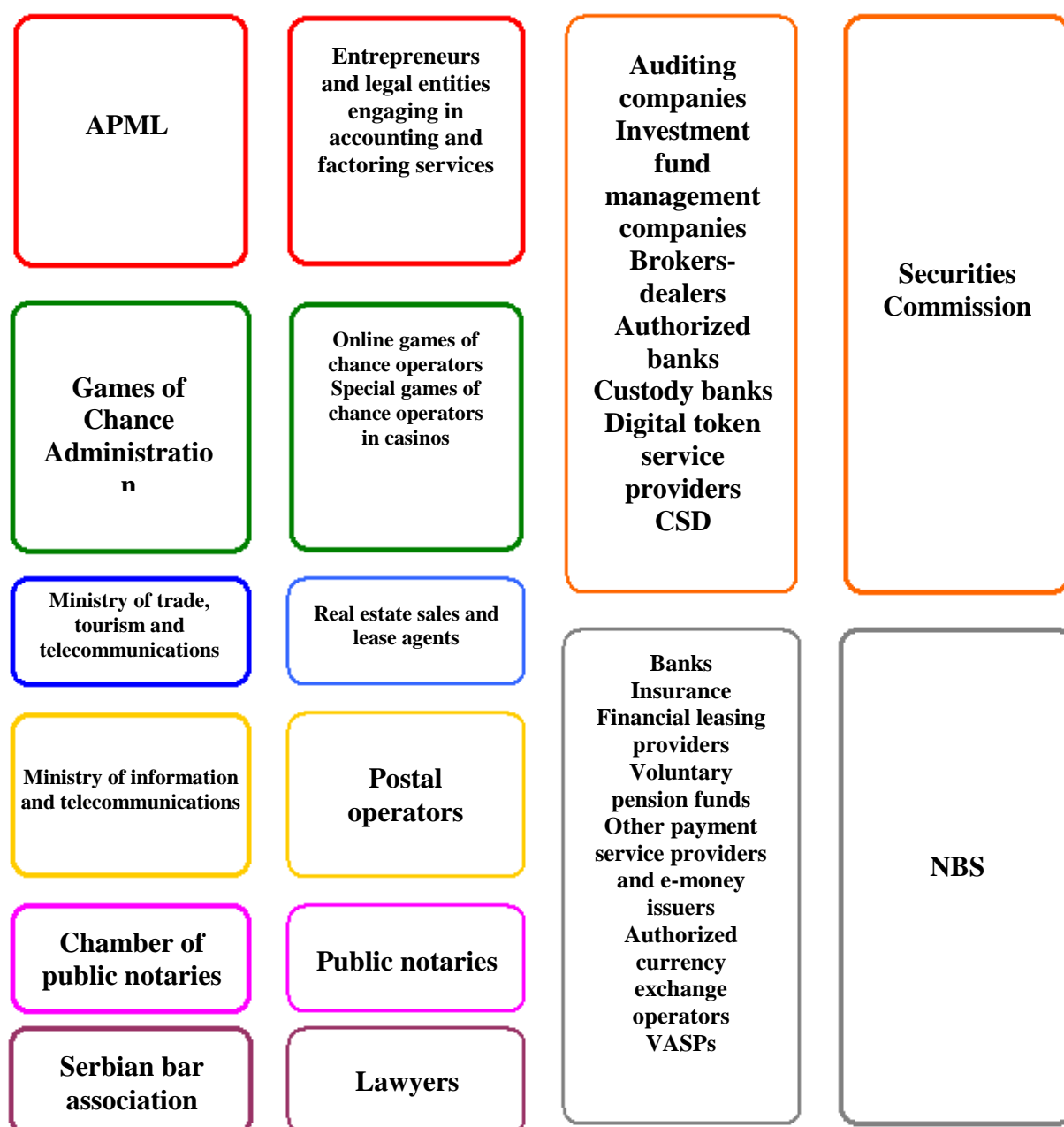
Institution	Role	Changes in the period 2021-2024.
National AML/CFT Coordinating Body	- makes decisions on the need to develop a strategy, formulates it, coordinates its implementation and eliminates obstacles in the realization of strategic goals	- Increased number of institutions involved in the work of the Coordinating Body - Nine interagency expert teams were formed in order to

	<ul style="list-style-type: none"> - analyses the most important issues for the functioning of the AML system, - coordinates and proposes measures to the competent authorities for the improvement of the system - determines the methodology and conducts national risk assessments - regularly reviews the effectiveness of mechanisms of domestic and international cooperation and information exchange, but also monitors and coordinates the use of technical assistance and training programs - responsible to the RS Government 	reduce the identified risks and implement activities from the Action Plan
Administration for the Prevention of Money Laundering	<ul style="list-style-type: none"> - administrative body within the ministry responsible for financial affairs - performs financial information tasks: collects, processes, analyses and disseminates information, data and documentation obtained in under the AML/CFT Law to the competent authorities and performs other tasks related to the prevention and detection of money laundering - one of the coordinators of activities essential to the AML system 	<ul style="list-style-type: none"> - Continuous exchange of information between supervisory authorities and APML - Regular meetings are held with public prosecutor's offices in order to improve cooperation and exchange of information - a new way of reporting suspicious reports has been adopted
General Police Directorate – UKP (CID) - Service for the Fight against Organized Crime (which also includes the Unit for Financial Investigations) and the Department for the Fight against Corruption	<ul style="list-style-type: none"> - Finding perpetrators of criminal acts, - uncovering and securing traces of criminal acts of financial crime - collection of evidence in the pre-investigation procedure, - conducting financial investigations in parallel with criminal investigations 	<ul style="list-style-type: none"> - Adopted internal acts on the prioritization of money laundering cases - Increased capacities - Continuous education is carried out
Public Prosecutor's Office for Organized Crime	<ul style="list-style-type: none"> Prosecution of perpetrators of criminal offenses of organized crime, - high corruption, 	<ul style="list-style-type: none"> - Adopted instructions on prioritization of money laundering cases - An interagency task force led by the prosecutor was

	<ul style="list-style-type: none"> - criminal offenses against the economy if the value of proceeds exceeds 200 million Dinars, i.e. the value of public procurement exceeds 800 million Dinars - of money laundering if the property that is the subject of money laundering originates from the aforementioned criminal acts - terrorism and terrorism financing - the criminal offense of murder of representatives of the highest state authorities and armed rebellion 	<p>formed to detect and prosecute members of organized criminal groups who committed the criminal offense of money laundering.</p> <ul style="list-style-type: none"> - Established Financial Forensics Service, which is involved in financial investigations and money flow monitoring - Money flows abroad that resulted in seizures are monitored - Improved cooperation with other authorities
Special anti-corruption departments of the Higher Public Prosecutor's Offices in Belgrade, Novi Sad, Kraljevo and Niš	<ul style="list-style-type: none"> - criminal offenses against the economy if the value of the proceeds does not exceed 200 million, i.e. the value of the public procurement does not exceed 800 million 	<ul style="list-style-type: none"> - In the annual work plans and programs, handling money laundering cases is listed as a priority activity - Continuous education and capacity building
Special Department for Organized Crime and Special Department for Combating Corruption of the Higher Court in Belgrade, Special Departments for Combating Corruption of the High Courts in Novi Sad, Kraljevo and Niš	<ul style="list-style-type: none"> - trial in the first instance for criminal offenses under the jurisdiction of PPOC, i.e. special departments of higher public prosecutor's offices 	<ul style="list-style-type: none"> - by passing the Act on Amendments to the Constitution of the Republic of Serbia, which significantly improved the normative frameworks and mechanisms for protecting the independence and integrity of judges - continuous education
Court of Appeals in Belgrade, Novi Sad, Niš and Kragujevac	<ul style="list-style-type: none"> - second instance trials 	
Supervisory authorities	<ul style="list-style-type: none"> - Supervision over the implementation of actions and measures for the prevention and detection of money laundering - role in the procedure of registration or licensing, i.e. granting work permits - make recommendations, that is, guidelines for the implementation of the provisions of this law, which implemented the risks determined by the national risk assessment 	<ul style="list-style-type: none"> - <i>Recommendations for Notifying the APML of Suspicious Activity</i> have been adopted and published - updated acts in accordance with the risk assessment (guidelines, decisions, etc.), questionnaires, developed monitoring plans, indicators for recognizing the grounds for suspicion of money laundering

	- they initiate procedures, and some supervisory authorities also impose penalties for violating the provisions of the AML/CFT Law	- improved cooperation between supervisory authorities, as well as supervisory authorities with representatives of enforcement bodies
Obligated entities	20 categories of obliged entities	New obliged entity: Central registry, securities depository and clearinghouse

Supervisors and obliged entities



MAIN CONCLUSIONS

KEY CONCLUSIONS OF MONEY LAUNDERING RISK ASSESSMENT	
Money laundering profile of Serbia	The overall ML profile of Serbia is dominated by the placement of criminal proceeds originating from predicate crimes committed in Serbia. There are also cross-border cases of money laundering with regional and European cross-border elements. When it comes to exposure to very large and complex ML schemes, they are not represented in Serbia primarily due to the focus of the economy on the domestic market and the financial system that does not have developed, complex, innovative or efficient financial services. Serbia is characterized by simpler ML models. The current trend of economic growth in Serbia is accompanied by a corresponding increase in the risk of integration of illegal proceeds.
Placement characteristics	The placement of dirty money in Serbia is significantly influenced by the position of the country, which is located on the Balkan route, through whose territory illegal goods and funds distributed by OCGs are transited. Proceeds from criminal activities in other jurisdictions, especially from smuggling and trafficking in narcotics, serious theft, and fraud enter Serbian financial system through cross-border cash transportation and other cash transactions.
Layering characteristics	The stage of layering of dirty money in Serbia is characterized by the use of simulated business activities and <i>phantom</i> companies. In this way, the appearance of regular business transactions is created in order to conceal the illegal origin of the funds. Criminal networks establish companies and structure interconnected entities, such as <i>shell</i> companies in agriculture or secondary raw materials trading, that facilitate multiple transfers using false invoices and documentation. As a rule, these transfers are in round amounts and enable the separation of funds from their illegal source. After that, they are transferred to the final recipients through natural persons, <i>launderer</i> companies or entrepreneurs (sole proprietorships), intended for further layering of funds. For this purpose, the services of professionals from the ranks of obliged entities, such as accountants, are also used.
Integration characteristics	The real estate and high-value goods markets in Serbia are particularly susceptible to integration, as illegal funds are reinvested in real estate, luxury vehicles, and other valuable property. Related and close persons <i>front</i> persons are used to register the property in their name.
Proceeds of crime and economic loss	<p>The detected proceeds obtained by committing criminal acts is the proceeds listed in the criminal complaints (charges) filed against known and unknown perpetrators (grey numbers), and it amounted to EUR 619,785,776.23 for the observed period. On average, it amounts to EUR 206,595,259 per year.</p> <p>The amount of the estimated total threat from money laundering in Serbia of EUR 1,486,277,875 represents illegally acquired property originating, directly or indirectly, from criminal activity and includes, in addition to the detected proceeds and dark figures, seized property as well as property identified in MLA requests. The amount of the dark figures was estimated on the basis of scientific research, public scientific research papers and</p>

	strategic documents, and in their absence, on the basis of the professional experience of the working group members acquired through their professional engagements and participation in the preparation of strategic documents and action plans in the AML/CFT field.
Cross-border modalities of money laundering	The most common cross-border models of money laundering are: physical transportation across the state border of cash originating from criminal activities abroad; laundering of illegally acquired funds abroad through transactions related to the re-export of goods and services, and simulated business. The prevailing typology is stand-alone money laundering. Money laundering is mostly done by citizens of Serbia. Based on the analysis, countries have been ranked according to the degree of cross-border threat to high, medium or low risk.
Methods of money laundering	The dominant methods of money laundering in Serbia are: Simulated business activities: Laundering money through non-existent or exaggerated business activities and extracting funds through related parties, often involving entrepreneurs, agricultural holdings, and service providers. Interrelated business transfers: A network of entities linked by ownership structure, that move funds based on false business documents in order to conceal the illegal origin of the funds. Transfers to the bank accounts of natural persons: Funds are eventually transferred from the company's accounts to the accounts of natural persons, often based on the purchase of secondary raw materials or agricultural products. Phantom companies: Companies established and intended exclusively for laundering funds without real economic activity are often called <i>launderer</i> or <i>phantom</i> companies. Use of entrepreneurs (sole proprietorship): Individuals open sole proprietorships, especially to facilitate the withdrawal of cash involved in money laundering.
High-threat crimes	<ul style="list-style-type: none"> ▪ Tax crimes ▪ Abuse of position of the responsible person ▪ Unauthorized production and trafficking of narcotic drugs ▪ Crimes of corruption ▪ Organized crime ▪ Fraud (new crime in the high-risk category)
Medium-threat crimes	<ul style="list-style-type: none"> ▪ Illegal crossing of the state border and smuggling of persons ▪ Criminal acts of forgery ▪ Human trafficking ▪ Illicit trade ▪ Fraud in the performance of business activity ▪ Building without a building permit
Types of money laundering	A comparison with the previous ML NRA shows a significant increase in cases of stand-alone ML ending in final convictions. In the current period, more than half (62.87%) of the 132 persons convicted for ML were involved in stand-alone ML, which is a significant increase compared to the 2018-2020 period, where this figure was less than a quarter (23.81%). In addition, in terms of the amount of property that were involved in ML, the highest values in final convictions, i.e. 76.59% were stand-alone ML, which is undoubtedly a much higher percentage than the property involved in ML originating from predicate crimes.

High risk sectors	Real estate sector Accountants Lawyers
Medium-high risk sectors	Real estate sale and lease brokers Public notaries Exchange offices Banks Online games of chance operators Casinos Public notaries Car dealers
Emerging Risks - Growing Threats	Pawnshops, virtual currencies, crowdfunding, real-estate investors

Money Laundering Threats

Applied methodology

Like in the previous three ML NRAs, Serbia used the World Bank methodology also for the risk assessment covering 2021-2023.

Conclusions about ML threats in Serbia were reached by analyzing the data on:

1. Criminal offences generating illegal proceeds (potential predicate crimes);
2. Predicate crimes due to which ML proceedings were also instituted;
3. Frequency of predicate crimes;
4. Amount of detected/assessed/confiscated proceeds from predicate crimes and proceeds involved in ML;
5. Involvement of OCGs in the commission of criminal offenses;
6. Extent of the shadow economy;
7. Value of property involved in ML, as identified in MLA requests;
8. APML information.

The most important data for the assessment of threats were collected by direct inspection of the cases of public prosecutor's offices and courts, because they are numerous and representative enough to provide a realistic insight into the functioning of the system, to show its strengths and weaknesses.

When ranking criminal offenses according to the degree of ML threat, the primary criteria were the amount of estimated proceeds and the value of the property involved in ML. In addition, data on the value of seized property, the number of reported, investigated, indicted, and convicted persons, as well as the involvement of organized crime, were used as additional and corrective parameters. Published data from scientific studies and research were also used. The final assessment rating is the result of all the above mentioned factors. The experience of the working group members gained in their work on previous risk assessments, as well as their professional experience in working on specific ML cases, was also valuable.

Overview of predicate crimes as money laundering threats

At the very beginning, a total of 120 criminal offences were identified, which according to their legal characteristics can be predicate offenses, i.e. by the execution of which illegal proceeds is acquired, directly or indirectly, which constitutes proceeds that can be the subject of money laundering.

Their analysis led to conclusions about the amount of estimated proceeds, detected proceeds, "dark figures", seized and confiscated property from predicate crimes, the number of reported, investigated, indicted, and convicted persons.

Amount of proceeds detected, assessed and confiscated

Serbian authorities monitor in an ongoing manner the efficiency and effectiveness of the AML/CFT regime from the aspect of confiscation of assets and instrumentalities. The performance of law enforcement can be evaluated on an annual basis, and in relation to individual predicate offenses.

The main source of ML threat is illicit property.

The first step was to differentiate between different sources and types of illegal proceeds that pose an ML threat.

This process has identified that the assets posing a **money laundering threat include:**

Proceeds obtained by committing a criminal offense

Proceeds related to the criminal offense

Detected proceeds acquired through the commission of criminal offenses

Property indirectly related to crime - assets derived from a criminal act

Proceeds from undetected crimes (dark figures)
Estimated proceeds obtained through a criminal offense

Property identified in MLA requests related to ML, which was the subject of cross-border threat analysis

For the purposes of this Risk Assessment, the terms used related to assets and money laundering have the following meanings:

Proceeds (imovinska korist / property gain) is defined by the Law¹⁴ as an asset of any kind, tangible or intangible, movable or immovable, estimable or inestimable, and a document in any form evidencing title or interest in relation to such property. Proceeds or other benefit generated, directly or indirectly, from a criminal offense, as well as property into which it was converted or intermingled, are also considered property.

The detected proceeds generated through criminal offenses is the proceeds identified in the criminal complaints filed against known and unknown perpetrators (grey numbers) and it amounted to **EUR 619,785,776.23** for the observed period.

Table: Predicate criminal offences by the amounts of detected proceeds

Criminal offences	Amount of detected proceeds
Tax crimes	173,081,492
Aggravated theft	159,879,260
Abuse of position of the responsible person	111,109,446
Fraud	28,778,903
Corruption in the public sector	19,188,299
Fraud in the performance of economic activity	19,630,206
Unauthorized production and trafficking of narcotic drugs	63,833,964
Illegal trade	7,112,749
Embezzlement in the performance of economic activity	7,099,690

For the assessment of threat, the proceeds from criminal offenses that were not detected was also significant (dark figures).

The dark figure refers to crimes that have been committed but have not been reported or detected, but they certainly represent a threat to money laundering because proceeds were acquired through their commission. In order to assess the scope of this criminality as objectively as possible, data was collected primarily from published research and scientific papers. Since a limited number of such sources were found, they were used in the analysis of certain criminal offenses such as migrant smuggling. For certain crimes, data from the document "Risk Assessments of Serious and Organized Crime in Serbia"¹⁵ and the professional

¹⁴ Criminal Code, Official Gazette of the RS no. 85/05 etc., Art. 112 para 36. - hereinafter CC

¹⁵ SOCTA 2023

experience of threat assessment team members were used, primarily those representing LEAs, the police, customs, tax authorities, the APML, public prosecutor's office and courts.

The amount of proceeds from "dark figures" amounts to EUR 450,707,505.33

The amount of estimated proceeds from criminal offenses of EUR 1,072,556,133.46 as the first criterion for ranking criminal offenses by the degree of threat of money laundering, was arrived at by adding up the amount of detected proceeds and proceeds from "dark figures".

Table: predicate crimes by amount of **estimated** proceeds

Criminal offenses	Amount of estimated proceeds
Tax evasion	360,677,992
Aggravated theft	199,849,075
Abuse of position of the responsible person	166,664,170
Fraud	35,973,628
Abuse of office	33,579,523
Fraud in the performance of economic activity	29,445,308
Unauthorized production and trafficking of narcotic drugs	127,667,928
Unauthorized circulation of excise goods	17,930,156
Illegal trade	10,669,123
Embezzlement in the performance of economic activity	10,649,535

The crime of aggravated theft, second in terms of the amount of estimated proceeds, is not ranked as a domestic threat because the average amount of proceeds obtained per committed criminal offense is low, it was not the subject of laundering in the instituted proceedings, and it is mostly spent on ordinary life needs.

The amount of the total threat from ML in Serbia was determined based on data on estimated proceeds obtained by committing criminal offenses, seized and confiscated assets by applying the security measure of confiscation of objects (items), confiscation of proceeds acquired by the commission of a specific criminal offense, property confiscated in the extended procedure under a special law, being property indirectly related to a criminal offense, and the value of property related to money laundering identified in MLA requests received by Serbia in relation to extradition, transfer of criminal prosecution, checks on bank accounts in Serbia and confiscation of property.

The property in the value of **EUR 120,915,961** confiscated as security measures of confiscation of objects (items), while the value of confiscated proceeds was **EUR 16,359,653**.

When it comes to the extended confiscation of property under a special law, its total value was **EUR 27,903,320**.

The total value of confiscated property on all grounds amounts to EUR 165,179,934.

Assets in MLA requests in ML cases, with a total value of **EUR 325,539,326.63**¹⁶ means the property that was identified in MLA requests as property included in ML-related MLA requests to Serbia seeking legal assistance in the form of extradition of the defendants, transfer of criminal prosecution, tracing and confiscating property and checking of bank accounts.

The conclusion is that the ML threat in Serbia is **posed by assets of illegal origin in the value of EUR 1,563,275,393, which represents 0.8% of Serbia's GDP.** In relation to the above level of threat, **the share of property confiscated in criminal proceedings, i.e. EUR 165,179,934, represents 10.56% of the total threat from money laundering.**

Analysis of predicate offenses in ML cases

In ML investigations, **the value of the property included in money laundering amounted to EUR 95,596,085, of which EUR 64,027,939 came from predicate offenses and EUR 31,568,146 from stand-alone ML.**

The data of LEAs - the police, prosecutor's office and court, concerning **the ML investigations** suggests that a total of 770 persons were prosecuted for ML and the predicate criminal offense, of which 648 persons were charged with ML.

The total **value of the property that was included in ML indictments is EUR 70,531,480, EUR 22,009,761 of which** was from predicate offenses and **EUR 48,521,719** from stand-alone ML, which is significantly more than found by the previous NRA (EUR 23,195,539.93).

A total of 526 persons were **indicted** for ML from the predicate crime, 335 of whom were indicted for money laundering.

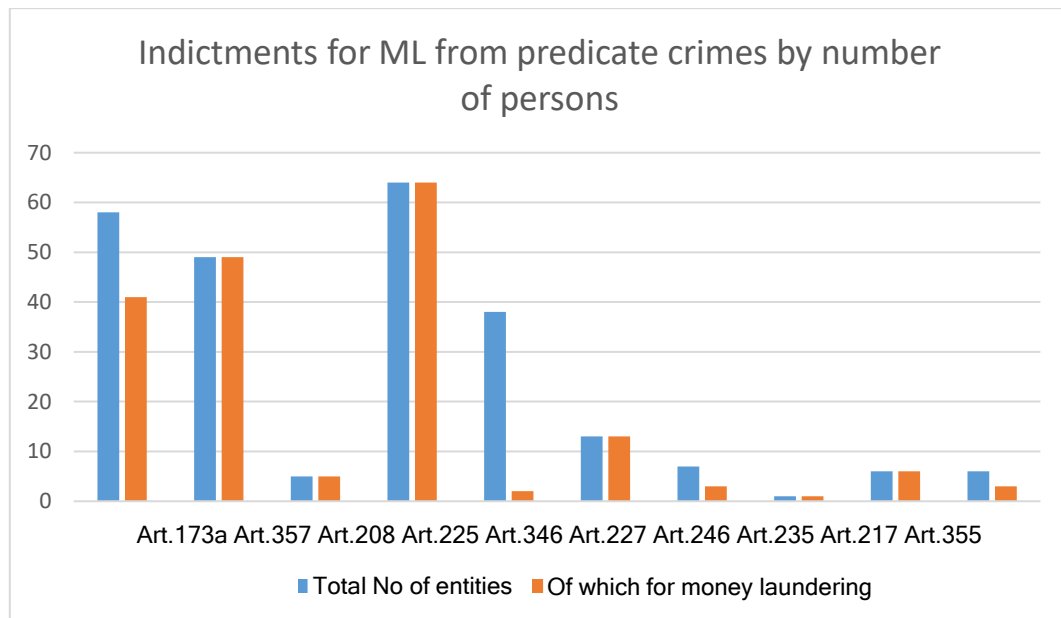


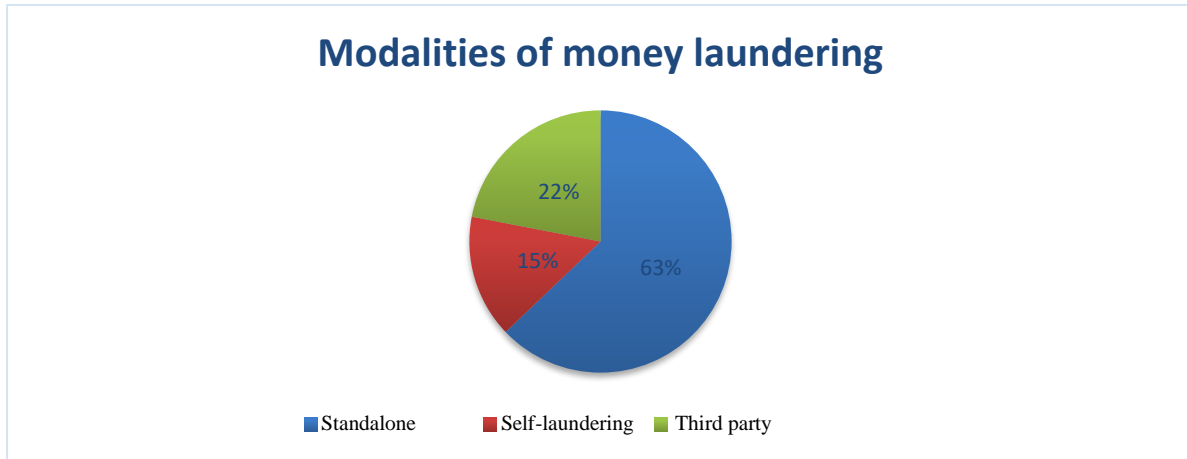
Table: Predicate offenses in ML indictments

Progress is also evident when it comes to **final ML court judgments**. They were brought against 140 persons compared to 133 in the previous NRA. Convictions were handed down against 132 persons, and acquittals for 8 persons. This data indicates not only an increase

¹⁶ This data was analyzed in the section on cross-border threats.

in the number of convicted persons in ML cases, but also stable trends in the ML enforcement in all stages of criminal proceedings.

The value of the property included in ML in **final convictions is EUR 16,989,919**. Of that amount, **EUR 5,804,416** came from predicate offenses and EUR 11,185,503 from stand-alone ML.



It was concluded that tax crimes are the most numerous predicate offenses in ML cases, while in the previous assessment it was abuse of position of a responsible person.

Frequency of predicate offenses

To measure the frequency of criminal offenses, statistics from the police, public prosecutor's offices, and courts were analyzed, including the number of reported persons, launched investigations, indicted persons, and convictions.

According to **the number of suspects**, the most frequent criminal offenses are aggravated theft, fraud, document forgery, unauthorized production and trafficking of narcotic drugs, and abuse of office.

Lists of criminal offenses that pose an ML threat

As a result of application of the above criteria, two lists of predicate crimes were created according to the degree of ML threat, i.e. high and medium, while all remaining crimes were classified as low threat.

CRIMINAL OFFENSES OF HIGH LEVEL OF THREAT

Crimes with a high level of ML threat are: tax crimes, abuse of position of the responsible person, unauthorized production and trafficking of narcotic drugs, crimes of corruption in the public sector, the criminal offenses committed by organized groups, and fraud as a new high-threat criminal offense. The conclusion is that these are almost the same criminal offenses as in the previous ML NRA.

Tax-related crime

Three criminal offences: tax evasion, VAT fraud and illegal circulation of excise goods, were presented as tax offenses in the updated NRA and classified as a high-threat crimes for ML.

The amount of detected proceeds, which is equivalent to the amount of harm caused to public funds due to evaded tax obligations, amounts to EUR 259,622,237, and the estimated proceeds in relation to this criminal offense amounts to **EUR 360,677,992**¹⁷. It is a very significant value which, measured in relation to the total amount of estimated proceeds, represents 24.26%. Comparing the data on the value of property that was included in money laundering, i.e. EUR 23,573,182, relative to the estimated proceeds obtained from tax crimes, i.e. EUR 360,677,992, the conclusion is that 6.53% of the estimated proceeds was processed in money laundering cases.

Regarding the method of ML from tax crimes, there is a significant share of third party ML, as well as the involvement of professional launderers. More complex laundering methods are used, which include so-called "phantoms and launderers", i.e. business entities established with the aim of being used in ML schemes. As a general rule, so-called "withdrawers" are used in the schemes of ML from tax crimes, i.e. these are persons who open bank accounts in commercial banks to which funds from withheld tax obligations are transferred, which they then withdraw and return to the owners of legal entities.

It is characteristic of tax crimes, as predicates, that the laundering of the proceeds is carried out through several sectors. First of all, the banking sector is cannot be avoided. This is also logical because the entities that evade tax have bank accounts where the funds generated by evading public revenue payment are located. Another frequent factor in the ML process are accounting service providers.

The final integration is mainly carried out by paying cash to the bank accounts of legal entities as a *founder's loan*, increasing the founder's stake, or they are used to purchase valuable goods for the owner's final consumption, and quite often also for to disburse salaries to employees that are not recorded in the business books and thus no taxes or contributions are paid for them.

Regarding tax crimes as ML predicates, it should be noted that these crimes are committed through the so-called *grey economy*, i.e. through unregistered activities, which implies evasion of tax payments on income from such activities. *Phantoms* and *launderers* play a significant role in the process. These are registered entities that create fictitious documentation (invoices, delivery notes, etc.), on the basis of which business activities are simulated in order to avoid paying taxes. In the period 2021 - 2023, the Tax Police Sector identified 881 such business entities.

Research into the shadow economy in Serbia in 2023 was conducted by the Faculty of Economics in Belgrade - Foundation for the Development of the Science of Economics. The results of the research were published in the paper Assessment of the amount and dynamics of

¹⁷ According to statistical data of the Tax Police Sector and the Ministry of Internal Affairs,

the shadow economy in Serbia¹⁸. Two methods were used in the research, the first one based on macroeconomic data that estimates the shadow economy based on the "sum of undeclared income (shadow economy in the domain of income)", and the second one based on a modified monetary model. An assessment based on macroeconomic data shows that the shadow economy in Serbia from 2009 to 2023 amounted to 23.6% of GDP on average, ranging from a maximum of 29.1% of GDP in 2013 to a minimum of 17.9% of GDP in 2021. In 2023, the overall level of shadow economy in Serbia was estimated at 21.1% of GDP, which is approximately 14.7 billion euros in value. The results obtained on the basis of the modified monetary model show that from 2010 to 2023, the shadow economy in Serbia amounted to 31.8% of GDP on average. In 2023, the shadow economy in Serbia, estimated by the monetary model, amounted to about 23.6% of GDP on average."

The analysis of the tax crime threat also took into account the APLM data in 283 suspicious activity disseminations involving **EUR 75,368,916.54**, which were sent to the Tax Police Sector on suspicion of tax crimes. Based on the APLM disseminations, the Tax Administration in the observed period carried out 240 audits and issued 166 decisions (70% of audits) in which irregularities were found. Based on the above Tax Administration's tax audits as a follow up on APLM disseminations, the total amount of newly identified tax liabilities amounted to EUR 35,467,554.

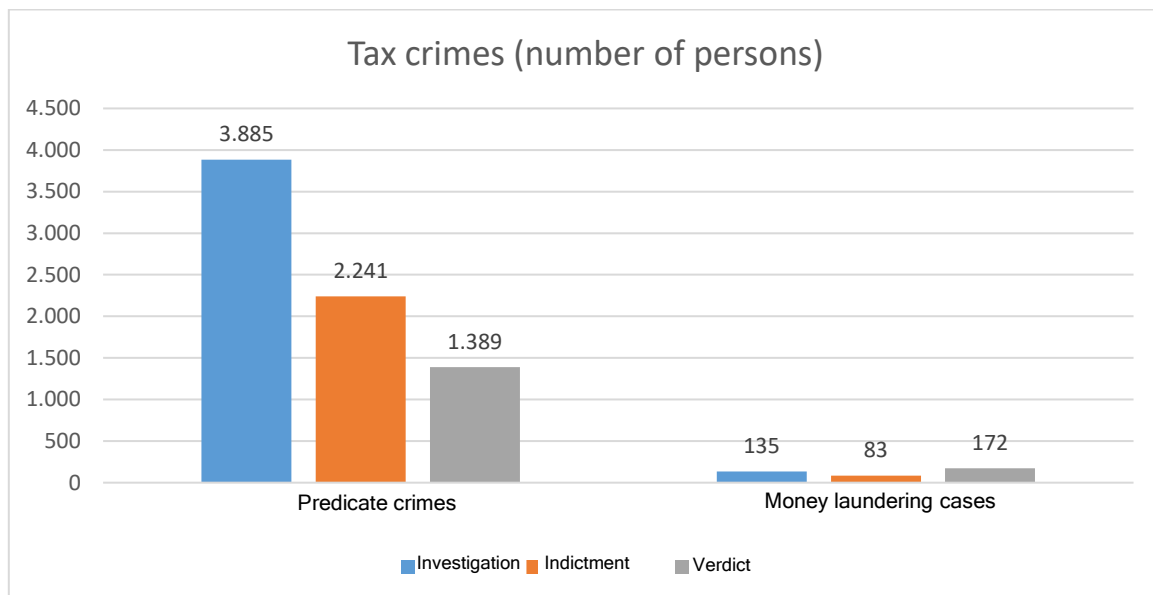


Table: Data on the number of persons in criminal proceedings for tax offenses, as ML predicates

The total value of confiscated property originating from tax crimes is EUR 3,835,904, and the amount of seized property is EUR 1,581,321.

The amount of laundered funds, according to indictments for tax predicates, was EUR 11,081,940, and in final convictions EUR 4,232,370

Tax crimes	Tax crimes	Money laundering from tax crimes

¹⁸ Available at: <https://boljinacin.rs/filemanager/Publikacije/Siva%20ekonomija%20u%20Srbiji.pdf>. The authors of the research are professors of the Faculty of Economics in Belgrade Saša Randelović, Miloško Arsić and Svetozar Tanasković

	Estimated proceeds	EUR 360,677,992	Value of assets involved in ML	EUR 23,573,192
Seized property	EUR 1,581,321			
Confiscated property	EUR 3,835,904			
Investigations	2.141		90	
Indictments	805		66	
Court decisions	297		17	

Unauthorized production and trafficking of narcotic drugs from CC Article 246

The criminal offense of unauthorized production and trafficking of narcotic drugs is included in the updated NRA on the list of criminal offenses posing a high level of threat for ML. There are numerous reasons for this. First of all, compared to the previous NRA, there was an increase in the number of persons reported and included in the investigations, and a slight decrease in the number of indicted and convicted persons for this criminal offense. In summary, there are stable trends regarding the frequency of this criminal act. However, the period saw a higher value of detected and estimated proceeds as well as seized property, which supports the view of the potentials of this offense as a ML threat.

When assessing the threat, special attention was paid to assessing the value of the illegal drug market in Serbia. The specificities of the Western Balkans countries, including Serbia, were also taken into account in relation to illegal drug trafficking. Namely, OCGs whose members are nationals of neighboring countries have profiled themselves as important suppliers and transporters of cocaine from South America to the illegal market of Western Europe. They are increasingly appearing as producers and distributors of cannabis. They generate high revenues from these illegal businesses and represent a serious cross-border threat. Part of the income generated in the European Union member states is moved to Serbia, most often as undeclared cross-border cash transportation.

In the period 2021-2023, 5,354 persons were reported for this offense, investigations were initiated against 5,126 persons, 3,481 persons were indicted, and a total of 2,417 persons were convicted in a final decision.¹⁹

The amount of the proceeds detected in the criminal offense of unauthorized production and trafficking of narcotic drugs amounts to EUR 63,833,964.00. According to the professional experience of the working group members, the dark figure is at least equal to the detected proceeds, so the estimated proceeds in this criminal offense is EUR 127,667,928.00. Relative to the total detected criminal proceeds, i.e. EUR 1,486,227,875.00, this is 8.58% of the amount.

A total of EUR 4,930,288 was confiscated in the criminal proceedings initiated for this crime. In addition, significant amounts of various narcotics, from heroin, to cocaine to synthetic drugs, were seized and confiscated. Their value on the illegal market is EUR 76,997,518. The largest quantities and value of seized narcotics involve cannabis. The value of the confiscated property is EUR 81,927,806 in total. Compared to the total confiscated property in criminal proceedings, i.e. EUR 165,179,934, it follows that almost 50% involves property confiscated in criminal proceedings for illegal drug trafficking.

Looking at the regions, we conclude that the most of the reported, investigated, indicted, and convicted persons were in and around Belgrade, followed by Vojvodina, Southeast Serbia, and the least in Central Serbia, which corresponds to the number of inhabitants.

¹⁹ According to the combined data of the Serbian Interior Ministry, Supreme Public Prosecutor's Office, Public Prosecutor's Office for Organized Crime and the courts.

In addition to the analysis of the criminal offense of unauthorized production and trafficking of narcotic drugs (CC Article 246) as a potential predicate offense, **cases of money laundering** in which the aforementioned criminal offense was a predicate were also considered. Comparative data are shown in the table.

Illegal proceeds from this predicate crime are mainly laundered in the real estate sector,

Article 246 of the CC	Unauthorized production and trafficking of narcotic drugs		Money laundering from unauthorized production and trafficking of narcotic drugs	
	Estimated proceeds	127,667,928, EUR	Value of assets involved in money laundering	840,000 EUR
Seized property	EUR 962,466.00			
Confiscated property	EUR 3,967,822 in cash and EUR 76,997,518 in value of seized narcotics on the illegal market - a total of EUR 80,965,340			
Investigations	5.126		9	
Indictments	3,481		3	
Court decisions	2,417		13	

through the purchase of valuable goods, i.e. expensive cars, watches, and jewelry. The real estate sector is used for layering as well as for the final integration of proceeds from illegal drug trafficking. This includes self-laundering, but also third-party ML, most often through family members, relatives and other close persons in whose names real estate is built or registered. An important parameter for the high ranking of this criminal offense on the scale of threats is conditioned by the significant involvement of organized crime. As already mentioned, the largest part of illegal income that comes from other jurisdictions, as a rule, is the OCG's proceeds from drug trafficking.

When it comes to organized crime, in one of the Public Prosecutor's Office for Organized Crime cases, whereby 6 persons were investigated, 2 of which were also charged with ML, a total of EUR 235,000 of proceeds from drug trafficking was generated in Spain. The money was transferred to Serbia, and further invested in the purchase of real estate.

In another case with as many as 13 members of an OCG who are being investigated for drug trafficking, 4 persons were simultaneously investigated for ML involving EUR 635,410.00. Most of the money acquired from the trade in narcotic drugs was invested directly and through the closest relatives in real estate, passenger vehicles, thoroughbred horses, agricultural holdings, and part of it was kept in cash.

On a general note, 28% of all persons indicted by PPOC are prosecuted for the criminal offense of illegal production and trafficking of narcotic drugs. This criminal offense with 81 convictions accounts for 13.34% of all convictions for organized crime.

Conclusion: Indicators expressed as the number of reported and prosecuted persons, the constancy and frequency of a criminal offense in the overall structure of criminal offenses, the significant participation of OCGs, the amount of proceeds and the estimated value of the narcotics market in Serbia, as well as the importance of the transit route and the growing trend of the number of identified perpetrators have the effect of making this crime a source of constant threat for ML, because it results in the acquisition of a large amount of money.

Criminal offense of abuse of position of the responsible person, CC Article 227

The criminal offense of Abuse of position of the responsible person is a typical criminal offense of economic crime. It was introduced into the legal framework of Serbia in 2013, when the criminal offense against official duty was changed, criminalizing abuses by responsible persons in legal entities under Article 227 of the CC. This criminal offense applies on the

private sector obliged entities (accountants, bankers, real estate brokers, responsible persons in insurance companies, leasing companies, etc.). By a special decision of the Republic Public Prosecutor's Office, this criminal offense is classified as a criminal offense of corruption and is treated as corruption in the private sector. In the previous two NRAs, it was assessed as an offense with a high degree of threat for ML, and it is also treated as such in the updated 2024 NRA.

The key argument for this conclusion is the data on the property that is related to this offense. The data includes the estimated and detected proceeds, the value of proceeds that were included in ML, and the amount of seized assets. Namely, in the previous NRA, the amount of proceeds detected was EUR 48,240,000.00, whereas now the amount of the proceeds detected in the police criminal complaints is EUR 111,109,446.81. Together with the dark figure of EUR 55,554,723.40, the estimated proceeds in this criminal offense amounts to EUR 166,664,170.21.

A comparison between this value and the total ML threat from proceeds from crime, i.e. EUR 1,486,277,875, shows that the estimated proceeds associated with this criminal offense constitutes 11.21% of the total threat.

A significant value of property – i.e. EUR 11,624,624 was confiscated in relation with this criminal offense, which is an increase compared to the previous risk assessment. This amount represents about 7% of the total property confiscated in criminal proceedings.

Also, there are significant amounts involved in ML in the initiated criminal investigations, amounting to EUR 22,507,963. A comparison of this value with the estimated proceeds for this crime suggests that 13.50% of that value is included in the ML investigations from this crime.

A high value of confiscated property, amounting to EUR 11,624,624.00, was also found; this is an increase compared to the previous risk assessment (EUR 7,208,249.4).

Article 227 of the CC	Abuse of position of the responsible person	ML from abuse of position of the responsible person	
Estimated proceeds	166,664,170 EUR	Value of assets included in ML	EUR 22,507,963.00
Seized property	EUR 1,791,810.00		
Confiscated property	11,626,674.00 EUR		
Investigations	1199	74	
Indictments	291	31	
Court decisions	235	14	

The banking, trade and accounting sectors are the most often used to launder money from this predicate crime, mainly due to the fact that it involves laundering of proceeds from illegal business activities, which predominantly take place in Serbia. Self-laundering as well as third-party money laundering were found.

Significant involvement of organized crime had an effect on the threat assessment for this criminal offense. In the cases handled by Public Prosecutor's Office for Organized Crime, the value of the property that was involved in ML investigations amounted to EUR 7,765,645.00, while the value in indictments amounted to EUR 8,724,677.00. Further review of this prosecutor's office cases found that investigations was initiated against a total of 4 persons for this crime, as many for ML, while an indictment was filed against 18 persons for both of these crimes.

Conclusion: Taking into account the amount of estimated proceeds for this crime, the amount of property included in ML, the amount of confiscated proceeds, but also the frequency of its commission, this crime still represents a high ML threat. This assessment took into account the fact that money generated from this criminal offense is laundered in more complex ways, and often through high-risk banking and accounting sectors. Finally, the exposure to organized crime of this criminal offense greatly contributed to its overall unchanged rating.

Criminal offenses of corruption in the public sector

The crime of corruption in the public sector includes a group of crimes against official duty committed by public officials - abuse of office, fraud in the service, embezzlement, trading in influence and accepting bribes. This group of criminal offenses also includes the criminal offense of abuse in connection with public procurement.

When it comes to the threat of money laundering from criminal proceeds originating from criminal acts of corruption, their amount is EUR 42,461,532. This is 2.85% of the total threat of money laundering from the proceeds of criminal activities. The greatest threat is recorded from the criminal offense of Abuse of office, where the proceeds obtained by committing that criminal offense is estimated at EUR 33,579,524.

Criminal offense	Amount of estimated proceeds
Abuse of office	EUR 33,579,523
Fraud in the service	EUR 1,263,093
Embezzlement	EUR 3,890,184
Trading in influence	EUR 476,245
Accepting bribes	EUR 337,052
Abuse in relation to public procurement	EUR 2,915,435

The amount of estimated proceeds in the case of corruption crimes

Assets in the value of EUR 6,606,458 had their origin in criminal acts of corruption and were connected to money laundering in the initiated criminal investigations. This represents 15.55% of the total assets originating from criminal acts of corruption in the public sector. And with regard to this data, the criminal offense of abuse of official duty was exposed to the greatest extent, in connection with which criminal investigations were initiated due to the laundering of assets in the amount of EUR 5,605,109.

In addition to the above criminal offense as a predicate from the class of criminal offenses of corruption in the public sector, ML criminal investigations have also been initiated in relation to the crimes of accepting bribes, trading in influence and fraud in the service.

Investigations were initiated against a total of 3,079 persons for corruption-related crimes. By far the largest number of investigations were initiated for the criminal offense of Abuse of office, a total of 2,051 persons, followed by the criminal offense of embezzlement involving 294 persons and the criminal offense of bribery.

Indictments were filed against 968 persons. The largest number of persons were indicted for the criminal offense of abuse of office - 520, embezzlement 67 and influence peddling 63. A significant number of persons were also charged for accepting bribes.

803 court decisions were handed down for corruption in the public sector, most of which were handed down for the crime of abuse of office - 380 persons, followed by 124 persons sentenced for giving bribes, and 105 for taking them.

	Predicate criminal offenses	ML objects (items)

Estimated proceeds	42,461,532 EUR	Value of assets included in money laundering	EUR 6,606,458
Seized property	508,252 EUR		
Confiscated property	805,379 EUR		
Investigations	3079	13/11	
Indictments	968	/	
Court decisions	803	/	

From the point of view of geographical distribution, the largest number of reported, indicted, and convicted persons for these criminal offenses are linked to the territory of the Belgrade capital city, which is the seat of the executive branch, and an administrative, political and cultural center, where headquarters of the most important state institutions are located.

According to the data of the Agency for the Prevention of Corruption, which maintains the Register of Public Officials, 44,675 public officials were active in Serbia at the beginning of 2024. Between 01/01/2019 and 30/06/2024, commercial banks filed 23 SARs, whose subjects were public office holders. Of these, 21 SARs involve domestic officials and 2 foreign.

In the context of the cooperation between the APML and the competent public prosecutor's offices on criminal offenses of corruption, we found that the APML disseminated its information on suspected ML in the field of public procurement, which involved transfers of funds through related parties, spending of funds without legitimate grounds, involving domestic (21 persons) and foreign officials (2 persons). Through their initiatives in handling corruption cases, public prosecutor's offices collected data through the APML channels in 14 cases.

The Public Prosecutor's Office for Organized Crime indicted S.S., who was an acting assistant Minister of Education, her uncle Lj.S., his son D.S., who was a bank employee at "U" bank a.d. Belgrade, Ž.D., the owner of the company "WDCW" DOO, D.M., the public procurement officer in the company, and Č.D., the chairman of the public procurement panel, charging them with abuses in connection with public procurement that concerned the procurement of works for the construction of a student center in S. and for laundering of illegally acquired proceeds from this crime. In order to rig the public procurement in favor of the preferred bidder, S.S. received a promise of a gift in the form of real estate, namely an apartment in Belgrade, worth around EUR 159,000.00, to be transferred to her property or the property of the person in whose name she decides. After S.S. received the required amount of money for the purchase of real estate from Ž.D., and in order to conceal its origin, she handed it over to her uncle Lj.S. who concluded the contract for the purchase and sale of the apartment, and then handed the money over to his son, D.S., who, knowing that it was illegal money, made payments as a bank employee to his father's current account without his presence and without authorization, and then transferred the money thus received through an electronic mobile banking account, previously increasing the limit for the transfer of funds, without authorization, to the current account of the alleged seller "A.C.S.", in order to make the appearance that the suspect Lj.S. paid the purchase price of the apartment, whereby the suspect S.S. became the actual owner of the apartment.

Conclusion: The high amount of detected and estimated assets classifies these crimes as high risk. Also, the fact that the proceeds from these criminal acts in the amount of EUR 6,606,458 was subject to ML contributes significantly to such an assessment. As a rule, the object of abuse in these criminal offenses are public funds and property, so the consequences of this criminal offense are very serious and affect the functioning of the system, the rule of law and,

consequently, the standard of all citizens. The circumstance that corruption as a source of proceeds is also present in other countries of the Western Balkans region with which there is intensive cooperation and multiple related commodity, trade, financial flows, but also personal, family and friendly ties that can be abused for money laundering, was particularly taken into account.

Criminal offense of fraud, CC Article 208

This criminal offense first appears in the group of high-threat crimes for ML. The key factor in its high threat ranking is the estimated proceeds of EUR 35,973,629.00, which includes EUR 28,778,903.00 from detected proceeds and an additional EUR 7,194,725.77 from the "dark figure" of undisclosed transactions. Another factor contributing to the high threat ranking of fraud is the value of property involved in money laundering, which amounts to EUR 2,346,182.00. Additionally, the total value of confiscated property is EUR 821,922.00, showing a significant increase compared to the previous assessment. In total, the value of seized property related to this criminal offense stands at EUR 268,593.

The fact that a digital asset, i.e. virtual currency, was used as an object of the criminal offense, and as a means of laundering proceeds from fraud, was taken into account as significant information in connection with this crime. Based on an SAR filed by a commercial bank, which involved a transfer of significant amounts to the bank account of a natural person using electronic banking and then the use of funds to purchase virtual currency through an authorized intermediary, it was found that a bank employee made unauthorized withdrawals from the bank accounts of clients and then used the funds to purchase virtual currency to the tune of around EUR 500,000.

Regarding the frequency of criminal offenses measured by the number of reported and prosecuted persons, a decrease in the number of reported persons and a drastic increase in the number of persons under investigation and those indicted have been found. Investigation orders were issued for as many as 6,797 persons (previously 382), and 2,496 persons were indicted (previously 1,422). When it comes to convictions, 1,965 people were finally convicted (a slight decrease compared to the previous NRA, i.e. 2,013 people). The most reported persons (3,793), persons against whom an investigation was conducted (2,458) and who were indicted (887) were in the Belgrade area.

Data from criminal proceedings for fraud and from criminal proceedings for ML in which fraud was the predicate crime, shows the following results in terms of the number of persons in the proceedings and assets associated with the mentioned criminal offences:

Article 208 of the CC	Predicate crimes	Money laundering objects (items)	
Estimated proceeds	EUR 35,973,629.00	Value of assets involved in money laundering	EUR 2,346,182.00
Seized property	EUR 268,593.00		
Confiscated property	EUR 821,922.00		
Investigations	6797	18	
Indictments	2496	5	
Court decisions	1965	0	

The value of the property involved in money laundering related to this criminal act according to the indictments amounts to EUR 244,483.00, while there were no verdicts.

Conclusion: The high ranking of fraud was influenced by criminal proceedings initiated for fraud related to digital assets. The amount of the estimated proceeds, which is recorded to grow with this criminal act, also speaks of its threat. To that should be added the significant value of the assets involved in money laundering, acquired through the criminal act of fraud.

Criminal offenses of OCGs

Analysis of prosecuted organized crime cases

The new architecture of the world economic and social order, the changes of which were reflected in new emerging forms of criminal acts, brought even more complex challenges in the fight against organized crime, terrorism and corruption in the previous decade. Unlike the former organized crime, whose primary and almost only motive was to gain profit without much work, modern organized criminal groups want to use their financial power for every possible type of influence on the legal political, economic and economic structures of the state.

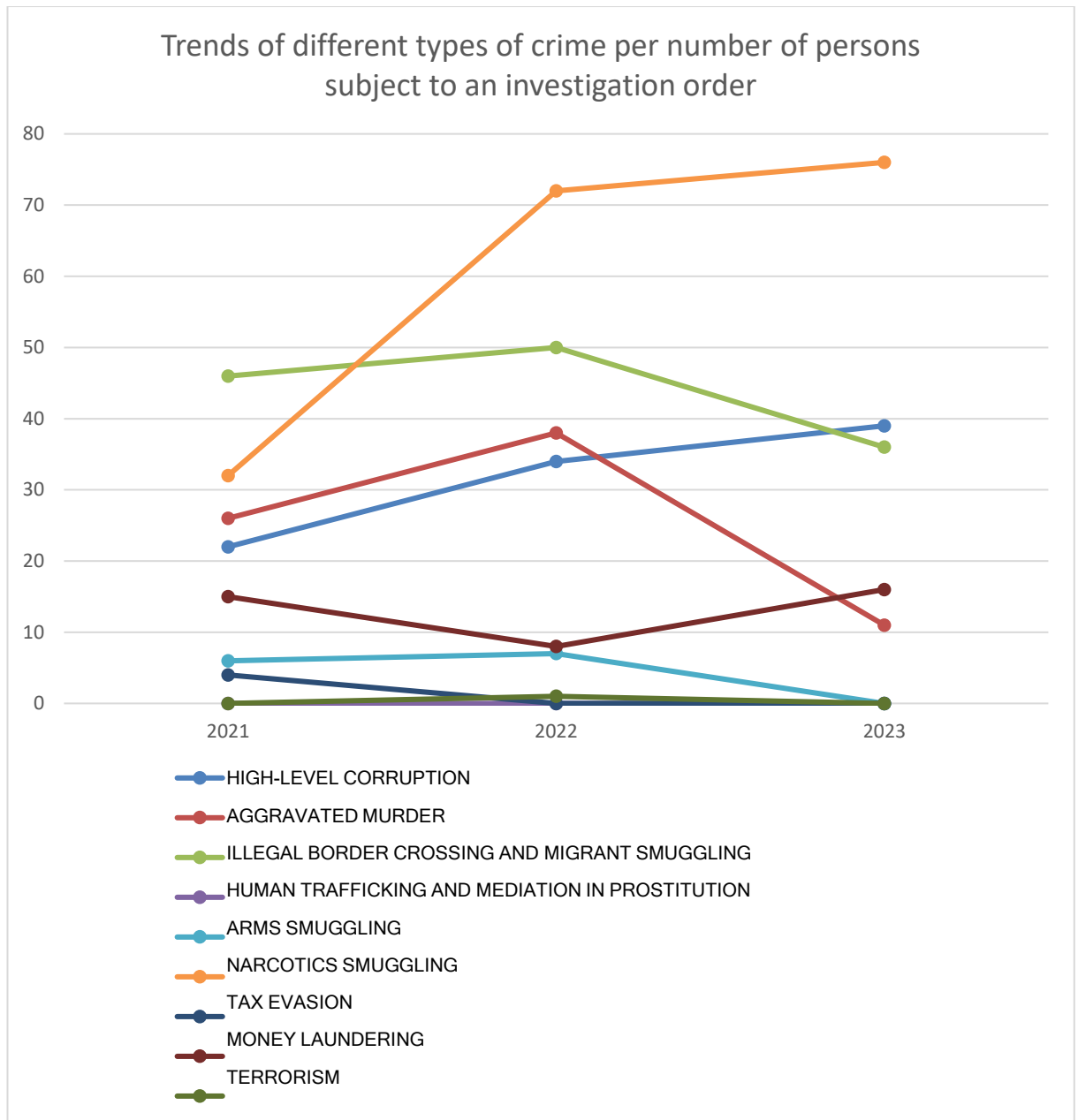
Every day, organized crime experiences evolutionary changes and takes on new forms, directing all its capacities to exert a decisive influence on decision-making in key spheres of society, both at the local and state level, therefore it continues to pose a threat to the stability of states.

Associating for the purpose of committing criminal offenses under the jurisdiction of the Public Prosecutor's Office for Organized Crime implies OCG involvement in criminal activities, whose aim is to acquire the greatest possible proceeds as a source of income, they have a high degree of organization, they are formed for the purpose of continuous action, with precisely defined roles and with a high degree of control of its members, represents a criminal offense of a higher degree of money laundering risk.

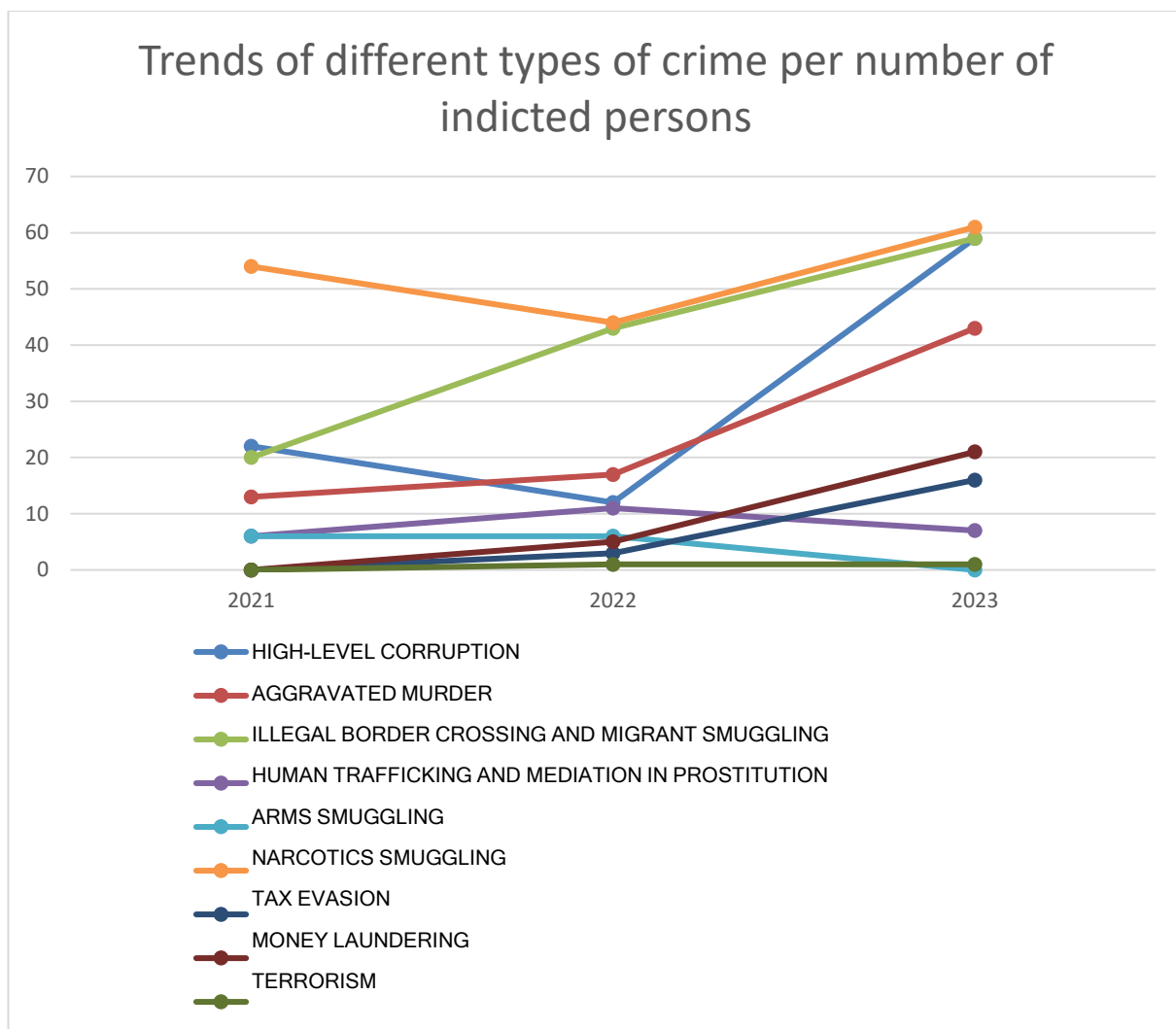
From 2021 to 2023, the dominant forms of organized crime in Serbia were unauthorized production and trafficking of narcotic drugs, illegal crossing of state borders and people smuggling, human trafficking and mediation in prostitution, counterfeiting of money and public documents, aggravated theft, smuggling of vehicles and excise goods, murder and aggravated murder, illegal production, possession, carrying and trafficking of weapons and explosive substances, and money laundering.

When looking at the data from the annual reports of the Public Prosecutor's Office for Organized Crime and the types of crime that were dominant in the criminal proceedings initiated by this prosecutor's office from 2021 to 2023, there is still an increase in the number of persons against whom an investigation was launched for illegal production and trafficking of narcotic drugs, money laundering, and crimes that can be categorized as corruption, either because the perpetrator is a public office holder, or because to the amount of illegal proceeds.

On the other hand, the crime of illegal crossing of the state border and migrants smuggling, after continuous growth, saw a slight decrease in 2023, as well as the crimes of aggravated murder and illegal production, possession, carrying and trafficking of weapons and explosive materials, which are related to OCGs that are known for their brutality in confrontations with their opponents.



When looking at indictments, the statistics are slightly different, probably as a result of the fact that the indictment phase usually comes at a later stage and, therefore, reflects the trends detected in the investigation in the earlier period, including previous years. Thus, the indictments show an increase in the number of persons charged with the criminal offense of unauthorized production and trafficking of narcotic drugs, unauthorized crossing of the state border and smuggling of migrants, corrupt crimes, money laundering, tax evasion and aggravated murder.



An analysis of cases has identified three methods of OCG operation:

1. Well-structured mafia-type OCGs with an extensive network of members and good connections with international OCGs that operate transnationally and mainly deal with drug trafficking and use violence;
2. OCGs whose local activities are related to the area of the Western Balkans, and which are most often associated with the smuggling of migrants or excise goods (e.g. cigarettes), or the production of narcotic drugs for the local and regional market (marijuana, synthetic drugs),
3. OCGs that provide services both to other OCGs and to individuals from the criminal milieu, in the form of forging personal documents, various documents, or issuing fictitious invoices.

Mafia-type OCGs

Mafia-type OCGs are characterized by good connections with members of transnational OCGs that produce, transport and distribute narcotics. Members of these OCGs are involved in all stages of drug smuggling - from contacts with manufacturers, most often from Latin America, to the organization of drug transport to Europe to subsequent distribution on the European continent.

The organizers and members of these OCGs are predominantly the citizens of Serbia and countries from the wider Balkan region.

These OCGs are perfecting ways to smuggle cocaine into the European market by using increasingly sophisticated ways to hide it on ocean-going ships and avoid detailed customs control at the ports of destination, as well as ways to distribute narcotics and money within the European continent, using specially adapted passenger transport vehicles, motor vehicles, sailboats and air transport. Various industrial and agricultural products (e.g. concrete blocks, chemical industry products and bananas) are used to hide narcotic drugs. Organized crime groups that engage in this form of organized crime are at the forefront of using the latest technological means available to conceal their communications.

In addition to the most prevalent criminal activities - drug smuggling - they often engage in other illegal activities, the range of which is extremely wide, and which are essentially aimed at securing a dominant role in the criminal environment. This form of organized crime, in addition to the harmful effects of narcotic drugs, and for the sake of dominance in the market, generates the most serious forms of criminal acts, such as murder and aggravated murder of members of rival OCGs, not only on the territory of Serbia and the countries of the region, but also in Europe and South America, as well as committing criminal acts of influence peddling and money laundering.

OCG organizers generally use the sale of cocaine on the territory of Serbia to keep their members together and to finance the groups they use to commit the most serious crimes with elements of violence against members of competing organized criminal groups. OCGs that deal with this type of organized crime recruit members from among the younger population, mostly members of fan groups who have already "distinguished themselves" in violence at sports events or in violent conflicts with rival fan groups, and younger convicted persons after serving their sentences prison for committed criminal acts with elements of violence. Both of them choose membership of organized criminal groups as a vocation in life.

Among the defendants in criminal proceedings are also police officers, among whom are members of the Service for Combating Organized Crime and the Service for Criminal Intelligence of the Criminal Investigations Police Directorate of the MOI.

Regardless of the fact that the organized criminal groups in question mostly conduct their drug smuggling operations outside the territory of Serbia, the end result of their activities is the injection of part of the financial profits by the organizers and high-ranking members into legal flows through the criminal offense of money laundering by purchasing real estate, investing in the construction of construction and others buildings, buying vehicles, luxury goods (watches, jewelry) or investing in legal businesses, while lower-ranking members spend the acquired financial resources on supporting their families and solving basic existential problems. Therefore, this form of organized crime carries a high risk of money laundering.

In order to monitor money flows and identify assets of members of OCGs abroad, public prosecutors for organized crime use available mechanisms of international cooperation and provision of mutual legal assistance. Thus, according to mutual legal assistance requests, PPOC in 2022 in one case seized the property of one defendant, two third parties and one legal entity in Montenegro, in 2023 the property of the defendants was identified and seized in 4 cases and of a third party in Montenegro, and in 2024 decisions were made on the seizure of the property of one defendant in Spain, as well as three defendants and one third party in Montenegro.

The transformation of organized crime caused by the development of digitization and globalization also influenced changes in the types of mutual communication between organized criminal groups. By using encrypted electronic communication, inventing new ways of ML through cryptocurrencies, as well as changing the routes and methods of smuggling using

cutting-edge technologies in order to ensure the secrecy and concealment of criminal activities, criminals tried to leave their activities "under the radar" of investigative authorities.

The extensiveness of the criminal networks of these groups and the extent of their activities required the formation of a special Task Force for the fight against organized crime and other particularly serious crimes, with the help of which 11 organized criminal groups were identified and prosecuted in 13 criminal proceedings with 189 defendants, which operated on the territory of the Republic Serbia, the region and in on an international scale.

CASE STUDY 1. THE BALKANS CARTEL

On May 12, 2023, the Public Prosecutor's Office for Organized Crime issued an order to conduct an investigation against 20 suspects due to the existence of reasonable suspicion that they committed the crime of unauthorized production and trafficking of narcotic drugs. Members of this OCG, the so-called 'Balkans cartel', operated in South America, Aruba, Greece, Western Europe and Serbia between December 2019 and August 2020.

This OCG is accused of having participated in the international trafficking of more than seven tons of cocaine. The largest seizure was in Aruba, where the competent authorities of that country seized over 5 tons of cocaine, which was financed, procured and transported by members of the "Balkans Cartel". 1.2 tons of cocaine were seized in the Kingdom of Belgium, while 743 kilograms were seized in the Kingdom of the Netherlands.

The offenses were committed on the territories of various countries, where other identified foreign nationals – including numerous unknown co-perpetrators – participated in addition to the defendants. In order to commit the criminal acts, various ships were secured and simulated legal deals concluded to conceal the real cargo of cocaine. For this purpose, the defendants concluded fictitious legal transactions, i.e. that steel waste or cocoa husks were transported by ships used to transport the drugs. In order to realize their plan, they hired sailors, foreign citizens. Thus, the drug load of over 5 tons of cocaine that was seized during the month of February 2020 on the ship "Aresa", in Aruba, was covered up with a simulated legal transaction, the alleged purchase of a steel load from Venezuela.

From the evidence collected, it follows that the members of the "Balkans Cartel", who are otherwise citizens of the Republic of Croatia and the Kingdom of Belgium, through a company based in the Kingdom of Belgium, whose director is also a foreign citizen, contracted with a company from Venezuela to purchase steel scrap in order to provide the necessary documentation for concealing the transport of cocaine by ocean-going vessel, about which the member, a citizen of the Republic of Croatia, reported to the organizer via the encrypted application "Sky Ecc" and sent him the locations where the "steel waste" should be collected.

Part of this documentation was found during the inspection of a vehicle driven by a citizen of the Kingdom of Belgium, who also participated in the financing of 1.2 tons of cocaine for the needs of the "Balkans Cartel", and the transportation of cocaine was concealed by the alleged procurement of cocoa husks.

This OCG was charged with involvement in the illegal arms trade. A large amount of different automatic and semi-automatic weapons, as well as ammunition and explosive devices of great destructive power, were found in one of the apartments in the territory of the City of Niš, which members of this OCG bought using the proceeds from the illegal drug trade.

During the search of apartments and other buildings whose owners or users were the suspects, a large amount of money was found in different locations. One suspect was found with money hidden in barrels buried in the ground in the amount of 3 million Euros, which is why a number of members of the "Balkans Cartel" are being prosecuted for the crime of money laundering.

This money was found based on the content of the correspondence of the OCG co-organizer from prison in Peru with members of the "Balkans Cartel", i.e. the instruction that

the 3 million euros, which will be used to finance cocaine, is kept in his relative's house. During the search of the defendants' apartments, other funds in various currencies were found, the amount of which exceeds several hundred thousand euros.

In addition to money and weapons, expensive watches and jewelry ("Cartier", "Dior", "Rolex") as well as 10 luxury vehicles were seized during the search. As part of extended confiscation, the Public Prosecutor's Office for Organized Crime immediately blocked accounts, safes, all movable and immovable property - apartments, houses and vehicles of the suspects.

A financial investigation was initiated against 20 defendants, orders were issued prohibiting the disposal of assets (frozen) against 37 individuals and 18 legal entities. The following assets have been frozen: 52 apartments, 8 apartments, 52 cadastral plots, 33 business premises, 34 garages, 15 family residential buildings, 15 auxiliary residential buildings, 19 commercial buildings, 11 passenger vehicles, 3 motorcycles, 1 tractor and 1 cargo vehicle, money that was found on bank accounts, the total blocked money on the accounts is EUR 2,207,312.02, RSD 103,924,579.79 and USD 66,664.19.

In the MLA process with Montenegro, 7 business premises in Montenegro were seized, 1 apartment (Budva), 2 cadastral plots (Kotor), 5 residential premises, 2 family residential buildings, 1 auxiliary building, 1 garage, 1 swimming pool, all located in the Republic of Montenegro (Kotor, Bijelo Polje, Tivat, Herceg Novi and Budva), and in the United States, the amount of EUR 1,786,232.64 has been blocked on the defendant's account.

The operation, which was successfully carried out on the territory of Serbia, was also carried out in cooperation with EUROPOL, EUROJUST and the Paris Tribunal, and JUNALCO – National Jurisdiction against Organized Crime, in which evidence was collected from the Sky application through MLA, and other evidence that was necessary for prosecution by the Public Prosecutor's Office for Organized Crime. In addition, international cooperation in this case took place with the competent authorities of The Netherlands, Belgium, Spain, Aruba and Peru, Croatia and Bosnia and Herzegovina.

Local OCGs

OCGs, whose activities are mainly related to the territory of Serbia and the Western Balkans, are mainly involved in the smuggling of migrants, production of narcotic drugs intended for the Serbian market and the surrounding countries (marijuana and synthetic drugs), as well as the smuggling of excise goods (cigarettes). They are characterized by good links with OCGs from neighboring countries.

The war events in Syria, Afghanistan and Ukraine have resulted in the refugee crisis, numerous criminal groups specialized in human smuggling, i.e. of illegal migrants on their way to the countries of the European Union. Serbia, together with other regional countries, is located on the migration route, so the cooperation between OCGs from Serbia and other countries on the migration route was the natural starting point for their concerted action and profit sharing.

Serbia is a transit area for illegal migrants from Syria, Afghanistan, Pakistan, Morocco and other Afro-Asian countries, who previously crossed the Turkish-Greek border, and who mostly enter our territory through the so-called green borders with Bulgaria and the North Macedonia. A smaller number of illegal migrants abused the visa-free entry regime to Serbia in order to reach their target countries, i.e. the most developed EU countries.

In the last three years, about 20% of the total number of indicted persons in Serbia for the criminal offense of illegal crossing of the state border and people smuggling from Article 350 of the Serbian CC committed this crime as organizers or members of OCGs.

People smuggling takes place from the border with Bulgaria and the North Macedonia in such a way that the OCG organizes the reception of illegal migrants on the territory of Serbia

who cross the border line with the help of "guides" and transport them, usually in vans, to a certain point in Serbia. To smuggle people into the EU countries, specially adapted passenger motor vehicles and vans are mainly used.

The data available indicate that the trend of the number of prosecuted persons in the last three years has remained relative to the previous period, which means that this type of organized crime is still current. However, OCG members who engage in this form of organized crime, unlike those who deal with drug trafficking or violent crimes, in many cases did not choose crime as a vocation in life, but saw it as an opportunity to make quick money and solve daily financial problems, which is why, in addition to general international measures to reduce illegal migration, sanctioning policy and the rehabilitation of convicted persons can have a key role in reducing this form of organized crime, and therefore the risk of money laundering.

From 2021 to 2023, 18 OCGs were identified as being involved in migrant smuggling with 134 suspects being charged with smuggling 1,915 migrants, which (OCGs) were prosecuted as a result of the work of the Task Force for Combating Human Smuggling.

CASE STUDY 2. SMUGGLING OF MIGRANTS

The Public Prosecutor's Office for Organized Crime initiated criminal proceedings against an OCG that, from 01.01.2021 to April 2021, engaged in migrant smuggling in Serbia, i.e. in Belgrade and Sombor, and Hungary.

The plan of action of this OCG was to organize the illegal crossing of the Serbian border for migrants, in return for a financial benefit, their reception in Hungary in the region of the town of Tompa, and then to facilitate illegal transit through Hungary to Austria and further to the countries of the Western Europe.

Plea agreements were concluded with three of the defendants at the stage of the preliminary proceedings, while two of the defendants were convicted in Hungary of the criminal offense of smuggling illegal migrants.

The OCG modus operandi involved finding illegal migrants interested in illegally crossing the state border in the area of Sombor, transferring them on foot to Hungary via the green belt. OCG members rented vehicles from rental car agencies in Belgrade and drove them to Hungary, where they accepted illegal migrants and then facilitate their illegal transit through Hungary to the border with Austria. From the rental of the vehicle to the border with Austria, members of the OCG coordinated the movement of the drivers of the rented vehicles and the so-called "cleaners", who were given the exact locations of illegal migrants and the route of their intended movement using an internet application. In this way, OCG members facilitated the illegal transit of 41 illegal migrants.

In the pre-criminal proceedings, authorities exchanged information with Hungarian police officers, and with the liaison officer at the Hungarian Embassy in Belgrade. As part of the MLA procedure, evidence was obtained from the Hungarian judicial and police authorities about the actions of two defendants who were convicted in Hungary for the criminal offense of people smuggling.

The final conviction of the Appellate Court in Belgrade, Special Department for Organized Crime, sentenced two defendants to prison terms of 4 years and 6 months, and 3 years, respectively.

In addition to the smuggling of migrants, this type of OCG also deals with the production and distribution of narcotics.

The OCGs grow marijuana in Serbia, mainly for the local market, using adapted facilities and are concentrated in the areas of large cities, mainly Belgrade, Novi Sad, Niš, Kragujevac, Kraljevo, Novi Pazar and Vranje.

Through their established network, they distribute heroin and hashish, and marijuana, which they produce in artificial environments. A number of these groups produce marijuana in specially equipped laboratories in Europe (Finland, Spain, Austria, etc.).

The traditional central Balkan route is used less and less for heroin smuggling, and the critical points are the border crossings with Bulgaria, North Macedonia and Montenegro, as well as with Croatia and Hungary, and the administrative crossings towards AP Kosovo and Metohija, while for marijuana smuggling critical points are administrative crossings towards AP Kosovo and Metohija and border crossings to Montenegro and the North Macedonia.

Human trafficking is one of the more profitable forms of organized crime, characterized by high profit and low risk, as well as a high dark figure. In the observed period, an investigation was conducted against a 6-member OCG who established a relationship similar to slavery, mainly with minors and children of Roma ethnic origin, and used them to commit criminal offenses and to beg. One female minor was sold to someone in France, and two female minors were sold to someone in Germany.

The above example indicates that labor and sexual exploitation are dominant forms of human trafficking and represent a serious threat when they are carried out by OCGs. The victims of labor exploitation are mostly male, while the victims of sexual exploitation are mostly female. This form of organized crime is closely related to the criminal offense of intermediation in prostitution, whereby subtle methods for recruiting female victims are used, and for creating a relationship of dependence among victims and a sense of false trust, whereby the criminals allegedly care and provide sufficient funds to satisfy living needs, without the use of typical violent methods. Taking into account the profitability of these forms of organized crime and the small amount of found and confiscated proceeds in the observed period, a financial investigation was initiated against over 86% of the persons who are investigated for this crime, because the ML risk posed by the organizers under the 2018-2020 NRA was assessed as medium.

OCGs specialized for logistics

OCGs that primarily engage in providing logistical support to other OCGs, and to individuals from the criminal milieu, is a special type of OCG. They do this through forging of personal documents, various documents, or issuing fictitious invoices.

The analysis of existing cases shows that certain criminal groups and defendants, as well as persons from the criminal milieu, often use forged documents when committing criminal offenses and that such documents are made for them by OCGs that are fully equipped with all the necessary technical and material means.

In the cases initiated as a result of the work of the Task Force for the fight against criminal offenses against legal instruments with an organized crime dimension, several illegal printing houses were identified where fake official documents of Serbia or other countries were forged. Through proactive work, criminal activities have been disrupted, both in Serbia and in the other countries.

From 2021 to 2023, the Prosecutor's Office for Organized Crime initiated criminal proceedings against members of 5 OCGs for committing the crime of document forgery under Article 355 of the CC.

CASE STUDY 3. FORGERY OF DOCUMENTS
<i>An OCG provided supplied biometric documents, but under false names, to the most influential members of the Serbian and Montenegrin underground, some of whom were members of the "Kavač" clan.</i>

An OCG operated in 2015 and 2016 in Belgrade, Užice, Čajetina and Čačak, committing the criminal offenses of forgery documents from Art. 355 CC and Abuse of office from Art. 359 CC. This OCG also included officials - a police officer from Užice and a registrar from the municipality of Surčin, as well as 4 OCG members whose task was to provide information on false identities and to provide interested persons with full logistical support until the moment of obtaining original biometric documents based on false identity data.

The members of this OCG supplied forged public documents to interested persons, with false or non-existent personal data of other persons, in order to enable them to obtain original biometric personal documents based on such data, i.e. identity cards and travel documents - for a fee ranging from EUR 4,000 to EUR 16,000. Such documents ultimately enabled interested parties to conceal their identity - because they possessed original documents in a false or non-existent name. The OCG members provided the interested persons with all the necessary logistical support when submitting requests for the issuance of personal documents of Serbia, going with the interested persons to the police station, filling out requests for registration of residence, requests for issuance of biometric ID cards and travel documents with false personal data, monitoring and obtaining information about the course and outcome of the procedure based on the submitted application.

Each OCG member constituted one of the links with a precisely defined role, so thus the police officer found, obtained and delivered personal data necessary for the production of forged public documents, carried out periodic checks through the MoI information system to see whether the personal data for creating the forged public or other documents were still good for use, checked the course and outcome of the procedure after an application was filed for the issuance of original biometric public documents. He provided logistical support when interested persons submitted their application for the issuance of the documents. The task of the registrar was to obtain the original forms of the birth certificate and citizenship certificate. Other members of this OCG were in charge of logistics - to collect photos of interested parties and deliver them with false personal data to a member who would create the false documents, use it to submit the related applications, as well as to maintain contacts with potential users of these document.

This OCG created false identities and supplied public and other documents for interested persons, most often criminals, members of various clans, including the so-called "Kavač clan", enabling them to conceal their identities.

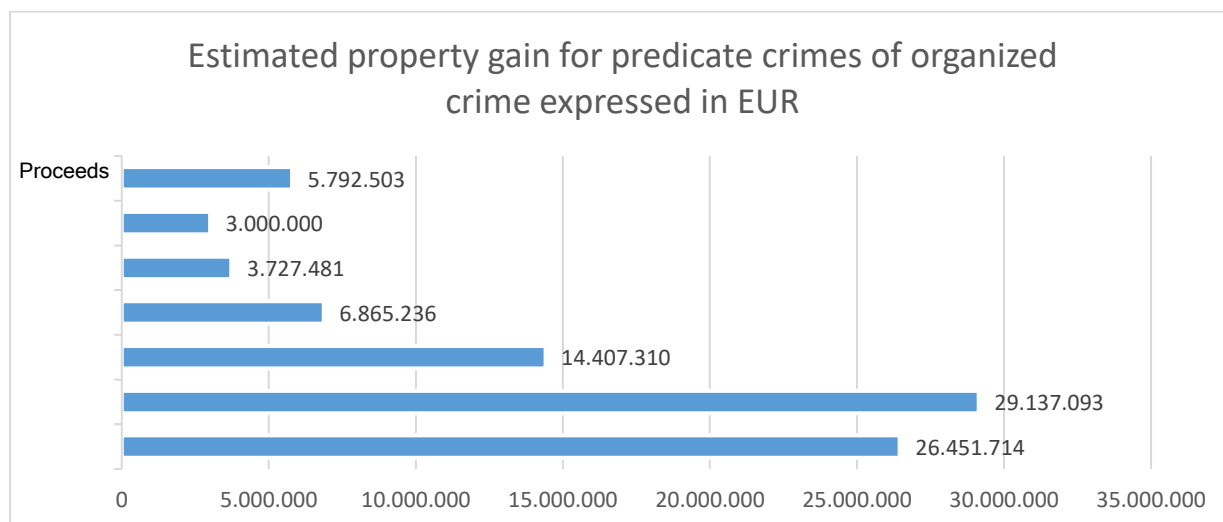
All members of this OCG were convicted in a final conviction to prison terms ranging from 8 months to 3 years and 6 months. The convicted persons were deprived by the court of proceeds obtained from the criminal offenses, and the police officer and the registrar were prohibited from making calls, activities and duties through security measures.

A number of OCGs used the business structures of companies under their control to issue fictitious invoices, invoices, delivery notes for the purpose of simulating a business relationship that served as a basis for the right to a VAT refund, in order to evade taxes and withdraw cash from the accounts of business entities having actual business operations.

These OCGs essentially act as professional money launderers, given that the companies under their control do not perform any business activity, they only exist for a fixed period of time to perform simulated business activities that enable its organizers and members to obtain illegal proceeds in the form of fees based on the amounts stated on false invoices and business documentation.

When it comes to statistics, the total **estimated proceeds** from the criminal offenses of organized crime amounts to **EUR 89,381,337**, which represents 6% of the total estimated proceeds posing a ML threat in Serbia.

Abuse of position of the responsible person and tax crimes stand out as crimes with the highest estimated value of proceeds.

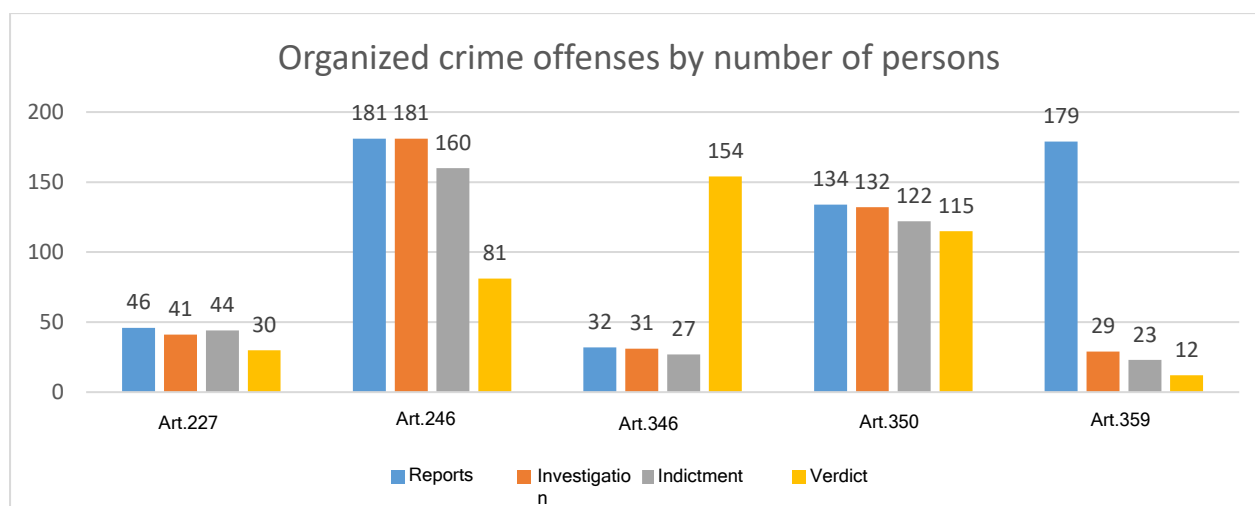


Property in the amount of EUR 16,499,049 was **confiscated** in organized crime cases, representing 18% of the total estimated proceeds. The largest amounts of confiscated property in organized crime cases are recorded for the criminal offense of Abuse of position of the responsible person in the amount of EUR 9,711,838, which is 33.33% of the estimated proceeds for this criminal offense.

From 2021 to 2023, reports were submitted to the Public Prosecutor's Office for Organized Crime against 803 persons, 543 orders were issued to conduct investigations, and a total of 569 persons were indicted, while court decisions were handed down against 591 persons. In the prosecuted organized crime cases, a slight decrease in the number of defendants is seen, from the initial to the final stages of the criminal proceedings, which is almost a common phenomenon in the prosecution of this crime.

According to criminal complaints (reports), 101 persons were members of a total of 20 OCGs, and the largest OCG included 34 persons.

As per the number of persons prosecuted, the most frequent crimes are the unauthorized production and trafficking of narcotic drugs and the illegal crossing of the state border and smuggling of migrants, while per the number of investigations corruption-related crime also ranks high.



Organized crime	Criminal offenses of organized crime	ML from criminal offenses of organized crime	
Estimated proceeds	89,381,337 EUR	Value of assets involved in ML	8,232,749 EUR
Seized property	4,512,189 EUR		
Confiscated property	16,499,049 EUR		
Investigations	543	55	
Indictments	569	64	
Court decisions	591	18	

Given that, by definition, organized crime represents the commission of criminal acts by OCGs, the data on the number of persons prosecuted for the criminal offense of *association for the commission of criminal offenses* from Article 346 of the CC are significant. Here the criminal offense of association for the purpose of committing criminal offenses was analyzed as a separate criminal offense. In relation to this criminal offense, property in the amount of EUR 1,205,254 was confiscated. Property in the amount of EUR 4,512,189 was seized.

In the observed period, criminal complaints were filed against 39 persons, with 34 investigation orders issued, indictments against 27, and convictions against 154.

In cases of organized crime, 16 convictions and 2 acquittals were handed down for the criminal offense of money laundering (2.64% of the total number of court decisions handed down for OC). The value of property involved in ML in investigations amounted to EUR 8,232,749, which represents 9.2% of the estimated proceeds of criminal offenses of organized crime.

Data on specific criminal offenses committed by OCGs (property, number of persons, investigations, indictments, convictions, etc.) are provided as part of separate analyses for each of the criminal offenses.

Conclusion: The analysis of the aforementioned cases established that the perpetrators committed crimes in groups and that they acted in an organized manner with the sole aim of obtaining financial benefits, and for these reasons, any criminal offense committed in the aforementioned manner was assessed as a high-risk criminal offense for ML, and especially because their commission generates a large material benefit. Bearing in mind the number of actions undertaken within OCGs, the gravity of the crimes they commit, the number of prosecuted OCGs (20) and the number of their members (the most numerous having 38), the fact that in most cases OCGs are involved in the trade of narcotics and other serious crimes, as well as the amount of the illegal financial benefits obtained by OCGs, criminal offenses of organized crime represent criminal offenses of a high level of threat for ML.

CRIMINAL OFFENSES OF MEDIUM LEVEL OF THREAT

The following crimes are classified in the group of medium threat level crimes for money laundering: illegal crossing of the state border and people smuggling from Article 350 of the CC, criminal offenses of forgery that include forgery of document from Article 355 of the CC and forgery of an official document from Article 357 of the CC, human trafficking from member 388 of the CC, the criminal offense of illegal trade from Article 235 of the CC, fraud in the performance of economic activity from Article 233 of the CC and construction without a building permit from Article 219a of the CC

Criminal offenses of forgery

The criminal offenses of forgery a document from Article 355 of the CC and forgery of official document from Article 357 of the CC belong to the group of crimes against legal instruments and are characterized by a large number of reported and prosecuted persons. They also appear in significant numbers as predicates in ML proceedings.

A characteristic of these criminal offenses is that they indirectly enable the acquisition of illegal property, and this is the reason why they are included in the group of criminal offenses that can be ML predicates.

If we analyze the ML techniques, we can see that forged documents were used in almost all cases, i.e. that criminal offenses of forgery were very often committed during money laundering.

According to the data from the criminal complaints filed, the detected proceeds amounts to EUR 491,588. However, the data on the value of the property involved in money laundering from these criminal offenses is EUR 1,626,965 in investigations and EUR 1,251,743 in indictments. It is obvious that the "dark figures" in this criminal offense are high, and therefore it was estimated relative to the total value of the detected proceeds and the value of the property involved in money laundering. In specific, it was assessed at EUR 2,365,197 and the estimated proceeds at EUR 4,730,394.

The total value of confiscated property, confiscated funds according to final court decisions is EUR 21,018, and seized property is EUR 50,000.

Data from the Supreme Public Prosecutor's Office, the Supreme Court of Cassation and the Ministry of Interior indicate a large number of persons prosecuted and convicted for these crimes. Thus, in three years 8,839 persons were investigated, 2,899 persons were indicted, and convictions were handed down against 2,860 persons. According to all parameters, these criminal offenses show a trend of growth in the structure of criminal offenses.

The specificity of these criminal offenses is that in the ML cases analyzed, they appear in a significant number of cases as predicates. Sixty-three persons were investigated and 52 were indicted, while 10 persons were convicted of ML where forgery-related offenses were the predicates. The value of the property involved in ML investigations for the predicate offense of forgery, amounted to EUR 1,626,965 and in ML indictments EUR 1,251,743.

Article 355 and 357 of the CC	Criminal acts of forgery		Money laundering from criminal offenses of forgery as predicates	
	Estimated proceeds	4,730,394	Value of assets involved in money laundering	1,626,965

Seized property	50,000 EUR	
Confiscated property	21,018 EUR	
Investigations	58	63
Indictments	2. 899	52
Court decisions	2,860	9

The fact that proceeds is an indirect consequence of commission of this criminal offense, and especially that in the observed period there were several ML criminal proceedings with significant assets involved, that there were cases of this criminal offense being committed by OCGs, and in particular its high frequency and increase in number, are the key arguments for classifying it as a medium risk for ML.

Criminal offense of illegal crossing of the state border and smuggling of people, CC Article 350

The assessment specifically looked at the "dark figures", and used the data from the Global Initiative against Transnational Organized Crime (*GI-TOC*) for the purposes.²⁰ According to this study, the value of the migrant smuggling market ranged between 8.5 and 10.5 million euros for crossing between Serbia, Hungary and Romania, and it also states that low detection and prosecution rates encourage the involvement of ordinary citizens in smuggling operations, which additionally harms the local economy.²¹ The value of the dark figure of EUR 9,000,000 was acknowledged, so the estimated proceeds from this criminal offense amounts to EUR 9,105,063.00.

Property in the value of EUR 1,450,911 was confiscated from the perpetrators through convictions, while property in the value of EUR 1,954,291 was seized. There have been no criminal proceedings for ML in which this crime appears as a predicate.

During the analyzed period, a total of 973 persons were reported, the investigation was conducted against 814 persons, 638 were indicted, while 389 persons were convicted.

84 financial investigations were initiated, which enabled the seizure and confiscation of property.

Another indicator for the potential threat of this criminal act as a predicate is the fact that it is largely carried out by OCGs. This is indicated by the fact that out of the total number of criminal complaints filed (815 persons), 134 persons were reported to the Public Prosecutor's Office for Organized Crime, investigations were initiated against 132 persons, and 122 persons were indicted.

Conclusion: It is indisputable that due to its geographic location, Serbia is suitable for carrying out criminal activities that fall under the criminal offense of Art. 350 CC, and such a trend has been observed for a longer period of time, which is also noted by the reports of international non-governmental organizations. In the previous NRA, this crime was classified in a high-threat group, for which there were numerous reasons such as the peak of the "migrant crisis", the number of OCGs prosecuted for this crime, the creation of new criminal groups that cooperated with criminal groups from other countries and proceeds that was detected and

²⁰Global Initiative against Transnational Organized Crime (GI-TOC), "Key drivers and current trends - Illegal financial flows in Bosnia and Herzegovina, Montenegro and Serbia", January 2022, pp. 34-38. Available at: <https://globalinitiative.net/wp-content/uploads/2022/01/IFFs 2- BCMS.pdf>.

²¹Ibid.

confiscated from the perpetrators of this crime. The current assessment has shown that there was a decrease in the number of migrants, a decrease in the number of OCGs and lower levels of criminal structures that engage in this criminal activity on an international scale. This crime is committed, as a rule, by *ad hoc* criminal groups. Due to the inclusion of the territory of Serbia in the migrant route, it was inevitable that persons from this area would be involved in smuggling chains, and their role was to transfer migrants from the south of Serbia from place "A" to the north to place "B". Persons who commit this criminal act do so in order to solve existential problems, making minimal criminal profits of a few hundred euros, and use them to pay utility bills and similar expenses. All the mentioned factors, as well as the geographical position of Serbia, had an impact on this criminal offense being evaluated in this Risk Assessment as a criminal offense of medium degree of threat for money laundering.

Criminal offense of human trafficking, CC Article 388

The crime of human trafficking represents one of the most significant and profitable criminal activities at the global level committed with the aim of obtaining financial benefits, especially in the context of human trafficking for prostitution and other forms of sexual and labor exploitation. It is characterized by the existence of an extremely high "dark figure", i.e. many undetected criminal offenses and perpetrators, and thus also the proceeds obtained through this criminal act. This crime was committed by an OCG too for the purpose of exploiting minors.

Due to the existence of grounds for suspicion that this criminal act was committed, criminal complaints were filed against 176 persons, 118 investigations were initiated, and 75 persons were charged, while 28 persons were convicted.

It has been noted that this criminal offense is more often committed in the area of Belgrade and Novi Sad, as shown by the data on the number of reported, investigated and indicted persons.

Assets in the amount of EUR 105,012.50 were detected in the criminal complaint filed by the police for this crime. The scope of undetected criminal acts is difficult to determine, so with regard to this criminal act, it is also assessed at 50% of the detected proceeds, so that the estimated proceeds is EUR 157,519.00. In relation to this criminal offense, 14 financial investigations were conducted, but the amount of detected and confiscated property is small. Criminal complaints against 6 persons were filed to the Prosecutor's Office for Organized Crime. Investigations were initiated against 6 persons.

The criminal offense of human trafficking from Art. 388 of the CC as a predicate crime did not appear in money laundering cases.

Data kept by reference organization in this field - ASTRA²² indicate that 46 victims of human trafficking were identified in Serbia in 2021, among whom 17 were children (16 girls). Bearing in mind that the number of officially identified victims of human trafficking in 2020 was 57, it seems that in the field of combating human trafficking in 2021 there was a decrease in the number of identified offenses,²³ because the ASTRA report for 2022 shows that in Serbia, 62 victims of human trafficking were identified, including 25 children (20 girls). The number of identifications increased by over 35% compared to the previous year. The percentage of children among the victims is extremely high and amounts to 40%, and its increase, as well as

²²ASTRA Antitrafficking Action deals with the problem of human trafficking, including prevention and education, providing direct assistance to victims of human trafficking, their reintegration, as well as research and reporting on human trafficking.

²³Annual report of ASTRA for 2021, p. 6-8. Available at: <https://astra.rs/annual-reports/>.

the age of the victims, are worrying. Also, a growing trend in the volume of labor exploitation was observed. During 2023, according to the ASTRA report, similar trends were observed.²⁴

Serbia adopted and implemented the Strategy for the Prevention and Suppression of Trafficking in Human Beings, Especially Women and Children, and the Protection of Victims 2017-2022, according to which a normative framework, a strategic framework and specific goals were established in the fight, among other things, against illegal migration flows through Serbia, as a transit country.

In practice, this criminal offense is often closely related to the criminal offense of intermediation in prostitution, for which criminal complaints were filed against a total of 102 persons. An order to conduct an investigation was issued against 66 persons, while indictments were filed against 61 persons, and a total of 59 persons were finally convicted for the aforementioned criminal act.

The competent prosecutor's office in Belgrade is conducting an investigation against 5 persons for organizing prostitution, of which 2 persons have been reported in the media as possessing valuable property - expensive sports cars.

In 2021, two persons were charged with stand-alone ML, where the value of the property involved in ML was EUR 58,750. Criminal activity linked with sexual exploitation, and more widely with human trafficking and intermediation in prostitution, were identified as the origin of the alleged proceeds. In any case, the state of affairs in this area from the point of view of ML threat can be seen if the above criminal offenses are viewed together.

Conclusion: The reasons for assessing these criminal offenses as medium threat for money laundering is the estimated proceeds (to the tune of EUR 157,519.00), bearing in mind that the amount of proceeds is about 30% higher than in the period covered by the previous NRA. Annual reports of relevant NGOs indicate that Serbia is the country of origin of the victims. It is estimated that the organization of their exploitation is related to this geographic area and that the proceeds are therefore flowing to Serbia. The above is supported by the data on the number of victims, which grows from year to year, with the "dark figure" many times exceeding the official statistics related to this crime.

Criminal offense illegal trade, CC Article 235

Natural persons, legal persons (mainly LLCs) and entrepreneurs engage in the illegal trade of goods.

From the analysis published in the document "Key Drivers and Current Trends - Illegal Financial Flows in Bosnia and Herzegovina, Montenegro and Serbia" prepared by the Global Initiative to Fight Transnational Organized Crime in January 2022, it follows that Serbia, Montenegro and Bosnia and Herzegovina, have a vivid variety of informal market, where smuggled legal goods (food, car parts, livestock – even fishing gear) are traded as well as those illegally manufactured or illegally traded (counterfeit clothing, tobacco).²⁵

Counterfeit products enter the region through the port of Bar in Montenegro and through Bulgaria and Romania to the illegal markets in Bosnia and Herzegovina, Montenegro and Serbia.

Considering that the extent of the shadow economy is high, and that in 2019 the Organization for Economic Co-operation and Development (OECD) estimated the trade in counterfeit and pirated goods at 3% of global trade (which includes contraband or grey

²⁶ Global Initiative against Transnational Organized Crime (GI-TOC), "Key Drivers and Current Trends - Illegal Financial Flows in Bosnia and Herzegovina, Montenegro and Serbia

goods)²⁶, it is clear that illegal trade generates significant incomes through the circulation of both consumer goods and higher-value items, especially taking into account the specifics and historical heritage related to the development of the "black market" at the time of economic sanctions, the channels created for smuggling specific types of goods such as tobacco, cigarettes, fuel, it was concluded that criminal activities related to illegal traffic goods should be assessed as a medium level of threat from money laundering.

According to the filed criminal complaints, the detected proceeds related to this criminal offense amounted to EUR 7,112,749.00 in the analyzed period. Based on the data on the value of seized items based on court orders (EUR 37,545,532.00), the mentioned findings and conclusions of the OECD and Gi-TOC, it was concluded that the dark figure for these crimes is extremely high - it was assessed to be at least equal to the sum of the detected proceeds and the value of confiscated objects (items), which gives the amount of EUR 44,658,281. Accordingly, the amount of the total estimated proceeds for this criminal offense is EUR 51,771,030.

The value of property confiscated by the courts according to the final court decisions is EUR 37,649,987.00, which is significantly more than in the previous NRA (EUR 244,855). It should nevertheless be borne in mind that these values mainly involve illegally traded items confiscated - goods that were the subject-matter of illegal trade, and that amounts of proceeds are smaller.

According to the Directorate for Management of Seized/Confiscated Assets, the total value of seized property is EUR 115,650.00.

Criminal complaints were filed against 786 persons for the criminal offense of illegal trade during the observed period. An investigation was launched against 613 persons, 359 persons were charged, and a total of 162 persons were sentenced by the final decision.

We notice that a larger number of reported and prosecuted persons are in the areas of AP Vojvodina and southern Serbia, where illegal goods, most often originating from neighboring countries, are distributed without authorization in these border areas of Serbia.

Furthermore, the trend of expanding the "network" of illegal trade on the Internet is observed, so "online" purchases, often from unregistered sellers of goods, are becoming an everyday occurrence, which is why this offense seems even more relevant from the aspect of money laundering, since it is more difficult to "track" flows of goods and money, and proceeds are continuously accumulated. Based on Tax Administration data too, it can be concluded that the present global trend of e-commerce development has had an effect on emerging forms of tax evasion and increased volume of unregistered trade via the Internet. For this reason, the Tax Administration has intensified activities to suppress the shadow economy in the trade of goods and services, the sale of which is carried out through the Internet and other social networks, i.e. based on the performance of unregistered activities.

Article 235 of the CC	Illegal trade	Money laundering from illicit trade	
Estimated proceeds	51,771,030 EUR	Value of assets involved in money laundering	EUR 1,337,589.00
Seized property	115,650.00 EUR		
Confiscated property	37,649,987.00		
Investigations	613	10	
Indictments	359	1	

²⁶ Ibid.

Court decisions	162	/
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The cases where this offense appears as a predicate mostly involve the sale of used motor vehicles, and trade in high-value goods, such as jewelry, vessels, works of art, luxury goods, valuables, as well as branded textile goods.

Conclusion: The number of reported and prosecuted persons, as well as the amounts of detected and estimated proceeds generated by this criminal offense as a potential predicate offense, the value of the property involved in ML, the value of the objects of illegal trade, the involvement of OCGs, the established smuggling channels and many years of experience reveal the dangers that this criminal offense poses for money laundering. Coupled with this are the ever-expanding opportunities to market and sell goods on the "black market" using new technologies such as online sales via the Internet. A high demand for various goods at good prices plays a role too, and sales on the "black market" cater for this demand, as well as the type of goods that are sold on illegal markets, many of which are prohibited, such as narcotics and weapons, all generating high proceeds. All this gives enough reason to conclude that this criminal offense poses an ML threat.

Criminal offense of fraud in performing business activities, CC Article 223

The criminal offense of fraud in the performance of business activity, laid down in Article 223 of the Criminal Code, is classified as a group of criminal offenses whose collective object of protection is the economy, so therefore acts of commission that can be brought under this legal qualification are limited only to business operations. Another feature of this criminal offense is that it stipulates that damage as its consequence must only be made on the property of a business entity.

In the observed period, criminal charges were filed against 1,180 persons for this criminal offense, investigations were initiated against 550 persons, 87 persons were indicted, while 42 persons were convicted.

The frequency of reporting and processing of this criminal offense corresponds to the level of regional economic development.

The amount of detected proceeds in connection with this offense based to the criminal complaints filed is EUR 19,630,206.00. It is estimated that the amount of proceeds obtained from this criminal offense through "dark figures" reaches EUR 9,815,103.00, on the basis of which we arrive at the estimated proceeds generated by this criminal offense going as high as EUR 29,445,309.00.

Courts confiscated EUR 5,336.00 in their final decisions from three persons, and seized EUR 63,100.

In addition to the extremely high estimated proceeds that is obtained from fraud in the performance of business activity in Art. 223 of the Criminal Code, an additional and decisive indicator of the ML threat in this criminal offense is the data on proceedings for this offense as an ML predicate and the value of property involved in ML originating from this predicate, i.e. EUR 1,544,941 in investigations, and EUR 943,498.00 in indictments.

Article 223	Fraud in the performance of business activity		Money laundering from fraud in the performance of business activity	
	Estimated proceeds	EUR 29,445,308.85	Value of assets involved in	EUR 1,544,941

		money laundering	
Seized property	63,100 EUR		
Confiscated property	5,336.00		
Investigations	550		11
Indictments	87		8
Court decisions	42		0

In the analyzed period, no final court decisions were passed in integrated criminal proceedings for this offense as a predicate, and the ML offense.

No proceedings for this criminal offense as a ML predicate were conducted by the Prosecutor's Office for Organized Crime.

Conclusion: Summarizing the data on the amount of the detected and estimated proceeds that was obtained through the commission of the criminal offense of fraud in the performance of business activity and the fact that this criminal offense was prosecuted in the given period as a predicate in integrated procedures, with money laundering, coupled with the value of the property that was included in the ML originating from this offense, are the reasons for assessing this criminal offense as posing a medium degree of ML threat.

Construction without a building permit, CC Article 219a

Despite the fact that it is a criminal offense that did not appear as an ML predicate offense in the period of covered by this NRA, the assessment is that this criminal offense should be classified as **a medium threat** for money laundering. The main reason lies in the fact that in the process of legalization of buildings that were built without permit, the funds invested in their construction are also legalized. Namely, illegal construction is an absolutely non-transparent activity when it comes to the identity of the investors and the origin of the funds invested. The suspicion is a result of knowledge that persons with modest incomes formally appear in the role of investor, and that some of them are not even taxpayers, which undoubtedly speaks of their modest investment potential. Also, the building legalization process does not include determining the origin of the funds invested in the illegal construction, which facilitates the inflow of illegal capital.

With a total of 2,158 reported persons, it is concluded that this is one of the most frequently reported crimes. As many as 1,606 persons were investigated, 985 persons were indicted and as many as 627 persons were convicted. Due to the nature of this criminal offense, there was no confiscation of property or money on any basis.

In terms of geographic threat, this offense is the most prevalent in the area of the city of Belgrade, where over 81% of all illegal buildings are located.

ILLEGALLY BUILT FACILITIES 2019-2021



Chart, title: 'ILLEGAL SQUARE METERS 2019-2021'

The situation is similar when it comes to the value of illegal buildings, i.e. the amount of invested funds whose origin is not determined. This conclusion is supported by the fact that of the total value of illegal buildings in the 4 largest Serbian cities, as much as 84.27% of that value falls on illegally built square meters in central Belgrade municipalities where a total of 230,628 illegal square meters were built in the observed period, the total estimated value of which is EUR 191,773,104.

Regarding the payment of public revenues, of a total of 285 natural persons included in final convictions (for the period 2019 to 2023) from Belgrade, it was determined that **69 persons (24.21%) do not have earnings or pay taxes**. The fact that even a quarter of natural persons involved in final convictions for the criminal offense of illegal construction in Belgrade does not generate any legal income or pays taxes on that basis raises the question of the origin of the money that these persons invested in illegal construction.

Serbia prepared a special assessment of the ML/TF risk in the real estate sector, which comprehensively analyzed the threat posed by criminal offense and the consequences it may have on the financial and non-financial system of the country.

CRIMINAL OFFENSES OF LOW LEVEL OF THREAT

The methodology applied in ranking criminal offenses according to the degree of ML threat was used to create a list of criminal offenses with a high and medium degree of ML threat, with the remaining 102 criminal offenses falling into the low-threat group.

GROWING THREATS

Criminal offenses against the environment

Environmental protection is one of the most current topics not only in Serbia but also at the global level. According to the data of the European Commission, environmental crimes are among the nine most common criminal activities in the EU, in addition to drug trafficking, human trafficking, migrant smuggling, fraud, arms trafficking, tobacco trafficking, high-tech crime and property crimes.

Serbia saw an increase in the number of crimes committed against the environment. Thus, a total of 1,145 persons were indicted, and 1,046 persons were convicted. There was also a significant increase in the numbers of indicted and convicted persons for the criminal offense of transportation of dangerous substances into Serbia and illegal processing, disposal and storage of dangerous substances, which can also generate proceeds because in practice this crime mainly boils down to paying for the storage of dangerous substances.

In the case of criminal offenses against the environment, the amount of detected proceeds amounts to EUR 2,310,515. The criminal complaints covered 2,619 criminal offenses.

It was noticed that the criminal offense of illegal processing, disposal and storage of dangerous substances, even though resulting in a significant increase in convictions failed to also result in confiscation of proceeds. Proceeds is normally not a feature of this criminal offense, but they inevitably appear in all criminal offenses as a motive for their commission.

Serious forms of environmental crime identified in Serbia include illegal international trade in protected plant and animal species and illegal handling of hazardous waste, as well as forest theft. These illegal activities belong to extremely profitable criminal activities²⁷, and most of the countries globally do not show enough interest or do not have mechanisms to prevent and suppress it.

Funds from environmental crime are laundered through business activities requiring large amounts of cash and business entities engaged in trade, often in the field of import/export. This is done by intermingling "dirty" and legally earned money or by using forged and false documents and of business/trade transactions to conceal the movement of money across state borders. In addition, *shell companies* located in offshore centers, related party transactions and professional intermediaries (lawyers, TCSPs, financial advisors) are widely used to conceal payments and launder ML proceeds.

Investing in renewable energy sources (wind farms, mini hydropower plants, solar power plants) is a rapidly growing market that requires large capital investments. This can lead to significant risks of corruption, especially when it comes to obtaining permits and subsidies for investing in green energy, but also to investing the proceeds of criminal activity in this area, especially in developing countries. The green agenda, reinforced by the crisis caused by the difficult supply of energy sources, puts the area of renewable energy sources on the list of

²⁷ Environmental crime is estimated to be among the most profitable crimes, generating between \$110 billion and \$281 billion globally each year (Money Laundering from Environmental Crime, July 2021).

priorities in the coming period, which can be particularly attractive for the placement of criminal income in this branch of industry.

Criminal offenses of unauthorized lending to citizens

These criminal offenses include the criminal offense of usury from Article 217 of the CC and the criminal offense from Article 136 of the Law on Banks.

In the covered three-year period, criminal complaints were filed against 103 persons, 11 persons were investigated, 17 persons were indicted, and 11 persons were convicted. The value of the property involved in ML, originating from the above offenses, was EUR 2,128,144. The estimated proceeds from these crimes is EUR 6,797,618. They are rarely reported due to the specific relationship between the perpetrator and the victim, which is characterized by economic subordination and a dependent position towards the person who provides the necessary funds, and often the fear of the consequences of reporting.

An investigation was initiated against 11 persons for this crime, as an ML predicate, and the total value of the property that was the subject of laundering was EUR 2,128,144 EUR. An indictment was filed against 6 persons for ML from this offense as a predicate. The total amount of obtained illegal proceeds identified in the indictment amounted to EUR 177,695.

One person was convicted in a final conviction for money laundering from usury as a predicate crime. A security measure was imposed on the same person to confiscate items worth EUR 16,700, and proceeds in the amount of EUR 65,500 were confiscated.

Involvement of organized crime was noticed in the schemes of provision of loans to citizens. Namely, the owner of a pawnshop, against whom a criminal proceeding was instituted for money laundering, was related to a defendant who was an OCG member who was prosecuted for drug trafficking. The real estate sector was used to integrate illegal proceeds. Legal transactions that were used in the ML scheme involved notaries who solemnized documents which were used to provide loans/credit and the subsequent transfer of ownership of real estate as a result of inability to repay the loan. Even though several such documents were solemnized in relation to legal transactions between the same lender and borrower, no SARs have been filed by the obliged entity.

Conclusion: This criminal offense appears in more and more cases as a predicate criminal offense of money laundering. By its very nature and substance, it consists in contracting a disproportionate and illegal interest on the loans provided. The high interest rates that are contracted generate extremely high incomes, often many times higher than the amount of the money borrowed. There is also a high dark figure involved for these crimes. These factors, by themselves and in conjunction with each other, indicate that this criminal offense represents a growing ML threat with a tendency to continue growing.

THREAT SUMMARY

The ratio of estimated proceeds as a threat to money laundering and GDP

Period	GDP	Estimated proceeds	Percentage
2021-2023	EUR 194,635,000,000	EUR 1,563,275,393	0.80%
Annual average	EUR 64,878,333,000	EUR 521,091,797	

Confiscated property in criminal proceedings relative to the estimated proceeds

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	EUR 1,563,275,393	EUR 165,179,934	10.50%
Annual average	EUR 521,091,797	EUR 53,059,978	

Confiscated property in criminal proceedings relative to the estimated proceeds in the criminal offense of *unauthorized production and trafficking of narcotic drugs*:

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	EUR 127,667,928	EUR 4,930,288	3.86%
Annual average	EUR 42,555,976	EUR 1,643,430	

Confiscated property in criminal proceedings relative to the estimated proceeds in tax-related crimes:

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	EUR 360,677,992	EUR 5,417,225	1.5%
Annual average	EUR 120,225,997	EUR 1,805,742	

Confiscated property in criminal proceedings relative to the estimated proceeds in the criminal offense in the criminal offense of corruption in the public sector:

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	EUR 42,461,532	EUR 1,313,631	3%
Annual average	EUR 14,153,844	EUR 437,877	

Confiscated property in criminal proceedings relative to the estimated proceeds in the criminal offense of fraud

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	EUR 35,973,629.00	EUR 1,090,515	3%
Annual average	EUR 11,991,210	EUR 363,505	

Confiscated property in criminal proceedings relative to the estimated proceeds in criminal offenses of organized crime

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	EUR 89,381,337	EUR 16,499,049	18%
Annual average	EUR 29,793,779	EUR 5,499,683	

Confiscated property in criminal proceedings relative to the estimated proceeds in the criminal offense of abuse of position of a responsible person:

Period	Estimated proceeds	Confiscated property	Confiscated property, in percent
2021-2023	166,664,170 EUR	13,418,484 EUR	8%
Annual average	EUR 55,554,723	EUR 4,472,828	

Conclusion: The assessment of ML threats is focused on predicate crimes, involvement of organized crime, various forms of confiscation of proceeds and assets, criminal income and economic losses of the state as a result. Crimes with a high degree of threat determined on that basis are: tax crimes, abuse in business operations, drug trafficking, corruption in the public sector, fraud and organized crime offenses.

The value of property that represents an ML threat is estimated at approx. 1.5 billion euros, and it consists of detected proceeds from criminal complaints filed, dark figures, confiscated property, as well as property that was the subject of money laundering as identified in MLA requests sent to Serbia.

Assets that pose a money laundering threat in Serbia in the amount of EUR 1,563,275,393 represent 0.80% of Serbia's GDP.

In relation to the stated level of threat, the share of property confiscated in criminal proceedings of EUR 165,179,934 represents 10.50% of the total ML threat.

The largest amount of confiscated property is recorded for the criminal offenses committed by OCGs. It is the property valued at a total of EUR 21,011,238, which was confiscated on various grounds, which makes 12.72% of the total confiscated proceeds or 23.50% of the overall ML threat from organized crime offenses.

When it comes to initiated investigations, the cases of abuse of position of a responsible person as a predicate criminal offense account for the largest amount of property that was involved in ML, i.e. 22,507,963 EUR. That makes 13.50% of the estimated proceeds for this crime. The situation is similar with the investigations of tax-related crimes, which generated proceeds involved in ML in the total value of EUR 23,573,192, which makes 6.53% of their total estimated proceeds.

Factors influencing the increased level of ML threat:

Insufficient number of initiated ML proceedings for certain criminal offenses: Even though the values of the assets that were identified and seized, as well as their estimated values, are in accordance with global trends, and despite the fact that, in some predicate offenses, a significant amount of estimated proceeds is covered by criminal procedures for ML, it is still necessary to increase the number of ML cases for certain offenses, both in terms of the number of prosecuted persons and in terms of proceeds involved in ML. This above all applies to corruption-related crimes, where the current situation is explained by the circumstance that the amounts of generated illegal proceeds in those cases are low and did not require involvement of third parties in their laundering. In addition, when it comes to the prosecution of ML, the focus of competent authorities is on cases where significant proceeds are generated. In such situations, money laundering proceedings have been instituted, which is clearly seen from the case study.

Even in the case of proceeds obtained through the unauthorized trafficking of narcotics, there is a small number of initiated ML proceedings, and this practice must be changed in the coming period, regardless of the fact that the amounts of confiscated property are extremely high in the mentioned criminal acts.

Factors that reduce the likelihood of the ML threat:

Value of confiscated property: The rate of confiscated property is higher than the global average.

Significant amounts of detected assets that were the subject of ML: For certain predicate crimes such as tax crimes, abuse of position of the responsible person, significant amounts of assets were detected and processed in ML cases. Also, in certain criminal offenses such as illegal drug trafficking, the amounts of confiscated property are high, so the ML threat has been eliminated to a significant extent.

COMMON MONEY LAUNDERING TYPES

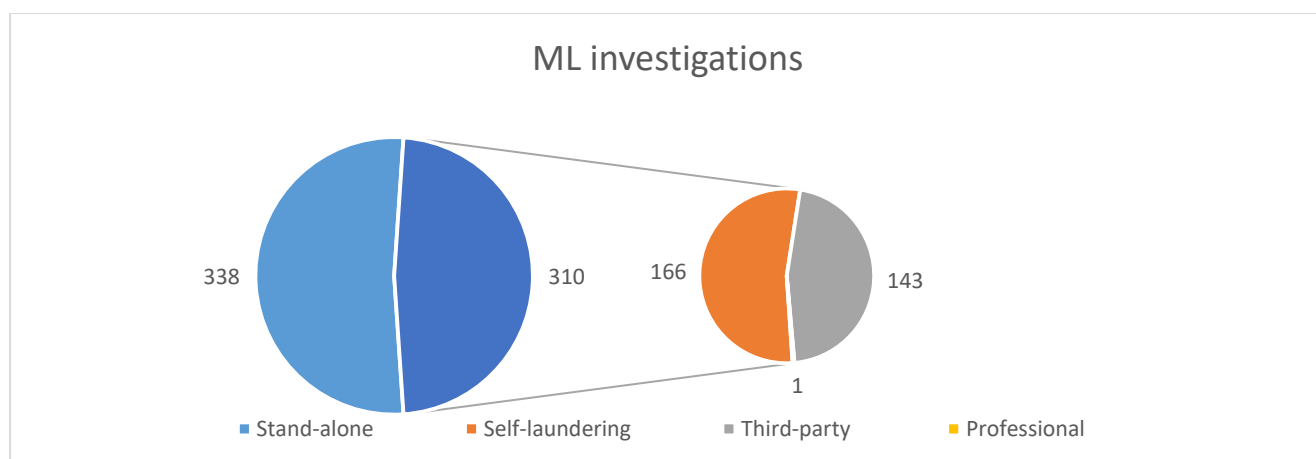
First, ML types differ depending on whether ML is an independent criminal offense or whether it exists only in the case of a prior, proceeds-generating crime. If an ML conviction does not require a simultaneous conviction for the predicate crime, then we talk about *stand-alone money laundering*, that is, money laundering as an independent criminal offense.

Prosecution of stand-alone ML type, i.e. of laundering of proceeds from criminal *activity*, is possible in Serbia because the current criminalization requires that laundered property can originate from criminal *activity*, which is in line with FATF and Moneyval recommendations, as well as with the case law of international and many national courts.

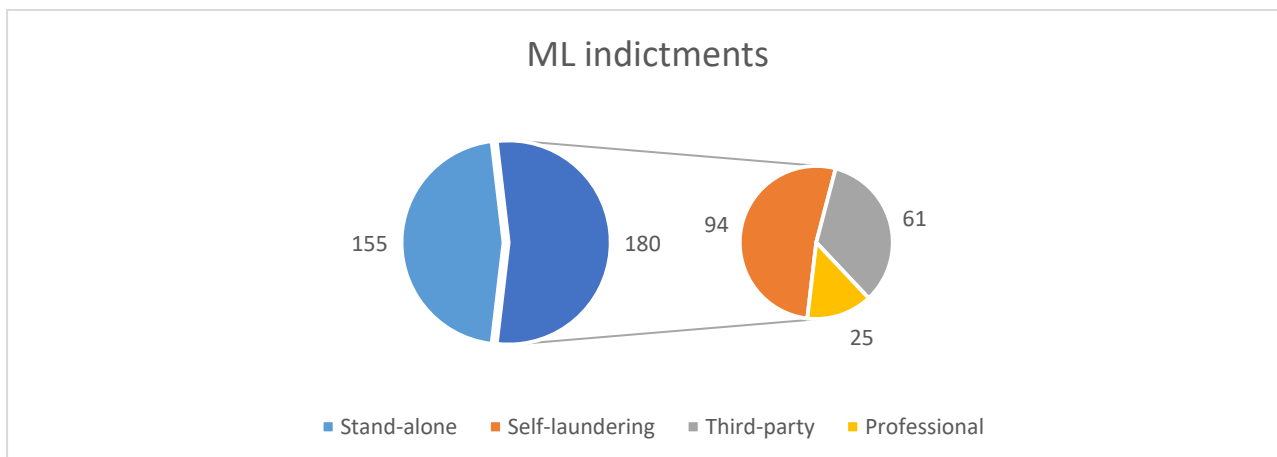
Another distinction is whether the launderer launders the property that they themselves illegally acquired by committing a prior crime, or they launder the property that was illegally acquired by some other person – a third party. Thus we can distinguish between two forms of money laundering: in the first case, we are talking about the so-called *self-laundering*, while the latter is a case of so-called *third-party money laundering* (or, *laundering for another person*). Third-party ML also includes a subgroup called *professional money laundering*, which is carried out, as a general rule, by members of organized groups or organized criminal groups. Among them are often persons with excellent knowledge of law, banking, accounting, tax regulations, business operations, stock market, and securities. They offer and charge for their money laundering services to the persons for whom they perform money laundering activities. Most often, professional money laundering involves several persons, each with specific roles, some of them create false documents, others withdraw money from banks or transfer cash, establish so-called "phantom companies", find people who are interested in their services, coordinate the work of group members, etc.

With respect to the various ML modalities, we analyzed the data of public prosecutor's offices and courts in money laundering cases for the period January 1, 2021 to December 31, 2023.

First of all, **ML investigations** initiated by all competent prosecutor's offices in Serbia in the observed period were analyzed. In 110 cases, investigations were initiated against a total of 648 persons, namely against 643 natural persons and 5 legal entities, of which the Public Prosecutor's Office for Organized Crime initiated investigations against 55 natural persons in 10 cases.



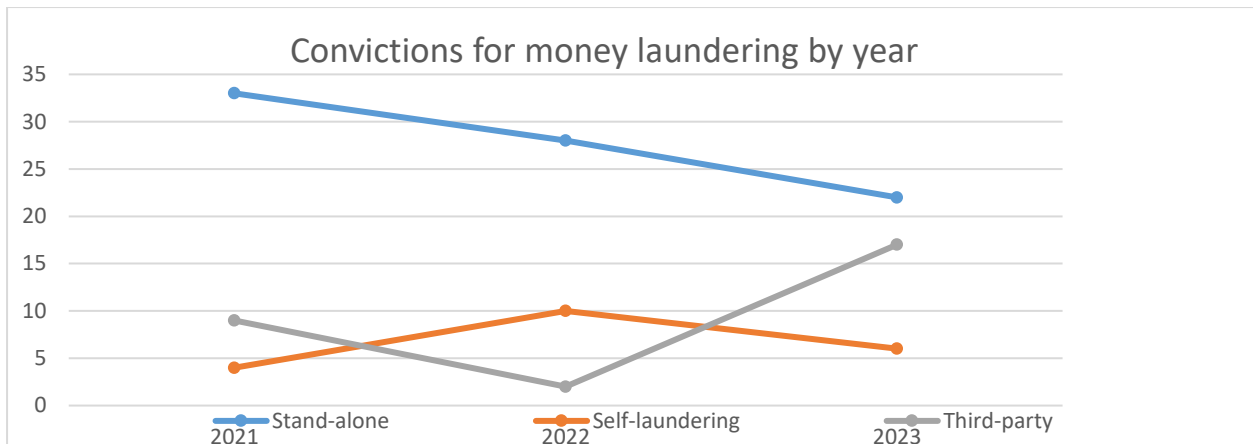
In the same period, the competent public prosecutors' offices filed **indictments** against 335 persons for ML from predicate crimes, in a total of 123 cases, including against 333 natural persons and 2 legal entities, of which the Public Prosecution for Organized Crime filed indictments in 21 cases against 64 natural persons.



According to the data of the competent courts in Serbia for ML criminal proceedings ending in a final decision, court decisions were handed down against 140 persons, of which money laundering convictions were handed down against a total of 132 natural persons, while acquittals were handed down in relation to 8 natural persons.

Number of final convictions for the ML criminal offense, per ML type

PERIOD	Money laundering without predicate crime (stand-alone)	Money laundering from the predicate crime	
		Money laundering for oneself (self-laundering)	Money laundering for another (third-party)
2021	33	4	10
Total in 2021	47		
2022	28	10	2
Total 2022	40		
2023	22	6	17
2023 in total	45		
2021-2023.	83	20	29
Total 2021-2023.	132		



Data on persons convicted of predicate crimes that were the source of assets involved in money laundering show that 14 persons were convicted in a final decision of the criminal offense of Abuse of position of the responsible person (28.57%), while 18 persons were convicted of tax crimes as predicate offenses in the ML cases (36.73%).

In terms of property that is the subject of ML in indictments and final court decisions, the following values were observed in the analyzed period:

The indictments for *stand-alone* ML involve property in the amount of 48,521,719 euros, which represents 68.79% of the total value of the property that is the subject of money laundering (70,531,410 euros), while indictments for ML from the predicate offense (self-laundering and third-party ML) involve property in the amount of 22,009,761 euros (i.e. 31.21%).

On the other hand, final convictions for stand-alone ML involved property included in money laundering (14,149,347 euros), which amounts to 76.59% of the total value of the property that is the subject of money laundering in all cases that ended in final court decisions (18,474,571 euros). Money laundering from the predicate crime (self-laundering and third-party) involves the property included in ML in the amount of 4,325,224 euros, i.e. in the amount of 23.41% of the total value of the property that is the subject of money laundering.

By analyzing and comparing data from the previous NRA period (2018 - 2020) and the currently observed period, a significant increase in stand-alone money laundering was seen in the indictments, because more than half of the total number of **persons** (62.87%) were convicted for stand-alone money laundering, compared to the previous period (2018-2020), when the percentage was less than a quarter, i.e. 23.81%. Also, the largest part of **property** that is involved in money laundering and which ended in final convictions involves stand-alone ML (76.59%) and is significantly higher than the percentage of property included in convictions for money laundering from predicate crime (self-laundering, situational/occasional laundering and professional laundering).

Furthermore, the analysis showed that some methods of money laundering from the predicate criminal offense were identified as being characteristic of certain predicate criminal offenses in relation to which final convictions were passed. Thus, when it comes to the typologies of third-party ML, out of a total of 29 persons who were convicted in a final conviction, as many as 18 persons (62.06%) were convicted of the criminal offense of Abuse of position of the responsible person and tax crimes such as predicate crimes. The conclusion is that whenever there prior crimes generate high proceeds there is a need to hire other persons who are versed and skilled in money laundering for these purposes.

Finally, an analysis of self-laundering cases, has shown that out of a total of 20 persons who were convicted in a final decision for that ML typology, 5 persons (25.00%) were convicted for usury in Article 217 of the Criminal Code or criminal offense in Article 136

paragraph 2 in conjunction with the paragraph 1 of the Law on Banks. This indicates that these predicate crimes are characterized by the typology of self-laundering, whereby the perpetrator launders the proceeds generated by lending with interest, through the purchase of real estate or by activating collaterals established at the time he loaned the money.

Conclusion: Money laundering can be classified into stand-alone money laundering and money laundering from predicate crimes. Stand-alone money laundering, as independent from the predicate crime, is now a dominant and increasingly widespread form of money laundering. It accounts for 68.79% of all indictments and 76.59% of convictions for this type of ML. When it comes to ML from the predicate crime, a distinction is made between self-laundering, third-party and professional laundering. Professional money laundering is carried out by organized groups, persons employed in banks, accountants and lawyers, who organize the creation of fictitious business documents, the establishment of phantom companies and execute transactions. Data for the period 2021-2023 shows that the number of stand-alone money laundering cases is growing in Serbia. This indicates the progress of the money laundering prevention system. Most of the convictions involve stand-alone ML, and when it comes to ML from the predicate offences, the focus is on third party ML or professional ML.

Factors that indicate the threat of money laundering:

Advanced money laundering modalities: Money laundering cases show increasing sophistication in money laundering cases when it comes to economic crime and increasingly advanced use of specialized money laundering techniques.

Factors that indicate a lower likelihood of the ML threat:

Number of convictions for stand-alone money laundering: the largest number of convictions is for stand-alone money laundering.

Allocating resources to third party / professional ML: when it comes to money laundering from predicate crimes, the priority is given to criminal prosecution and trial of third-party money laundering and professional money launderers.

***MODI OPERANDI* OF MONEY LAUNDERING (ML TYPOLOGIES)**

A proper consideration of frequent ML techniques and methods (*modi operandi*) in Serbia can contribute to a more effective identification and prosecution of the ML crime, but it is also important for preventive action. Certain *money laundering modalities* appear as typical and more frequently seen activities aimed at money laundering.

Thus, the most frequently used ML *modus operandi* is *the simulated performance of business activity* and withdrawal of money through related parties, especially through entrepreneurs, agricultural farms, service providers or in other ways. A large number of business entities, interconnected by the ownership structure, make related transfers based on misrepresented business documentation. In the end, the funds are transferred from the company bank accounts to the accounts of natural persons on various grounds, with the purchase of secondary raw materials or agricultural products being dominant. Funds are withdrawn from the bank account upon the transfer and returned to their beneficial owners. Transfers are generally made in "round" amounts and described as purchase and sale of goods and services. As a general rule, money is transferred from the accounts of business entities that operate regularly on the market to the bank accounts of entities specially established for ML purposes, and those business entities do not perform any actual economic activity. After withdrawing money from the current accounts of such so-called "launderer" or so-called of "phantom"

companies, it is further invested in various activities and integrated into legitimate commodity and cash flows. This ML modus often involves the use of services of natural persons who start sole proprietorships which they use solely for the purpose of depleting funds from the account of a legal entity.

EXAMPLE

*The owner and responsible person of the company was provided, on the basis of fictitious business relationship with the companies controlled by an OCG, which has been convicted in a final decision for **association for the commission of criminal acts from Article 346 of the Criminal Code and money laundering from Article 245 of the Criminal Code**, documentation without any actual turnover of goods and services behind. This misrepresented documentation was needed in order to withdraw funds and avoid paying tax obligations. The members of the OCG created dispatch notes, invoices and other business documents of the companies under their control, to which the owner of the legal entity paid money. The OCG carried out further layering of the payments made, by transferring the funds to the accounts of various natural persons who, after withdrawing the funds in cash, returned it to the OCG leaders. Thereafter, the OCG members handed the money directly to the owner of the company in cash, retaining an amount of no less than 3.5% as a fee. The owner of the company kept the money as an asset with the knowledge that the **asset originated from criminal activities***

Another significant modality of ML involves **the investment of illegal proceeds in the purchase of real estate, vehicles, and other valuable movable and immovable property**. In essence, real estate is bought for cash, which is deposited into a bank account immediately before the transaction, after which the funds are transferred to the seller's account, whereby when the money is deposited, it is shown as savings intended for the purchase of real estate or as savings intended for early repayment of housing loan on the basis of which the real estate was previously bought. Also, the BOs of real estate in this money laundering modus often resort to registering other persons instead of them (the so-called "front" persons) as formal owners of real estate and other high-value assets.

EXAMPLE

The money obtained from the sale of narcotic drugs was invested in real estate and luxury motor vehicles. In order to conceal the identity of the beneficial owners of the property acquired in this way, OCG members registered their family members and related persons as holders of property rights. A joint investigative team was established to identify specific criminal offenses and prosecute the perpetrators, resulting in seizure of 154 kilograms of cannabis. Money in the amount of 156,950 euros and 900 Czech crowns was seized from the defendants, but the total amount included in the freezing order of the public prosecutor based on Article 24 of the Law on seizure/confiscation of proceeds from crime was 312,050 euros and 11,100,000.00 Dinars

As opposed to the period covered in the previous ML NRA, this three-year period saw some ML modalities that were used more often, especially within **the typology of self-laundering**. These are *cash loans between natural persons*, which have the character of a credit and are given for high amounts of interest (fees) to be paid by the borrower, with the debt being guaranteed by real estate or other assets. Namely, this ML modality frequently involves persons who are engaged in the business of lending to individuals and legal entities without authorization, i.e. they possess significant amounts of illegal cash and are willing to make it available to those who cannot access other sources of financing (through the banking sector or

otherwise). These services, which the lenders engage in as a profession, imply a high amount of interest, under the conditions that are extremely unfavorable (usury) for the borrower, and the return of the loans is guaranteed by real estate in the form of apartments, houses, business premises, warehouses, land etc., or it is constituted as a means of guarantee-collateral as a lien on real estate or a share (ownership interest) in a legal entity owned by the borrower. In a situation where the borrower continues to be unable to pay interest and repay the loan (the loan principal not even being partially repaid), the collateral is activated and the pledged property is appropriated and then further converted through the sale of the property thus acquired.

EXAMPLE

A person was involved in usury and laundered the money from that criminal activity by investing it in real estate. The defendant violated Art. 5 para 2 of the Law on Banks, by giving cash to a large number of natural persons who were then required to pay him a monthly interest in the amount of 3 to 30% of the value of the money given them, until they return it all. He was doing this as a natural person, for a fee, without being licensed for operation by the NBS. More specifically, written loan agreements and receipts were drawn up, which indicated that a larger amount of money was given than the actual amount, because the interest was verbally agreed; or, at the time of handover of the money, loan agreements were drawn up, as well as real estate purchase and sale agreements; or persons to whom he gave the money, made pledge statements with the public notary and the court to guarantee that they will return the money he gave them. In the above described manner, he received money in the total amount of 160,000 euros only as interest. The defendant invested this money the reconstruction, adaptation and extension of real estate, as well as for the purchase of real estate. Also, as a compensation for 30,000 euros he gave to a natural person, who did not return the money to him and stopped paying interest, he made a sales contract with that person, where he falsely stated that he had paid the purchase price in amount of 12,500,000.00 dinars, knowing that the real estate that is the subject of the contract was worth significantly more than the debt owed to him by this natural person. On the basis of the real estate sale contract, the defendant was registered as the owner of the real estate - a commercial space with a total area of 250 m², thereby obtaining proceeds in the amount of 70,000 euros, that he kept and used, with the knowledge, at the time of receipt, that the property originates from criminal activity that he himself performed.

The money laundering typology that is seen more and more often is *the trade in cars and money laundering through founder's liquidity loans using funds of illegal origin*, generated through the illegal trade in cars, i.e. from unregistered income from such trade. In this ML method, the car dealer controls several different business entities in which he does not nominally participate as owner or manager. Such legal entities were established in Serbia and abroad. Registered business entities abroad appear as sellers of used cars and create the necessary documentation for the import and customs clearance of vehicles in Serbia. After the import, the importing business entity, as a rule, carries out the further sale of the vehicle to another business entity under the control of the scheme organizer. However, in reality, the used cars are sold through natural persons (dealers) to buyers for cash, and in significantly higher amounts than the stated purchase price in the contracts. The cash received from the buyers is deposited in the amounts stated in the contracts to the current account of the seller-importer, and then transferred to the bank accounts of the foreign business entities – sellers. The cash in excess, which represents the difference between the actual (higher) purchase price and the one indicated in the contracts constitutes unregistered income on which the appropriate tax obligations have not been paid. That money is used by the organizer for various needs or is paid into the current account of the importer's domestic business entity, as a rule, based on the founder's liquidity loan. Founder's liquidity loan is a classic instrument of commercial law that

allowed the company owner to pay funds of the above origin as own funds. In this way the funds are incorporated legitimate cash flows and used for further legitimate procurement of goods and services or for the purpose of maintaining the current liquidity of the company, while retaining the possibility to use them at any time by having the loan returned to him at his request, thus making it appear as property of legal origin.

EXAMPLE

The defendant, as the responsible person of seven companies, whose formal owners are different persons, failed to report facts impacting on the determination of tax obligations and thus intentionally evaded paying taxes. He did this by first transferring a part of the funds which originate from the sale of cars in Serbia, through the companies in which he was the de facto responsible person, to the foreign currency accounts of business entities in a foreign jurisdiction, also under his control, and then using false grounds, i.e. a fraudulent contract on simulated services allegedly provided by natural persons to the above foreign legal entities, transferred the funds to the foreign currency accounts of a large number of natural persons, and thus acquired proceeds totaling RSD 292,543,343.00 and failing to pay taxes totaling RSD 55,722,541.40. More specifically, the defendant used business entities in Serbia, which were under his factual control to sell a large number of imported used cars for cash, with the intention of concealing the fact that he kept a part of the money thus acquired for himself in the amount of RSD 157,752,000.00 and avoided paying taxes in the amount of RSD 30,048,000.00, he created false business documents and, with the intention of concealing the fact that the funds originated from criminal activities, converted these funds into non-cash funds by transferring them to the bank accounts of a large number of natural persons - formal owners of companies which he controlled, then made false documents about the alleged payments of foreign exchange daily receipts, founder's loans and loan repayments to the founder, and thus avoided paying taxes in the total amount of RSD 85,770,541.63. Then the defendant's relative and defendant's wife carried out the conversion and transfer of the property, in such a way that part of the money was paid into the accounts of legal entities in a foreign jurisdiction, where the defendant's daughter was only formally the responsible person, after which the money was withdrawn from the accounts of those foreign legal entities, and transferred at the defendant's order into the bank accounts of individuals persons, based on simulated legal affairs. Furthermore, the defendant's cousin and the defendant's wife were authorized to use the accounts of the above natural persons, and at the defendant's order, the two of them withdrew money from the accounts of those natural persons and handed it over in cash to the defendant. The defendant himself withdrew part of the money from the accounts of natural persons, and doing so he thus acquired and used the property while knowing that it originated from criminal activity in the total amount of 2,442,500 euros. They further transferred that money into the business accounts of entities on the basis of loans, so in the next stage, they transferred the funds, based on the repayment of those loans from the accounts of business entities, to the bank accounts of natural persons, and the funds were then withdrawn by the defendant's cousin and wife and handed them to over to him in cash in the total amount of RSD 157,752,000.00.

An analysis of data of the relevant stakeholders in the observed period, and especially the data on successful detention of significant amounts of cash at the customs and border crossings, has identified ML cases involving *cross-border cash transportation*. Namely, from January 1, 2021 to December 31, 2023, six money laundering criminal proceedings were conducted, involving the cross-border cash transportation modality, where the proceedings ended in final convictions against 6 persons. Of that number, 5 persons were convicted of holding and transporting property while knowing it was proceeds from crime, and specifically,

the proceeds originated from Germany. One person was convicted in relation to property originating from the United Kingdom. In the final convictions for 5 persons, Turkey appears as the country of destination in the money laundering. Property that was transported in cash and detained at the border, and then seized and confiscated, was the result of prior criminal activity in a foreign jurisdiction, and then the plan was to transit through the territory of Serbia, the idea being to launder the proceeds also in a foreign jurisdiction, different from the country of origin of the property. In the case of one person involved in final conviction, the country of destination of the laundered proceeds was Serbia, while the assets originating from the United Kingdom were transferred through the North Macedonia as a transit country. Although all the persons were convicted for stand-alone ML, two persons were found to be engaged in such activities professionally, i.e. they provided the services of transferring cash and handing it over to specific receivers in the country of destination, they did that frequently and for a fee, as so called "cash couriers". Therefore, they provided cash transfer services in order to avoid its registration through the regular banking system, something similar to *hawala* banking. In the analyzed cross-border cash transportation cases (according to the data from the final convictions for the three-year period) the cash observed to have been the subject of laundering amounted to 1,692,772 euros. In addition to the cash, other items of significant monetary value (equivalent) were also transported. Thus, in one of the analyzed cases it was observed that the subject-matter of the transportation were documents evidencing title to property located in a foreign jurisdiction, i.e. which indicated property that was the subject of money laundering in a foreign jurisdiction in the total amount of 15,000,000 euros.

EXAMPLE

Two defendants, German citizens, were crossing the Serbian border in a car with German license plates, travelling from Hungary, and transported cash totaling 119,237 euros. They also carried on them three German court certificates with a total monetary value of 15,000,000 euros stated on them. The co-passenger hid the money and court certificates in the trunk of the car in co-passenger's personal belongings and luggage which he failed to declare to the customs and police officers at the border crossing. During the border control of the vehicle, persons and things these items were found. Namely, the co-passenger- defendant first took the cash from the car and, at the same time, the three German court mortgage statements establishing lien on a piece of real estate in Germany to secure debt in the value stated on the certificates, while knowing at the time of receipt that the money and the court certificates originated from criminal activity that took place in Germany. The property indicated on the court documents, showing the total value of 15,000,000 euros, was suspected to be proceeds of a predicate crime committed in Germany. By pledging it for a fictitious debt, an OCG operating in Germany tried to launder it through the appropriate legal procedures, for the purpose of which the certificates concerned were drawn up. The defendants transported the money and German court certificates across the state border in a car, whereby the defendant - the owner of the vehicle, who was driving the vehicle, kept property that he could and should have known represented the proceeds of criminal activity, while the defendant – co-passenger, who kept the money and court certificates hidden in the trunk of the car in his personal belongings and luggage, held property while knowing, at the time of receipt, that the property originated from criminal activity. Along with cash, German court certificates in the specified amount were taken from the defendant co-passenger.

Finally, as can be seen, ML typologies in Serbia do not differ significantly from ML modalities that are present in other countries worldwide. The significance of the identified ML modalities, i.e. the most common ML methods, is reflected in the fact that they facilitate the detection and prosecution of the ML offense by facilitating identification of certain patterns of

behavior characteristic of the execution of that criminal offense, through presentation of complex schemes and financial flows in a simple way, following the intention and logic of the perpetrators. They also help the participants in the AML/CFT system in understanding the way certain activities are carried out and understanding the way the products and services of the sector are misused for the purpose of money laundering.

APML Strategic Analysis

In the period 2019-2024, the APML developed strategic analyses related to the ML methods on the following topics: Transit transactions; Re-export – risks and challenges; Analysis of online casinos; Analysis of general and individual risk of money laundering/terrorism financing through NPOs; Purchase of secondary raw-materials and their abuse for the purpose of ML and draining of funds from the accounts of legal entities.

Analysis of suspicious transit transactions in Serbian payment operations system. In general, it can be concluded that the entire system faces a serious challenge to decide whether the phenomenon of "transit transactions" in the banking sector payment operations is related to ML and to what extent (amount) it is done. This must be preceded by verification of all identified ML suspicions, and this includes understanding how the system of transit transactions operates through financial platforms, payment institutions and banks. Naturally, in solving this problem and when filing a potential indictment, it will be necessary to find out everything about the "participants in the transactions" - legal and natural persons, which is difficult at the moment because international cooperation does not yield appropriate results.

Bearing in mind all the risks posed by these transactions and operations, the APML monitors them as high-risk activities about which the private sector, primarily commercial banks, as well as other stakeholders, such as the Ministry of Internal and Foreign Trade and the Customs Administration, should be informed.

Due attention should be paid to the above mentioned transactions, bearing in mind that payment operations through commercial banks and payment platforms may be misused for other activities such as violations of international sanctions and transactions that can be linked to dual-use goods.

Re-export – risks and challenges.

- As it involves complex foreign trade relations with a large number of monetary transactions, there is a danger of intermingling clean and dirty money, which significantly complicates procedures and determining the exact amount of determined proceeds resulting from a criminal offense;
- The banking sector is the riskiest, i.e. the most vulnerable when it comes to re-exports because the largest part of international payment transactions takes place through the banks;
- Recently, it has been observed that international payment transactions are carried out through the so-called payment platforms, so monitoring these transactions is much more difficult;
- Since in such cases it is also necessary to exchange data with other countries, there is a problem of quality of the obtained data, and of the ability and willingness of individual countries to provide and exchange the necessary data;
- If, when it comes to attempted ML, the perpetrators are not punished adequately, or if they are not sanctioned at all, there is a possibility that this phenomenon continues on a large scale;
- Re-export involving foreign nationals with bank accounts in Serbia or legal entities established in Serbia, is considered particularly high-risk;

- The analysis indicated that it is necessary to inform the private sector, primarily commercial banks, but also other stakeholders in the system, primarily the Ministry of Internal and Foreign Trade and the Customs Administration, drawing their attention to the fact that the above transactions can be misused for other activities that can be connected with dual purpose goods.

Online casinos. The analysis identified the phenomenon of that online games of chance operators, whose servers are located in other countries, provide gambling services to Serbian citizens.

The APML noticed two particularly risky situations:

- a) so-called "grey zone" where an online games of chance operator registered in a foreign jurisdiction provides betting services to Serbian citizens;
- b) so-called "black zone" where an unregistered online games of chance operator provides betting services to Serbian citizens.

In the course of the analysis, several typologies of abuse of online casinos whose operators are not registered in Serbia, were observed. The findings of the analysis indicate that it is necessary to intensify outreach to obliged entities in this sector, as well as the supervisory authority, both through different types of training, as well as regular annual meetings in order to familiarize with the mentioned phenomena and identified typologies, but also to encourage this sector to file SARs.

Purchase of secondary raw materials and its abuse for ML, and draining of company bank accounts. The analysis found that the activities connected with the purchase of secondary raw materials are highly susceptible to abuse with the aim of depleting the accounts of legal entities as well as for the purpose of concealing the origin of the transferred funds.

In order to prevent or reduce incidence of this phenomenon, active participation of all AML/CFT stakeholders is necessary, from obliged entities, to supervisors, to APML, Tax Administration, Ministry of Interior, to competent prosecution offices and courts.

As obliged entities (specifically accountants and commercial banks) are the first line of defense in the AML chain, it is necessary that they pay special attention to potential clients who intend to open bank accounts and deal with the purchase of secondary raw materials.

Past practice has shown that there are cases when obliged entities can, based on previous experience with a specific client or persons associated with them, assume with a high degree of certainty that they will be abused by a specific person or group persons for ML-related activities or other illegal acts. In such situations, it is necessary to act preventively and in accordance with the provisions of the AML/CFT Law on the establishment of business relationship, i.e. the obligation to terminate a business relationship or refuse to execute a transaction.

The above phenomenon has been recognized as a typology and the above-mentioned obliged entities were informed about it through several trainings and during regular annual meetings, as well as through the APML's annual reports.

Conclusion:

In Serbia, the usual money laundering *modi operandi* include simulated business activities, investment of high-value assets, unauthorized lending and cross-border transfers of cash. Simulated business activities often involve fraudulent transactions between interrelated companies between which funds are transferred, particularly using phantom companies and related entities that act as intermediaries. Another prominent modality of money laundering is the purchase of real estate and luxury goods. Real estate is often bought for cash with the explanation that the money comes from savings. Giving loans with high interest rates and

engaging in unauthorized lending to citizens with high interest rates represents a growing threat, according to the analysis.

Factors that indicate a higher level of threat:

Activity of OCGs: a significant number of OCGs using phantom companies and complex money laundering schemes.

Cross-border money transfers: increased number of money transfers using informal channels and cash couriers for money transfers.

Unauthorized lending with high interest rates: increased self-laundering of money associated with usury lending to citizens.

Factors that indicate a lower degree of threat:

Activities of the Customs Administration: efficient detention of cash at border crossings limit the possibility of money laundering through cross-border cash transportation.

Detection of money laundering modalities: recognition of typologies, use of so-called nominal owners and detection of front persons and transactions in rounded amounts.

International cooperation: intensive international cooperation leading to joint activities and asset freezing.

SECTORAL THREATS

The sectors in which the risk of money laundering was observed were analyzed on the basis of data collected from competent public prosecutors' investigations and indictments and final court decisions.

In the analyzed period (2021 to 2023), a total of 110 investigation cases were opened in all prosecutors' offices, against a total of 648 persons, namely against 643 natural persons and 5 legal persons, of which in Public Prosecutor's Office for Organized Crime (PPOC) 10 cases against 55 natural persons.

At the indictment stage, a total of 123 cases were opened against a total of 335 persons, namely against 333 natural persons and 2 legal persons, of which 21 cases were opened against 64 natural persons in PPOC.

In the same period, 132 natural persons were convicted by courts for the ML offense, with 8 natural persons acquitted. No legal person was convicted for the criminal offense of money laundering.

Banks

The banking sector is still one of the most exposed to the ML threat, mainly due to the fact that payment transactions in Serbia take place through commercial banks, that business entities and natural persons have a large number of accounts in commercial banks, money transfers are made through them and payments for goods and services, which creates plenty of opportunities for placement of illegal proceeds and concealment of illegal transactions, and makes this sector very attractive for misuse for ML purposes.

Table 1 was created based on the data obtained from the prosecutor's offices and courts. It shows the number of persons against whom an investigation was launched, who were indicted and subject to final convictions for money laundering, who used the banking sector in the commission of this criminal offense.

	Total persons	Banking sector used	Total, percentage (%)	Persons OCG
Investigation	648	539	83.2%	10
Indictments	335	192	57.31%	7
Court decisions	132	105	79.55%	21

Table No. 1 Use of the banking sector for money laundering, per number of persons

The total amount of money laundered through the banking sector is EUR 13,122,469.00.

Data obtained from the prosecutor's offices in Table no. 2 shows the modalities of money laundering and the prior criminal offenses, which were involved in the ML investigation and indictments, in which the banking sector was used.

	Number of Persons (Investigations)	Share (%) (Investigations)	Number of Persons (Indictments)	Share (%) (Indictments)
Stand alone	270	50.13%	74	38.54%
Art. 227 CC	83	15.38%	12	6.25%
Art. 173a ZPPA	66	12.24%	32	16.67%
Art. 357 CC	58	10.77%	53	27.60%

Art. 225 CC	14	2.59%	1	0.52%
Art. 223 CC	10	1.85%	8	4.17%
Art. 208 CC	10	1.85%	-	-
Art. 136 ZOB	6	1.11%	-	-
Art. 317 CC	5	0.93%	5	2.60%
Art. 224a CC	-	-	7	3.65%
Art. 235 CC	5	0.93%	-	-
Art. 336 and 367	3	0.56%	-	-
Art. 224	2	0.37%	-	-
Art. 363	1	0.19%	-	-
Art. 359	1	0.19%	-	-
Total persons	539	100%	192	100%

Table No. 2 Origin of money laundered through the banking sector

It can be concluded that most of the persons against whom criminal proceedings have been initiated for the criminal offense of money laundering through the banking sector, i.e. 270 persons in the investigation phase or 50.13%, and in the indictment phase 74 or 38.54%, committed this criminal offense as a stand-alone money laundering.

As far as criminal proceedings that ended in a final decision are concerned, ML was mostly carried out by paying proceeds into the accounts of companies, from which they were then transferred based on fictitious business activities to the accounts of other legal and natural persons and finally withdrawn, while retaining a fee, and returned to the original payers – i.e. convicted persons. The banking sector, together with the trade sector, was used in the described manner for the layering of dirty money, by carrying out various transactions based on false invoices, which were also used for unfounded VAT refunds.

In the ML cases, money transfers were also made using mobile banking in the total amount of close to EUR 487,819.00.

Money originating from the predicate crime of tax evasion was also transferred through the banking sector, EUR 3,757,100.00 of which passed through international payment transactions.

Apart from illegal car traffic, the dirty money that was layered through the banking sector also came from agriculture.

The banking sector was also used to conceal the origin of money from the criminal offense of abuse of position of the responsible person, and also from the falsification of documents, which manifested itself through the creation of invoices or purchase slips in which false information about the quantity and type of goods was stated.

The Special Anti-Corruption Department of the Higher Court in Belgrade convicted 9 persons for aiding the accused to commit the VAT fraud and money laundering by using the banking and accounting sectors. After registering the companies, eight persons handed over all business documents and cards for electronic banking to the defendant, knowing that he would collect money from an unjustified VAT refund. One person was convicted because, being an authorized accountant in several companies, which were actually controlled by the first defendant, he posted false invoices about the alleged turnover of goods and services between the said companies, enabling him to withdraw and use cash from the accounts of those companies after illegal VAT refund was paid to those companies' accounts by the Ministry of Finance. In this way, money was laundered in the total amount of EUR 1,352,927.00

In the analyzed period, bank officials informed the suspects, namely they tipped off one suspect about the account monitoring measures being applied, and informed the other about how to deposit foreign currency without causing suspicion in the transactions by entering false information about the origin of the money.

In the same period, an ML investigation was launched against a total of 3 persons who were employed in the bank, 1 of which was part of the OCG, and the amount of money involved in laundering was EUR 622,466.00.

The Public Prosecutor's Office for Organized Crime indicted individual S.S., who was an acting assistant to the Minister of Education, her uncle Lj.S., his son D.S., who was a bank employee at "U" bank a.d. Belgrade, Ž.D., who was the owner of company "WDCW" DOO, D.M., who was the public procurement officer in the said company and Č.D., the chairman of the public procurement panel, because of abuse in connection with the public procurement of works on the construction of the student center in S. and laundering of illegally acquired money from this crime. In order to rig the public procurement conditions to favor the preferred bidder, S.S. received a promise of a gift in the form of real estate, namely an apartment in Belgrade, worth around EUR 159,000.00, which would be transferred to her ownership or the ownership of the person of her choice. After S.S. received the required amount of money for the purchase of real estate from Ž.D., and in order to conceal its origin, she handed it over to her uncle Lj.S. who concluded the contract for the purchase and sale of the apartment, and then handed the money over to his son, D.S., who, as a bank employee, while knowing that it was illegal money, made payments to his father's current account without his presence and without authorization, and then the money thus received through an electronic mobile banking account, having previously increased without authorization the limit for the transfer of funds, paid the funds into the current account of the alleged seller "A.C.S.", in order to create the appearance that the suspect Lj.S. made the payment of the purchase price of the apartment, whereby the said apartment was actually owned by the suspect S.S.

The banking sector is mostly used for depositing and layering dirty money. When it is used to inject "dirty money" into legitimate financial flows, the deposit of money is most often made on the basis of a company founder's liquidity loan or by natural persons depositing cash to bank accounts for the purpose of purchasing real estate.

A look at criminal offenses involving the use of banking products²⁸ in the analyzed period, shows that the Ministry of Interior filed criminal complaints for the criminal offense of *ungrounded obtaining and use of loans or other benefits* against 219 persons, that the prosecutors followed up on the criminal complaints involving this criminal offense against a total 341 persons, that indictments were filed against 79 persons, and court decisions handed down against the same number of persons.

With respect to the criminal offense of *forgery and misuse of payment cards*, the prosecutor's office followed up on criminal complaints filed against 806 persons, indicted 356 persons, while the courts handed down decisions against 147 persons.

Also, the threat to this sector was analyzed as far as it is related to criminal offenses for which criminal complaints were filed against bank employees.

²⁸The analysis was done for the criminal offense *Unfounded obtaining and use of loans and other benefits* from Art. 209 CC, as well as in relation to the criminal offense *Falsification and misuse of payment cards* from Art. 243 CC

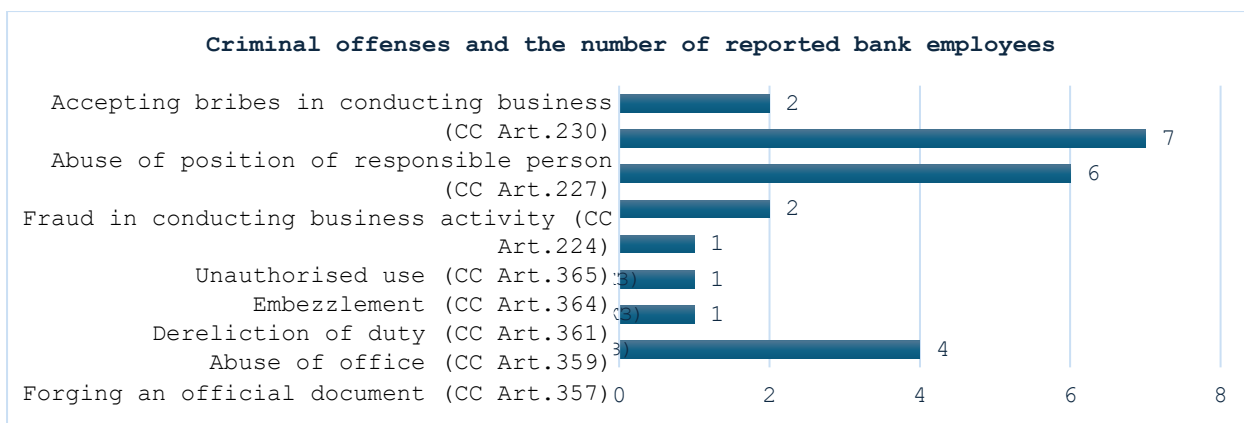


Chart 1: Data on criminal offenses and reports filed against bank employees

The above data shows that bank employees, by committing other criminal acts, can threaten the integrity of the banking sector, and due to their access to data and the possession of skills and knowledge, they can be serious aiders of third-party ML.

Conclusion:

The banking sector in Serbia remains a significant point of ML risk, given the number and size of transactions, and the fact that all business operations are carried out through the banking sector. Nevertheless, the banking system in Serbia has made significant progress in terms of recognizing and identifying suspicious ML activities. From 2021 to 2023, a significant number of complex schemes indicating money laundering were identified both in SARs where complex transaction schemes were detected and money laundering indicators were recognized by banks, as well as by criminal prosecution authorities who have shown effectiveness in handling ML cases and identifying "insiders" from the banking sector, in addition to accountants who occasionally facilitated execution of activities aimed at money laundering. Competent institutions have demonstrated the ability to detect and remove weak links in their AML/CFT system through the actions of law enforcement agencies, which has contributed to strengthening the integrity and effectiveness of the system. In this way, the system keeps pace with the most advanced countries of the global network, managing to expose and successfully solve cases of money laundering and, importantly, to identify obliged entity employees who help the commission of criminal offenses and to prosecute them.

Threat level: High

Factors influencing the higher degree of money laundering threat:

Money laundering through the sector: assets that are subject to money laundering using the products and services of the banking sector are involved in the banking system, often under the guise of carrying out transactions related to trade, real estate transactions and business activities related to agriculture. In this way, under the guise of business activities, very complex and complex transactions are carried out in order to conceal their true purpose and purpose, which is money laundering.

Embedded "insiders": insiders, including bank employees, in addition to accountants, occasionally exploit their powers in the financial system to help carry out money laundering, which is a business risk.

Factors influencing the lower level of ML threat:

Proactive detection of "insiders": Serbia has developed and continues to develop its capacities that allow it to detect and combat the threat that comes from persons who represent insiders placed in financial institutions. Considerable efforts have been focused on this a weak link, and the outcomes of ML cases indicate that progress has been made in this fight.

Strong cooperation between regulators and obliged entities: Financial institutions and regulators constantly work together to strengthen the financial system in the fight against money laundering through regular knowledge improvements and information exchange about money laundering schemes, complex transactions through the banking sector, thus constantly improving the compliance of actions and measures with new challenges.

Cooperation of competent institutions: Cooperation of the police, tax police and financial institutions contributes to further strengthening Serbia's ability to timely detect sophisticated money laundering schemes in this way, creating a strong deterrent mechanism.

Real estate

Three segments of the real estate sector were looked at: investment in the construction of buildings (construction business), sale of real estate and construction of buildings without a building permit. Due to the high degree of threat of money laundering for the real estate sector, Serbia has developed a special risk assessment for this sector. Updated analyses indicate that the degree of threat is not decreasing, that is, that criminals still choose the real estate sector for integration of their dirty money. The analyses have found that real estate, mainly apartments, is mostly bought and built for cash, while in terms of ML typologies, stand-alone ML is the most common. Illegal construction was identified as a major ML risk, and it was specifically highlighted, when it comes to the offense of building without a construction permit from Article 219a of the CC, that the origin of the money invested and used for the construction of illegal buildings is not checked.

A typical example of the related ML is the investment of a large amount of cash by a natural person - an investor - in the construction of real estate, which is then sold thereby disguising the illegal origin of the proceeds invested in the construction. The market share of the construction sector, which includes investors in the real estate sector, is constantly growing, at an average of 18% per year.

The greater exposure of investors to money laundering is also influenced by insufficient legal regulation of this sector. Namely, natural persons - investors are registered in the VAT system, without having to register as entrepreneurs with the commercial register, but do so by applying for registration in the VAT system to the Tax Administration, in accordance with the VAT Law. Also, they do not have to submit financial statements or open a business account, and they have the option of paying for building materials in cash.

Investors in the real estate sector are not obliged entities under the AML/CFT Law. Article 46 of the Law does apply to them, which limits their cash payments to EUR 10,000, or the RSD equivalent, the application of which is controlled by the Market Inspection. The Market Inspection from 2021 to 2023 found violations of these provisions in 18 cases. The Tax Administration also carried out 23,937 audits, examining the accuracy of calculation of public revenues. Irregularities were found in 56% of audits and requests were filed to initiate related misdemeanor proceedings. On average, approximately 10% of issued TINs are temporarily suspended from natural persons who are engaged in the construction of residential and non-residential buildings and are in the VAT system. The percentage of suspended TINs for other activities is around 5%.

Finally, notaries public, real estate brokers and lawyers, followed by accountants and auditors, were identified as obliged entities related to the real estate sector.

All the analyzed data clearly show that criminals are most confident in investing their dirty money in the purchase of real estate, or the construction of real estate in order to *legalize* the money and ensure that the money does not lose its value or is not subject to any of the proceedings intending to check its origin.

The table below was made based on the data obtained from the prosecutor's offices and the courts. It shows the number of persons against whom an investigation was launched, who were indicted and convicted in a final conviction for the criminal offense of money laundering, while using the real estate sector when committing this criminal offense.

	Total persons	Used real estate sector	Percentage of total (%)	OCG
Investigations	648	116	17.91%	22
Indictments	335	87	57.31%	14
Court decisions	132	22	16.67%	21

Table No. 3 Use of the real estate sector for money laundering

From the investigations in cases related to this sector, it can be seen that a total of EUR 48,205,384.00 was invested, of which the OCG placed a total of EUR 2,768,379.00.

	Number of Persons (Investigations)	Share (%) (Investigations)	Number of persons (Indictments)	Share (%) (Indictments)
Stand alone	54	46.55%	52	59.77%
Art. 173a ZPPA	14	12.07%	10	11.49%
Art. 227 CC	9	7.76%	2	2.30%
Art. 235 CC	8	6.90%	1	1.15%
Art. 355 CC	6	5.17%	3	3.45%
Art. 136 OATS	6	5.17%	5	5.75%
Art. 217 CC	6	5.17%	1	1.15%
Art. 225 CC	5	4.31%	2	2.30%
Art. 366 CC and Art. 368 CC	3	2.59%	-	-
Art. 246 CC	3	2.59%	3	3.45%
Art. 204 CC	2	1.72%	4	4.60%
Art. 223	-	-	1	1.15%
Art. 358	-	-	2	2.30%
Art. 114	-	-	1	1.15%
Total persons	116	100%	87	100%

Table No. 4 Origin of money laundered in the real estate sector

Based on the above data, it can be concluded that most of the persons investigated, i.e. 54 or 46.55%, or indicted, i.e. 52 or 59.77%, for the criminal offense of money laundering through the real estate sector, committed this crime as a stand-alone money laundering, which is the most frequent in this sector.

Based on the analysis of proceedings ending in final decisions, it was determined that the most common source of money that is integrated into the real estate sector comes from criminal activities related to the car trade. Proceeds from the illegal car trade were invested in the purchase of real estate in the total amount of EUR 4,704,100, while the most common predicate crime in the real estate sector is the crime from Art. 136 of the Law on Banks and usury from Art. 217 CC.

From 13.07.2010 to 18.05.2022, a group of persons, including convicted persons A. and Z. M., laundered money with the help of other associates, including D. V. and V. S. M. Their

activity included the conversion and transfer of property while knowing that it originated from criminal activity. Key activities in the money laundering scheme included the following:

1. Purchase and sale of vehicles:

- The group engaged in the unauthorized purchase of used passenger vehicles abroad, which it imported, registered in Serbia and then sold at higher prices, which enabled the acquisition of proceeds to the tune of over EUR 800,000.00.

2. Investments in real estate:

- Part of the money thus acquired was invested in the construction of real estate, apartments and studios in a tourist resort, which would be sold after construction. The obtained funds were further reinvested in the purchase of apartments, which were then sold too.

3. Use of banks and foreign currency accounts:

- Funds were deposited in foreign currency accounts and used to obtain bank guarantees, as well as to repay the granted loans for the construction of buildings and the purchase of apartments, and thus dirty money was placed into the financial system.

4. Buying and selling vehicles:

- Finally, the funds obtained from the sale of real estate were invested in the purchase of passenger vehicles, which were registered in the names of other persons.

The defendants used forged documents and fictitious transactions to hide the origin of money and property. In addition to buying and selling real estate and vehicles, banking mechanisms were also used for money conversion.

	Number of persons (Investigations)	Share (%) (Investigations)	Number of Persons (Indictments)	Share (%) (Indictments)
Purchase of real estate	73	62.93%	58	66.67%
Issuance of fictitious invoices	39	33.62%	28	32.18%
Investing in real estate construction	4	3.43%	1	1.15%
Total persons	116	100%	87	100%

Table No. 5 Use of the real estate sector for money laundering

Therefore, based on the above data, it was established that the real estate sector was dominantly used for investing dirty money in the purchase of real estate.

The analyses have revealed that the real estate sector never appears as the only sector through which money laundering was carried out. The banking and trade sectors frequently appear, as well as lawyers and notaries public as obliged entities. The real estate sector is most often used for the integration of dirty money, whereby cash was used to a large extent.

According to the data on the website of the National Statistical Office, 31,216 building permits were issued for all types of buildings in 2023, 29,344 building permits were issued in 2022, and 30,177 building permits in 2021. A large and constant number of issued building permits indicates a stable trend of investing in the real estate sector.

It is also important to note that criminal charges were filed against 2,185 persons for the criminal offense of construction without a building permit from Article 219a of the CC, and investigations were launched against 1,606 persons, while 985 persons were charged and 627 persons were convicted.

The analysis of the cases that were initiated and ended in final decisions for the criminal offense of building without a building permit from Article 219a of the CC from 2021 to 2023, has shown that the most often reported illegal investors, i.e. investors who do not have a building permit, are unemployed persons or persons with very low incomes, yet they build large residential and commercial buildings. In these cases, it was not established who actually builds these buildings, i.e. funds their construction, nor was the origin of the money invested in the construction of the buildings checked in this way, which represents a very high risk for money laundering, because the act of legalizing the building introduces the dirty money that was used for their construction into legal money flows.

Based on the above data, it is determined that large amounts of cash are invested in the real estate sector; that cash is used for the purchase and illegal construction of buildings; there is a lack of control of the origin of cash invested in such buildings; there is a large number of illegally built buildings; a large number of criminal proceedings for ML through the real estate sector; which makes this sector exposed to a high threat of money laundering.

Conclusion:

The real estate sector in Serbia remains the sector that represents the biggest threat for money laundering and as demonstrated, significant sums of money are invested in the real estate sector through transactions related to the real estate sector, construction, investment and illegal construction. The attractiveness of this sector for money laundering is that it introduces large sums of cash to legal economic flows, particularly through the acquisition of real estate and further construction projects. Criminals use the services of notaries public, real estate brokers, lawyers and accountants to facilitate money laundering. Additionally, illegal construction represents an essential risk because there are numerous cases of illegal construction where the source of the money has not been investigated. Serbia reacts proactively and one of the ways to find out and detect the sources of risk is the creation of a special risk assessment of money laundering and terrorism financing for the real estate sector and additional restrictions related to cash payments. In order to better detect transactions related to real estate and timely detection of possible money laundering schemes, special payment codes for the real estate sector are applied in financial institutions. The goal is to make it impossible for criminals to place money in the financial system through various fictitious business activities, as well as to strengthen the monitoring of all transactions that may be related to the sale of real estate. One of the proposals for a separate risk assessment is to include persons involved in investments and construction in the real estate sector in the circle of obliged entities under AML/CFT Law.

Threat level: High

Factors that indicate a higher degree of threat from money laundering:

Cash: Procurement and construction in the real estate sector are often financed with cash, which creates a dubious picture of the origin of money.

Illegal construction: A significant number of cases where construction is carried out without the permission of the competent institution, where the developers are persons with low incomes or unemployed persons who invest in these projects raises the question of the real sources of money and the origin of the money invested, which influences a higher risk of money laundering.

Obliged entities in the real estate sector: real estate brokers, notaries public, lawyers and accountants are in direct contact with persons from the real estate sector due to the nature of the business they deal with and through their business enable the execution of transactions related to the real estate sector.

Illegal car trade and the real estate sector: funds from the illegal car trade are often laundered through the purchase of real estate, indicating cross-sectoral linkages in the integration of dirty money.

Factors that indicate a lower level of ML threat:

Developing a sectoral risk assessment: Serbia developed a special plan of measures based on a separate risk assessment for the real estate sector and demonstrated its strategic approach in combating the assessed risk by focusing on the most exposed sector. Transactions and the manner of execution of activities - money laundering modalities through this sector, as well as high-risk activities - are targeted.

Constant monitoring of cash transactions: competent institutions constantly monitor cash transactions that are linked to the real estate sector, especially transactions that are executed through the banking sector. For this purpose, specialized base codes have been laid down for the real estate sector and the persons who engage in this business will be detected from the first moment in the case of transactions related to the real estate sector, and also in each of the later stages in the case of real estate business, this type of activities will be identified in the financial system, which is used in all stages of ML through the real estate sector, especially in the integration phase.

High transparency of issuance of permits: Registers for issuing permits are public and accessible, as is the register of real estate ownership. Publishing and reporting on all transactions related to the real estate sector for a certain period of time is also regular. All investments, trends and methods of trading in the real estate sector are publicly announced. In addition to the above, all participants in the preventive and enforcement part of the system are constantly informed about the ML possibilities and cases, and ML methods through this sector. Unusual transactions and transactions that need further analysis are highlighted.

However, additional measures are needed, taking into account the degree of threat that comes from this sector.

Games of chance operators

In the sector of games of chance operators, an investigation was launched against 1 person in the analyzed period, and 1 person was indicted of the criminal offense of money laundering, while one investigation that had been launched in an earlier period is still pending against 19 people employed by online games of chance operators.

The total amount of money laundered through the sector of games of chance operators amounts to EUR 154,598.00.

A defendant who organized games of chance on slot and other gaming machines without the approval of the competent authority, obtaining illegal proceeds in the total amount of EUR 154,598.00 was convicted before the Special Anti-Corruption Department of the Higher Court in Novi Sad. During the same period he avoided paying capital gains tax resulting from real estate sales in the total amount of EUR 22,852.00. After that, he used the money obtained through tax evasion and the unauthorized operation of games of chance for investments in the construction of apartments, purchase of real estate in his own name, and the name of a relative. Cash transactions were the method employed, and the money was invested in the real estate sector for construction and purchase of real estate which was then the subject of further sales. This also involved a related party that had the ownership of a part of the real estate registered in their name.

Therefore, what we see from this case is that the feature that makes this sector especially

susceptible to money laundering, is the fact that some games of chance operators engage in the business without authorization from the competent authority. Also, even the operators who do have authorization from the competent authority to organize games of chance, operate some of them without specific authorization from the competent authority²⁹. As a result, criminal complaints were filed against 257 persons (231 by the MOI, 19 by the Games of Chance Administration and 7 by other applicants), indictments were filed against 133 persons, while 207 persons were convicted during the analyzed period.

On the other hand, the potential vulnerability of this sector was also analyzed in relation to the crime of Fixing the Outcome of a Competition (Match Fixing) set out in Art. 208b of the CC, given that competitions (whose outcomes are agreed upon, fixed) fall within the scope of legally organized games of chance, thus generating illegal proceeds.

Criminal complaints were filed against 15 persons for the aforementioned criminal offense, indictments were filed against 18 persons by the prosecutor's office, while 14 persons were sentenced by the courts in the period under review.

Criminal complaints were filed by the MOI against 5 persons employed by the games of chance operator for other criminal offenses during the analyzed period, specifically: against 3 persons for the criminal offense of Illegal organization of games of chance from Art. 352 CC, against 1 person for the criminal offense of Abuse of trust in conducting business from Art. 224A of the CC and against 1 person for the criminal offense Abuse of position of the responsible person from Art. 227 CC.

Finally, the threat to this sector was also analyzed from the aspect of tax evasion by the games of chance operators. 34 audits were carried out during the analyzed period, with 14 audits finding irregularities in the total amount of EUR 1,552,420.30.

An analysis of SARs filed to the APML by obliged entities revealed that a games of chance operator was also an SAR subject. Namely, the APML has on several occasions received notifications from payment institutions about suspicious activities related to cash payments by various natural persons in favor of a company engaged in organizing games of chance via electronic means of communication. The obliged entity's suspicion was attracted by the fact that the persons made payments to the same account, but through several individual transactions, usually in amounts below the legal limit for identification. As an indicative circumstance, the obliged entity also stated that the same person made several payments in one day, as well as that certain payments differed from other payments in favor of the same legal entity by reference numbers used. Also, several persons used the same representative locations, while in the case of certain payers, a connection can be observed by surname and address of residence. The circumstance that caused suspicion among obliged entities who reported the activities of the organizer and related natural persons is that as a co-owner of the organizer, with a share of about 1/3, a registered elderly person is a retiree with a relatively low pension. It was indicative that the share of natural person D was significantly higher than the share of other members. Also, the checks established that an amount of several million euros was transferred to the natural person D by the organizer in the corresponding period of time, on the basis of dividends, after which most of the money was withdrawn in cash from the account of the natural person D. Part of the money was transferred to the benefit of several natural persons on the basis of loans, and part was used for the purchase of real estate. It should be added that according to the account of natural person D, the natural person authorized to dispose of the funds is the natural person on whose behalf certain transactions were carried out. Bearing in mind the above, the obliged entity expressed their doubt that the natural person D is the so-called "front". The

²⁹ Unauthorized organization of games of chance from Art. 352 CC

information obtained by the APML in the specific case was submitted to the competent prosecutor's office for further action due to the suspicion that the organizer's business infrastructure has been used for a long period of time by a group of persons to conceal the origin and integration of money.

Conclusion:

The games of chance sector represents a significant risk, both when it comes to legitimate performance of the business and where the activity is performed without the permission of the competent institution. A few cases of illegal games of chance activity, tax evasion and suspicious connections with crime have been registered.

In one case, illegal funds from illegal betting activity were laundered through the purchase of real estate, with the integration of dirty money thus being carried out through the real estate sector. Additionally, based on SARs, significant cash flows were recorded through the gaming sector through structured transactions - cash transactions below the legal limit for reporting to the APML and associated with persons acting as front persons. This pattern indicates both the sector's potential for hiding illegally acquired money and the role the sector plays when it comes to the layering of dirty funds through frequent cash transactions, loans and cash withdrawals in significant amounts.

Threat level: High

Factors that indicate a higher likelihood of ML threat:

Illegal organization of games of chance: Organization of games of chance without the permission of the competent institution and the inability to monitor the flow of money, especially the monitoring of cash transactions, gives greater opportunities for money laundering.

Nature of transactions - cash transactions: Frequent deposits and withdrawals of cash, profit paid to natural persons, frequent execution of cash transactions under the law to persons, enables a better process of concealment and layering of money.

Structured transactions: Payments to accounts in smaller amounts - multiplied transactions executed by a larger number of individuals indicate a typological pattern of money laundering - the intention of persons to avoid reporting suspicious activities.

Use of front persons: Use of persons who are presented as nominal owners instead of the real beneficiaries and are used to conceal the persons to whom the funds are really intended.

Factors that indicate a lower level of ML threat:

Regular audit, supervision and reporting: Regular control by the tax authorities, identified irregularities show the proactive role of the competent institutions and efforts to detect through regular monitoring activities for which the approval of the competent institution has not been given.

Interagency cooperation: The cooperation between the APML and the Ministry of Interior and supervisory and inspection bodies enables effective monitoring of suspicious behavior patterns and leads to the investigation of high-risk cases.

SARs: SAR reporting by other obliged entities and identification of potential ML methods through the gaming sector contributes to efficient insight in the sector.

Accountants

The accounting sector represents one of the most important sectors from the aspect of prevention and protection against money laundering. Accountants generally have direct

knowledge of money flows and their origin, and they know their clients very well, and they often appear in the role of persons who also perform tasks involved in registering business entities.

In the analyzed period, an investigation was initiated for the criminal offense of money laundering against 8 persons, with 6 certified accountants being charged, while 3 persons who performed the duties of accountant were convicted with final decisions.

An analysis of the way in which accountants participated in the commission of crimes, has shown that they mostly aided the suspects with their advice on how to launder money by opening sole proprietorships (sole proprietorship) in the name of other persons; by making out fictitious invoices, which were used both for unjustified payments and for unjustified VAT refunds; posting of those invoices; making tax returns with unfoundedly stated VAT; withdrawing money from the account of such sole proprietorships that was paid on the basis of fictitious invoices or money that was returned on the basis of an unfounded VAT refund; and handing over that money to the originator.

The total amount of money laundered using the services of accounting agencies in the investigation phase amounts to EUR 5,689,454.00, in the indictment phase EUR 3,486,685.00, while the total amount of money laundered through the accounting sector as recorded in final convictions stands at EUR 2,251,841.00.

	Total persons	Accounting services used	Percentage of total (%)	OCG
Investigations	648	19	2.93%	-
Indictments	335	19	5.06%	-
Court decisions	132	20	15.15%	-

Table No. 6 Number of defendants in money laundering cases who used the services of accountants

	Number of Persons (Investigations)	Share (%) (Investigations)	Number of Persons (Indictments)	Share (%) (Indictments)
Stand alone	11	57.89%	6	31.58%
Art. 173a ZPPA	6	31.58%	13	68.42%
Art. 223 CC	1	5.26%	-	-
Art. 223 CC	1	5.26%	-	-
Total persons	19	100%	19	100%

Table No. 7 Origin of money for which the services of accountants were used for laundering

Accused S.I. organized a group whose members included D.I., M.I. and J.I., and J.S., who were certified accountants and who used the business operations, business premises and employees of the accounting agency "O" for money laundering. Namely, accused S.I. would find natural persons in whose names D.I., M.I. and J.I., and J.S. opened sole proprietorships and provided them with accounting services and, at S.I.'s order, issued fictitious invoices. After the money was paid on the basis of those invoices, they either withdrew the money paid in this way from the accounts of the sole proprietorships, or the owners of the sole proprietorships themselves withdrew the money and handed it over to them, and they then handed it to S.I., who would return the money to the persons who initially paid these funds using the fictitious invoices. In this way, a total of EUR 1,188,297.00 was laundered.

In the analyzed period, 150 audits of accountants were carried out by the Tax Administration and in 75 audits irregularities were found in the total amount of EUR

662,463.32.

In the analyzed period, 3 SARs were submitted to the APMML by banks, in which the suspicious activities of accountants are indicated.

APML received an SAR from a commercial bank indicating suspicion about transactions on the accounts of a number of sole proprietorships, in a way that funds were transferred from the accounts of two legal entities from abroad based on intermediation in transport. The funds were then transferred to the RSD account, and then withdrawn in cash based on material costs. What was particularly suspicious was the fact that the authorized person on the accounts of the sole proprietorship concerned was actually a natural person, who was also the owner of the accounting agency and was authorized to withdraw money from the accounts of 49 sole proprietorships. It was noticed that as the basis of the inflow from abroad, the documentation related to intermediation services was submitted, and the invoices looked identical, except of course the name of the issuer and the recipient of the invoice. Also, it is visible that the inflow schedules are filled by the same person, that is, the accountant, who, after converting them into RSD, withdrew the money in cash up to a maximum of EUR 1,250.00 from the entrepreneur's (sole proprietor's) account. Due to suspicion of money laundering, a report was submitted to the prosecutor's office, which launched an investigation.

The threat to the accounting sector was analyzed in the context of legal entities and entrepreneurs, which were found in legally binding criminal proceedings to have been used for money laundering, and to whom accounting services were provided by registered legal entities and entrepreneurs. Out of 126 business entities, 23 had an external accountant, while 8 sole proprietorships that provided accounting services were also involved in the actual commission of the criminal offense of money laundering. There were no SARs for the mentioned 126 business entities, which were used for money laundering.

In the analyzed period, the Ministry of Interior filed criminal charges against 41 accountants for other criminal acts. The structure of criminal offenses and the number of registered accountants is shown in table no. 8.

Criminal offense	Number of persons
Tax fraud related to VAT (Art. 173a ZPPA)	11
Abuse of position of the responsible person (Art. 227 CC)	8
Embezzlement in conducting business activity (Art. 224 CC)	6
Tax evasion (Art. 225 CC)	5
Forging of an official document (Art. 357 CC)	3
Inducing verification of untrue content (Art. 358 CC)	2
Abuse of office (Art. 359 CC)	2
Embezzlement (Art. 364 CC)	2
Fraud in conducting business activity (Art. 223 CC)	2
Fraud in service (Art. 363 CC)	1
Unauthorized use (Art. 365 CC)	1
Unauthorized circulation of excise goods (Art. 176)	1

Table No. 8 of criminal charges filed against accountants

Bearing in mind the nature of the activity performed by accountants, which enables them to access relevant data and documentation of users of their services, the possibility of in-depth knowledge of the client and its business, that the professional services of accountants are used for money laundering by persons from the criminal environment, and as described and

the accountants themselves appear as persons who design and help to integrate money of illegal origin into the financial system, it was concluded that there is a significant threat of money laundering.

Conclusion: The accounting sector in Serbia plays a key role in the AML system due to accountants' extensive knowledge of financial flows and business activities of their clients, however, this sector also represents a significant risk of money laundering, as evidenced by several cases in which accountants facilitated money laundering by using fictitious invoices, manipulation of tax returns and advice on structuring financial transactions. Some accountants actively participated in money laundering, withdrawing cash on behalf of criminal associates - defendants, and concealing funds of illegal origin.

A comprehensive focus on this sector, including increased attention from supervisors, irregularities observed during supervision, law enforcement authorities, the APML and obliged entities helps to detect suspicious activities and demonstrates effective interagency cooperation.

Threat level: High

Factors that indicate an increased level of ML threat

Direct participation in money laundering schemes: accountants issued fictitious invoices and assisted clients in concealing funds and withdrawing cash from client accounts for the purpose of money laundering.

Vulnerability to abuse by OCG: the accounting sector is used to establish legal companies and create false invoices, which enables criminal networks to launder significant amounts of money.

Factors that indicate a lower level of ML threat

Co-supervision and inter-agency cooperation: intensive supervision, SARs and cooperation of competent institutions help to identify weak links in the AML system of accountants, which follows from several reports sent to prosecutors based on SARs filed by financial institutions.

Cross-sector cooperation: the monitoring of transactions related to accounting agencies by financial institutions enables an effective review of exposure to money laundering risks related to accounting agencies and the transactions carried out.

Lawyers

Based on the data obtained in the prosecutor's offices in the analyzed period, an investigation was initiated for the criminal offense of money laundering against 1 lawyer, and 1 lawyer was also charged with the criminal offense of money laundering.

Special Anti-Corruption Department of Higher PO Belgrade indicted lawyer O.J., because in her capacity as a lawyer, she concluded agreements with M.K., the responsible person of the company "B.J" DOO, on flat-rate representation for the services of legal advice, drafting of legal acts and representation of the client in proceedings before courts and state authorities, on the basis of which the company "B.J." DOO was issued fictitious invoices for the total amount of EUR 87,500.00, although she knew that the specified services were not provided in this period, nor were the invoices accompanied by appropriate written documentation as proof that the services were actually provided, and when the money according to the specified invoices was paid to her account, she withdrew it and handed it over to accused M.K.

In addition to notaries public, lawyers participate in the process of drawing up contracts used in money laundering operations, especially in the real estate sector.

The exposure of this sector was also analyzed in relation to the criminal offense of forgery, given that in this criminal offense legal services are provided by persons who are not lawyers and they charge for them. The Ministry of Interior filed criminal charges against 2 persons for this criminal act. Public prosecutions acted on the basis of criminal charges filed against 29 persons, and 3 persons were charged, while 1 person was finally convicted by the court.

SARs involving 1 lawyer were submitted to the APML by other obliged entities, while in relation to 1 lawyer, a report was submitted by the partner service in the region. In the first case, the bank filed an SAR related to the lawyer, because frequent payments by the public bailiff were recorded on his account, in the total amount of EUR 276,953.61, for which there is a suspicion of the real purpose of execution, given that the said person makes frequent payments to the same public executor in the total amount of EUR 40,713.40. What increases the suspicion is that the lawyer often withdraws cash from the account, mostly in amounts of EUR 1,250.00, which is the legal maximum that does not have to be justified by documentation. The total amount withdrawn from the account in this way is EUR 120,590.07. Due to doubts about the actual legal basis of the transactions by the public executor towards the lawyer, from whose account after payment most of the funds are withdrawn in cash on the basis of material costs, the APML submitted the above information to the prosecutor's office.

In another case, the partner service of another regional country informed the APML that the lawyer was using a non-resident account opened in a bank in that country, through which he received transactions in high amounts on different bases, from several different legal entities. By inspecting the transactions on the specified account for the period from 01/01/2018 until 31/12/2022, it was determined that this person had 19 foreign incoming transactions in the total amount of EUR 110,041.59, under transfer orders of several foreign legal entities. The aforementioned funds were then mostly withdrawn from the account in cash. Due to the suspicion that the person in question uses a non-resident account opened in a bank in the region through which he receives transactions in high amounts on different bases from several different legal entities, with the intention of avoiding paying the corresponding tax duties in Serbia, the APML forwarded this information to the Tax Administration.

Lawyers as a sector are exposed to money laundering primarily because of the services they provide to their clients in terms of planning or executing transactions related to the management of the client's assets; establishing, operating or managing a company; by buying and selling real estate or a company; opening and disposing of a bank account, especially related to business with securities; as well as by carrying out financial transactions or transactions related to real estate, in the name and for the account of the client. Their exposure is largely determined by the fact that some of the services they provide to clients are related to sectors that have been assessed as sectors with a high degree of threat from money laundering - the real estate sector and the banking sector.

Also, it was noted that in the trials for unauthorized lending to citizens that ended in final decisions, lawyers drew up loan agreements, pledge statements and contracts on the transfer of title to real estate as interest payments and repayment of the principal debt, and that such activities were reported as ML suspicions.

The final assessment of the legal profession, in addition to the data from the analyzed

criminal proceedings initiated for the crime of money laundering in which the lawyer appears as the direct perpetrator of this crime, was largely contributed to by the fact that lawyers, as liable under the AML/CFT Law, do not sufficiently understand their preventative role in the system of taking action and measures to prevent and detect money laundering, which are to be undertaken prior, during and after transactions or establishment of business relationships for their clients.

Conclusion: Lawyers face significant exposure to money laundering risks due to the nature of the services they provide. It is noted that one lawyer was prosecuted for participating in money laundering in the observed period, and other data indicate the participation of lawyers in transactions that can potentially facilitate money laundering. They often draw up contracts especially in transactions related to real estate transactions, manage assets and advise clients regarding asset management, participate in the establishment and management of business entities, and perform financial transactions on behalf of clients. The described activities are by their very nature associated with sectors of high risk for money laundering such as real estate and banking.

It has been noted that they carry out large cash transactions, as well as transactions in the amount of the threshold, which causes concern due to possible connection with money laundering. Also, participation in cross-border transactions through non-resident accounts indicates possible tax evasion and further increases exposure to sector risk.

Threat level: High

Factors that indicate a higher level of ML threat:

High-risk services: lawyers often carry out transactions related to other high-risk areas (real estate and banking) and manage significant assets on behalf of the client, which can potentially obscure the origin of assets

Participation in cash transactions: frequent execution of transactions in an amount that is just below the legal limit for reporting cash transactions indicates the suspicion of structured transactions

SARs: although they are obliged to report suspicion of money laundering, there are aspects in which lawyers failed to fulfil their preventive role under the AML/CFT Law

Factors that indicate a lower level of ML threat:

Supervisory role: increased scrutiny of lawyers' accounts and cross-border transactions led to the identification of suspicious activities, which led to effective action by regulatory bodies and law enforcement authorities.

International cooperation: sharing information with neighboring countries has demonstrated the ability to identify individuals linked to money laundering that compromise the profession

Public notaries

In the analyzed period, out of 648 persons who were investigated for the criminal offense of money laundering, 40 persons used the sector of public notaries. An analysis of the final criminal proceedings concluded that no public notary was convicted for the criminal offense of money laundering. However, it was established that the sector of public notaries, as obliged entities under the AML/CFT Law, was used in the process of integrating dirty money into the real estate sector or the purchase of vehicles, which contracts are solemnized and certified by notaries public. Thus, the notary sector was used by a total of 17 convicted persons, and the amount of money laundered was EUR 1,888,871.00.

Bearing in mind the role they play in the real estate sector, the ability of public notaries to detect and warn of suspicious circumstances in a timely manner must not be neglected.

Analyzing the proceedings initiated for the criminal offense of money laundering, it was determined that in addition to notarizing real estate purchase and sale contracts, loan contracts were also certified by public notaries, contracts that transferred ownership (title to) of real estate from the borrower to the lender if the lender did not repay the loan, and there were also cases of the same notary public certifying a large number of such contracts in which one and the same person appears in the role of lender. Also in cases of organized crime, it was observed that the purchase and sale of real estate by members of the OCG took place in a very short period of time and *without a rationale*, and all contracts were certified by a public notary, also without reporting suspicious transactions.

A public notary was charged with the criminal offense of Abuse of office from Art. 359 of the CC, because he certified the agreement on the sale of agricultural land in which the buyer was a foreign citizen, even though the Law on Agricultural Land prohibits foreigners from acquiring ownership of agricultural land.

In a different case, a public notary was charged with Dereliction of duty, as set out in Art. 361 of the CC, because he verified a contract for the purchase and sale of real estate (an apartment), without previously warning the injured party as buyer that there were encumbrances registered on the real estate, nor did he include that fact in the verification clause, and hence the injured party incurred damages by the activation of mortgages for said property.

The size and importance of this sector in Serbia is reflected, apart from the number of obliged entities, in the fact that public notaries are entrusted with significant public powers, starting with the execution of notarial certifications, the compilation of documents on legal affairs and other facts that are of importance to the flow of money, goods and services, as well as deposit operations, i.e. keeping documents, money and other items. The aforementioned services, in terms of their characteristics and the consequences they produce in the legal system, indicate a high exposure of the sector to money laundering. This sector is directly related to the real estate sector, because the sale of real estate can be done only on the basis of a contract certified by a notary public. At the same time, the real estate sector itself was assessed as a sector with a high level of threat for money laundering. Notaries have an extremely high volume of turnover and the number of solemnized real estate transactions.

Conclusion: During the analyzed period, 40 persons against whom an investigation was initiated for money laundering used the services of the public notary sector in Serbia. Concurrently, criminal proceedings were not initiated against public notaries for this criminal offense. Public notaries were indirectly involved in the money laundering process by certifying contracts that were necessary for the integration of illegal funds in the real estate sector and for the purchase of vehicles.

A total of 17 persons were convicted in final decisions for money laundering that also misused the public notary sector, while the value of the assets involved in money laundering in those cases amounted to 1,888,871 euros.

Notaries solemnized real estate contracts, loan agreements and contracts transferring ownership of real estate in cases of unpaid loans, with the same person appearing as the lender in some situations. At the same time, some public notaries have been accused of Abuse of office or negligent service, which highlights the vulnerability of this sector. Their role is associated with high-risk sectors, such as real estate, and on that basis their exposure to money laundering risks is emphasized, especially if one takes into account the large volume of notarial activities related to property.

Threat level: Medium to high

Factors that indicate higher level of ML threat:

Role in high-risk real estate transactions: Notaries are essential to real estate transactions in Serbia, a sector highly prone to money laundering, making them critical entry points for

illicit funds to enter the financial system.

Failure to identify suspicious activities: In cases involving the same persons or illogical and rapid real estate transactions by OCGs, some notaries public did not identify suspicious activities, indicating the need for further improvement of monitoring and preventive actions.

Factors that indicate a lower level of ML threat:

Identified vulnerabilities: Cases where notaries public have faced accusations of abuse of office indicate an increased focus of supervisory authorities and law enforcement services, which improves compliance and prevents violations of the AML/CFT regime.

Increased number of SARs: Notaries public are consistent in filing high numbers of SARs, indicating that oversight measures are leading to improved system compliance.

Real estate brokers

In the reporting period, there were no recorded cases of money laundering where the defendants used the sector of real estate brokers (intermediaries).

It cannot be concluded that the brokers had an active role in money laundering cases and that they were aware of possible connections with persons from the criminal environment, but considering their primarily "passive" role in the AML system, that possibility cannot be ruled out either, i.e. that they were connected with persons engaged in criminal activities or even that they were not sufficiently aware of importance of their role as obliged entity in this system.

Real estate brokers are closely connected to the real estate sector, which is classified as a high threat level sector in terms of money laundering; a high number of obliged entities engage in this activity, and at the same time there are few reports on suspicious activities.

Currency exchange operators

Based on the data obtained from the aforementioned prosecutor's offices, it was determined that during the analyzed period, the sector of authorized currency exchange operators was used by 5 persons in investigations into money laundering, of whom 3 were members of the OCG. In the indictment phase, this sector was used by 6 persons, including 1 member of the OCG.

Based on the operational data available to the MOI, it was established that one suspected member of the OCG converted Dinars into foreign currency in amounts greater than EUR 15,000.00 almost every day in the exchange office, before its opening hours, without recording the conversion or filing an SAR.

A constant increase in the number of cash transactions currency exchange operators are obliged to notify the APML can be observed, even though only a minor share of currency exchange operators fulfil their legal duty.

Based on the work of the APML, using SAR information filed by payment institutions, it was established that a cash payment in the amount of EUR 16,250.00 was made by person A through an exchange office that acted as a payment institution agent. This transaction was not reported by the exchange office to the APML as a cash transaction, as required under the Law. Also, natural person V was reported to the APML by other obliged entities as one of the persons was making suspicious cash payments in favor of gambling operators, on the grounds of internet betting and payments of daily receipts. It was observed that V paid a total amount of around EUR 83,333.33 in six payments each in the amount of EUR 14,166.67 (i.e. all payments under the EUR 15,000.00 CTR threshold) in cash to a personal Dinar

account opened with a commercial bank, and made these payments via an exchange office that also provides a money transfer service for and on behalf of a payment institution, over a short period of ten days. When making payments, V made a statement that the money came from savings. It is also indicative that at the same address as the location of the agent through whom the payments were made (currency exchange payment point) there is also a branch of the commercial bank where natural person V has a bank account to which the payments were made. Namely, there is no economic rationale for cash payments made by natural person V through a payment institution, as a commission is charged for such payments. The individual had the option to deposit the money directly at the bank branch where he held an account, without incurring any bank fees. A circumstance that additionally indicates the existence of grounds for suspicion that natural person V was handling illegally acquired money is that he went to the mentioned branch of the bank located in the immediate vicinity of the exchange office where he paid the money immediately after making the payments, i.e., on the same day, and withdrew the same amounts in cash at the bank's cash desk. The assumption is that the person's intention was to "slip" the money through the financial system with the aim of justifying its origin in order to make it easier for him to dispose of the money further.

There is also an example regarding the incorrect reporting of cash transactions in the amount of RSD 190,138,828.77 (EUR 1,584,490.24), which a natural person converted into Swiss francs at an authorized currency exchange operator office. The average value of purchased foreign currency per transaction is CHF 42,000.00. Although the person exchanged money for a certain period of time through a series of transactions (41 in total) – this was a person mentioned in the media as someone connected to the criminal underworld in Serbia and abroad. In addition, the person is identified with different data from personal ID documents.

In addition, during the observed period, the National Bank of Serbia filed a total of 11 criminal complaints for breaches of the Law on Foreign Exchange Operations, namely: seven (7) due to the well-founded suspicion that residents were buying and selling effective foreign currency from natural persons without the authorization of the National Bank of Serbia and four (4) because the authorized currency exchange operator did not facilitate the examination of foreign exchange operations.

It is a fact that large amounts of “dirty money” are generated by criminal activities, often in different currencies, often prompting a need to convert it from one currency to another, whereby the conversion of said money often precedes its investment in legal flows, especially for the purpose of buying real estate.

Conclusions: In Serbia, the authorized currency exchange sector plays a significant role in money laundering, given that conducted investigations have exposed cases of them being used by criminal groups and individuals who exchanged large amounts of cash. Criminals often exchange cash from one currency to another before introducing it into financial flows. Currency exchange operators were the subject of SARs because they did not report CTRs under the AML/CFT Law, nor did they submit SARs in some cases. In addition, structured transactions were recorded - transactions directly below the CTR threshold at exchange offices. The National Bank of Serbia filed charges against the currency exchangers for unauthorized operations. Considering the exposure of the sector to significant amounts of cash, exchange offices are assessed as critical points in Serbia's efforts in the field of money laundering prevention. Exchanges have been identified as a significant weakness in the system and represents a priority for future work and efforts to be made by the state to mitigate the risks to the system.

Threat level: High

Factors that indicate a higher level of ML threat

Frequent transactions in significant amounts: a significant number of frequent transactions that are just below the threshold - structured transactions that add up to significant amounts
 Insufficient number of SARs: many exchange offices do not fulfil their legal duty to report transactions that exceed the limit for reporting cash transactions under AML/CFT Law
 Involvement of persons with criminal backgrounds: individuals associated with criminal activities use currency exchangers to exchange significant amounts of money, whereby SARs are not always made, indicating a greater possibility of abuse of currency exchangers by high-risk customers

Factors that indicate a lower level of ML threat:

Strengthened regulatory measures: The National Bank of Serbia files criminal charges against unauthorized currency exchange, which indicates effective regulatory oversight of the sector
 Improved cooperation between competent institutions and obliged entities: reports from payment institutions and banks facilitated the detection and investigation of suspicious activities in exchange offices, which indicates effective mutual cooperation
 Improved identification of structured transactions: cases in which structured transactions have been identified indicate the vigilance of competent institutions and vigilance when it comes to this way of executing transactions.

Trade

Based on the data obtained from the public prosecutor's offices and the court, the trade sector was singled out as the sector that was recorded in the largest number of money laundering cases. Considering that the trade in expensive cars and other high-value goods represents an area in which significant amounts of money originating from criminal activities are invested, these areas were analyzed individually and collectively.

An analysis of the collected data has found that trade in goods was most often used as a way of committing the crime of money laundering, by way of drawing up fictitious contracts for the purchase and sale of goods with the intention of showing that these were sold/purchased, even though they were not, and payments were made for such issued fictitious invoices and the money was withdrawn and returned to the payer.

An analysis of the data obtained in the prosecutor's offices, revealed that the investigative procedure was initiated against 162 persons, of which 7 persons were part of

OCGs, while 75 persons were indicted, of which 26 were connected with OCGs, for the crime of money laundering for which the trade sector was used.

The analysis of completed trials before competent courts found that out of a total of 132 convicted persons, as many as 66 of the convicted persons used the trade sector (most often in addition to the banking sector) to launder the money. The total amount of money that was the subject of money laundering through the trade sector, according to legally binding verdicts, amounts to EUR 7,957,730.00.

In this sector, most of the money laundered originated from tax evasion, crimes of forgery, abuse of position of the responsible person, as well as grand larceny.

Regarding high-value goods, it was determined that criminal acts were committed with the intention of concealing that such goods originated from a criminal offense committed abroad, and that they were placed on our market as legal items. Also, there were cases where illegal money was invested in works of art and jewelry.

Regarding the crime of money laundering committed in relation to the trade in high-value goods, investigations were launched against 4 persons, 1 of whom is before the PPOC, and all 4 persons were indicted for money laundering.

This sector was analyzed in particular because a large number of persons against whom criminal proceedings were initiated used this sector for money laundering. In particular, it should be emphasized that the actual entities used for money laundering generally did not really conduct business activities, but were mainly used for money laundering.

Car sale

The amount of money detected during the investigation in connection with such investments, i.e. the money laundered through the trade in vehicles, amounts to EUR 4,704,100.00. In only one criminal proceeding before the Higher Court in Novi Sad it was established that three persons laundered a total of EUR 3,757.100.00 through car trade. In addition to the mentioned sector of vehicle trade, a notary public is always included as an obliged entity under the AML/CFT Law.

The money laundering in this case was carried out in the sector of used car sales, so the companies engaged in the purchase and sale of used vehicles served for transferring and converting the money originating from criminal activities. The following key ML typologies were seen: the cash, which came from the sale of used cars was paid in cash to the accounts of companies controlled by the defendants. These companies played a role in selling vehicles and depositing dirty money. The defendants then transferred the money to foreign currency accounts in a foreign jurisdiction, and then through fictitious contracts and simulated services transferred funds to the accounts of natural persons. The basis for the transactions was misrepresented business documentation that served as a cover for illegal transactions, thereby concealing illegally acquired money. The defendants used their controlling positions in companies and influenced financial flows to hide the fact that the money came from criminal activity

In the analyzed period, in the investigations initiated for the criminal offense of money laundering, the car trade sector was used by 30 persons, of which 9 persons were OCG members, while at the indictment stage this sector was used by 11 persons, of which 3 persons were OCG members who invested dirty money mainly in luxury cars, the value of which reaches several tens or even hundreds of thousands of euros. In the same period of time, through the analysis of legally concluded criminal proceedings in the case of money laundering, it was concluded that 9 convicted persons invested the money obtained from criminal activities in the purchase of cars, i.e. in the modification and resale of vehicles. Based on the analysis, it was observed that the purchase of luxury cars was the subject of the investment of money resulting

from a criminal act. Such cars are usually purchased for cash, and since they can be considered a kind of status symbol, they also represent a "red flag" in cases where they are owned by persons who do not have legal income to justify owning such cars.

The large individual value of the vehicle, the possibility of buying it for cash, a significant number of legal and natural persons who perform this activity, a large annual turnover and a large financial turnover, which is mostly in cash, the absence of adequate control because they are not obliged entities under the AML/CFT Law, initiated criminal proceedings for money laundering and investment related to this sector, talk about his threat.

Pawnshops

Based on the data obtained in the prosecutor's offices, it was established that in the analyzed period, out of 648 persons against whom an investigation was initiated for the criminal offense of money laundering, the pawnshop sector was used by 7 persons, namely 5 natural persons and 2 legal persons. The total amount of money laundered through this sector is EUR 520,259.00.

Although so far only 7 persons have been investigated for the criminal offense of money laundering through the pawnshop sector, this sector has been specifically looked at because it has been established that there is no control over this sector, meaning that even items acquired through illegal activity can be pawned in it.

Payment institutions and e-money institutions

An analysis of the data obtained from prosecutor's offices and courts for the period 2021 - 2023, has shown that no proceedings were initiated for the criminal offense of money laundering where the sectors of payment institutions and e-money were used.

However, through SARs, it can be seen that this sector is still used for money transfers by persons linked to criminal activities, i.e. that persons choose to use payment institutions instead of the banking system, especially for currency exchange and money depositing operations.

Auditors

The auditor sector is closely related to the accounting sector, and companies that provide audit services also provide accounting services. In the analyzed period, no proceedings were initiated due to the criminal offense of money laundering for which the auditor sector was used, nor were the auditors the perpetrators of this criminal offense.

Virtual currency service providers

In the analyzed period, investigative proceedings were initiated against 9 persons for the criminal offense of money laundering, for which the virtual currency service providers sector was used.

The suspect was employed at "A" a.d. Belgrade, in the position of senior adviser for client relations, and she used that position to approve for 26 bank clients, without their knowledge and consent, an activation of the account package allowing electronic and mobile banking, which she controlled. She then made a request for partial payment/premature withdrawal of the savings that these persons had, after which she

transferred the money from those accounts via electronic and mobile banking to the RS accounts that she opened in the above manner, thus transferring EUR 450,820,14 to her RSD accounts. From these accounts, she transferred the money to an account opened in the cryptocurrency exchange "M" DOO Belgrade, through which she purchased digital assets in 2021 – i.e. cryptocurrency "Litecoin" for a total of EUR 40,471.67, in 2022 for a total of EUR 378,403.33 and in 2023, for the amount of EUR 27,833.33. Also, in the international crypto exchange "Binance", where she opened an account for trading cryptocurrencies registered in her name, she traded, bought and invested in various cryptocurrencies and tokens through 367 factions.

Services sector

Looking at economic activity in general, the service sector occupies a significant place. It is particularly dominant in the field of entrepreneurship (sole proprietors), where there are over 300,000 registered sole proprietorships, which are predominantly engaged in the service sector.

Bearing in mind that the registration procedure is simple and that sole proprietorships can have a turnover of up to 8,000,000 Dinars before the transition to the VAT system, this creates favorable conditions for manipulation of these shops, and that they are not opened with the aim of actually performing the economic activity for which they were established, but for the purpose of injecting illegal money into legal flows.

Frequent withdrawals of money through sole proprietorships, to avoid tax duty and have ready access to cash, were observed in addition to that, typical, money laundering scheme. For these reasons, it is not surprising that certain sole proprietorships in the service sector were founded only with the aim of laundering dirty money through them, while they never performed any activity.

In the course of data analysis, it was seen that the investigations were launched against 75 persons, while 10 persons were indicted for the crime of money laundering using the service sector.

In the majority of cases, these were persons who created fictitious invoices for services they did not provide, while withdrawing the money paid to them for those services and returning them to the payers.

In criminal trials that have been concluded in a final decision, there were no persons convicted for the crime of money laundering through the service sector, but this sector is often used for money laundering.

Agriculture sector

An analysis of the data shows that investigations were launched against 75 persons, 8 of whom had ties to OCGs, while 68 persons were indicted, 7 of whom for ties with OCGs, and for the crime of money laundering using the agriculture sector.

The analysis of the criminal proceedings that ended in final decisions, in the mentioned period, found that the total amount of money laundered through the agriculture sector was EUR 185,376.00, and the total number of convicted persons was 26. In all money laundering proceedings through the agriculture sector, the trade and banking sectors were also used.

The Anti-Corruption Department of the Higher Court in Belgrade convicted 4 persons for aiding and abetting the commission of the criminal offense of abuse of position of the responsible person and for the criminal offense of money laundering, which they committed

using the agricultural sector in addition to the banking and trade sectors. The responsible person of the company would find owners of agricultural holdings who made false invoices for the alleged sale of fruits and vegetables listing the type, quantity and value of the goods sold, and this activity included false purchase slips in order to create the appearance of legal business, and then after payment to the account, the agricultural producers withdrew the cash and returned it to the responsible person of the company, retaining a fee of 6-10%. The typology of this case included all stages of ML: placement (false transactions), layering (withdrawal and return of money) and integration (use of trade and agriculture sectors to hide the origin of money).

Given the frequent government subsidies in this area, and the possibility of exporting agricultural products to the territory of the EU and the Russian Federation, this area is recognized by perpetrators as attractive for avoiding regulations in the area of foreign trade in agricultural products. Also, when buying agricultural products, the buyer is obliged to pay the farmer a VAT compensation of 8%, which, after payment to the farmer's account, the buyer has the right to return from the state. This circumstance is also used by showing a fictitious purchase, and then the amount of VAT paid is divided so that the farmer keeps 5 to 10%, and returns the rest to the buyer.

An analysis of the data has found that the agricultural sector often appears as an area in which illegally acquired money is invested or through which such money is transferred. This is due to the fact that in the previous period proceedings were initiated against farmers where fictitious documentation was drawn up in which it was shown that they had sold agricultural products to purchasers, although they actually did not do it, and the documentation created in this way was used by purchasers in order to circumvent the ban on the re-export of goods which is the origin from EU countries and which was later sold on the territory of the Russian Federation. This sector was analyzed due to the number of persons tried for money laundering and as a specificity of Serbia

Postal operators

The analysis has shown that the investigations were launched against 2 persons for the crime of money laundering, through the postal operators sector.

Accused Đ.P. and accused MP were selling used parts for motor vehicles by advertising online, and then delivering these parts to customers via courier companies, and had an agreement with the couriers that, for an amount of EUR 4.17 per package, they would state false information about the sender in the dispatch notes accompanying the delivery and that, based on the false documents created in this way, they would deliver auto parts to customers, and that after receiving the purchase price from the cash register, the money would be handed over to the accused. MP and accused Đ.P. or the persons authorized by them, which is how accused MP and Đ.P. obtain proceeds in the total amount of EUR 378,843.72, and then invested the money thus obtained in the purchase of real estate and other valuables.

Insurance companies

In contrast to the previous reporting period, in this reporting period there were no ML cases in which the insurance sector was used.

For the criminal offense Insurance Fraud from Art. 223a of the Criminal Code, the Ministry of Interior filed criminal complaints against 58 persons, the prosecutor's offices acted on the criminal charges filed against 179 persons, 11 persons were charged by the prosecutor's

office, while the court handed down convictions against 25 persons.

The specific features of the insurance sector are reflected in the variety of products available to clients, the possibility of one-off payments and annuity payments in larger amounts than contracted, the increase of premiums or contributions, the possibility of purchasing policies that serve as collateral for a loan, the right to direct compensation from the insured cases on the third persons, life insurance policies that contain the option of purchasing investment units.

Capital market

In the analyzed period, there were no recorded investigations, indictments or court decisions related to the criminal offense of money laundering through the capital market sector.

The exposure of this sector was also analyzed in relation to the criminal offense forgery of securities from Art. 242 of the CC, for which criminal complaints were filed by the MOI against 3 persons, while the courts issued convictions against 2 persons.

In the analyzed period, there were no court decisions for the criminal offense Prohibition of market manipulation from Art. 402 of the Law on the Capital Market nor due to the criminal offense Use, disclosure and recommendation of insider information from Art. 403 of the Capital Market Act.

In the capital market sector, the threat of money laundering is present to a much lesser extent than in the previously mentioned sectors. Namely, the capital market in Serbia belongs to the group of less developed markets, with low liquidity of traded securities.

In addition to the insufficiently developed market, there is a large share of inactive clients, the fact that obliged entities do not receive cash transactions, but all payments are made through accounts opened in banks. Namely, all financial instruments are dematerialized and registered, which reduces the possibility of hiding ownership and is extremely important from the point of view of attempts at money laundering and terrorism financing. All this indicates that the risk of money laundering in this sector is present, but on a smaller scale.

Factoring

In the analyzed period, there were no investigations, indictments, or verdicts related to the criminal offense of money laundering committed in the factoring sector.

Although there were no recorded cases of money laundering in the factoring sector in the analyzed period, other circumstances that increase the threat of money laundering must be taken into account. Factoring knows no national borders, as part of the modern way of doing business, it is increasingly taking on the characteristics of a multinational legal business, where there are no special rules related to the prevention of money laundering. The very fact that a factoring participant can be a business/trading company or a legal entity in general that performs business in or from the territory of offshore countries or tax haven countries, countries that do not apply standards in the area of AML/CFT, with unknown and mostly hidden owners, indicates the possibility for and risk of money laundering.

Financial leasing providers

In the analyzed period, in the initiated criminal proceedings, it was not established that the subjects of financial leasing were used for money transactions whose origin was illegal or criminal. Also, based on the data on initiated criminal proceedings, persons employed in the financial leasing sector were not accused of committing a criminal offense related to money laundering, nor was money laundering carried out through this sector.

The threat to this sector was also analyzed from the aspect of tax avoidance by financial leasing entities. Based on the data of the Ministry of Finance, the Tax Administration, it was established that 10 audits were carried out in the analyzed period, with irregularities found in 2 audits for a total amount of EUR 68,221.73.

From the initiated criminal proceedings, it was observed that the persons against whom the proceedings were conducted appear as beneficiaries of leasing. This was mainly related to leasing of expensive vehicles, so the possibility of paying off the lease with dirty money opens up, which belongs to the classic typology of money laundering.

VPF management companies and VPFs

In the analyzed ML cases it was not established that the activities related to money laundering included any of the services or products offered by pension funds, nor were there any employees from this sector among the defendants.

Findings for other sectors:

- **Pawnshops**

- 7 persons were used to launder EUR 520,259.00. The sector is unregulated and thus enables and facilitates the infiltration of illegal funds that can be pledged without any control.

Threat level: Increasing threat

- **Payment institutions and e-money institutions**

- No cases of money laundering have been identified, but there are sectoral risks, bearing in mind the possibility that it can be used in certain cases as an alternative to the banking sector, and that suspicious reports have been identified in this regard, especially in the part of the business that refers to foreign exchange transactions and deposits, which can be used for criminal activities.

Threat level: Medium

- **Real estate brokers**

- Although brokers did not appear as defendants in money laundering cases, they are closely and closely connected with the riskiest sector - the real estate sector. The analysis showed that real estate brokers were used by persons who are under investigation for suspicion of organized crime and money laundering. This makes them a sector exposed to the risk of money laundering.

Threat level: High

- **Postal operators**

- Two persons are suspected of money laundering of EUR 378,844 through fictitious business documentation in which the operator's sector was used. This sector is involved in the concealment of money from illegal trade where the funds are ultimately integrated into the real estate sector and high-value goods.

Threat level: Medium

- **Auditors**

- Closely and inextricably linked with the accounting sector. There is no direct involvement in money laundering cases, nor have auditors been found to be involved in money laundering, but the professional services of this sector can indirectly help money laundering - given the transactions carried out by

clients and the manner of reporting, therefore intensive supervision remains a key component in prevention.

Threat level: Medium

- **Factoring**

- There are no reported cases of money laundering, but taking into account the international nature of the business and the lack of strict rules and procedures for preventing money laundering and for cross-border transactions makes this sector vulnerable, especially when offshore entities are involved.

Threat level: Medium

- **Financial leasing**

- It was not directly used for money laundering activities, but it is necessary to keep in mind the case of high-value leasing transactions (such as luxury vehicles) that may represent exposure to money laundering through the use of traditional money laundering methods in this sector.

Threat level: Medium

- **VASPs**

- Nine suspects involved in complex money laundering schemes through electronic transfer and through investment in digital assets. The anonymity and fluidity of these transactions is a constant risk for money laundering.

- **VPFs**

- There are no direct cases of money laundering, however, pension funds and their connection with international transactions in a significant amount may represent the potential for money laundering through primarily investment-related schemes.

Threat level: Low

- **Trade**

- It was used for money laundering by 75 persons, often through sole proprietorships established with the sole aim of concealing the origin and integration of dirty money through fictitious transactions and business documentation. Entrepreneurs can "avoid" certain requirements related to documentation, taking into account the form of incorporation of these businesses, which makes the trade sector also suspicious of money laundering.

Threat level: Medium

- **Agriculture**

- It involves 75 persons and money laundering in the amount of EUR 185,376 - fictitious business documentation is often used for trade and VAT refunds. The sector is supported by frequent subsidies and export opportunities, which criminals use to integrate dirty money.

Threat level: Medium to high

- **Insurance**

- There were no cases of money laundering in this period. It remains vulnerable considering, first of all, the variety of products available to clients, the possibility of one-time payments and annuity payments in larger amounts than contracted, the increase of premiums or contributions, the possibility of purchasing policies that serve as collateral for a loan, the right to direct compensation from the insured case to third parties, life insurance policies

which contain the option of purchasing investment units and in that sense exposed to money laundering.

Threat level: Low

- **Capital market**

- Low level of threat compared to other sectors considering the strict regulation and dematerialization of securities which reduces anonymity. Although it is classified as a low-threat sector, capital markets remain relevant for monitoring the growing risks and the exposure that may arise on that basis.

Threat level: Low to medium

ASSESSMENT OF CROSS-BORDER MONEY LAUNDERING THREATS

The most intensive payment operations of Serbia were with Germany, which accounted for 16% in the total international payment traffic (16% of the total inflows, and 15.9% of outflows), followed by Austria with 6.4% (6.0% and 6.8 %), Hungary with 6.0% (5.5% and 6.4%), United Kingdom with 5.7% (6.6% and 4.8%), Switzerland with 4.8% (3.9% and 5.6%), USA with 4.3% (5.4% and 3.2%)

Turnover of goods		Turnover of services		Foreign direct investments		Remittances		Investment portfolio	
Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming	Outgoing
Germany 13.5%	Germany 11.8 %	Germany 15, 8 %	Germany 10.2%	China 15.1%	Netherlands 15.1%	Germany 20.9%	Germany 10.4%	Germany 44.7%	Germany 50.7%
Bosnia and Herzegovina 7.3 %	Switzerland with 8.5 %	USA 14.1 %	Austria 7.3%	Netherlands 11.5%	Switzerland 12.7%	Switzerland 13.8%	BiH 9.2%	United Kingdom 17.7%	USA 12.6%
Italy 5.9 %	China 6.4 %	United Kingdom 8.8 %	Switzerland 6.3%	Switzerland 9.6%	Germany 11.3%	USA 9.3%	USA 7.5%	USA 10.5%	United Kingdom 10.6%
Russia 5.9 %	Italy 6.1 %	Switzerland 6.6%	United Kingdom 6.3%	Germany 9.2%		Austria 7.7%	Montenegro 7.5%	Austria 7.8%	Austria and 8.6%
China 4.9 %	Russia 5.1 %	Austria 4.6%		United Kingdom 6.5%			Croatia 7.1%		

The share of money of suspicious origin is 0.17% relative to the total of cross-border transactions of Serbia with other countries over a three-year period.

Without going into the final outcome of these suspicions, a general statement can be made that the above amount of money of suspicious origin with a cross-border dimension, both at the general level and per individual country, bears minimum impact on the vulnerability of the financial system.

MAIN FINDINGS:

The existence of a cross-border ML threat has been identified in Serbia. The most prevalent modalities of cross-border money laundering are:

- physical transportation across the state border of cash originating from criminal activity committed abroad;
- laundering of dirty money originating from abroad using banking operations, through re-export operations, turnover of goods and services, simulated legal operations.

The most represented typology is stand-alone ML.

In most cases, money laundering was carried out by domestic citizens.

A result of the analysis is a list of countries with a cross-border threat, with indications of countries with a high, medium and low level of threat.

Introduction

The cross-border ML threat means the laundering of proceeds obtained from criminal activity carried out abroad, the laundering in other jurisdictions of proceeds that were obtained from criminal activity in Serbia, the laundering of proceeds in Serbia that were obtained from criminal activity in Serbia and other jurisdictions, the laundering of proceeds of unknown origin, such as and laundering income in Serbia by citizens of other countries, which were acquired through criminal activities in the domestic jurisdiction.

For the purposes of this analysis, the working group obtained and analyzed data from the relevant state institutions, namely the Supreme Court, the Supreme Public Prosecutor's Office, the Ministry of Interior, the Ministry of Justice, the Directorate for the Management of Confiscated Assets, the Administration for the Prevention of Money Laundering, the Tax Administration, the Customs Administration, Criminal Appellate Court, Agency for commercial registers, the Central Register, Securities Depository and Clearing, as well as supervisory authorities - the Ministry of Internal and Foreign Trade, the National Bank of Serbia, the Securities Commission and the Games of Chance Administration. The assessment of cross-border threats was carried out in accordance with the criteria of the World Bank, but also using the work experience and the experience and knowledge of the group members acquired by participating in the implementation of previous risk assessments.

Analysis of the situation with regard to cross-border money laundering threats was carried out taking into account the following:

- final convictions for money laundering have been passed,
- indictments filed and investigations initiated for money laundering,
- Number of Suspicious Transaction Reports (STRs)
- the number of initiatives submitted by the APML to public prosecutions and the police
- the amount of confiscated property/income

Data on MLA, exchange of information by the APML (through the Egmont Secure Web), exchange by tax authorities were considered, with the aim of monitoring movement of money or detecting assets in connection with which the collected data indicated a possible connection with other countries.

Also, data on reported cash transfers, as well as seized money in cases of undeclared cash transfers across the state border, were considered.

Furthermore, payment transactions with foreign countries were analyzed, namely data on financial inflows and outflows related to the turnover of goods, turnover of services, foreign direct investments, portfolio investments and remittances.

In addition to these criteria, and in order to draw accurate conclusions about potential cross-border ML threats, the data on final misdemeanor court rulings regarding the failure to report the transportation of bearer negotiable instruments were also analyzed, including on the founders, existence of complex ownership structures, links with other countries, data on transfers between non-residents made in the country, as well as transfers with other countries.

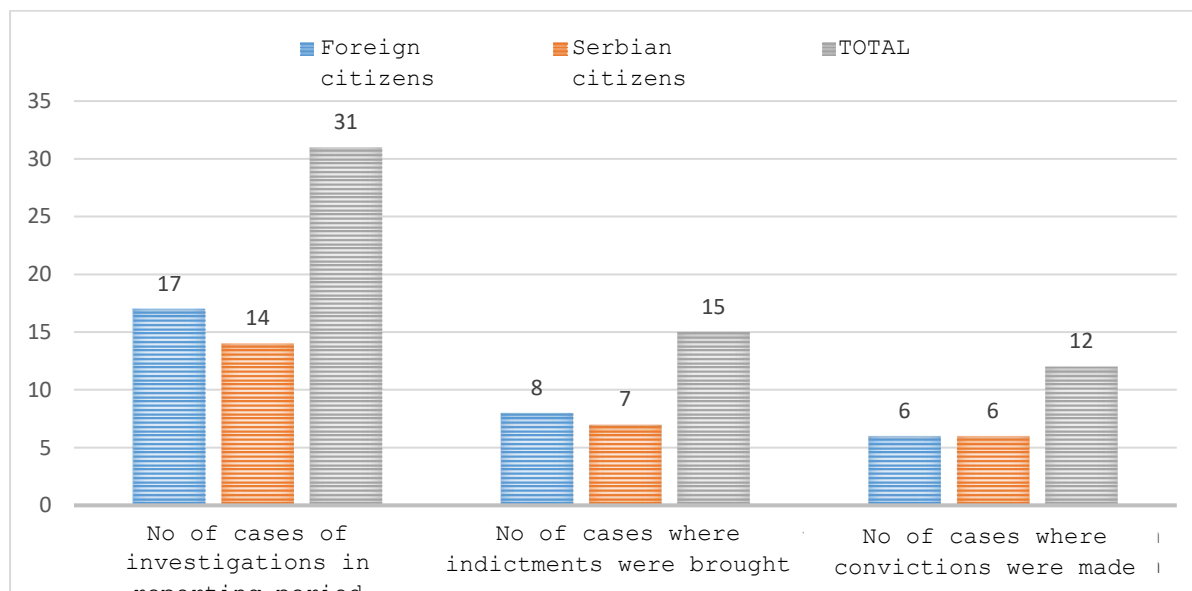
In addition, the data of the supervisory authorities were analyzed - the citizenship of the clients, the number of non-resident clients of natural persons and business entities, the assessment of the riskiness of non-residents.

The analysis of STR with a cross-border element was also significant, whether it was about the founding structure or the transfer of funds with other countries.

This analysis was conducted in relation to 103 foreign countries.

General Information

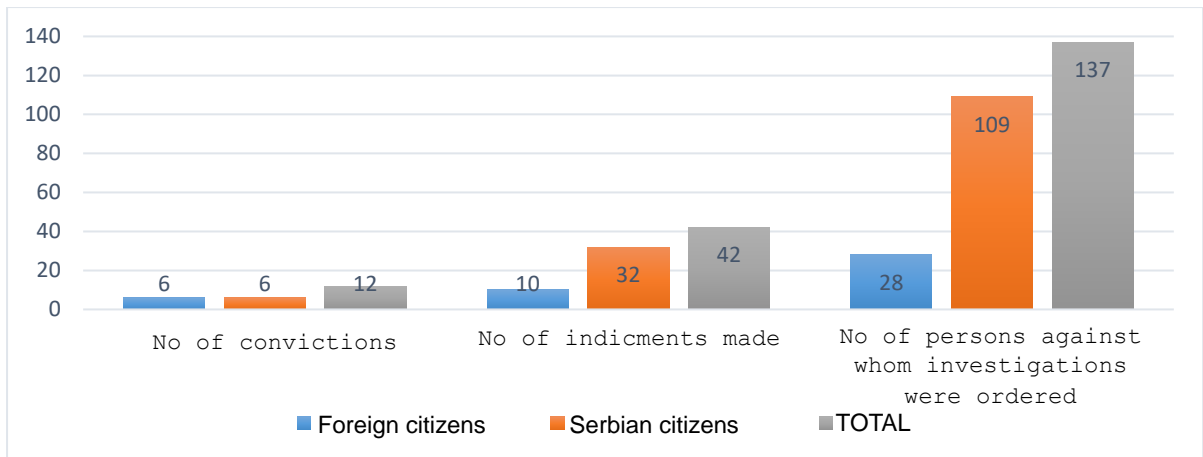
In order to make an assessment of cross-border threats, cases of money laundering with a foreign element were analyzed at different stages of criminal proceedings - a total of 58 cases related to 191 persons, and this number included money laundering cases in which it was not possible to determine the origin of the assets.



Source: Supreme Public Prosecutor's Office and Supreme Court

The data that were specially analyzed in order to determine the most dominant scenario of money laundering includes, first of all, the amount of laundered money detected in the initiated investigations, the number of persons against whom investigations were launched, data on seized physical transferable means of payment, international cooperation and STRs.

- The detected amount of laundered money in the launched investigations is EUR 32,514,054.17, which represents 34% of the total detected amount in all initiated money laundering investigations;
- the largest amounts of detected ML are associated with Ukraine, Kazakhstan, United Kingdom and Tajikistan - EUR 7,765,645, Montenegro and the Netherlands - EUR 6,865,000, Turkey - EUR 3,419,237, USA - EUR 3,017,801 and United Kingdom - EUR 2,422,255;
- the investigation was initiated against 137 persons - 28 foreign and 109 domestic citizens;
- the most frequently involved countries are the USA (56 persons), Germany (17 persons), Turkey (11 persons), United Kingdom (10), The Netherlands (9 persons) and Montenegro (9 persons).



Source: Supreme Public Prosecutor's Office and Supreme Court

MONEY LAUNDERING SCENARIOS

Laundering of proceeds from crimes committed abroad

Amount of laundered money detected in the launched investigations	Number of persons against whom an investigation has been initiated
EUR 19,227,430	115

The detected amount of laundered proceeds, as identified in ML investigations, generated through criminal activity committed abroad accounts for 59.29% of the total detected amount (32,514,054.17 EUR).

The largest amounts of detected ML are associated with Montenegro and The Netherlands (6,865,000 EUR), USA (3,017,801 EUR), United Kingdom (2,422,255 EUR), Germany (1,922,307 EUR) and Ukraine (972,902 EUR).

The number of persons against whom investigations have been launched for this form of money laundering represents 83.94% of the total number (137).

The most frequently involved countries are the USA (56 persons), Germany (14 persons), United Kingdom (9 persons), the Netherlands (9 persons) and Montenegro (9 persons).

Regarding the proceeds generating **predicate** offences, investigation was initiated against 8 persons for serious theft committed by an OCG, against 6 persons for trafficking in narcotics, against 1 person for the commission of a corruption crime.

Investigations were launched against 100 persons (74.07%) for **stand-alone** money laundering.

The analysis of ML cases with a cross-border threat dimension, suggests that criminals most often place the proceeds of their illegal activities in the **real estate sector**.

Example:

Namely, by the verdict of the Higher Court in Belgrade, Special Department for Organized Crime, defendant D.B was sentenced to 2 years and 6 months in prison and fined in the amount of RSD 500,000 because she transferred property and held real estate that was owned by her deceased husband, knowing that he had bought the real estate for cash that originated from a criminal offense committed in Italy, and because she converted the cash into ownership rights over the real estate, i.e. she concluded a contract on the purchase and sale of real estate, the which she paid in cash received from her husband. The defendant was subject to a security measure of confiscation of object – real estate, in the value of EUR 262,722.

When it comes to **money transfers through the banking sector**, fictitious transactions, or more precisely fictitious business documentation, are often used as the basis for the transfer. Money is transferred based on payment for goods that do not actually exist.

Example:

Suspect N.R. organized 49 natural persons in Serbia to establish sole proprietorships and to work as dispatchers for a salary ranging from 700 to 1,000 US dollars, for three US-based companies. He agreed with these natural persons to authorize other suspects to dispose of the funds in these sole proprietorships' accounts; their role was to issue fictitious invoices to the above US companies on behalf of the sole proprietorships established in this way, so when these US companies made payments based on these fictitious invoices, they converted the money into RSD, withdrew it and hand it over to suspect N.R. These persons' activities resulted

in the acquisition of funds in the total amount of EUR 3,017,801, which suspect N.R. used, among other things, to invest real estate.
The Special Anti-Corruption Department of the Higher Public Prosecutor's Office in Niš is conducting an investigation against 56 persons for money laundering.

It is important to note that the analysis of SAR filed by banks to the APML revealed frequent use of bank accounts for moving funds through the financial system in Serbia. Such transactions are most often carried out by abusing the transaction grounds codes for re-export and the services in which it is difficult to prove the market value (business consulting, legal and accounting services, propaganda and market research, etc.).

When it comes to dubious re-export business, the following countries stand out the Russian Federation, United Kingdom, Kazakhstan, Belarus, Estonia, Singapore, Hong Kong, China, including *Taiwan*, UAE, Lithuania, Latvia, Ukraine. In addition to citizens of Serbia, a large number of foreign citizens (mainly from the Russian Federation, Ukraine, Estonia, Czech Republic) establish companies in Serbia that carry out transactions with legal entities that are registered or have open accounts in the mentioned countries.

In addition to appearing in re-exports, the UAE also figures in a large number of suspicious transactions involving large transfers from Serbian companies for consulting services. Also, suspicious inbound transactions from the accounts of UAE legal entities in favor of natural persons to Serbia based on a loan were observed.

Germany appears in suspicious transactions mainly when it comes to natural persons, citizens of Serbia, who live and work in Germany and transfer funds to Serbia. It is suspected that part of the mentioned funds originates from tax evasion in Germany.

Conclusion:

The AML system is increasingly focusing on identifying and prosecuting different modalities of money laundering in cases involving cross-border crime. In the reporting period, a significant amount of laundered funds which were identified in Serbia, in the total amount of over 19 million euros, originates from criminal activities committed abroad, especially in countries such as the United States of America, Germany and United Kingdom. Namely, 74% of the cases involved stand-alone money laundering, where no predicate crime was directly related to the funds involved in the laundering. The banking sector is a common channel, where fictitious transactions and false business documentation are often used to disguise the origin of funds. These transactions often involve entities in jurisdictions such as the UAE, Hong Kong and the Russian Federation, raising suspicions about the exposed business activities of re-exports and consultancy services, for which it is difficult to verify the true market value. The main pattern observed involves the channeling of illicit proceeds into real estate, which remains the most popular sector for integrating illicit proceeds into legitimate assets. For example, a high-profile case was concluded with the confiscation of property purchased with criminal proceeds originating in Italy. In addition to the real estate sector, some banking transactions, which are reported in SARs and APML disseminations, show movement of funds linked to potential tax evasion abroad and questionable loans.

Factors that indicate a greater threat of money laundering:

Predicate crimes committed abroad: Large amounts of laundered funds originate from crimes committed abroad, particularly in the USA, Germany and United Kingdom.
 Use of the banking sector: Wide use of the Serbian banking sector for illegal transfers, often using fictitious transactions and complex documentation.
 Re-export and consulting services: High-risk, high-value re-export transactions and consulting services with jurisdictions such as the UAE and Russia.

Investing in real estate: The sector enables easy integration of illegal funds into the legal economy.

International tax evasion: Funds originating from countries such as Germany indicate potential tax evasion, and require cross-border cooperation and investigations.

Factors that indicate a lower level of ML threat:

Careful monitoring of suspicious transactions in the banking sector: Increased reporting of suspicious activities in financial transactions.

Improved oversight of real estate: Recognizing the real estate sector as a primary money laundering area allows authorities to take targeted regulatory action.

Increased cross-border cooperation: Effective cooperation with international partners helps in detecting and tracking funds coming from abroad.

Physical cross-border transportation of cash originating from criminal activity committed abroad

At entry into Serbia, the Customs Administration detained cash and bearer negotiable instruments from 249 persons in the total amount of EUR 19,991,507.65.

In such cases, the cooperation mechanism established in a Cooperation Agreement between the Supreme Public Prosecutor's Office and the Customs Administration is activated. This mechanism requires from the Customs Administration to inform the prosecutor's office about potential cases of money laundering, in order to assess the existence of elements of a criminal offense and initiate criminal proceedings.

Based on the information received from the Customs Administration, the public prosecutor's office launched an investigation against 13 persons for the illegal transportation of cash in the total amount of EUR 1,983,329, namely: 5 citizens of Germany, 4 citizens of Ukraine, 1 citizen of Turkey, 1 citizen of Sweden, 1 citizen of Italy and 1 citizen of Hungary.

It should also be noted that final convictions were handed down against 1 domestic and 6 foreign citizens related to transportation of proceeds into Serbia, namely cross-border transportation of cash and pledge certificates obtained through criminal activity carried out in foreign jurisdictions, where 3 German citizens appear as perpetrators, 2 citizens of Turkey and 1 of Sweden. The known countries of origin of the proceeds were Germany for foreign citizens, while it is United Kingdom for the Serbian citizen.

These final convictions confiscated cash in the amount of EUR 926,512, pledge certificates with a total value of EUR 15,000,000 and a passenger motor vehicle with a value of EUR 30,000 were confiscated by these convictions.³⁰

Example:

Defendant J.Č., a citizen of Germany, travelled in a passenger vehicle, German license plates, together with E.S., citizen of Turkey, and transferred money, namely 54,104 US dollars, 49,700 euros, 14,370 British pounds, 5,030 German marks and 23,950 Russian Rubles (equivalent to EUR 119,237), as well as three German court certificates about a pledge statement, which constituted a mortgage on a piece of real estate in the Federal Republic of Germany to secure the debt, each stating that their individual monetary value is EUR 5,000,000 each, i.e. totaling 15,000,000 euros. They kept them hidden in the trunk of the car, but were found in the course of the customs control and detained.

³⁰ These were three German court certificates on the pledge statement, which established a mortgage on real estate in Germany to secure the debt, each indicating the individual monetary value of 5,000,000 euros.

The Customs Administration filed an SAR to the APMML, and the detained items were handed over to the Criminal Investigations Police Directorate - Department for the Fight against Corruption.

APML followed up on the SAR by performing the necessary checks and sending a request for information to the counterpart FIU about the natural persons concerned. The APMML analyzed the collected data and disseminated it to the Higher Public Prosecutor's Office in Novi Sad - Special Anti-Corruption Department, which indicted the defendants and concluded a guilty plea agreement.

Based on the guilty plea agreement, the Higher Court in Novi Sad handed down final convictions, declaring both persons guilty of committing the criminal offense of money laundering and convicting the defendant E.S. to a prison sentence of eight months with a probationary period of 3 years and the security measure of expulsion of foreigner from the country for a period of 5 years, and the defendant J.Č to a prison sentence of ten months to be served at home under electronic monitoring, as well as a fine in the amount of RSD 2,000,000.00. Also, the court ordered confiscation of the items, i.e. the cash in the amount of 119,237 euros, pledge certificates in the amount of 15,000,000 euros, as well as the security measure of expelling foreigners from the country for a period of eight years.

In the framework of **international cooperation in criminal proceedings for money laundering**, Serbia received 106 MLA requests from competent judicial authorities of foreign jurisdictions.

Requests received							
Extradition		Transfer of criminal prosecution		Seizure/confiscation of property		Bank account checking	
Number of persons	Property value EUR	Number of persons	Property value EUR	Number of persons	Property value EUR	Number of persons	Property value EUR
27	180,753,369.	13	11,219,423.	12	102,530,337.	26	27,418,016.
	29		11		46		83

Special attention was paid to the value of property in MLA requests related to money laundering, i.e. assets identified in MLA requests as proceeds involved in ML, for which cooperation and provision of legal assistance in the form of extradition of defendants, transfer of criminal prosecution and tracing and confiscation of assets in criminal ML proceedings conducted in foreign jurisdictions. The total value of this property was EUR 322,208,090.

The extradition of foreign citizens was mostly requested from the judicial authorities of Bosnia and Herzegovina, Montenegro, Germany, Kazakhstan and Bulgaria, while the Belgian request stands out in terms of value of the assets, i.e. EUR 10,705,723.23.

Transfer of criminal prosecution from domestic judicial authorities was requested most often by German MLA requests (property value EUR 9,304,299.55), while Austrian MLA requests stand out for their property value, i.e. EUR 1,800,000.

Concerning the criminal proceedings conducted in Switzerland concerning online investment fraud totaling EUR 102,520,290.47, Switzerland sent a request to Serbia to freeze and confiscate funds from the account of one of the defendants.

When it comes to the checks of bank accounts, the banks in the following countries stand out by the value of the property: Poland (EUR 12,862,149.46), Bulgaria (EUR 5,462,559.18), Austria (EUR 5,126,014.52), Germany (EUR 2,362,000) and Thailand (1,417,240.5 EUR).

The value of assets that have been identified as being involved in money laundering, as well as the types of MLA requested, particularly indicate the existence of an ML threat coming to Serbia from abroad. This is best seen from MLA requests related to confiscation of assets and checks on bank accounts, which suggest they suspect that proceeds from crime generated abroad was laundered in Serbia. However, requests for the extradition of foreign citizens for the purpose of conducting criminal proceedings abroad, as well as requests to domestic judicial authorities for transfer of prosecution of money laundering committed abroad by domestic citizens located on our territory, should not be ignored, because they represent a potential threat to Serbia.

Example 1:

Proceedings in this case began through police cooperation with the UK liaison officer, who provided initial information about crimes committed abroad by Serbian citizens, after which the competent police unit worked with the London Metropolitan Police officers to exchange information on the predicate crimes, while later – during the pre-trial investigation – there was cooperation with the liaison officer of the Republic of Italy. Also, international cooperation has been established with Croatia and Switzerland through Interpol/Europol.

In parallel with the police cooperation, the UK Crown Prosecution Service cooperated with the General Public Prosecutor's Office of Serbia and the Public Prosecutor's Office for Organized Crime through MLA requests; among other things, these requested a check of the bank accounts and property of the leader and members of the OCG, as well as asset seizure.

Successful international judicial cooperation resulted in the filing of criminal charges against eight domestic citizens. Specifically, suspect Lj.R. organized an international OCG that obtained 30,269,896.30 euros by committing grand larceny in the UK during 2019, as well as 262,391.98 euros by committing criminal acts in Switzerland, after which the money and other valuables acquired in this way were physically brought into Italy and Serbia through related parties. In addition, Lj.R. organized a new OCG in Serbia, which was mainly made up of members of his family, with the task of funneling the money originating from crime into legal financial flows by investing in the construction of residential buildings, buying real estate in luxury parts of Belgrade, buying cars, works of art, wristwatches, as well as financing a luxurious lifestyle.

The Public Prosecutor's Office for Organized Crime launched an investigation against Lj.R. and eight other members of his OCG for money laundering.

Example 2:

This case concerns an online investment fraud, which involved the illegal use of computer data via the Internet, with a large number of Swiss citizens harmed by these criminal acts in the period 2018 - 2023. Specifically, after the victims registered on the website of the offshore brokerage firm K.M. Ltd, they were contacted by an authorized person. After making an initial investment of \$280.27, the victims allowed the broker to access their accounts through "AniDesk" remote access tool installed on the victim's computer, which allowed the alleged broker to make transactions and trade the deposited money (\$280.27). With the help of the victim's computer, the defendants installed other programs and opened an account on the cryptocurrency trading platform Kraken, deceiving the victims into trading bitcoins on the K.M.LTD platform. In fact, the defendants used access to the victims' Kraken account to dispose of the money converted into bitcoins for their own purposes. Since the first (alleged) investment deal of USD 280.27 was successful, the victims made further payments via the newly opened account with K.M. LTD.

According to the information at hand it is assumed that tens of thousands of victims were damaged in this way, and the amount of damages is estimated at around 100,000,000 EUR.

The request of the competent judicial authority ordered the freezing of the accounts and confiscation of funds from one of the perpetrators, a foreign citizen. A joint action day was organized in this case, with the Special Department for High-Tech Crime participating on behalf of Serbia. The letter rogatory was fully followed-up on.

Intensive international cooperation was achieved, which speaks in favor of how important the international aspect is in money laundering cases.

Cooperation with foreign FIUs is extremely important. The largest number of information requests were sent by counterparts from Montenegro (71), BiH (27), Germany (24), Slovenia (20), Malta (19).

One of the examples of APML's international cooperation concerns the issuance of three orders for the temporary suspension of transactions, at the request of a foreign FIU, in the amount of RSD 1,172,762.39 (equivalent to EUR 9,733.02) and EUR 3,351.508.94.

Example:

Legal entity "AM" d.o.o. of Skopje, North Macedonia, opened non-resident accounts with "Prva" a.d. Belgrade commercial bank and not long after opening the account had an inflow of EUR 5,500,000.00 originated by legal entity "BS" from Belarus on the basis of an advance payment for services. Given that the representative of the legal entity "AM" at first refused to provide the bank with the accompanying documentation to corroborate the large transfer of funds, the bank filed an SAR to the APML.

The APML starts collecting the documentation, data and information for the North Macedonian legal entity, and the following findings were made after the analysis:

Legal entity "AM" was founded on March 22, 2019 and registered for the activity of other unmentioned financial services, except for insurance and pension funds, and owned by "AT", a Spanish citizen.

It was further found that the amount of EUR 5,500,00.00 that was transferred from the Belarusian legal entity to the benefit of the legal entity "AM" was made on the basis of the refund due to non-performance of contracted work between these two legal entities in 2019.

A few days after the inflow of funds to the account of legal entity "AM" d.o.o. from North Macedonia, by order of the legal entity from Belarus, the funds in the amount of EUR 1,886,000.00 were redirected to the accounts of natural persons "AT", the owner of the Macedonian legal entity, and an additional EUR 2,092,700.00 to the natural person "ST", who was also authorized to dispose of funds on the legal entity "AM" d.o.o.'s accounts.

The funds were transferred from the account of legal entity "AM" d.o.o. to natural persons based on loan agreements.

Further analysis of cash flows on the bank accounts of natural persons "AT" and "ST" found the following:

Natural person "AT" made payments from his personal account to various legal entities on the basis of expenses (consulting services, office expenses, security costs), as well as transfers to natural persons, i.e. family members of the natural person "ST", with the remaining part of the funds transferred to his personal account opened abroad in the total amount of EUR 497,636.00.

The natural person "ST" redirected funds to several natural persons, and transferred part of the funds in the amount of EUR 349,300.00 to a personal account opened abroad.

In the further process of information and data sharing, and their analysis for the above persons, the APML forwarded all available information to the foreign counterpart where the legal entity "AM" doo was registered.

Through the exchange of data and information with the foreign counterpart, APML were informed that funds in the amount of EUR 5,500,000.00 were transferred on July 29, 2019 from the account of legal entity "AM" opened at EURO Bank Macedonia, to the Belarusian legal entity on the basis of sales mediation.

After completion of this transaction, the legal entity "AM" closed their account in the Macedonian bank and opened an account with "Prva bank" a.d. Belgrade, and funds in the amount of EUR 5,500,000.00 were returned to the account of the legal entity "AM" based on the return of the advance.

By exchanging financial intelligence, at the request of a foreign counterpart, and after identifying all the accounts of the above-mentioned persons in Serbia, the APML used its legal powers to issue an order to the bank for temporary suspension of transactions on the accounts of the above-mentioned persons for 72+48 hours.

The successful cooperation between the FIUs of Serbia and North Macedonia, contributed to the temporary suspension of the transactions of the natural person "AT" in the amount of EUR 1,322,358.82, of the legal person "AM" in the amount of EUR 729,128.69 and of the natural person "ST" in the amount from EUR 1,172,762.39 and RSD 1,172,762.39.

After the exchange of financial intelligence, the above data, information, and documentation were disseminated to the competent prosecutor's office for further action, i.e. to continue the investigation and potential prosecution of the above persons through MLA requests by the Macedonian to the Serbian prosecutor.

Also important is **the international police cooperation** through the use of the existing networks.

Information exchange requests received				
	CUSTOMS	SIENA (ARO)	INTERPOL	Liaison Officers
In total	68	52	36	9

Requests for information concern money laundering, but also high-value predicate crimes (narcotics trade, tax, evasion, corruption crimes).

International cooperation with foreign tax services has resulted in the detection of tax evasion, as a criminal offense with a high level of threat of money laundering.

The subject-matter of these requests was a check of business relationship between domestic business entities or natural persons with business entities or natural persons abroad - the validity and legal basis of monetary transactions made with persons from abroad, whether there was actual turnover of services or goods.

Example:

Based on the information exchanged with the tax authorities of The Netherlands, Switzerland, Slovakia and Hungary, regarding the operations of the domestic company "D.M." d.o.o. in connection with the import of used cars and business relations with business entities from these countries, data was obtained that resulted in the filing of a criminal complaint against the responsible person of the domestic business entity "M" d.o.o., due to a tax crime, which established a damage to the public budget of Serbia in the amount of EUR 1,866,721.80.

Conclusion: Serbia faces a significant money laundering threat from cross-border movements of cash linked to international crimes, with nearly €20 million seized in cross-border transfers. These cases often involve foreign nationals, luxury items and documents such as liens on high-value assets. At the same time, the Serbian AML system uses and provides strong international cooperation for extraditions, confiscation of assets and the exchange of intelligence, primarily with jurisdictions such as the United Kingdom, Germany and Switzerland. Notable cases include real estate investments and internet fraud schemes, highlighting the complexity of cross-border money laundering threats and the effective responses of Serbian institutions.

Factors that indicate a higher level of ML threat:

Large amounts of cash transported across borders: Frequent confiscations of cash at borders, especially transported by foreign nationals from high-risk jurisdictions.

International asset transfers: Assets of foreign origin are placed in Serbia in the real estate sector and in high-value goods.

Factors that indicate a lower level of ML threat:

International cooperation: Strong cross-border cooperation, extradition and tracking of assets.

Border surveillance: Increased control and the practice of detaining cash at entry points reduce the illegal flow of cash into Serbia.

Laundering the proceeds of crime committed in Serbia in foreign jurisdictions

Amount of laundered money detected in the launched investigations	Number of persons against whom an investigation has been launched
11,257,098.17 EUR	14

The detected amount of money laundered in foreign jurisdictions in the investigations launched for ML of proceeds from criminal activity committed in Serbia represents 34.6% of the total detected amount (32,514,054.17 EUR).

The largest amounts of detected laundered money are associated with Ukraine, Kazakhstan, United Kingdom and Tajikistan (EUR 7,765,645) and Turkey (EUR 3,300,000);

The number of persons against whom an investigation has been launched due to this form of money laundering represents 10.22% of the total number (137).

Most of the persons (10) are connected with the outflow of money to Turkey.

Regarding the predicate offences from which the income that is the subject-matter of laundering originates, an investigation has been initiated against 10 persons for a tax crime, and against 4 persons for a corruption crime.

Example:

For a period of six years, the accused J.S., who was an official - director of a public institution, used and exceeded her powers when she was making decisions on the requests of the clients, and allocating the client applications the parties to be processed, and accessed the internal institution databases and those of others authorities, made an agreement in collusion and upon prior agreement, that the second defendant demands monetary benefits or a promise of monetary benefit from clients so that she would to perform such official actions, in connection with her official powers, that she was not permitted to perform, or official actions that she was

obliged to perform, and thus the defendant J. S. and defendant I.K. acquired, held or used property while knowing at the time of receipt that such property originated from criminal activity, after which they converted and transferred the property while knowing that the property originated from criminal activity, with the intention of concealing and disguising the illegal origin of the property. Namely, the defendant J.S. used the illegal proceeds obtained from defendant I.K. based on a previously reached agreement a monetary gifts for illegal conduct, to buy a passenger car and a large number of real estate units in Serbia and abroad, and in order to conceal the illegal origin of the property, the defendant J.S. disguised the property as originating from a gift contract by creating a fictitious gift contract, then paid the amount of money representing the alleged gift, along with the contract, into her account and further used it to purchase real estate abroad. Regarding the passenger motor vehicle that was previously paid in cash by the defendant I.K., the defendant J.S. paid to the co-defendant I.K. the purchase price of the vehicle.

Within this scenario, as seen in the investigations, the banking sector was used for the transfer of money originating from the predicate offense to the accounts of individuals or companies abroad.

The APMML SAR data reveal the following most common typologies:

1. Car trade and money laundering through loans of funds of unknown origin. The already known typology of car trade was observed again. In the filed SARs, high amounts of daily receipt deposits and loans dominate. Persons engaged in this business do business with the following countries: Czech Republic, Slovakia, Hungary and Slovenia. This has led to a large volume of information exchanged with the counterparts of these countries.

2. Misuse of the payment code describing the payments for *goods located abroad and directly delivered abroad*. Based on the filed SARs and the analysis of available APMML databases, new threat trends have been observed, such as misuse of payment codes for *payments for goods located abroad and directly delivered abroad*, which involve non-resident legal entities or/and resident legal entities that are under the control of non-residents. These transactions led to a high volume of exchanged data with counterparts, as well as the creation of a strategic analysis.

3. Abuse of payment institutions in order to send money of illegal origin abroad. Persons who may be linked to the commission of a criminal offense (most often drugs trafficking) use the services of rapid money transfer, i.e. foreign currency remittances at payment institutions in order to transfer money abroad so as to avoid the banking sector, where when opening an account requires significantly more data than if performing transactions with payment institutions.

An analysis of SARs filed to the APMML shows a trend whereby bank accounts are used for moving money through the Serbian financial system. By carrying out such transactions, business entities (LLCs and entrepreneurs) are engaging in business modalities resembling the layering of proceeds suspected to be of illegal origin. In a large number of cases, the founders or beneficial owners of the mentioned legal entities are foreign citizens, most often from the following countries: Russian Federation, Lithuania, Estonia and Latvia. In these cases, the money mostly moves from Serbia and Russia, and the outflows are mostly towards the following countries: People's Republic of China, UAE, Hong Kong, United Kingdom, Czech Republic.

Example:

The APML has disseminated a suspicious transaction to the competent public prosecutor's office involving potential abuse of position of the responsible person, tax evasion and money laundering aimed at obtaining financial benefits, by transferring funds from the accounts of two companies to a subsidiary legal person, who on the basis of simulated legal affairs further transferred the funds to a legal entity in a neighboring country, which then further transferred them to another legal entity in another neighboring country, from where they are withdrawn in cash.

When it comes to **international cooperation in criminal proceedings for money laundering**, domestic judicial authorities sent 77 mutual legal assistance requests.

Requests sent							
Extradition		Transfer of criminal prosecution		Seizure/confiscation of property		Bank account checking	
Number of persons	Property value EUR	Number of persons	Property value EUR	Number of persons	Property value EUR	Number of persons	Property value EUR
20	482,213.36	1	12,412.29	0	0	13	3,123,554.58

The total value of the property identified in the MLA requests sent for the provision of legal assistance concerning the criminal offense of money laundering was EUR 3,618,180.23, which is many times less than the value of the property in the MLA requests received (EUR 322,208,090).

Extradition is most often requested from European judicial authorities, especially Germany, Croatia, BiH, and Sweden.

Only one MLA request for the transfer of criminal prosecution was made from Sweden, and the value of the property was EUR 12,421.29.

Requests for confiscation of property have not been sent, while in terms of bank account checks, the request issued to Montenegro stands out in terms of property value (EUR 2,998,554.58).

When it comes to cooperation with foreign FIUs, the largest number of requests for checks were sent to counterparts in Montenegro (27), Russia (25), Italy and Germany (19 each) and Bulgaria (17). Information obtained from foreign FIUs leads to the identification of the beneficial owner, as well as obtaining turnover on accounts in order to determine the origin of funds.

Police cooperation within the existing networks was established on the basis of a smaller number of sent requests for information checking and, similar to received requests, in addition to money laundering also concerns high-risk crimes such as drug trafficking, corruption crimes, etc.

Submitted requests for information exchange		
	CUSTOMS	INTERPOL
In total	33	29

Cooperation with foreign tax services is more frequent, and takes place on the basis of requests for checks. Such requests are most often sent to Croatia (12), Slovakia (6) and Slovenia (5).

Example:

In the case related to the resident company "O.C.I" the tax audit procedure found that the company had a business relationship with company "F...", in which foreign currency account statements were found showing payments made to foreign suppliers, as well as copies of invoices of foreign suppliers based on which the payments were made – sales of used passenger vehicles with a total value exceeding RSD 150,000,000; company "F" d.o.o. paid over 12,000,000 EUR to the same foreign suppliers. For the above reasons, and since company "F" had a business relationship with 8 companies from the Slovak Republic, an MLA request was sent to check the circumstances of the business relationships of these companies with foreign companies.

At the exit from Serbia, the Customs Administration detained cash and bearer negotiable instruments from 316 persons in the total amount of EUR 7,324,092.89.

All the above data – outgoing MLA, exchange of FIU information, detained cash and BNIs, international cooperation of LEAs, indicate that the threat is lower when it comes to the illegal origin of money from Serbia that is laundered in other countries.

Conclusion: Money laundering involving the proceeds of crime generated in Serbia included EUR 11,257,098.17 laundered through other jurisdictions, notably Ukraine, Kazakhstan, Turkey and the UK. Key predicate offenses included tax evasion and corruption, with Turkish connections prevalent among investigated individuals. Common methods of laundering include the transfer of illegal funds through loans or the abuse of bases for making international payments, often involving foreign-controlled Serbian companies. In one case, fast money transfer services were used, bypassing the banking system.

As part of international cooperation, the Serbian authorities actively participated in the exchange of information and requests for extradition, especially with European countries such as Germany and Bosnia and Herzegovina. Despite the smaller amounts of cash detained at exits from Serbia compared to entry, cash and documents used for money laundering are effectively confiscated with the emphasized international coordination of the APML and LEAs. However, the relatively lower volume of funds associated with the cross-border money laundering threat from Serbia contrasts with the greater threat posed by incoming illegal flows from abroad.

Factors that indicate a higher ML threat:

Complex international structures: Multiple transactions involving foreign entities.

Use of foreign money transfer services: Using non-bank money transfer services makes them more vulnerable to money laundering.

High-risk foreign nationals: Beneficial owners from jurisdictions such as Turkey and Russia pose increased money laundering risks.

New typologies of money laundering: Car trade and abuse of payment bases represent new typologies of money laundering.

Factors that indicate a lower ML threat:

International cooperation: Strong international cooperation in extradition, data sharing and asset tracing help track illicit assets.

Customs supervision: Regular detention of undeclared money at borders deter cross-border money transportations.

Cooperation with foreign tax authorities: International exchange of data between tax authorities uncovers money laundering schemes originating from tax evasion.

Reporting by domestic financial institutions: Banks in Serbia actively report suspicious activity related to cross-border threats, thereby assisting prevention and law enforcement.

Laundering of proceeds in Serbia acquired by predicate offences committed in Serbia and in other jurisdictions

The amount of laundered money detected in launched investigations	The number of persons against whom an investigation has been launched
1,604,640 EUR	3

Only one case was identified in connection with this scenario, where investigations were launched against 3 persons, and fraud was the predicate offense from which the laundered money originated.

Example:

The special department for the fight against cybercrime represented Serbia in a case in which a joint investigative team was formed between the competent authorities of the Federal Republic of Germany, the Republic of Bulgaria and the Republic of Cyprus. The case involved the event from 2020 and 2021 in which German citizens were harmed through alleged investments in VA. The websites that were shown to them were fake, and the investments they made, after converting to VA, went to different parts of the world. Namely, the members of the organized group acquired digital assets by committing fraud, through a fake online platform for trading digital currencies and by deceiving the victims via call center employees who, after receiving payments from the victims to a digital wallet belonging to a legal entity they controlled., would further conceal these by three suspects transferring bitcoin (BTC) from the wallet of the Serbian-based company to their digital wallets (layering) using the Binance exchange and converting these into other digital currencies, primarily to the Teterum currency, whereby, according to the exchange's data, a deposit in cryptocurrencies exceeding 18,000,000 USD in various cryptocurrencies can be found in the wallet cluster used by one of the suspects. A call center was detected on the territory of Serbia on the day of implementation (January 11, 2023), whose employees misled a large number of citizens of Australia, the Swiss Confederation, Canada, Germany and Sweden until the moment of implementation. All these countries were requested to provide MLA in criminal matters in order to identify all injured persons, the damage caused and the way in which the victims' money, after being converted into cryptocurrencies, was forwarded to various countries.

Other competent institutions do not have data on this form of money laundering.

Laundering of proceeds of unknown origin

Amount of laundered money detected in launched investigations	Number of persons against whom an investigation has been launched
374,885 EUR	5

An investigation was launched against 5 persons, one of whom was a foreign citizen, for holding money of unknown origin.

It is important to point out that holding cash of unknown origin is recognized as a form of money laundering, and the fact that 1 domestic citizen was convicted of money laundering whose origin could not be determined also speaks in support of this.

Example:

The defendant kept money in the amount of EUR 155,900 while knowing that it originated from criminal activity. Namely, the person was subject to special evidentiary measures (SITs) and based on the communications he had with another person, it was concluded that the handover of narcotic drugs had been agreed upon. At the agreed place of handover, the person and the vehicle used were checked, and on that occasion money was found in the person's possession. By the verdict of the Higher Court in Belgrade, he was sentenced to a prison sentence of 1 year and 6 months and a fine in the amount of RSD 200,000, and EUR 155,900 was confiscated from him.

Other competent institutions do not have data on this form of money laundering.

New suspicions

An analysis of STRs disseminated by the APML to public prosecutors has shown that the obliged entities in this period mainly identified suspicious international transfers, i.e. suspicions that money was being laundered outside the country. Namely, the value of transactions that were reported due to suspicion in the intentions of originators from Serbia who transfer money to foreign countries is significantly higher than the other way around. In certain cases, other jurisdictions were used to layer the funds and then the money was returned to the country. It is certainly a phenomenon that has been identified and must be analyzed with special attention.

Total inflow of suspicious money from abroad	Total outflow of suspicious money abroad	TOTAL
191,720,663.25	289,153,872.99	480,874,536.24

Measures to prevent ML through such transactions should be part of the action plan along with the strategy.

Conclusion:

As for other cross-border trends, investigations were conducted for ML acquired through fraudulent activities inside and outside of Serbia, whereby 1.6 million euros related to fraud involved digital assets in which foreign nationals were harmed, using fake investment sites and digital wallets. International cooperation, particularly with Germany, Bulgaria and Cyprus, has been crucial in tackling such cross-border fraud involving digital assets. Second, EUR 374,885 were the subject of a money laundering investigation, which was conducted against five natural persons, and one verdict was handed down for money laundering from criminal activities related to drugs. In addition, Serbian authorities have noticed an increasing number of suspicious transactions, mostly outbound, which indicates that funds are transferred multiple times abroad before returning to Serbia. This trend, identified in recent reports on the prevention of money laundering, requires further analysis and finding a strategic response of Serbia in anti-money laundering measures.

Factors that indicate a higher level of ML threat:

Cross-border digital asset fraud: Fraud targeting foreign investors using fake online platforms has been identified as linked to money laundering.

Involvement of digital currencies: Use of digital assets such as Bitcoin to layer and disrupt the tracking of assets involved in laundering.

Suspicious outgoing transfers: Suspicious outflows of funds indicate potential money laundering abroad before its return to Serbia.

Factors that indicate a lower ML threat:

Improved international cooperation: Cooperation with foreign jurisdictions in ML investigations results in their effective implementation.

Activities of judicial authorities: Seizure and confiscation of assets, including digital assets, demonstrate Serbia's ability to solve ML cases involving new technologies.

Adequate attention to suspicious transactions: Authorities' oversight of cross-border transactions facilitates timely action and response.

NATIONAL VULNERABILITY

Quality of AML policies and strategies

In the period between the two risk assessments, there were no essential changes that would affect the assessment of this variable.

In this context, it is important to repeat that in Serbia there is a mechanism of national coordination and cooperation in the form of the National AML/CFT Coordinating Body, headed by the Deputy Prime Minister and Minister of Finance. This body consists of representatives of 24 bodies responsible for implementing the AML/CFT policy, including representatives of the ministries of finance, justice, interior, and foreign affairs, economy, human and minority rights and social dialogue, public prosecutor's offices and courts, APML, all supervisory authorities under the AML/CFT Law, Tax Administration, Customs Administration, Security Information Agency, Office of the National Security Council and Classified Information Protection, Business Registers Agency.

The permanence of the National AML/CFT Coordinating Body is guaranteed by the AML/CFT Law, and the decision on its establishment, composition and mandate is made by the Government, to which this body submits reports. In accordance with Moneyval recommendation, the Coordination Body also has an expert secretariat.

Coordination takes place at other levels and in different formats, between competent AML/CFT authorities, which contributes to the overall coordination of the work of various authorities and the effectiveness of the system.

The coordination of inspection oversight takes place through the Coordination Commission, which is established by the Law on Inspection Oversight as an interagency coordinating body whose task is to harmonize and coordinate the work of inspections and improve the effectiveness of inspection oversight by harmonizing inspection oversight plans, exchanging information in the performance of inspection oversight, as well as through the development of a unique functional software solution e-Inspektor.

Currently, within the Coordination Commission for Inspection Oversight, there are two working groups for monitoring and harmonizing the performance of inspection oversight: one in the field of trade, and the other for the supervision of NPOs. The latter working group has the task of improving the coordination of inspections and the effectiveness of inspection oversight over NPOs, especially in relation to the mitigation of the risks identified in the 2021 National Risk Assessment and the adequate implementation of the Action Plan for the implementation of the AML/CFT Strategy 2022-2024.

Intensive cooperation also takes place at the operational level.

As already mentioned, the AML/CFT policy is based on the current, formal and comprehensive National ML/TF Risk Assessment, which is updated once every three years, and whose preparation saw the participation of the widest circle of both public and private sector stakeholders.

After the adoption of the National ML/TF Risk Assessment, workshops were held for both state authorities and the private sector throughout Serbia, where the results of the risk assessment were presented.

The National AML/CFT Strategy adopted for the period 2020-2024 is currently being implemented, while the Action Plan for implementing the strategy was updated in 2022, after the adoption of the last National ML/TF Risk Assessment, taking into account the NRA findings.

After the publication of the updated National ML/TF Risk Assessment, the Minister of Finance adopted the Rulebook on the methodology for complying with the AML/CFT Law in

which changes were made regarding the categories of clients to which simplified CDD are applied, in accordance with the risks found.

Thereafter, the supervisory authorities, on their own or in cooperation with other authorities, made recommendations, i.e. guidelines for implementing the AML/CFT Law, taking into account the identified risks. Banks have also updated their own ML/TF risk analyses in accordance with the AML/CFT Law, supervisory guidelines and the updated risk assessment.³¹

The guidelines for assessing the ML/TF risk were adopted in 2021 for obliged entities supervised by the NBS, and in 2022 for real estate brokers, notaries public and obliged entities supervised by the Securities Commission. The guidelines for assessing the ML/TF risk for entrepreneurs and legal entities engaged in the provision of accounting services and factoring companies were adopted in 2023. The Bar Association of Serbia applies the Guidelines from 2018, which must be updated in accordance with the results of the risk assessment.

The updated Recommendations for filing SARs to the APML were adopted and published on 28/12/2022. They aim to help obliged entities in implementing AML/CFT measures, and especially in terms of timely detection, prevention, and reporting of suspicious activities.

Typologies of money laundering have also been prepared and published and shared to all categories of obliged entities and competent authorities in order to facilitate their identification.

From June 2024, a web platform became operational whose aim is to facilitate maintenance of uniform records of ML and TF cases. The use of this web platform should contribute to improving authorities' performance and facilitate the collection, exchange and storage of data, the creation and management of registers, development of risk analysis, data analysis and statistical reporting. In the coming period, it is expected that all users of the web platform will keep updated and detailed records of ML/FT cases.

Effectiveness of the money laundering criminalization

There were no changes regarding the criminalization of the criminal offense of money laundering from Article 245 of the Criminal Code in relation to the 2021 National ML/TF Risk Assessment.

In order to clarify this variable, it is necessary to repeat that:

- Serbian legislation with respect to criminalization of money laundering follows international standards and obligations that have been undertaken by the ratification of the Palermo Convention and the Vienna Convention.
- The act of committing the basic form of the ML criminal offense involves three alternative ways: 1) performing the conversion or transfer of property; 2) concealment or false presentation of facts about property; 3) acquiring, holding or using property, all while knowing that the property originates from criminal activity.
- Serbia opted for the *all-crimes approach*.
- The definition of the criminal offense of money laundering includes "criminal activity" so that, in principle, criminal proceedings do not have to be instituted for the predicate criminal offense, nor does the existence of the predicate criminal offense have to be established by a final court decision.

³¹ Activity 2.2.2

The penalties envisaged for the criminal offense of money laundering are appropriate and within European standards, proportionate and dissuasive.

ML sanctioning policy

According to data obtained from the Special Department for Organized Crime of the Higher Court in Belgrade and 4 special anti-corruption departments of the Higher Court in Belgrade, Kraljevo, Niš and Novi Sad 140 persons were sentenced for the criminal offense of money laundering between 01/01/2021 and 31/12/2023, 8 of whom were acquitted, while 132 natural persons were convicted. In the regular procedure, 37 persons were prosecuted, and verdicts were pronounced against 103 persons on the basis of the guilty plea agreements concluded between the public prosecutor and the defendant. In the mentioned period, there were no convictions for the criminal offense of money laundering against a legal entity (see more in Risk assessment of legal entities and legal arrangements).

Sentences imposed for stand-alone money laundering prevail in the structure of imposed criminal sanctions. The most dominant type of sanction, compared to the previous NRA period, is imprisonment, with a share of 53.03% in the total number of convictions. The number of suspended sentences was reduced by about 12% compared to the period from the previous risk assessment. The largest number of convictions was based on a guilty plea agreement concluded between the public prosecutor and the defendant - 78.03%.

The level of prison sentences adjudicated and imposed compared to the period from the previous risk assessment shows that there has been a slight progress, since stricter sentences are imposed both as integrated (single) and as individual sanctions, only for the criminal offense of money laundering. Prison sentences are mainly below half of the prescribed penalty range, compared to the period from the previous NRA, their range has increased and ranges from 3 months to 2 years and 6 months. Slight progress was also observed in the imposition of a single (integrated) sentence for the predicate and criminal offense of money laundering for a duration of 3 years, i.e. 3 years and 6 months, where the individual prison sentence for money laundering is stricter than the sentence for the predicate criminal offense. The analysis of the sanctioning policy of the courts, not only based on statistical data, but also on parameters related to the understanding of the risk of money laundering, indicates that the attitude of judicial structures towards this criminal offense is changing compared to the previous period, when it was viewed as a less important criminal offense, and when the most severe sanction for the criminal offense of money laundering was imprisonment in duration of 2 years. Stricter sentences are generally imposed by the Special Department for Organized Crime of the Higher Court in Belgrade.

A large number of convictions are found to have been reached on basis of guilty plea agreements, which impose slightly lighter sentences, which is consistent with the earlier judicial practice and the sanctioning policy of the appeal courts, which is partly the reason for the general impression of a lenient sanctioning policy. In order to make the criminal procedure more efficient and effective, and sanction perpetrators of the money laundering crime within a reasonable time through convictions, public prosecutors resorted to this legal mechanism in all situations when it was possible, mainly in cases of ML involving simple ML schemes.

Although there are positive trends regarding the sanctioning of perpetrators of the criminal offense of money laundering, the training of all stakeholders in the AML/CFT system should continue so that the criminal policy for the criminal offense of money laundering is in line with the identified risks.

Comprehensiveness of the Law on Seizure/Confiscation of Proceeds from Crime

There were no changes to the legislative framework in this area compared to the 2021 National ML/TF Risk Assessment.

As a reminder, Serbia has a comprehensive legal framework that regulates seizure and confiscation of property, as well as the blocking of income and assets acquired through criminal activity. In addition to the aforementioned, in misdemeanor proceedings related to the transfer of physically transferable means of payment (BNIs), the imposition of a protective measure of confiscation of items that were used or intended for the commission of a misdemeanor or were produced by the commission of a misdemeanor is foreseen.

As of May 2023, the working group is in the process of drafting a Law Amending the Law on Seizure/Confiscation of Proceeds from a Criminal Offense. The changes intend to expand the catalogue of criminal offenses to which the Law applies, the regulation of the status of employees in the Directorate for the Management of Seized/Confiscated Assets, the regulation of cryptocurrency management issues³², the extension of certain deadlines stipulated by the law, legislating the issue of seized companies, as well as the harmonization of the of the Law relating to international cooperation with valid international conventions. In the meantime, the issue of interest on funds that the Directorate deposits with the NBS as well as the management of seized digital assets³³, identified in the previous risk assessment, is regulated by a separate agreement between the Directorate and the NBS.

In accordance with the finding of the 2018 NRA, the Directorate for Management of Seized/Confiscated Assets developed and implemented software for automatic data processing and case management. The entry of newly arrived cases on a daily basis is carried out from December 1, 2022, and the entry of data into the electronic database is in progress retroactively - since the establishment of the Directorate. Technical possibilities for access to the databases by other authorities participating in the seizure/confiscation of property, including the connection to a software application for monitoring cases of money laundering and terrorism financing, have been enabled.

- Parallel financial investigations

In 2021, the Prosecutor for Organized Crime issued a Mandatory Instruction on the Prioritization of ML/TF Cases. In this instruction, it is noted that the annual work programs of the PPOC have continuously prioritized the work on money laundering cases, which should also be considered urgent. When determining priorities in the work on cases, the order mandates that account should be taken of crimes of a higher degree of threat for money laundering (criminal offenses of a high and medium degree of threat), forms of businesses marked with a higher degree of threat, assessment of sectoral risks and the exposure of certain activities to money laundering, and especially the risk of use and misuse of digital assets for purposes of money laundering, etc. The instructions also state that in every case of criminal investigation, it is necessary to carry out a financial investigation focused on the analysis of money flows and financial transactions, connections with legal and natural persons, etc., in order to parallel and simultaneously, with the criminal investigation and within it enabled the detection of elements of the criminal offense of money laundering.

³²The amendments to the Law are aligned with the Law on Digital Assets, and it is planned that the Directorate, upon receiving the appropriate decision of the prosecutor/court confiscating digital assets, will deposit them in the *wallet* owned by the Ministry of Interior.

³³ Activity 3.3.4 of the Action Plan has been implemented

The instructions also provide guidelines regarding the conclusion of a plea agreement with the defendant, as well as when proposing the type and sanctioning measures in the closing arguments in criminal proceedings for the criminal offense of money laundering. The guidelines also instruct public prosecutors to file an appeal against the decision on sanction in the ML verdict should it impose a minimum sentence or a sentence below the limit prescribed by law or a milder type of sentence compared to the required. It is also stipulated that in each specific case in which a cross-border element appears in the broadest sense (foreign state, foreign natural person, transactions with foreign countries, etc.) it is necessary to check whether there is any suspicion of the commission of the criminal offense of money laundering, taking into account the cross-border threat assessment.

The Public Prosecutor's Office for Organized Crime (PPOC) has used evidence collected during an investigation related to the commission of a specific criminal offense (criminal investigation), especially evidence collected through the application of special evidentiary actions (*special investigative techniques*), since the guidance on financial investigations under the Law on Confiscation of Proceeds were passed.

PPOC, since the formation of the Financial Forensics Service in 2021, engages financial forensics in criminal investigations, but also in financial investigations in the extended confiscation of property, in order to obtain a clearer and more precise picture of the way in which the criminal offense was committed and trace the movement of money.

In order to improve the criminal policy, the Supreme Public Prosecutor issued the General Mandatory Instruction on the Implementation of the Guilty Plea Agreement dated June 6, 2023, setting out guidelines³⁴ for entering into an agreement between the public prosecutor and defendants, and this also applies to cases of money laundering.

The instruction of the Supreme Public Prosecutor is still in force, and the competent public prosecutor's offices are obliged, whenever handling ML/TF cases, to review each time whether there are grounds for initiating criminal proceedings against legal entities if their structures were used for money laundering.

In its latest report on Serbia's progress for 2023, the European Commission noted that "the understanding and the investigation approach has improved and police, prosecutors and criminal judges are aware of the importance of consistently applying a 'follow the money to find the crime' approach and using circumstantial evidence."³⁵

It is still necessary for all authorities involved in financial investigations to continue applying a proactive approach and engaging in monitoring money flows, in order to ultimately confiscate all proceeds acquired through this specific criminal offense, or proceeds from crime in the extended property confiscation procedure.

It is necessary to continue with the training of judges and prosecutors on various mechanisms of confiscation of property, especially on the confiscation of property resulting from a criminal offense (so-called extended confiscation), including more proactive use of circumstantial evidence.

Quality of information collection and processing by the Financial Intelligence Unit - APML

The APML continues to operate with insufficiently filled administrative capacities.

As of 2023, the APML switched to a new suspicion notification system; specifically, instead of suspicious transaction reports (STRs), the obliged entities now file suspicious

³⁴ The 2013 Mandatory Instruction was herewith amended

³⁵https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_23.pdf

activity reports (SARs), and the total value of money involved in the described suspicious activity.

Suspicious transaction and cash transaction reporting system

Most SARs were reported by banks, followed by payment institutions and notaries public. It is noticeable that obliged entities from sectors that were assessed as high-risk in the previous NRA show progress in the number of SARs they file. Namely, in the observed timeframe there was an increase in the number of SARs from the gambling sector via electronic communication when compared to the previous risk assessment, but this number should be even higher, taking into account the total volume of transactions carried out on the grounds of this type of betting, as well as the total the amount of money in circulation. Lawyers, real estate brokers and accountants have fewer reports compared to other obliged entities.

Obliged entities	2021	2022	2023	TOTAL
Banks	866	782	791	2439
Broker-dealer companies	8	7	13	28
Real estate brokers	1	15	1	17
Accountants	20	14	1	35
Auditors	9	8	11	28
Payment institutions	805	336	279	1420
Postal operators	15	12	8	35
Insurance companies	27	13	15	55
Public notaries	238	239	197	674
Lawyers	6	1	/	7
Authorized currency exchange operators	32	85	91	208
Organizers of special games of chance in casinos and organizers of games of chance via electronic communication	9	29	33	71
Leasing company	2	14	6	22
VASPs		7	18	25
MTTT	1	/	/	1
Pension funds	2	/	/	2
TOTAL BY YEAR	2041	1562	1464	5067

Table: Number of SARs filed by obliged entity category and by year

The highest suspicious transaction value was reported by banks, i.e. almost 4.7 billion euros. They are followed by public notaries with the value of reported suspicious transactions in the amount of nearly 72 million euros and payment institutions with a total value of 14.4 million euros.

Obliged entities	2021	2022	2023	TOTAL
Banks	191,210,508.00	286,782,906.40	1,217,038,771.33	1,695,032,185.73
Broker-dealer companies	9,391 shares with no market value	10,094 shares with no market value and EUR 425,000.00	878 shares without market value	425,000 and 19,485 shares with no market value
Real estate brokers	51,500.00	/	5,849,582.92	5,901,082.92

Accountants	5,759,092.85	13,384,467.10	13,653.82	19,157,213.77
Auditors	4,376,012.01	433,691.66	5,366,596.28	10,176,299.95
Payment institutions	3,982,906.02	4,409,951.08	6,023,849.57	14,416,706.67
Persons engaged in postal communication	408,216.77	656,832.46	349,903.17	1,414,952.40
Insurance companies	2,206,863.12	1,878,424.29	822,476.88	4,907,764.29
Public notaries	19,611,758.74	24,137,600.42	28,191,682.74	71,941,041.90
Lawyers	5,004,776.00	48,000.00	/	5,052,776.00
Authorized currency exchange operators	1,829,214.02	4,784,414.30	2,732,163.55	9,345,791.87
Organizers of special games of chance in casinos and organizers of games of chance via electronic communication	10,256.75	1,158,307.81	2,459,365.91	3,627,930.47
Leasing company	51,478.95	1,069,875.63	851,885.00	1,973,239.58
VASPs	/	70,130.70	6,382,695.16	6,452,825.86
Pension funds	/	/	/	0.00
TOTAL:	234,502,583.23 and 9,391 shares with no market value	339,239,601.85 and 10,094 shares with no market value	1,275,260,149.45 and 878 shares with no market value	1,849,002,334.53 and 20,363 shares without market value

Table: Data on values (EUR) of reported suspicious activity reports³⁶

The total value of SARs was the highest among banks and in 2023 amounted to EUR 1,217,038,771.33. The stated amount does not include the reported business activity related to the refusal of a business relationship with the announcement of a transaction that was not executed and amounts to EUR 3,000,000,000.00.

An analysis of SARs filed from 2021 to 2023 shows a trend of growth in the value of SARs generated through the filed CTRs. This phenomenon can be explained by the increasing number of cash transactions related to the purchase and sales of used vehicles (daily receipts deposits) and the purchase of secondary raw materials, where it is mostly people registered as entrepreneurs to whom payments are made by LLCs based on simulated legal transactions. More precisely, transactions related to the purchase and sales of secondary raw materials were observed, where the withdrawal of funds from the accounts of companies registered as d.o.o. by entrepreneurs and natural persons is predominant. The above points to the criminal offense of tax evasion, which is still dominant in the analyzed reports of suspicious activities, which also indicates the riskiness of the said activity. Based on the observed phenomenon, the APML Analytics Department prepared a strategic analysis. Also, an increased number of bonus payment transactions was observed at d.o.o. in extremely high amounts, the ultimate goal of which is to reduce income tax by using/abusing existing legal provisions in this area.

³⁶ Note: Data on SAR values (EUR) were taken from the SARs filed by obliged entities from 01/01/2019 to 30/06/2024. APML hereby makes a disclaimer with respect to the total value due to potential reporting errors by the obliged entity.

According to the APML, a number of irregularities were registered with the organizers of games of chance, and in one case, a report was filed for an economic offense.

EXAMPLE.

According to the data from the APML's CTR database natural person DR, in the period between 1/1/2018 and 19/5/2022 converted foreign currency into RSD at the same currency exchange teller station in the total amount of RSD 190,138,828.77. In accordance with Article 47 of the AML/CFT Law, these transactions were reported as CTRs. It is important to note that none of the transactions made by the above natural person were characterized as suspicious by the exchange office.

On the basis of guidelines and indicators, as well as on the basis of the risk analysis related to the person DR, the natural person's transactions caused doubts as to their legitimacy. The APML notified the NBS, as the relevant supervisor, about these failures of the authorized currency exchange operator.

The checks found that the above person performed 45 transactions between 1 January 2018 to 13 October 2022 at the authorized currency exchange operator, namely: 41 CHF purchase transactions in the total amount of 1,719,510 CHF and 4 sales transactions, one of which involves the sale of 29,000 CHF and three transactions involve the sale of EUR in the total amount of 69,495 EUR.

Upon inspecting the documentation related to these transactions, submitted to the NBS by the authorized currency exchange operator, it was found that the currency exchange operator identified that person on the basis of two identity cards issued by the Ministry of Interior of Serbia (with validity periods from 2 April 2013 to 2 April 2023 and from 24 April 2017 to 24 April 2027) and travel documents issued by Bosnia and Herzegovina (valid from 25 July 2014 to 25 July 2024). Upon inspection of the photocopies of the aforementioned documents, it was determined that the name and surname of that person in the identity cards differ from the name and surname of that person in the travel document, and that the other information (JMBG, place and date of birth) are the same.

Also, during the control it was found that the authorized currency exchange operator submitted data to the APML on 43 cash transactions, but failed to indicate that these were suspicious transactions. Two transactions: purchase of currency in the amount of 12,500 CHF, i.e. sale of currency in the amount of 12,425 EUR, were not reported by the authorized currency exchange operator to the APML.

Based on the identified irregularities, the NBS made an economic offense report (complaint) to the competent authority.

In addition to the above, due to the irregularities or illegalities found, the NBS has temporarily revoked the authorization to perform currency exchange operations (services) at all exchange stations for a period of 10 working days.

In accordance with the obligation to inform obliged entities of the outcome of their notifications, representatives of the Sector for Analytics and Prevention of Terrorism Financing organize individual meetings with obliged entities (compliance officers and their deputies, members of the board of directors) at least once a year, and more often if necessary.³⁷ During the meetings, the APML information on ML/TF techniques and trends in that area is also shared, and special emphasis is placed on the descriptions of cases encountered by both APML and other competent state authorities, which are part of the AML/CFT system.

³⁷ Activities 2.1.2 of the Action Plan

Also, APML has developed good cooperation for many years with sectoral professional associations and chambers, with whom it co-organizes various types of outreach events where obliged entities are informed of their importance and role in the system, but also exchange experiences related to trends, typologies and risk analyses.

In addition to analyzing suspicious transactions, APML also regularly monitors cash transactions.

Obligated entities	2021	2022	2023	TOTAL:
Banks	324,855	411.359	425.405	1,161,619
Authorized currency exchange offices	10,779	18,539	24.219	53,537
Payment institutions	2,086	3,379	7,086	12,551
Organizers of games of chance	286	234	995	1515
VPF management companies	/	/	/	0
TOTAL:	338.006	433.511	457.705	1,229,222

Table. Number of reported cash transactions

The highest total value of CTRs was reported by banks - about 5.5 billion euros, followed by exchange offices with a total value of about 2.1 billion euros and payment institutions with about 503 million euros of CTRs filed. Although the period for analysis is somewhat longer, compared to the previous risk assessment, an increase in the value of cash transactions can be observed in all sectors.

Obligated entities	2021	2022	2023	TOTAL by obligated entities
Banks	14,920,610,543.91	20,526,254,291.00	19,645,606,424.54	55,092,471,259.45
Authorized currency exchange operators	395,694,934.39	603,607,326.19	1,108,043,434.67	2,107,345,695.25
Payment institutions	101,658,474.41	161,490,606.65	240,311,378.05	503,460,459.11
Organizers of games of chance	7,953,414.11	5,371,569.81	21,437,592.10	34,762,576.02
VPF management companies				0.00
Total value (EUR)	15,425,917,366.82	21,296,723,793.65	21,015,398,829.36	57,738,039,989.83

Table. The value of the CTRs filed to APML is expressed in euros³⁸

In the period 2021 - 2023, based on a detailed analysis of the CTRs, the APML shared information with public prosecutors and the Tax Administration within 61 cases against 70 persons.

³⁸Note: Details of amounts (EUR) in CTRs were taken from SARs filed by obliged entities in the period from 1/1/2019 to 30/06/2024.

Year	Number of cases opened based on CTRs	Number of persons in cases opened based on CTRs
2021	19	19
2022	18	21
2023	24	30
TOTAL	61	70

Table. The number of cases opened by APML based on cash transactions and the number of persons in the cases

The table below shows the value (in EUR) based on the analysis of cash reports, which were shared with other state authorities:

Authority	2021	2022	2023
Public prosecutors' offices	344,020.00	2,194,063.00	4,991,358.00
Tax Administration	272,700.00	413,005.00	/

Interagency information sharing

The requests by other authorities include justifications in most of the cases, i.e. the suspicion of money laundering is clearly described. If the suspicion is not justified, the APML must reject the request.

APML in the period 2021-2024 issued 9 orders for temporary suspension of execution of transactions to commercial banks³⁹ and 52 orders for account monitoring.⁴⁰

EXAMPLE 1.

The case was worked on jointly with the Public Prosecutor's Office for Organized Crime. The case involved the integration of proceeds from drugs trafficking into legal cash flows through real estate investment. Namely, the brother of a drugs trafficker established a legal entity that deals with the construction of residential buildings. The legal entity is active on the real estate market, in the sense of selling real estate.

According to the operational data available to the prosecutor, an inflow of funds from an overseas country to the account of the aforementioned legal entity was expected based on the purchase of certain real estate.

In order to monitor the cash flows, the commercial bank was given an order to monitor financial activity on the account of the legal entity. After the inflow from abroad, the APML issued an order to the bank to temporarily suspend the execution of further transfers in the amount of RSD 7,033,660.07. Also, part of the funds from the account was transferred before the monitoring order was issued in the amount of RSD 788,145.00 to the account of a sole proprietorship. The APML also issued an order to the bank for temporary suspension of the transaction and of further transfer of funds from the business's account.

³⁹2021 - 4 orders - total value EUR 3,351,508.94 and RSD 78,660,427.75; 2022. – 1 account – 1 safe deposit box;

⁴⁰2021 – 2 orders, 2023 – 20 orders, and 2024 – 30 orders

The Public Prosecutor's Office for Organized Crime was informed about these APML activities, and it (PPOOC) issued an order to the banks to suspend transactions on the accounts of the above-mentioned persons.

Feedback from competent state authorities to the APML

Between 2021 and 2023, the APML forwarded a total of 283 initiatives to the Tax Administration due to suspicion on certain tax irregularities.⁴¹

In the same period, tax inspectors carried out 240 inspections at the initiative of the APML. Irregularities were found (69 %) in 166 audits, reports were submitted to the Tax Police for further action in 68 cases, and misdemeanor proceedings were initiated in 98 cases.

It should be borne in mind that during the mentioned period the Department for Control also acted on the initiatives previously forwarded to them by the APML. In 259 audits, irregularities were found and newly detected public revenues were determined in the total amount of EUR 36,349,018.19.

In the observed period, the Tax Police Sector of the Tax Administration dealt with a total of 74 cases that were initiated by the APML, where the total determined amount of harm to the public funds was EUR 5,141,893.49.

Capacities and resources for financial crime investigation

There were no changes in organizational units dealing with the investigation of economic and financial crime, including money laundering.

The powers of the police in the investigation of financial crime in terms of the standards contained in the FATF recommendation were assessed as "largely compliant".

There has been an increase in personnel capacity in the Department for Suppression of Money Laundering - Department for Suppression of Organized Financial Crime - SBPOK, as well as in the Department for the Fight against Corruption, while in the Unit for Financial Investigations of the SBPOK there has been a decrease in the number of filled positions.

The material and technical capacities of all police units were assessed as satisfactory.

The capacities of police units that deal with economic and financial crime, including money laundering, should be continuously increased in order to be able to respond to the growing challenges in these areas and actively participate in the work of strike groups, but also to carry out activities related to monitoring and analysis cash flows and parallel financial investigations.

In the coming period, it is necessary to work on improving the knowledge and skills of employees in police units responsible for economic and financial crime, including new trends in money laundering, for more effective monitoring and analysis of money flows, determining the legal origin of assets and identifying the assets of defendants and third parties connected to them in abroad.

Integrity of authorities for investigating financial crime (including asset seizure)

⁴¹ 2021- 84 initiatives, 2022 – 106 initiatives, 2023 – 93 initiatives

New Code of Police Ethics was adopted in 2023 by the Government of the Republic of Serbia.⁴² The content of the new Code of Police Ethics is fully aligned with the GRECO recommendations. The new Code of Police Ethics contains provisions on all relevant issues of integrity, such as conflict of interest, gifts, contacts with third parties, off-duty activities, handling of official data. In accordance with the Code, the Commission for Police Ethics was established in March 2024. The material of the Code of Police Ethics has been implemented in the training system at the Ministry.

In order to prevent corruption, the Internal Control Sector (SUK) conducts an integrity test, analyses the risk of corruption, keeps records and controls the application and changes in property status. In the period from 2021 to 2023, 64 *integrity tests were conducted*, of which 49 were positive, while 15 were negative. As of 2019, when the analyses began to be carried out, until 30 June 2024, the analyses of the risk of corruption in 22 organizational units of the Ministry of Interior were completed. From 2021 to 2023, SUK intensified property controls so thus the number of managers who were subject to control of declarations and changes in property status amounted to 2,668, which represents 59.5% of all those who declared property.

In the same period, SUK filed 535 criminal charges against 753 police officers and 528 other employees of the Ministry of Interior. In particular, it should be emphasized that criminal charges were filed against 73 members of the criminal investigations police.

In this period, the Public Prosecutor's Office for Organized Crime initiated criminal proceedings against 17 police officers as part of its jurisdiction for acts of organized crime and high corruption. Amongst the defendants is also the head of the Anti-Corruption Section of the Užice police Department for the fight against corruption, which is responsible for handling the cases of money laundering. Among other things, it brought indictments against the former state secretary in the MOI, the former head of the Service for Special Investigation Methods, the head of the Police Directorate (PU) for the City of Novi Sad, the assistant director of the police and the head of the Police Directorate for the City of Novi Sad, a police officer from the Service for the fight against organized crime and two police officers from Services for criminal intelligence and undercover investigators.

In reports on the progress of Serbia in the last few years, the European Commission states that there is still no legal framework that would guarantee at a satisfactory level the operational independence of the police, at the pre-investigative and investigative stage, from the Ministry of Interior (MOI)⁴³, so therefore Serbia should amend the Law on Internal Affairs so that the police, at the pre-investigation and investigation stage, be completely independent from the Ministry of Interior and fully accountable only to the Prosecutor's Office.⁴⁴ However, data from the police units responsible for the investigation of financial crime and money laundering suggest that in the previous period there have been no interference or pressure on the dynamics or outcome of money laundering investigations.

Capacities and resources for criminal prosecution of financial crime

According to the report of the European Commission for the Efficiency of Justice (CEPEJ) for the year 2022 the number of prosecutors in Serbia per 100,000 inhabitants is 11.3

⁴²<http://www.mup.gov.rs/wps/wcm/connect/7ca1835a-6598-4c84-8161-5f1239d2c537/2023-12-15-pdfcir-Kodeks+policijske+etike.pdf?MOD=AJPERES&CVID=oNILzc4>

⁴³Republic of Serbia Report for 2022, European Commission, 12 October 2022, page 56, see at: https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/Serbia_Report_2022_SR.%5B1%5D.pdf

⁴⁴ Republic of Serbia Report for 2023, European Commission, November 8, 2023, page 59, see at: https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/izvestaj_ek_23.pdf

and is within the European average. Nevertheless, taking into account the influx of new cases by the public prosecutor, the number of cases that are charged and end up in court, as well as the number of cases that end with a sentence that is higher than the European average⁴⁵, it can be concluded that the capacities of the public prosecution should be increased.

In the course of 2023, the new Law on Public Prosecutor's Office entered into force, which resulted in a reduction in the number of persons employed in the Special Departments for the Suppression of Corruption, because the new law no longer allows temporary referral from a lower to a higher public prosecution, with the exception of special public prosecutions competencies. Namely, now 42 public prosecutors are assigned to special departments, which is two less public prosecutors than during the last assessment.

The problem of insufficient human capacities, as well as the accommodation capacity of the PPOOC, was also noted in the European Commission's Report on the Rule of Law from 2024, which states that "the total number of jobs is insufficient considering that Serbia has a pre-investigation and investigation system that leads the prosecution... moreover, the existing premises of the public prosecutor's offices are not sufficient for the reception of new staff".⁴⁶ Although the number of employees in PPOC increased from 70 in 2021 to 77 jobs, the number of public prosecutors was reduced from 21 to 20, and 6 positions of public prosecutor and 12 positions of public prosecutor staff are still unfilled.

The Law on the Organization and Jurisdiction of State Authorities in Suppression of Organized Crime, Terrorism and Corruption envisages the possibility of establishing a financial forensic service in competent public prosecutor's offices. In PPOC, since 2021, this service has been functioning with two engaged financial forensics, while the financial forensics service has not yet been formed in the special departments of higher public prosecutor's offices.

The Public Prosecutor for Organized Crime coordinates the special departments of higher public prosecutor's offices for the suppression of corruption.

In the coming period, it is necessary to increase the personnel capacities of public prosecutor's offices responsible for economic and financial crime, including money laundering. In addition, it is necessary to provide adequate accommodation facilities for PPOOC and the Special Department of the Higher Public Prosecutor's Office in Kraljevo. Training on monitoring money flows, complex modalities of money laundering with a cross-border element, conducting financial investigations with the aim of identifying not only the criminal offense of money laundering, but also predicate crimes, as well as on other topics of importance for the successful implementation of money laundering investigations, is a necessary continuous activity.

Integrity and independence for the prosecution of financial crime

Serbian legal system has regulations in place that prevent and sanction violations of integrity by public prosecutors.

In February 2023, five laws were adopted that implement the constitutional amendments from 2022, which are aimed at securing the independence and responsibility of the judiciary, and corresponding by-laws were also adopted within the legal deadline.

On April 18, 2024, the High Prosecutorial Council adopted the new *Code of Ethics for members of the High Prosecutorial Council* and *the Code of Ethics for public prosecutors*, with Guidelines for the implementation of Ethical Principles⁴⁷. In 2023, the Rules of Procedure of

⁴⁵ Available at: [1680a86276 \(coe.int\)](https://www.coe.int/t/e/treaties/1680a86276)

⁴⁶ Available at:

https://www.mei.gov.rs/upload/documents/eu_dokumenta/2024/izvestaj_ek_o_vladavini_prava_prevod_na_srpski.pdf

⁴⁷<https://vst.jt.rs/wp-content/uploads/2024/04/Eticki-kodeks-javnih-tuzilaca-3.pdf>

the Ethics Committee of the High Prosecutorial Council were adopted⁴⁸. In the period to which the risk assessment refers, the work of the Ethics Committee included a total of 35 cases, in 15 of which it found that there were no grounds for action.⁴⁹

In the same period of time, *the Disciplinary Prosecutor*, who was appointed by the High Prosecutorial Council⁵⁰, handled a total of 313 cases. Disciplinary charges were filed against a total of 321 public prosecutors - against 69 chief public prosecutors⁵¹ and 252 public prosecutors⁵², as well as against 72 other, both specified and individually unspecified persons. Out of that number, the Disciplinary Prosecutor submitted to the Disciplinary Commission 6 proposals for conducting disciplinary proceedings before the Disciplinary Commission, which resulted from 7 applications. The largest number of applications, by their very content, essentially represented a complaint about the regularity of the work, that is, the decisions made, and were submitted as an expression of the parties' dissatisfaction with the decision made, and therefore did not lead to the initiation of disciplinary proceedings. The basis for the initiation of disciplinary proceedings was mainly the disciplinary reports of managers - chief public prosecutors - against public prosecutors.

In April 2021, the State Council of Prosecutors, High Prosecutorial Council, passed the Decision on Amendments to the Rules of Procedure and elected a new Commissioner for Independence. In the period from 2021 to 2023, the Commissioner for Independence had a total of 56 cases in his work, none of which found illegal pressure on the holders of the public prosecutor's office.

The Agency for the Prevention of Corruption, as part of regular and extraordinary checks of data from the reports on assets and income of public prosecutors, did not establish the existence of the criminal offense of non-declaration of assets or providing false data on assets. However, 12 procedures were initiated due to untimely submission of regular or extraordinary reports on assets and income, and in all these procedures, warning measures were issued against public prosecutors in accordance with the Law on Prevention of Corruption.

In addition, deciding on a possible conflict of interest, the Agency for the Prevention of Corruption imposed two measures against two holders of the public prosecutor's office due to a possible conflict of interest in the period covered by this risk assessment.

In the period covered by this risk assessment, no criminal proceedings were conducted against the holders of the public prosecutor's office.

In the following period, it is necessary to make additional efforts to improve the position and independence of public prosecutors through the full implementation of the adopted constitutional amendments and the legal framework.

It is also necessary to further improve transparency in the work, because with timely and timely notification of ongoing proceedings, the protection of the integrity of the holders of judicial functions will be affected, which may be threatened, among other things, by illicit influences, pressures and unverified information that are marketed through media.

Capacities and resources for court proceedings

In the Special Department for Organized Crime of the Higher Court in Belgrade, there has been a reduction in personnel capacity, thus in 2023 19 judges, 16 judicial assistants, who

⁴⁸ Entered into force in January 2024

⁴⁹ In 2022, the Ethics Committee followed up on 5 cases, of which it found that there were no grounds for action in one case, while in 2023 it acted on 30 initiatives and petitions, and in 14 cases it found that there were no grounds for action.

⁵⁰ Up to 2023, 'State Council of Prosecutors'

⁵¹ Up to 2023, 'public prosecutors'

⁵² Up to 2023, 'deputy public prosecutors'

help judges in dealing with cases and drafting decisions, and 34 administrative employees handled cases in 2023⁵³.

On the other hand, the capacity of the special anti-corruption departments of the High Courts in Belgrade, Novi Sad, Niš and Kraljevo was increased, so in 2020 a total of 21 judges handled cases, while there were 26 judges in 2023, and a total of 10 judicial assistants and 42 employees in administrative jobs were distributed across the departments.

In the period from 2021 to 2023, public prosecutor's offices filed indictments in 123 cases against a total of 335 persons (333 natural persons and 2 legal persons), while the courts handed down verdicts in relation to 135 persons.

It is necessary to provide adequate technological support by introducing a unique database of court decisions and appropriate support from the IT sector, as well as adequate spatial capacities for holding trials.

Considering the increase in the number of criminal cases of organized crime, corruption and crimes against the economy, it is necessary to further strengthen the capacities of the courts through the timely filling of judicial posts and the provision of the appropriate number of judicial assistants. In the following period, it is necessary to continue the continuous education of judges on the topics discussed in variables 2.2. and 2.3.

Integrity and independence of judges

On February 9, 2022, the National Assembly of the Republic of Serbia promulgated the Law Amending the Constitution of the Republic of Serbia, which significantly improved the normative frameworks and mechanisms for protecting the independence and integrity of judges. With the new provisions, the obligations of the High Judicial Council as a guarantor of the independence of judges have been extended to court presidents and lay judges.

With the amendments to the Law on the High Judicial Council (HJC) in 2023, *the Ethics Committee* was established as a permanent working body of the HJC that ensures compliance and implementation of the Code of Ethics, and submits an annual report to the Council on compliance with the Code of Ethics. The Law on Judges and the Law on HJC prescribe new competences of the Ethics Committee. At the session held on March 31, 2023, the Ethics Committee adopted the Rules of Procedure⁵⁴, and the HJC at the session held on December 21, 2023 adopted the Rulebook on the work of the Ethics Committee.⁵⁵

During 2022 and 2023, the Ethics Committee made 20 opinions of principle that were published on the website of the High Judicial Council, 6 decisions regarding the request of the Disciplinary Prosecutor of the High Judicial Council to establish violations of the Code of Ethics for judges to a greater extent⁵⁶, while the Ethics Committee decided not to take into account the consideration of 10 initiatives. During 2022, 16 requests were submitted, which were followed up on by the confidential advisor.

On 14 March 2024, the High Judicial Council adopted the Rulebook on the procedure for determining the disciplinary responsibility of judges and presidents of courts⁵⁷ while the mandate of the Disciplinary Prosecutor for a duration of 5 years is prescribed by the law itself. An important novelty is reflected in the fact that the Disciplinary Prosecutor has been

⁵³ In the Special Department for Organized Crime and War Crimes of the Belgrade Higher Court, the cases were handled by 21 judges and 25 assistant judges and 50 administrative and technical staff.

⁵⁴ About published on the website of the Council on April 4, 2023, when it entered into force.

⁵⁵ Off. Gazette of the RS no. 116/23 of 26 December 2023.

⁵⁶ Article 97 paragraph 5 of the Law on Judges

⁵⁷ Which was published in the "Official Gazette of the RS" No. 24/2024 and with the entry into force of which the earlier Rulebook on the procedure for determining the disciplinary responsibility of judges and court presidents published in the "Official Gazette of the RS" No. 41/2015 ceased to be valid.

empowered to initiate disciplinary proceedings *ex officio*, and not only on the basis of a disciplinary report. Any person can file a disciplinary complaint against a judge, that is, the president of the court.

A total of 1,183 disciplinary reports were submitted between 2021 and 2023. The disciplinary prosecutor submitted a total of 38 proposals for the conduct of disciplinary proceedings, and the Disciplinary Commission rejected a total of 10 proposals and suspended 10 proceedings, and imposed a total of 24 disciplinary sanctions on holders of judicial office, and made 2 proposals for the dismissal of judges due to a serious disciplinary offense.

The concept of *Protection from Undue Influence* was first introduced in April 2021 with amendments to the Rules of Procedure of the HJC. This authority adopted the Rulebook on the Protection of Judges and Courts from Undue Influence on 07/12/2023⁵⁸. The procedure for appointing a judge competent to act on a request for protection from undue influence, as well as his deputy, is prescribed. In the period between 2021 and 2023, 21 judges applied to the High Judicial Council with a request for protection from undue influence, and one procedure was initiated *ex officio*. The Council found undue influence on the work of judges in court proceedings that are ongoing and in which no verdict has been reached in 3 cases.

The Agency for the Prevention of Corruption filed criminal charges against 3 judges for the criminal offense of not declaring assets or providing false information about assets. 67 proceedings were initiated due to the untimely submission of regular or extraordinary reports on assets and income, and in these proceedings reprimands were issued against 64 judges, while in 3 cases measures of public announcement of the decision on violation of the Law on Prevention of Corruption were issued.

Regarding the existence of conflicts of interest, the Agency for the Prevention of Corruption initiated five proceedings against judges, i.e. presidents of courts, in the period to which this assessment refers.

Between 2021 and 2023, the Public Prosecutor's Office for Organized Crime filed indictments against the president and judge of the Higher Court in Niš, the president and judge of the Higher Court in Zaječar, the president of the Misdemeanor Court in Kraljevo, as well as the judge of the Misdemeanor Court in Loznica. In the same period, the president and judge of the Misdemeanor Court in Kraljevo was convicted for the crime of bribery⁵⁹, and the president of the Basic Court in Loznica was convicted for the crime of abuse of office⁶⁰.

Quality of border control mechanisms

The exposure of Serbia to cross-border and transnational crime, including the smuggling of money across the state border, is high, given that Serbia borders on eight countries and is located in a region that is at the crossroads between Northern and Western Europe and the Middle and Far East.

Based on the Memorandum of Understanding between Serbia, Austria and Hungary on strengthening trilateral cooperation in the field of effective fight against illegal migration, which was adopted by the Government on 16/11/2022, police contingents from Austria and Hungary were assigned to monitor the state border towards North Macedonia. Based on the identified migratory routes in the previous period, the Border Department coordinates and monitors the engagement of additional forces from its own human resources at the state border

⁵⁸"Official Gazette of RS" No. 110/2023 of 08.12.2023

⁵⁹ She was sentenced to a prison sentence of 3 years and a security measure of prohibition of holding office in the field of justice for 5 years, 550 euros in proceeds were confiscated.

⁶⁰ He was sentenced to a prison term of 1 year and 4 months.

towards North Macedonia, with the aim of increasing capacity in the fight against mixed migratory flows, from 30 to 40 police officers permanently per shifts of 15 days.

As part of the Joint Operation "Srbija Kopno 2024", which is carried out with the Border and Coast Guard Agency (*Frontex*), the Agency's forces are deployed at the state border towards Bulgaria and Hungary, and are engaged in border checks and state border surveillance.

A system of joint (mixed) police patrols operates with all neighboring countries, except for Croatia and Albania. The exchange of information between the border authorities of Serbia and the border authorities of neighboring countries is carried out at regular meetings at the local, regional and central level.

The Government adopted the Strategy of *Integrated Border Management* for 2022-2027, as well as an Action Plan for its implementation⁶¹ for 2022-2024.⁶² With this strategy, Serbia continues the development and further alignment of the integrated border management system with the European model. The lead institutions are the Directorate of the Border Police of the Ministry of Interior, Directorate of Customs, Ministry of Agriculture, Forestry and Water Management - the Directorate for Veterinary Medicine and the Directorate for Plant Protection, while other authorities within their competences participate in its implementation.

Comprehensiveness of the customs system with respect to cash and BNI

The Customs Administration controls the entry and exit of RSD and foreign means of payment in international passenger and border traffic with foreign countries.

As a reminder, it is the duty of every natural person, when crossing the state border (when entering and leaving the country), to report to the competent customs authority physically transferable means of payment, which on that occasion transfers, in the amount of 10,000 euros or more, in Dinars or foreign currency. In cases where the passenger - a natural person does not report the transfer of funds and has an amount greater than the permitted amount, and the customs authority finds this during the control, the funds will be detained. However, the means of payment will also be confiscated in the event that a natural person transfers a lower amount than allowed across the state border, and there is a reason to suspect that it is money laundering and terrorism financing.

In order to strengthen legal security with the Action Plan for the implementation of the Strategy for the Prevention of Money Laundering and Financing of Terrorism, and in accordance with the findings of the previous NRA, the activity of analyzing the legal framework regulating the transportation of bearer negotiable instruments was carried out. Based on the analysis, the expert team formed by the Coordination Body made proposals for improving the legal framework.

Confiscation of undeclared bearer negotiable instruments is carried out by the competent court with its verdict. It is important to emphasize that with regard to imposing a protective measure of confiscation of objects, i.e. undeclared funds, the court is not limited by the fact under which law the misdemeanor proceedings were initiated, because Article 52 of the Law on Misdemeanors provides that the protective measure of confiscation of objects can be imposed under the conditions prescribed by this law and when they are not provided for by the regulation certain offense.

Effectiveness of customs control mechanisms concerning cash and BNIs

⁶¹"Official Gazette of RS", number 89 of 11.08.2022

⁶²"Official Gazette of RS", number 89/22

In the period from 2021 to 2023, a total of 5,156 transfers of means of payment with a total value of 522,981,517.35 euros were reported (at the entrance and exit). According to the records of the Customs Administration, in that period, 565 cases of temporarily detained means of payment were recorded in the total amount of 27,315,600.54 euros. In addition, 60.73 kilograms of gold and 1,064 pieces of gold jewelry were seized from 111 persons of different nationalities, most of whom are citizens of Bulgaria and Turkey.

Looking at the number of travelers from each country, most of the funds were seized from citizens of Serbia, followed by citizens of Turkey and Germany, and the most cases of funds were temporarily detained at the entrance into Serbia from Hungary and Croatia and/or at the exit to Bulgaria, which speaks in favor of the fact that these are persons in transit through Serbia in the north-south direction, which was also detected in the previous risk assessment.

Pursuant to the obligation from the Action Plan to implement the recommendations from the money laundering risk assessment and terrorism financing risk assessment, the Customs Administration improved the existing list of indicators for identifying suspicious activities related to declared and undeclared cross-border transfer of payment instruments. The new list of indicators was approved in mid-2024 and the implementation process is underway.

The Customs Administration carries out an additional selection of data in the control phase of the application of customs regulations, and the process is based on the indicators from the Recommendations for Reporting Suspicious Transactions. When it comes to natural persons, informing APML about the physical transportation of money across the border, regardless of whether it is declared or undeclared funds, is automated and every transfer is reported.

In 2018, and then on November 17, 2023, the Customs Administration signed agreements with the Supreme Public Prosecutor's Office on cooperation in the field of prevention and detection of money laundering, financing of terrorism and related crimes. Basically, the Customs Administration must, after detecting the illegal transportation of money, notify the competent public prosecutors, which then assesses the possibility of initiating criminal proceedings for money laundering. This type of cooperation enabled the initiation of criminal proceedings against 12 persons for the transportation of bearer negotiable instruments in the amount of 16,843,289.00 euros in the period from 2021 to 2023.

International cooperation with the customs administrations of other countries takes place in accordance with signed international agreements. When it comes to new agreements, the ratification of the Agreement with United Kingdom is underway, and in 2024, an amended Agreement with the People's Republic of China and a Memorandum of Understanding on customs cooperation with Egypt were signed.

Improving the efficiency of customs control mechanisms can be additionally achieved in two directions. First of all, it refers to the continuous increase in the number of customs officials who, through constant and specialized training, would be trained to detect complex cases of money laundering. The second concerns the increase in the quantity and quality of the equipment used for control, which implies that at the most frequent border crossings it should be possible for X-ray machines to be manned 24 hours a day. Efficiency would also be increased by a greater number of service dogs trained to detect cash (currently only one is available).

Efficiency of domestic cooperation

The institutional and legal framework envisages various mechanisms of cooperation and coordination between state authorities involved in the money laundering prevention system at the strategic and operational level.

Public prosecutors' offices use the mechanisms of interagency task forces. In June 2024, a Task Force was established to detect and prosecute OCG members who committed the crime of money laundering.⁶³ In addition, there are three permanent task forces in the field of organized crime, which are managed by the public prosecutors for organized crime.⁶⁴ From 2021 to 2023, 6 task forces were formed at the Special Departments of Higher Public Prosecutor's Offices for the Suppression of Corruption, while the previously established ones continued their work.

EXAMPLE.

LJR and eight other defendants were investigated as of December 2023. The investigation was extended twice, thus in June 2024, the Public Prosecutor's Office for Organized Crime indicted all nine defendants. The indictment against the accused LJR and the other eight defendants, who are all also members of the same extended family, charged them of organizing an OCG whose aim was to commit criminal offenses of money laundering and inducement to verify untrue content. The indictment stated that LJR and his own brother RKR illegally acquired money by committing serious thefts in the United Kingdom and Switzerland, after which they brought the money and other property thus acquired to Serbia through other members of this OCG or through third parties. Then they invested the money and property concerned in the purchase of luxury real estate or vehicles and expensive movables in the name of all members of the OCG, except in the name of LJR himself, as the organizer of this OCG, and in this way they tried to conceal the origin of the money, i.e. the fact that the money comes from the criminal activities of defendants LJR and RKR.

The initial information about the criminal activity of the LJR in the United Kingdom came from the National Crime Agency of the United Kingdom, with which intensive cooperation was achieved in this specific case, as well as with the competent authorities of Switzerland.

In the pre-investigation proceedings, the PPOOC, in addition to the competent anti-organized crime police unit - SBPOK, also worked with the APML, Customs Administration, and information was also collected from the Tax Administration and banks.

Following up on the PPOOC request, the APML issued an order to commercial banks to monitor the financial operations of ten natural persons, including access to safe-deposit boxes, and informed the LEAs about each person's transaction. This order lasted at first for 3 months, and was then extended in accordance with the AML/CFT Law. On 11.01.2024, the APML was informed by the commercial bank that a lawyer showed up as the attorney of one of the suspects with a request to forcibly open two of his client's safes, with the explanation that the person had lost the keys. The APML informed the competent authority about this and issued an order to temporarily restrict access to two safe deposit boxes of natural persons. On the order of the Public Prosecutor's Office for Organized Crime, the members of the MOI - SBPOK took further actions and measures, opened the safes in which jewelry was found, which was assumed to be originate from aggravated theft. The valuables were seized by the order of the prosecutor.

⁶³The Task Force is headed by two prosecutors for organized crime, and the members of the Task force are also a financial forensic officer from the Public Prosecutor's Office for Organized Crime, representatives of the APML, Ministry of Interior, Criminal Investigation Directorate- the Service for Combating Organized Crime, namely: the Department for Suppression of Organized Financial Crime and the Unit for Financial Investigations, then the National Centre for Criminal Investigation Forensics, the Service for the fight against high-tech crime, the Border Police Administration, the Directorate for Administrative Affairs, the Traffic Police Directorate, as well as the Tax Administration - Tax Police, the Customs Administration and the Agency for the Prevention of Corruption.

⁶⁴Permanent Task Force for Suppression of Migrant Smuggling, Task Force for Combating Organized Crime and Other Serious Crimes, and Task Force for Suppression of Criminal Offenses Against Legal Instruments.

During the pre-investigation proceedings, cooperation was also achieved with the Customs Administration, which carried out increased border surveillance together with the police, searching for persons who were connected to the defendants. In this way, several consignments were seized containing illegal proceeds that the accused or third-party related persons tried to transfer across the Serbian border, and thereby enable themselves to invest the proceeds in Serbia. Since the public prosecutor's office and the police suspected from the beginning that property acquired through criminal activity was being smuggled across the border and brought in without reporting to the competent customs authorities, the increased controls of these persons at the border crossings not only confirmed these suspicions, but they also resulted in seizure of various items on several occasions during customs control (money, gold, jewelry, expensive watches) through misdemeanor proceedings from defendants and third parties.

During the pre-investigation proceedings, data was collected from the Tax Administration on the income of the defendants, as well as on their assets, of which the Tax Administration has records, and the banks were requested to provide bank account details for the defendants. These requests were followed up on.

In this case, the temporary measures that the law provides for the purpose of preventing the outflow of property were applied, because in all cases, immediately on the day of arrest, all immovable property of the defendants was blocked, and all available movable property was also seized, and then handed over to the Directorate for Management of Seized/Confiscated Assets of the Ministry of Justice.

In order to improve work on the prevention of money laundering, more efficient prosecution of the perpetrators of this criminal offense, elimination of perceived deficiencies from the previous risk assessment, a number of agreements were concluded between state authorities.

As part of monitoring the implementation of the agreement between the Supreme Public Prosecutor's Office and the APML, meetings between the two institutions are held continuously, at least once a year.

So far, three workshops have been held attended by representatives of supervisory authorities, APML and public prosecutor's offices in order to improve the coordination and determination of priority activities of supervisory, inspection and other relevant authorities and competent police units and public prosecutor's offices in charge of prosecuting money laundering crimes.

In the covered period, the results of the cooperation of the APML (Sector for Analytics and Prevention of Terrorism Financing) with other supervisory authorities were noticeable, which was discussed in more detail under variable 2.4.

NBS sent 53 letters to the APML in the period covered by the risk assessment and, for the most part, they include notifications about the findings of supervisory examinations, requests for information relevant for supervision as part of the preparatory supervision activities, for information as part of the procedures for granting licenses and consents to applicants. Also, one address to the Ministry of Interior referred to the area of supervision of authorized currency exchange operators. In the same period, the National Bank of Serbia received notifications from APML, as well as one notification from the Ministry of Interior, which refers to information of importance for the supervision of control subjects.

In addition to improving cooperation with enforcement authorities, in the period covered by this NRA, measures were also taken to improve the coordination of inspection oversight through the mechanism of the Coordination Commission.⁶⁵

Efficiency of international cooperation

Serbia has a broad basis for providing mutual legal assistance, bearing in mind that it takes place on the basis of bilateral agreements, multilateral agreements and domestic legislation. Legal aid can also be provided on the basis of mutuality/reciprocity, and if there is no data on reciprocity, it is assumed that it exists.

Bilateral agreements on the transfer of convicted persons and cooperation in the execution of criminal sanctions, on extradition and on mutual legal assistance in criminal matters signed with Argentina and the United Arab Emirates were ratified between 2021 and 2023, while the Agreement between the Republic of Serbia and the Republic of Belarus on extradition was ratified as well.

The agreement on the exchange of data for the purpose of checking asset declarations between Serbia, Montenegro and the Republic of North Macedonia was signed in 2021. The Agreement aims to contribute to the prevention of corruption through the direct administrative exchange of data related to declared assets between the parties to the Agreement.

The Agreement between Serbia and Montenegro on the Supplement to the Extradition Agreement⁶⁶ was also signed on 16 October 2023, stipulating that their own citizens can be extradited for two new criminal offenses - Abuse of trust in the performance of economic activity and Abuse of position of the responsible person under the Criminal Code of RS⁶⁷.

Serbia has ratified all relevant conventions of the Council of Europe and the United Nations and its organizations that contain provisions on international legal cooperation in this area. From 2021 to 2023, the Second Additional Protocol to the Council of Europe Convention on Cybercrime (Budapest Convention) on enhanced cooperation and disclosure of electronic evidence was ratified.⁶⁸

As a reminder, it should be noted that mutual legal assistance, in accordance with the Law on Mutual Legal Assistance, is provided by competent courts and public prosecutors' offices, and requests are submitted through the central authority - the Ministry of Justice, but also directly to competent judicial authorities, that is, in emergency cases, through Interpol, in accordance with the reciprocity principle. From 2021 to 2023, the Ministry of Justice acted in 254 cases of provision of mutual legal assistance in relation to money laundering, of which 208 requests related to various types of MLA, and 46 to extradition. In the reporting period, Serbia could not comply with the requests from 14 *letters rogatory*, 4 of which related to extradition, which was refused.

The competent authorities have access to a range of international cooperation mechanisms through which law enforcement authorities can exchange information both spontaneously and upon request. Serbia is a member of the Egmont Group. International operational cooperation takes place through official channels with Europol, Interpol and through the *SELEC centre*, and information is also exchanged through the CARIN network, the SIENA network and liaison officers of foreign embassies in Serbia.

⁶⁵ More about this cooperation mechanism of competent inspections, see within the variable 2.1. Quality of policy and strategy for the prevention of money laundering

⁶⁶In other words, Abuse of position in business operations according to the Criminal Code of Montenegro

⁶⁷That is, abuse of authority in the economy according to the Criminal Code of Montenegro

⁶⁸ "Official Gazette of the RS - International Treaties", number 7/22, the Republic of Serbia is the first country to ratify the aforementioned Second Additional Protocol.

Intensive cooperation took place with Eurojust, so that in the reporting period the Office of the Liaison Prosecutor of Serbia and the Supreme Public Prosecutor's Office acted in the shortest possible time on 251 requests, including requests related to the criminal offense of money laundering. In most of the cases, MLA which involved Eurojust related to organized crime and property crimes, with 45 requests also related to the ML crime. In addition, representatives of Serbian competent institutions attended 15 coordination meetings in the reporting period on the topic of money laundering.

The Public Prosecutor's Office of Serbia participated in 4 joint investigative teams from 2021 to 2023. One of the JITs was related to the criminal offense of money laundering, and included Serbian and Spanish authorities.

The Tax Administration too has mechanisms for cooperation with foreign tax authorities through various forms of tax information sharing (on request, automatic or spontaneous exchange of information). Serbia has access to a wide network for information sharing on request that covers over 170 member jurisdictions of the Global Forum on Transparency and Exchange of Information for Tax Purposes that are signatories to this Convention, as well as through 69 Double Taxation Avoidance Agreements signed, of which 64 are in force. After the process of expert assessment of the fulfilment of the Information Exchange Standard at the request of the OECD-Global Forum, Serbia received the official assessment - rating "Largely compliant" in October 2023.

In connection with the submitted mutual legal assistance requests in connection with money laundering, the tax police department sent 3 requests to Ukraine, Kazakhstan and the People's Republic of China in two cases, on the basis of which criminal charges were filed for the criminal offense of money laundering, related to total damage in the amount of 991,715,699.00 Dinars (8,264,297.00 EUR).

The AML/CFT Law also provides international cooperation powers supervisory authorities under this law. The exchange of information within the control/supervisory function of the National Bank of Serbia also includes cooperation from the aspect checking a person's business reputation. In this regard, in 2021, the NBS concluded an Agreement on cooperation with the Czech National Bank (bank restructuring), and in 2023, a Memorandum of Understanding for the establishment of a clearing arrangement and the designation of a clearing bank in Serbia for Chinese yuan with the National Bank of China (banks). The Securities Commission is a signatory to the Multilateral Memorandum of Understanding of the International Organization of Securities Commissions (*IOSCO*).

Availability of independent audit

In the period between the two risk assessments, there were no changes to the legislative framework that regulates this area, nor were there any changes to the authorities responsible for its implementation - the Ministry of Finance, Securities Commission and the Chamber of Public Notaries.

As a reminder, the functioning of the auditing profession is regulated by the Law on Auditing⁶⁹, as well as by-laws adopted for its implementation.

FATF Recommendation 28 requirement on banning convicted legal entities and natural persons and their related persons, as well as associates, from being founders or owners of auditing companies was implemented.⁷⁰ The law stipulates that a natural person who seriously violated or repeated the violation of the regulations governing the prevention of money

⁶⁹Official Gazette of RS", no. 73/19.

⁷⁰ Article 13 paragraph 2 of the Law.

laundering and terrorism financing during the period of the imposed protective measure cannot be the founder, or BO or member of the management body of the auditing company,.

In accordance with the Law on Auditing, those liable for the audit of regular annual financial statements are large and medium-sized legal entities, public companies regardless of size, as well as all legal entities and entrepreneurs with a total income in the previous year of more than 4.4 million euros in its RSD equivalent. Public enterprises, regardless of their size, are subject to audit in accordance with the Law on Public Enterprises. In addition, all financial institutions⁷¹ are considered large legal entities and subject to audit. Auditing is also mandatory for consolidated financial statements prepared by parent legal entities in accordance with the law regulating accounting.

According to the data of the Serbian Business Registers Agency, the audit of financial statements submitted in 2021⁷² was performed by 5,154 entities, in 2022 by 5,745, and in 2023 by 6,257 entities, which represents about 4-4.5% of the total number of business entities.

The law sets out an obligation for auditing companies that audit public interest companies to publish on their website and the website of the Chamber of Authorized Auditors an annual report on transparency, which must be available on the website for at least five years. Among other things, the annual report on transparency contains financial information and data on the total income from auditing and additional services provided by auditors. However, although audit firms report to the Securities Commission the fees they charge obliged entities for performing financial statement audit services, those reports are not publicly available.

Companies of public interest are required to have an Audit Committee (business monitoring committee), which must include at least one member competent in the field of accounting and/or auditing.

Audit firms are required to establish an internal quality control system, the quality and application of which is controlled by the Securities Commission.

In the coming period, it is necessary to constantly work on the improvement of tools for monitoring the work of the audit profession, as well as on further education of auditors both in the field of application of legal and professional regulations in the field of auditing, as well as in the application of regulations in the field of preventing money laundering and terrorism financing.

Audit of public funds

The audit of public funds in Serbia is carried out by the State Audit Institution (DRI), as an independent state body. DRI audit subjects, of which there are potentially around 11,000, are all beneficiaries of public funds⁷³. DRI audits financial reports, the regularity of operations,

⁷¹National Bank of Serbia, banks, insurance companies, financial leasing providers, voluntary pension funds, voluntary pension fund management companies, Central Registry, securities depository and clearing house, investment funds, investment fund management companies, stock exchanges and broker-dealer companies, payment institutions and electronic money institutions, as well as factoring companies

⁷² Reports for 2021 are submitted in 2022, for 2022 in 2023, etc.

⁷³1) direct and indirect beneficiaries of the budget funds of the Republic, territorial autonomies and local authorities in accordance with the regulations governing the budget system and the system of public revenues and expenditures; 2) mandatory social insurance organizations; 3) budget funds established by a special law or by-law; 4) NBS in the part that refers to the use of public funds and operations with the state budget; 5) public companies, companies and other legal entities founded by a direct or indirect user of public funds; 6) legal entities where direct or indirect beneficiaries have a share in the capital or in making; 7) legal entities established by legal entities in which the state has a share in the capital or management; 8) legal and natural persons who receive subsidies and other grants or guarantees from the Republic, territorial autonomies and local authorities; 9) subjects dealing with the acceptance, storage, issuance and use of public reserves; 10) political parties, in accordance with the law governing the financing of political parties; 11) beneficiaries of EU funds, donations and aid from international organizations, foreign governments and non-governmental organizations; 12) contracting party in

as well as the expediency of the operations of audited entities.

Level of financial integrity

In the period between the two risk assessments, there were no essential changes affecting the change in the assessment of this variable.

In September 2023, the Law on the Management of Companies Owned by the Republic of Serbia was adopted, which governs the implementation of state ownership policy and management in public companies owned by Serbia. The law stipulates that the capital company is obliged to adopt a Code of Ethics, and the Serbian Chamber of Commerce and Industry organizes and implements these activities in order to verify knowledge in the field of corporate management, passing exams. In September 2024, the Government of Serbia adopted the Decision on the Code of Corporate Governance of Corporations, intended for companies to which this law applies.

It is also worth mentioning the adoption of the Law Amending to the Law on Companies⁷⁴, within which there was a change in the regulations in the field of business and actions with personal interest, remuneration of directors and members of the supervisory board in a public joint-stock company, which harmonizes the regulations with Directive 828/ 2017 EU.⁷⁵

As stated in the 2021 National Risk Assessment, the Accounting Law⁷⁶ regulates the submission and public publication of financial statements, as well as the annual report on operations, corporate governance and non-financial reporting. On the website of the SBRA, all financial reports and documentation are publicly published along with those reports for all obliged entities, and in addition to complete and computationally correct financial reports, incomplete and computationally incorrect financial reports of legal entities and entrepreneurs who have not eliminated identified deficiencies are also publicly published.

According to SBRA data, 281,165 registered entities fulfilled the obligation to submit financial reports in 2021, and this number rose to 286,335 in 2023. Entrepreneurs who started keeping business records according to the double-entry bookkeeping system are also included in the list of those obliged to submit financial reports. Between 2021 and 2023, a total of 196 reports for economic offenses were filed against audited entities after it was found that they did not submit the annual financial report together with the prescribed documentation, including the audit report, or submitted the AFR but did not submit the audit report and other documentation.

The Central Record of Temporary Restrictions of Personal Rights is publicly available, which includes collected data on those business entities, i.e. their owners, directors and members of supervisory boards or other bodies whose operations have been sanctioned by the imposition of criminal, misdemeanor or administrative sanctions. There were 134,727 total active temporary injunctions in the course of 2023, the majority of which were freezing

connection with the execution of international treaties, agreements, conventions and other international acts, when it is determined by an international act or when it is determined by an authorized body; and 13) other entities that use funds and property under the control and at the disposal of the Republic, territorial autonomies, local authorities or mandatory social security organizations.

⁷⁴Sl. gazette RS no. 109/21

⁷⁵The area related to the so-called long-term engagement in public joint-stock companies; the terms institutional investor, asset manager and voting advisor, their obligations, the content of the policy for engaging institutional investors and asset managers, etc., are defined, and the procedure for informing shareholders and the company about the identity of shareholders is also regulated.

⁷⁶"Official Gazette of RS", no. 73/19 and 44/21 - other law

business accounts (119,687), and more than 15,000 entities had a registered measure of TIN seizure or Tax Inspection.

The level of tax transparency is satisfactory. As a reminder, tax laws provide for the possibility for tax authorities to require individuals and legal entities to submit comprehensive information on their assets and income, which must be submitted within 15 days of the tax liability, unless otherwise prescribed by law. *Improper tax return* is an element of several violations provided for in the Law on Tax Procedure and Tax Administration, while *improper financial reports* are a violation under the Accounting Law. When it comes to keeping *double books for the purpose of avoiding taxes*, the act of execution enters the zone of the criminal offense of tax evasion.

The watchdogs also have access to information that is in the possession of the tax authorities.

From the aspect of solutions provided for in Article 26 of the OECD Model Convention on Income and Property Taxes, the exchange of information with foreign authorities is possible when it takes place on the basis of a request when there is a concluded agreement on avoiding double taxation, but not spontaneously and automatically.

Regarding the Corporate Governance Code of the Chamber of Commerce of Serbia (PKS), there were no changes compared to the previous risk assessment, it is still based on a voluntary principle.

Effectiveness of tax laws enforcement

Bearing in mind that tax evasion is a high-risk criminal offense from the first assessment of the risk of money laundering, special attention is paid to the improvement of the legislative framework, as well as the efficiency of law enforcement.

Serbia has a comprehensive normative tax framework that regulates this area, consisting of the Law on Tax Procedure and Tax Administration (ZPPPA), as an umbrella tax law, and special tax laws that regulate specific areas.⁷⁷ The ZPPPA provides for a number of tax offences, as well as four tax crimes.

The Law on Amendments to the ZPPPA from 2022⁷⁸ introduced two new tax crimes, namely: Unauthorized circulation of fiscalization equipment and Unauthorized circulation of accounting and other software (Article 8 of the Law on Amendments and Supplements). Also, Article 9 introduces a misdemeanor sanction for a responsible person in a legal entity.

As a reminder, tax crimes are also regulated by the Criminal Code. Article 225 prescribes the criminal offense of tax evasion, while Article 226 prescribes the criminal offense of non-payment of withholding tax. For both criminal acts, prison sentences are provided in different ranges depending on the amount of the obligation whose payment is avoided, i.e. calculated and unpaid tax, i.e. mandatory social contributions, after deduction. In addition to prison terms, fines are imposed.

The penalties for committing tax crimes prescribed in both laws can be considered adequate and deterrent.

The competences of the Tax Administration and the Tax Police in the period between the two risk assessments remained unchanged. The number of tax officers is continuously decreasing. Namely, the number of employees in the Tax Administration in 2021 was 4,607

⁷⁷ Such as the Law on Personal Income Tax, the Law on Contributions to Mandatory Social Insurance, the Law on Corporate Profit Tax, the Law on Excise Taxes, the Law on Property Taxes, the Law on Taxes on Non-Life Insurance Premiums, the Law on Taxes on use, keeping and carrying goods

⁷⁸"Official Gazette of RS", number 138/22

employees, and 4,412 on 31 December 2023⁷⁹. Considering the age structure of the Tax Administration, the continuation of that trend is expected. For this reason, one of the goals is the recruitment of new staff.

In the survey on "Citizens' Perception of the Fight Against Corruption" conducted by CeSID for the purposes of USAID's Responsible Government Project⁸⁰, the Tax Administration was perceived by citizens as one of the least corrupt institutions among those evaluated. Namely, only 1% of citizens rated the Tax Administration as the most corrupt institution in surveys from 2020 and in 2021.

As a reminder, the Tax Administration applies the risk differentiation framework (ODR), which implies a special approach to the obliged entity in relation to the risk that the obliged entity has for complying with the regulations. A new risk filter for corporate income tax was adopted and a basic set of risk filters for hidden capitalization and transfer prices was created.

The Department for Strategic Risks within the Tax Administration carries out risk identification, risk analysis focused on identifying risky entities, risk assessment and prioritization, risk treatment, and based on that, for each calendar year, prepares a Tax Compliance Plan, which is based on risk mapping in certain types of public revenues according to OECD - to the CRM⁸¹ model in four domains: registration, submission of tax returns, accuracy of reported data and timeliness of collection.

Tax audit

The total number of obliged entities as of June 30, 2024 amounted to 642,372 legal entities and entrepreneurs and 10,087 natural persons.

The efficiency of the collection of public revenues administered by the Tax Administration is constantly growing, thus the total collection by the Tax Administration in 2023 was 2,593,384,283.00 Dinars which is higher by 32% compared to 2019, i.e. 25% compared to 2021.

Tax inspectors performed 12,002 checks in 2021-2023. Irregularities were found in 6,957 controls (5.8 %) and newly detected public revenues were calculated in the total amount of 88,707,943,137.00 Dinars. Based on the comparison of these data with the data from the previous risk assessment, it can be clearly seen that the total income and income per control increased significantly⁸², which speaks of a better analysis of obliged entities and focusing on obliged entities with a significant risk in business.

In the period from 2021 to 2023, the department for misdemeanors filed 29,542 misdemeanor reports in tax controls, of which 774 issued misdemeanor orders and 28,768 submitted notifications about committed misdemeanors.

Observed over the years, it can be seen that the number of criminal reports is decreasing, while the amount of tax evaded in filed criminal reports is significantly increasing, which is a direct consequence of the commitment to one of the most important strategic goals of the Tax Police, which is to direct its resources to the detection of the most complex tax frauds, criminal offenses with an OCG dimension, where the perpetrators join together for the purpose of

⁷⁹ 3,749 employees are employed for an indefinite period, 663 for a fixed period, and 2,573 jobs are unfilled.

⁸⁰ Available at: <https://www.odgovornavlast.rs/wp-content/uploads/2020/12/USAID-GAI-Izve%C5%A1taj-sa-istra%C5%BEivanja-javnog-mnjenja-Percepcija-gra%C4%91ana-on-the-fight-against-corruption-in-Serbia-for-2021.year-1.pdf>.

⁸¹ Compliance risk model

⁸² Newly detected public revenues in 9,226 audits which found irregularities, carried out from 2018 to 2020, amounted to RSD 65,564,261,587.00 in total.

evading taxes and obtaining proceeds and where there are large amounts of damage to the Budget of the Republic of Serbia.

Level of formalization of the economy

Bearing in mind the findings of the NALED study on the extent of the shadow economy from 2022⁸³, which showed that the extent of the shadow economy was reduced to 11.7% of GDP, it can be concluded that the estimated value for the formalization of the economy is high.

It is necessary to continue to work on improving the cooperation of inspection authorities (with the exception of the Tax Administration - Tax Police Sector) with the police, public prosecutor's office and courts.

Availability of reliable identification infrastructure

In the period between the two risk assessments, there were no essential changes that would affect the change in the assessment of this variable.

Please note that the Law on the Central Population Register⁸⁴ which is in effect as of September 1, 2020, regulates the establishment and management, content, method of use, as well as other issues of importance for the establishment and management of this register. According to the information received from the Ministry of Interior Administrative Directorate, the data in the Central Population Register are reliable, accurate and up-to-date, and can be used by all state bodies and organizations.

The public documents with which citizens, nationals of Serbia, prove their identity are the identity card and the travel document, issued by the competent organizational units of the MOI.

The system for personalizing identification documents of citizens of Serbia is centralized, defined by strict working procedures and access permits, protected by data encryption devices and placed in a specially secured and restrictive area. The personalization of identification data is carried out on forms with a large number of protective elements that comply with *ICAO standards*⁸⁵ and *ISO*⁸⁶ and directives and recommendations of the European Union.

In the laboratory for the examination of manuscripts and documents at the National Centre for Criminal Forensics, cases related to the examination of documents are processed at the request of other organizational units of this Ministry, but also at the request of courts and prosecutor's offices. In the mentioned laboratory in the period from 2021 to 2023. 1,831 cases related to the examination of documents were processed, of which there were 28 forged identity cards of Serbia and 6 forged travel documents of Serbia, which represents 1.85% of the number of cases.

In the period from 2021 to 2023, a total of 12 falsified documents of Serbia were detected by officers of the Border Police Administration of the Ministry of Interior, namely: 7 falsified forms of identity cards and 5 falsified forms of travel documents (passports).

In the reporting period, the Department for Electronic and Information Forensic Expertise handled 5 cases related to the criminal offense of forgery of a document from Article 355 of the CC.

In the same period, not a single criminal report for forgery of identity cards and

⁸³<https://boljinacin.rs/filemanager/Siva-ekonomija-u-Srbiji-u-2022.pdf>

⁸⁴ "Official gazette PC ", no. 17/19.

⁸⁵International Civil Aviation Organization

⁸⁶International Organization for Standardization

passports was filed by the officers of the Service for Combating Organized Crime of the MoI Criminal Investigations Directorate in connection with the mentioned criminal act.

The Ministry of Interior keeps records of issued identity cards and travel documents to citizens of Serbia and does not have data related to the part of the population that does not have identification documents as laid down by Law. For this reason, the data was collected from United Nations High Commissioner for Refugees (UNHCR) - Representation in Serbia. In the period from 2021 to 2023, their data show that 5,917 people are at risk of statelessness, which represents an insignificant percentage in relation to the total number of inhabitants (0.09%). On February 10, 2022, the third Memorandum of Understanding was signed between the Ministry of Public Administration and Local Self-Government, Ombudsman and the United Nations High Commissioner for Refugees - Representation in Serbia, in order to continue cooperation in resolving the remaining cases in which members of the Roma national minority did not exercise the right to enroll in registry book births, as well as other rights from personal status, with a special focus on the registration of newborn children in this official record, in order to prevent the risk of statelessness.

Availability of independent information sources

In the period between the two risk assessments, there were no essential changes that would affect the change in the rating of this variable.

In Serbia, to a large extent, sources of comprehensive data and information about clients are publicly available, which include data on the founders, ownership and management structure of legal entities, financial information (financial statements, accounts of legal entities), their creditworthiness, liabilities, data on sanctioned legal persons and persons who are owners and part management structures, data on real estate ownership, as well as data on public officials, their assets and income, and a number of other data.

These data are publicly available on the websites of the Serbian Business Registers Agency, the National Bank of Serbia, Central Registry, Securities Depository and Clearing House, Agency for the Prevention of Corruption, Administration for the Prevention of Money Laundering, Real Estate Cadaster, and other competent state authorities.

When it comes to access to databases of state bodies, in the survey distributed to obliged entities by the Serbian Chamber of Commerce, obliged entities⁸⁷ answered that they have access to publicly available databases and that they use these databases daily. Although they stated that they need data from time to time, the obliged entities emphasized that they do not have access to criminal records, i.e. information whether criminal proceedings are being conducted against an entity or person.

On the other hand, the state authorities responsible for the prevention of money laundering have at their disposal an even wider range of information that they exchange with each other, including data from registers that are not publicly available.

Availability and access to beneficial ownership information

⁸⁷ Answers were provided by a total of 916 obliged entities, namely: 67 from the financial sector (12 banks, 12 broker-dealer companies, 4 voluntary pension fund management companies, 3 investment fund management companies, 5 factoring companies, 4 electronic money institutions, 8 providers of financial leasing, 10 insurance companies dealing with life insurance, 9 payment institutions), 13 organizers of games of chance, 138 real estate brokers and agents, 8 postal operators, 637 accountants and 53 auditors.

Regarding the legal provisions that govern the types, forms of legal entities in the country and the way of management, there were no changes in the period covered by this risk assessment.

An analysis of the number of registered companies in the observed period shows a slight increase in the number of registered entities from year to year, thus, 290,445 were registered in 2021, 308,058 in 2022, and 330,567 in 2023. There is also an increase in the number of registered limited liability companies⁸⁸ and entrepreneurs⁸⁹.

It is important to note that if trusts, i.e. entities under foreign law, are not founders/members of a domestic company, they are not registered in the Register of Business Entities of the Serbian Business Registers Agency. Also, in order for a person under foreign law such as a trust or a legal arrangement similar to a trust to be the founder or member of a domestic company, it must have the status of a legal person in the country of origin and to be registered as such in the foreign register.

In accordance with international standards, and especially FATF Recommendations 24 and 25, the AML/CFT Law defined the concept of beneficial owner, the obligation to identify the beneficial owner and verify its identity for obliged entities under this law.

In terms of enforcement of the aforementioned provisions, nothing has changed in the meantime, so identifying the beneficial owner and verifying the identity of the beneficial owner is thus foreseen as one of the obliged entity's duties as part of undertaking CDD already when establishing a business relationship, but also when the business relationship is not established and a transaction in the amount of 15,000 Euros or more is made, or when a transfer of funds in the amount exceeding 1,000 euros is made. Also, the identity of the beneficial owner is determined and verified when there are grounds for suspecting money laundering or terrorism financing in connection with the client or transaction, as well as when there is doubt as to the veracity or reliability of the obtained data about the client and the beneficial owner.

The obliged entity is obliged to establish the identity of the beneficial owner of a client that is a legal entity or a person under foreign law, therefore also a trust, by obtaining the following data: name, surname, date and place of birth and residence or place of residence of the beneficial owner of the client.⁹⁰ The obliged entity is obliged to enter the above data in the records of clients, business relations and transactions.⁹¹

Also, it should be mentioned that, as part of the state's strategic approach to increase the transparency of the ownership of legal entities, the Law on Central Records of the Beneficial Owner was adopted in 2018, and is still in force today. With the adoption of this law, the obligation to identify the beneficial owner of a registered entity and to record it in a single, centralized database on the beneficial owners of legal entities and other entities registered in the appropriate registers in Serbia - the Central Records of Beneficial Owners (CRBO), which is maintained by the Serbian Business Registers Agency.

Companies (except for public joint-stock companies), cooperatives, branches of foreign companies, business associations and associations (except political parties, trade unions, sports organizations and associations, churches and religious communities), foundations and endowments, institutions are obliged to record data about the beneficial owners., as well as foreign representations (business companies, associations, foundations and endowments) - hereinafter Registered Entity.

The law does not apply to companies and institutions in which the Republic of Serbia, an autonomous province or a unit of local self-government is the only member and/or founder.

⁸⁸ 125,085 limited liability companies were registered in 2021, 128, 058 in 2022, and 129,259 in 2023.

⁸⁹ 290,445 entrepreneurs were registered in 2021, 308,058 in 2022, and 330,567 in 2023.

⁹⁰See Article 25 paragraph 1 of the AML/CFT Law.

⁹¹See article 99 paragraph 1 item 13) AML/CFT Law.

Registration in the CRBO is carried out during the establishment, changes in the ownership structure and members of the bodies of the registered entity, as well as other changes on the basis of which the fulfilment of the conditions for acquiring the title of beneficial owner of the registered entity can be assessed.

The registered entity itself is obliged to record data on the beneficial owner through a registered authorized person, and since October 2023 the founder also has the option to record the beneficial owner electronically, in the course of establishing a registered entity, in parallel with its establishment. In this regard, the founder is responsible under the law for accuracy of the data it entered in the CRBO. If the founder does not take advantage of the opportunity to register the beneficial owner at the same time as the establishment, the person authorized for representation remains obligated to register the beneficial owner in the CRBO within 15 days from the day of establishment of the Registered Entity. The responsibility for recording data within the prescribed period, for the accuracy of the data recorded, as well as for keeping appropriate, accurate and up-to-date data and documents on the basis of which the beneficial owner was recorded, rests with the registered entity, that is, its legal representative.

CRBO is a publicly available database that can be accessed by any interested person and can be searched through the website of the Serbian Business Registers Agency, as well as state authorities through the web service.

Considering that in the ML/TF NRA and in the course of implementation of the CRBO Law, it was observed that there was room for improvement, the authorities prepared a Draft Law on the Central Records of Beneficial Owners, which underwent public discussion and is expected to be adopted by the end of 2024.

It is stipulated that this law will also apply to trusts that are managed from Serbia or whose management is not located in Serbia if the trustee enters into a business, professional or commercial relationship on behalf of the trust, i.e. performs transactions or cash transactions with legal or natural persons on the territory of Serbia, as well as on legal arrangements similar to trusts that are managed from Serbia or whose management is not located in Serbia if a person comparable to the trustee enters into a business, professional or commercial relationship, i.e. performs transactions or cash transactions with legal or natural persons in the territory of Serbia, given that the regulations of Serbia do not recognize the legal form of trust or other legal forms similar to a trust (*fiduciae*, other types of trust, *fideicommissum*, etc.).

An obligation is introduced for the SBRA to compile and publish a list of registered entities that did not register the beneficial owner in the Central Registry within the prescribed period, as well as existing registered entities that did not register information about the beneficial owner in the Central Registry until the date of application of this law. This list also contains data on registered entities that have registered the beneficial owner, and who, within 60 days from the date of application of this law, do not upload the documents on the basis of which the beneficial owner was determined.

The list is updated every 48 hours, and registered entities are considered high-risk in terms of the law governing the prevention of money laundering and terrorism financing.

Furthermore, the provisions related to the beneficial owner of endowments and foundations were specified and doubts related to the determination of the beneficial owner of the association were removed. Namely, it clearly follows from the proposed provisions that the holdings when identifying the beneficial owner must go through all the criteria prescribed and defined in the Draft Law, and only then if it is not possible to determine a natural person in the manner prescribed, as well as in the case when all reasonable actions have been taken and measures to identify the beneficial owner, as the beneficial owner of the association the natural person who is registered for representation, that is, who is registered as a member of the management body of that entity, is recorded.

Since the establishment of the CRBO, there has been an evident trend of increase in the number of limited liability companies that have fulfilled their obligation to register compared to those that have not. As of December 31, 2023, 94.74% of limited liability companies registered their beneficial owners. The lowest percentage of recorded beneficial owners is for the representative offices of foreign companies, where only 30.63% recorded the beneficial owner.

Legal form	31/12/2023			
	Number of entities that have an obligation to register	Number of entities who registered the BO	Number of entities who have not registered the BO, including those whose 15-day deadline has not expired	%
Partnership	811	751	60	92.60 %
Limited partnership	134	121	13	90.30 %
Limited liability company	127,902	121,175	6,727	94.74 %
Joint stock company	404	367	37	90.84 %
Cooperative	3,130	2,230	900	71.25 %
Branch of a foreign legal entity	855	633	222	74.04 %
Business association	84	67	17	79.76 %
Association	37,364	30,125	7,239	80.63 %
Endowment	140	134	6	95.71 %
Foundation	919	755	164	82.15 %
Representation of a foreign company	1,293	396	897	30.63 %
Representation of a foreign association	85	54	31	63.53 %
Representation of a foreign foundation	25	20	5	80.00 %
Representation of a foreign endowment	2	2	0	100.00 %
Institution	1,712	1,423	289	83.12 %
In total	174,860	158,253	16,607	90.50 %

Table: Completion of CRBO on 31/12/2023

In order to consistently apply the Law on CRBO, the Serbian Business Registers Agency submitted requests for the initiation of misdemeanor proceedings, on the basis of which the misdemeanor courts handed down verdicts to legal entities and responsible persons in legal entities that did not fulfil the obligation from the law and registered the beneficial owner in CRBO.

Year	2021	2022	2023	TOTAL
The number of submitted requests for reversal of misdemeanor proceedings	2,822	2,121	1,679	6,622
Number of decisions of misdemeanor courts	540	2,184	1,787	4,511
The number of verdicts in which a reprimand was issued to a legal entity	395	1,481	1,042	2,918
The number of verdicts in which a fine was imposed on a legal entity	135	379	353	867
Range of fines imposed on legal entities	15,000-500,000	10,000 - 500,000	10,000 - 500,000	

Number of verdicts in which a warning was issued to a natural person	308	1,310	1,273	2,891
The number of verdicts in which a fine was imposed on a natural person	227	575	494	1,296
Range of fines imposed on a natural person	10,000-60,000	5,000 - 80,000	5,000 - 80,000	

Table. Data on misdemeanor proceedings and misdemeanor court verdicts in connection with the implementation of the Law on CRBO

Compliance with the law governing beneficial ownership by obliged entities

In the process of creating this risk assessment, data was collected from obliged entities through a survey regarding how they identify the beneficial owner of their clients. Most of the representatives of obliged entities⁹² who submitted their answers to this question stated that the beneficial owner is identified in accordance with the AML/CFT Law and the relevant APML Guidelines, that is, by inspecting the documentation and checking through the registers (a number also mentioned commercial registers, and all those who described the procedure cited in more detail in publicly available sources).

If there is a difference between the identified and registered BO in the CRBO, the first step is to check with the client, and if it is established that there is a wrong entry in the records, the client will be asked to correct the entered data, and if he does not do so, filing a report to the APML will be considered.

Supervision over the compliance with the provisions on beneficial ownership and sanctions imposed

Supervision by the APML

In the period covered by the risk assessment, APML carried out extraordinary onsite inspections to determine the identity of the beneficial owner of the obliged entity's clients in accordance with the AML/CFT Law.

During the onsite supervision of the application of Article 25 of the AML/CFT Law, irregularities in the identification of the beneficial owner were found - the supervised entity failed to identify beneficial owner of the clients who are legal entities, which violated this article of the law (economic offense from Article 117, paragraph 1, point 1 and paragraph 2 of the AML/CFT Law) and the supervised entity did not identify the beneficial owner of the clients which are legal entities in the manner prescribed by the aforementioned article of the law (Article 118, paragraph 1, point 22 and paragraph 2 of the AML/CFT Law).

Proceedings initiated as a result of APML supervision	Commercial court decisions				Misdemeanor court decisions	
	Article 117, paragraph 1, item 1 and paragraph 2, AML/CFT Law		Article 118, paragraph 1, point 22 and paragraph 2, AML/CFT Law		Article 120, paragraph 1, in connection with Article 117, paragraph 1, item 1	Article 120, paragraph 2, in connection with Article 118, paragraph 1, item 22
Year	Legal entity	Responsible person in a legal entity	Legal entity	Responsible person in a legal entity	Entrepreneur	
2021	220,000.00	14,000.00	155,000.00	34,000.00	60,000.00	116,428.00

⁹²See footnote 66.

2022	-	-	20,000.00	5,000.00	-	31,250.00
2023	-	-	30,000.00	7,000.00	60,000.00	147,678.00
Total	220,000.00	14,000.00	205,000.00	46,000.00	120,000.00	295,356.00

Table: Fines imposed in RSD for irregularities found in the identification of the BO of the client⁹³

NBS supervision

During 16 control procedures related to the implementation of the provisions related to the identification of the beneficial owner of the obliged entities (Article 25 of the AML/CFT Law), irregularities were found only at three banks in the period from 2021 to December 31, 2023 (in 5 cases, the beneficial owner of the clients was identified, but the data was not obtained in the prescribed manner).

The NBS does not take corrective measures only for one type of irregularity, not even when it comes to the irregularity of identifying the beneficial owner, but for overall irregularities and illegalities ascertained in the supervision procedure. Due to the illegalities and irregularities found in obliged entity compliance with the AML/CFT Law, the NBS: sent three written warnings to the banks in 2021 and issued three decisions on the imposition of fines; sent two written warnings during 2022; during 2023, issued four written warnings and issued one decision imposing a fine. In the mentioned period, fines were imposed on banks ranging from 1,100,000.00 to 3,000,000.00 Dinars, in the total amount of 8,150,000.00 Dinars.

In the period 2021-2023, only one provider of financial leasing was found to have an irregularity, in 2023, related to the violation of Article 25 of the AML/CFT Law (the beneficial owner of the clients was established but the data was not obtained in the prescribed manner) and a written warning was issued.

Previously, during a direct check within the period referred to in the risk assessment, the irregularity of the identification of the beneficial owner was noted in five cases at the companies that perform life insurance business (it was determined who the beneficial owner of the client was, but the documentation was incomplete).

In companies for the management of voluntary pension funds, payment institutions and e-money institutions, no irregularities related to the violation of Article 25 of the AML/CFT Law were found. Clients of authorized currency exchange operators can only be natural persons, so authorized currency exchange operators rarely apply this article of the law in practice.

Supervision by the Securities Commission

In the onsite supervision procedures conducted between 2021-2023, specifically in the matter of identifying BOs of obliged entities' clients, a total of 4 illegalities or irregularities, were found (which related to obtaining the personal document of the beneficial owner, entering the date, time and the person who carried out the identification, obtaining an excerpt from the competent register, possessing documents confirming implemented actions and measures).

In one case, due to the illegalities found, a decision was made to file an economic offense report against the obliged entity and the responsible person, while in the remaining three cases, the Securities Commission issued written warnings, taking into account the nature and scope of established illegalities and irregularities.

When it comes to identifying the beneficial owner of the client, in one onsite supervision, a discrepancy was found in the data on the beneficial owners registered in the

⁹³ The analysis was done on the basis of court decisions shared with the APML in the reference period

Central Records of Beneficial Owners and the beneficial owners determined by the obliged entity based on the available documentation and available information about the client. The Securities Commission notified the APMML and the Business Registers Agency.

Supervision by the Market Inspection

From 2021 to 2023, the Market Inspection (under the Ministry of Internal and Foreign Trade), as the supervisor for real estate sale and lease brokers, performed supervision in relation to recording and identifying the beneficial ownership indirectly/officially through a unified annual Questionnaire in the regular procedure.

In the coming period, it is necessary to continue with the consistent application of the Law on CRBO and continuous training of judges of misdemeanor courts and other competent authorities about the importance of up-to-date records of beneficial owners for the AML/CFT system as a whole.

It is necessary to continue the training of judges of commercial and misdemeanor courts, as well as other stakeholders responsible for the application of provisions related to the registration of beneficial owners and the determination of the identity of beneficial owners, and especially obliged entities, in order to prevent the concealment of data on the beneficial ownership of legal entities from being misused for the purpose money laundering and so that information about them were available to the beneficial owner to the competent authorities.

It is necessary to include the authorities responsible for initiating misdemeanor proceedings and proceedings for economic offenses through training, in order to encourage them, in every situation where there is a reason for it, to initiate these proceedings, i.e. to file appeals against verdicts in which sentences are imposed below the legal minimum and warnings.

VULNERABILITY OF THE FINANCIAL SECTOR

Financial sector stakeholders supervised by the NBS

Representatives of the NBS, APML, Ministry of Interior, competent prosecutors' offices and courts, as well as representatives of the private sector (Association of Banks of Serbia, Association of Insurers of Serbia, Chamber of Commerce of Serbia) participated in the development of this section of the National Risk Assessment, which looks at the susceptibility of financial institutions supervised by the NBS to abuse for the purpose of money laundering.

The NBS, in accordance with its legal powers, is the regulator and supervisor of a significant number of financial institutions in Serbia. The function of the NBS as a regulator in this area includes the drafting, or participation in the drafting, of relevant laws and by-laws that, among other things, aim to reduce the possibility of money laundering and terrorism financing through financial institutions whose operations it supervises.

The financial sector of Serbia, insofar as it is supervised by the NBS, consists of the banking sector, the insurance sector, sector of financial leasing providers, sector of voluntary pension funds, sector of other payment service providers and e-money issuers (payment and e-money institutions), and the sector of authorized currency exchange operators.

In the course of 2023, the structure of the financial sector, under the supervision of the NBS, has not changed significantly, so the banking sector continues to play a dominant role.

Vulnerability by sector is shown in the following Table; however, the assessment of vulnerability of financial institutions is not given in absolute terms, but rather as a higher or lower vulnerability of a certain sector compared to other sectors.

Table: Sectoral vulnerability

Sector	Vulnerability
Banks	medium
Insurance	low
Providers of financial leasing	low
Voluntary pension funds	low
Other payment service providers and issuers of e-money	medium
Authorized currency exchange operators	medium

In relation to the previous NRA, the NBS continued to further strengthen the administrative capacity of the organizational unit that was formed in 2018 and is directly responsible to the vice-governor (Centre for Special Control - AML) by increasing the number of systematized jobs in order to increase the number of employees, in the future period. This organizational unit is responsible for managing the ML/TF risk and continuous monitoring and supervision of the compliance with AML/CFT laws and other regulations by banks, insurance companies, financial leasing providers and VPF management companies. All employees who perform control activities have university education. In addition to the director and two assistant directors, who are actively involved in supervision in the AML/CFT field, 19 employees closely specialize in supervision in this area. Also, the aforementioned employees

actively participate in the drafting of laws and by-laws in this area, internal methodologies, instructions and procedures, as well as in cooperation with international and domestic bodies. In order to assess new technologies and ML/TF typologies, especially those identified in the 2021 NRA, as well as in order to recognize growing threats in a timely manner, employees acquire the necessary knowledge and skills through numerous continuous internal trainings (e.g. ML/TF through art trade, the risks of ML through trade in rare and wild animals, money laundering through the production and trade of fentanyl and other synthetic drugs). In addition to internal trainings, employees of the Centre for Special Control - AML also regularly attend external trainings, of which over 60 were organized from 2021 to 2023, including seminars in Serbia and abroad, and trainings and workshops organized by international and domestic organizations. Employees who participate in trainings are required, after attending them, to prepare a report on the new knowledge they acquired, which is published on the intranet page of the NBS, to which all employees have access.

The NBS, in accordance with the competences under the AML/CFT Law, supervises the compliance with this law by financial institutions using a risk-based approach.

The assessment of materiality by sector is based on the analysis of: the comprehensiveness of the legal network for the prevention of money laundering; effectiveness of supervisory procedures and practices; availability and application of administrative and penal measures; the availability and application of sanctions for the committed criminal act; availability and effectiveness of input control mechanisms; integrity of employees in the observed sector; the level of knowledge of employees in the observed sector in relation to the prevention of money laundering; effectiveness of the business compliance function; the effectiveness of monitoring and reporting suspicious activities; availability and access to beneficial ownership information; availability of reliable identification infrastructure and availability of independent sources of information. The analysis included inherent vulnerability (total size/scope of the sector, client profile, geographic exposure, products and services, transactions, delivery channels, etc.), as well as residual risk that arises after risk mitigation efforts have been implemented, i.e. the level of residual risk was assessed.

The evaluation of the sector of banks, insurance companies, providers of financial leasing, companies for the management of voluntary pension funds, other payment service providers and issuers of e-money and authorized currency exchange operators in the segment of preventing money laundering is based on the existence of a legal framework regarding preventive measures for preventing money laundering which is comprehensive and compliant with international standards with regard to all obliged entities under National Bank of Serbia supervision.

The assessment of compliance of the sector was also influenced by the reports of international organizations and institutions about Serbia, the activities undertaken according to the recommendations of those institutions, the ML/TF NRA findings and the professional experience of the supervisors.

The sources of data that were used to assess vulnerability by sector are internal acts related to the management of the ML/TF risk, findings from supervisory examinations and assessments, data and information obtained from the APML, data from the questionnaire that collected quantitative and qualitative data and information related to the prevention of ML and TF, information obtained from competent prosecutor's offices and courts, as well as other data and information available to the supervisor.

Banking sector

General description of the sector and its structure (materiality)

The vulnerability of this sector to money laundering is assessed as medium.

As of December 31, 2023, there were 20 banks operating in the Serbian banking sector, whose balance sheet amounted to approximately EUR 50.71 billion (RSD 5,941 billion). The number of banks now was six times fewer than in the last NRA period. Namely, the number of banks has decreased due to the implementation of six bank mergers, with more mergers expected in the coming period.⁹⁴

All banks in Serbia that operate with a license from the National Bank of Serbia are registered in the Serbian Business Registers Agency as joint-stock companies under activity code 6419 - Other monetary intermediation.

The market is dominated by banks whose majority shareholders are from the member states of the European Union with a collective participation in the total balance sheet of 73.4%. Observed according to the country of origin of the majority shareholder, of the total balance sheet of the banking sector, 26.3% refers to banks whose majority shareholders are from Italy, 19.4% to banks whose majority shareholders are from Austria and 13.9% to banks whose majority shareholders from Hungary.

Data as of 31/12/2023	in million RSD	share in the total balance amount (in %)
The total balance sheet of banks (20 banks)	5,941,240.3	100.00%
Balance sheet of banks owned by foreigners (15 banks)	4,571,721.7	76.95%
Balance sheet of banks owned by:		
- Republic of Serbia (2 banks)	509,221.0	8.57%
- other domestic persons (3 banks)	860,297.6	14.48%

Deposit structure as of 31/12/2023	in billion RSD	share in the total deposit (in %)
Population	2,202	47%
Enterprises (public and other)	1,620	36%
Other depositors	514	11%
Foreign persons	262	6%

In the structure of deposits, foreign persons participate only with 6%. Compared to the previous NRA, the participation of foreign persons decreased by 2 percentage points.

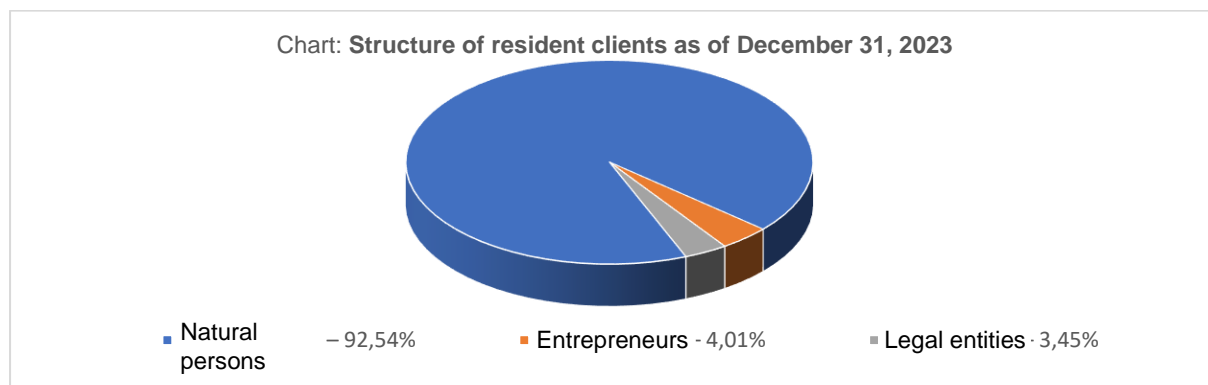
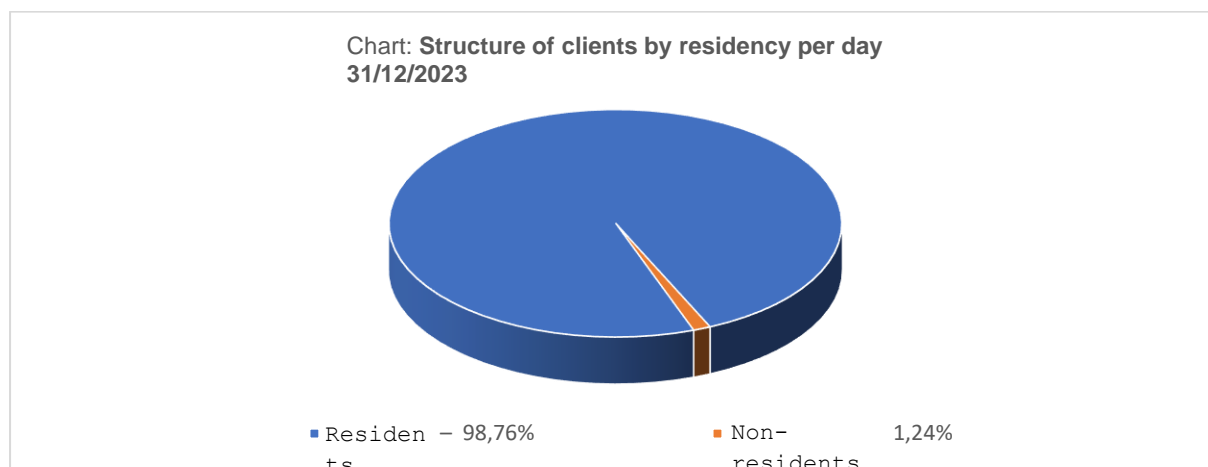
Vulnerability factors

⁹⁴ The consolidation of the banking sector in Serbia is a consequence of changes in the ownership structure of banks with headquarters in Serbia in the previous period (in the case of five banks, the merger was preceded by a change of shareholders, which made them members of the same banking group as the banks that merged them, while in the case of one the merger was not preceded by a change shareholders because both banks were owned by the Republic of Serbia). The merger of banks was initiated by the decisions of the parent companies, i.e. shareholders of those banks due to changed circumstances on the market (consolidation within the banking group) and in order to ensure their optimal market positioning.

Due to their importance to the financial system, banks in Serbia play a key role in preventing ML/TF. They account for about 90.9% of the financial sector's balance sheet, which falls under the jurisdiction of the National Bank of Serbia.

The banking sector in Serbia is exposed to a significant level of ML/TF risk, not only because of its size and importance in the financial system, but also because of the wide availability of products and services and new communication technologies in use, branched business network, number and type clients, the number of executed transactions. In addition to the above, legal entities and entrepreneurs have a legal obligation to operate through a current account, which additionally makes the banking sector a central element in the financial system.⁹⁵

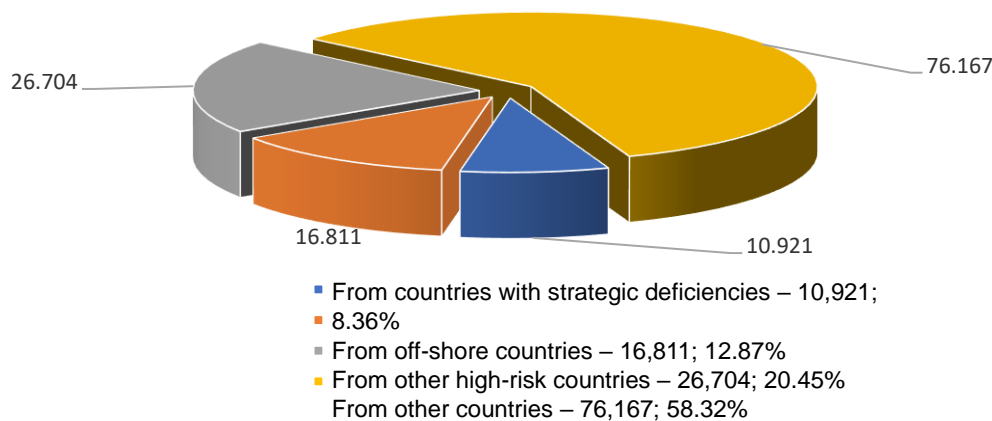
The structure of clients by residency as well as the structure of residents' clients is given in the following charts.



In the structure of clients - non-resident natural persons account for 96.92% and legal entities for 3.08%.

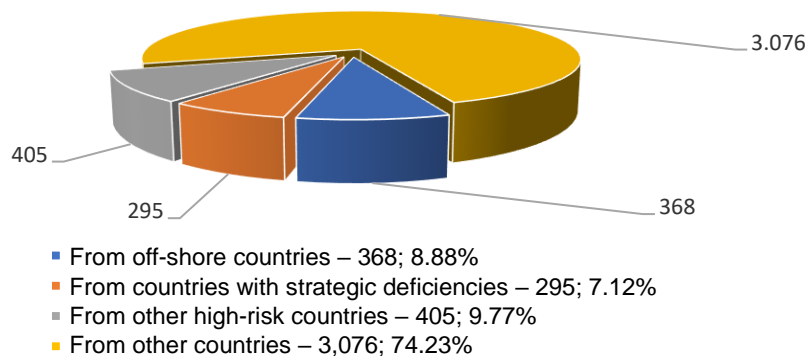
⁹⁵ Law on execution of payments to legal entities, entrepreneurs and natural persons who do not engage in business activities ("Official Gazette of RS", No. 68/2015).

Chart: Structure of clients - non-resident natural persons from the aspect of country of residence/residence as of 31/12/2023



The share of clients - non-resident natural persons from high-risk countries relative to the total number of all clients - natural persons is about 0.55%, while the natural persons from countries that do not carry a high ML/TF risk account for the predominant share (58.32%) of the total number of clients - non-resident natural persons.

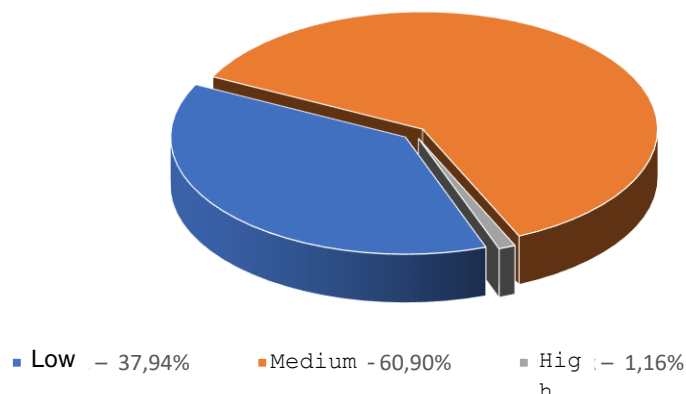
Chart: The structure of clients - non-resident legal entities from the aspect of the client's country of origin, i.e. the beneficial owner of the client as of December 31, 2023



The share of clients - non-resident legal entities from high-risk countries in the total number of all clients - legal entities is less than 0.3%, while in the total number of clients - non-resident legal entities, the predominant share is held by persons from countries that do not carry a high ML/TF risk (74.23%).

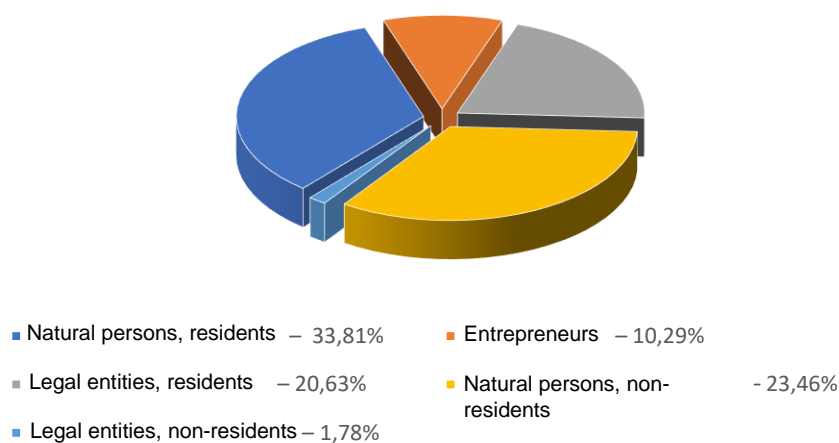
The conclusion is that the geographical factor does not significantly affect vulnerability, because the operations of banks are largely oriented towards the domestic market, i.e. the participation of non-resident clients is negligible (1.24%), while the participation of non-resident clients from high-risk countries is also negligible compared to total number clients (0.55%). In the case of non-resident clients from high-risk countries, banks apply enhanced CDD in accordance with regulations and internal procedures, which includes obtaining data on the origin of funds, and perform enhanced monitoring of transactions that these clients perform through bank accounts.

Chart: Structure of clients according to risk level as of 31/12/2023



Banks classify most of their clients in the medium risk category, they are careful when classifying them in the low-risk category, and a certain number of clients are classified in the high-risk category. In previous years, there were no significant changes in the structure of clients according to the degree of risk, despite the fact that there were changes in the number of clients.

Graph: Structure of high-risk clients on 31/12/2023



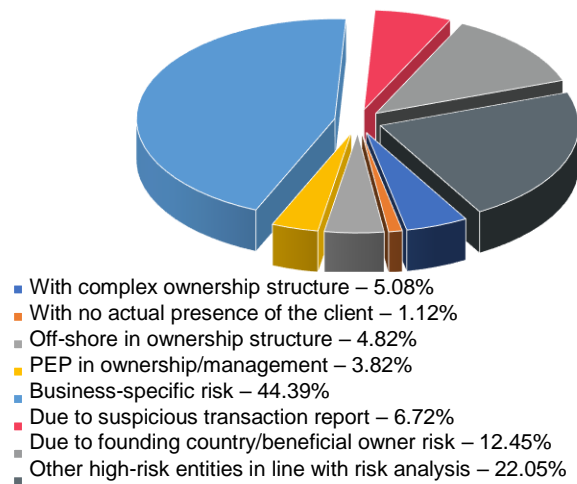
In the structure of high-risk clients, resident natural persons have the largest share, considering that these persons are prevalent amongst the banking sector clients, while non-resident natural persons rank second due to the increase in the number of these clients.

The share of high-risk resident clients - natural persons (PEP, establishing a business relationship without the physical presence of the client, reporting of suspicious transactions) in the total number of clients is 0.40%, and these clients are subject to enhanced CDD and transaction monitoring, so they do not have significant impact on vulnerability.

The share of high-risk clients - entrepreneurs (activity, PEP, reporting of suspicious transactions) in the total number of clients is 0.12%, while the share of all entrepreneurs in the total number of clients is less than 4.00%. Given that entrepreneurs mostly use cash in their business, it is estimated that their impact on vulnerability is significant. However, high-risk clients – entrepreneurs are subject to enhanced CDD and transaction monitoring by banks,

which reduces vulnerability. In addition to the above, entrepreneurs are required to deposit any Dinar amounts received in cash on any basis to their bank account within seven days, which significantly reduces the use of cash, thereby improving the monitoring and detection of transactions related to money laundering and mitigating potential risks.

Graph: Structure of high-risk clients - resident legal entities on 31/12/2023



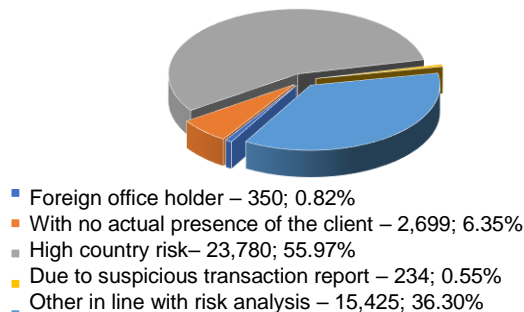
The share of high-risk clients – resident legal entities in the total number of clients is 0.24%. Legal entities organized as LLCs account for about 8.32% of the overall structure of residents of legal entities classified as high risk.

The total number of resident legal entities that include a trust in their ownership structure represents 0.06% of the total number of resident legal entities in the banking sector of Serbia, i.e. 0.0021% relative to the total number of clients. The same trusts appear in a larger number of resident legal entities, that is, the beneficial owners of these entities are the same. The largest number of these trusts are from Cyprus (about 36%), the USA (about 11%), while only one is from each of the following countries: Swaziland, Cayman Islands, Mauritius, Canada, France, Saint Vincent and the Grenadines, Turkey, Austria, Israel, Australia, Philippines, India, Italy, Luxembourg, Russian Federation.

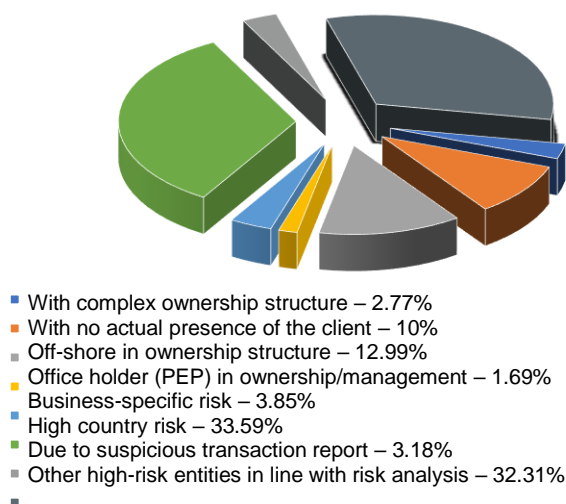
The share of transactions by legal entities - residents who have a trust in their ownership structure in the total Dinar payment operations amounts to 0.028%, which does not have a great impact on vulnerability. Bearing in mind that the largest number of international transactions are carried out through the accounts of legal entities - residents, including transactions with risky countries, it can be concluded that these clients have an effect on the increase in vulnerability if they carry out large-scale transactions with high-risk countries. When it comes to international transactions, these persons account for 1.46% of the total foreign exchange turnover in the banking sector in 2023. This volume of transactions is important, but not to a great extent. Transactions carried out in international payment transactions are monitored in real time in such a way that before the execution of the transaction, employees obtain and analyze the necessary documentation that shows the legal and economic justification of the transaction, and in case of need, additional documentation or information will be obtained for the purpose of adequate evaluation risks for client's foreign partners, which certainly has an effect on the reduction of vulnerability. In addition, banks use transaction and customer monitoring software to detect potentially suspicious ML/TF activities.

When we talk about non-resident clients, high-risk clients participate with 22.49% in the client structure of the estimated level of risk, while these clients account for 0.26% of the total number of clients.

Graph: **Structure of high-risk clients non - resident natural persons 31/12/2023**



Graph: **Structure of high-risk clients non - resident legal entities on 31/12/2023**



In the structure of non-resident clients (there are 1.24% of them in the banking sector), natural persons participate with 96.92% and legal entities with 3.08%.

The total number of non-resident legal entities that have a trust in their ownership structure represents 0.80% of the total number of non-resident legal entities in the banking sector of Serbia, i.e. 0.0003% of the total number of clients. Trusts from Cyprus prevail (22 out of 29 or 76%), while only one is each from the following countries: Isle of Man, Singapore, New Zealand, United Kingdom, Guernsey. The total Dinar turnover generated by these persons in 2023 represents only 0.0001% of the total Dinar turnover in this year. In the total international turnover in 2023, they participate with 0.035%. This is a very low level of materiality, which has no significant impact on the threat (and vulnerability). However, in addition to that, when it comes to high-risk clients, the bank applies enhanced CDD and transaction monitoring.

Banks apply a money laundering risk assessment and, in their internal acts, determine what type of measures they apply to certain categories of clients, whereby the additional caution of banks when applying simplified CDD is noted.

Banks apply at least general CDD to over 40% of low-risk clients, but, for the sake of security, they also apply enhanced CDD to a large number of clients that they classified as medium risk.

All banks have established ML risk management systems applying a risk-based approach, taking into account the results of the NRA. These systems include strict verification of the identity of clients, classification of clients according to the degree of exposure to the ML risk, and in this regard, the application of adequate CDD, especially the application of enhanced CDD when it comes to high-risk clients, as well as procedures for identifying the BO of the client and application of indicators for identifying suspected money laundering. Given that only slightly more than 1% of the total number of clients are high-risk clients, the conclusion is that the client's risk has not reached a level that requires additional intervention.

Participation of clients who are entrepreneurs, non-resident natural or legal entities, registered agricultural holdings, non-profit organizations, resident officials, non-resident officials, parties dealing in gold trade, organizers of games of chance, clients dealing in trade in works of art, brokers in sale and lease of real estate and clients that engage in investing in real estate in the total number of clients is 10.47%. The listed clients represent a segment of clients with a higher risk potential, and this materiality may have an impact on the probability of vulnerability, but not to a large extent due to the applied risk mitigation measures. Banks have recognized the risk and, applying a risk-based approach, classify these clients as high risk and apply enhanced CDD and transaction monitoring, and report suspicious activities of these clients to the APML.

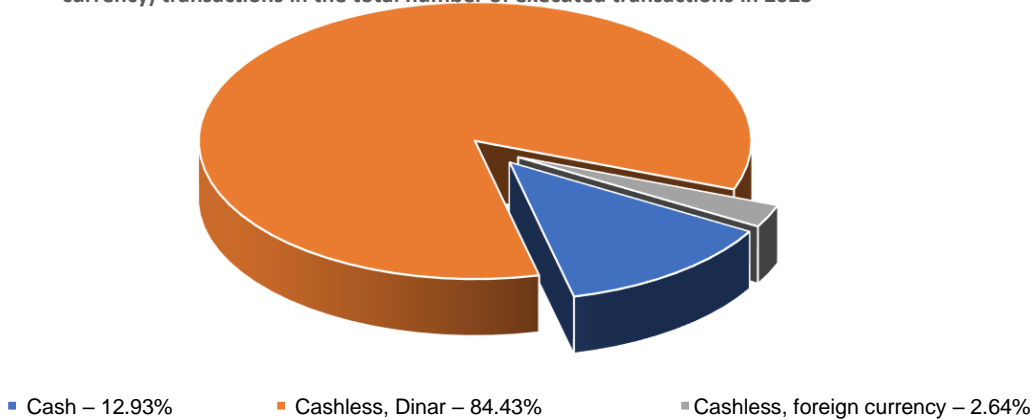
The bank provides financial services to providers of services related to digital assets exclusively to providers of services related to digital assets established in Serbia (4 out of 20 banks), so the mentioned participation is not important for vulnerability.

In the banking system of Serbia on 31/12/2023 a total of 179 *loro* correspondent relations were established with 167 foreign banks. Of this, foreign banks from EU countries account for 86% and foreign banks from other countries account for 81%. In the total value of transactions performed through *loro* correspondent accounts, banks from the EU account for 57.98% and other banks for 42.02%. Banks from Germany (25.04%), Austria (18.39%) and France (17.24%) have the largest share of banks from EU countries in the total value of transactions made through *loro* correspondent accounts. Banks from the UK (79.23%) and the USA (14.15%) have the largest share of banks from other countries. When establishing a business relationship with banks and other similar institutions of other countries, it is mandatory to apply enhanced actions and CDD, whereby banks use transaction monitoring software to detect transactions in which there are grounds for suspicion of money laundering and terrorism financing. The conclusion is that mechanisms have been established to reduce vulnerability.

With respect to transactions, in 2023, non-cash transactions account for 96.45% of the total value of executed transactions, while cash transactions only account for 3.54%, from which we can conclude that the banking sector is not cash-oriented.

The structure of transactions according to the number of executed transactions is given in the following chart.

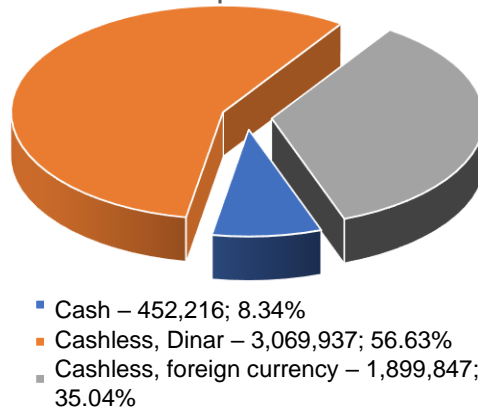
Chart: Structure according to the number of executed cash and non-cash (dinar and foreign currency) transactions in the total number of executed transactions in 2023



The percentage of the total number of executed cash transactions (12.93%) also includes transactions of public companies, direct and indirect users of budget funds, clients to which simplified CDD is applied, in accordance with the AML/CFT Law, as well as cash transactions that are transferred from one client's account to another if they are opened with the same bank, exchange of money in the client's account for another currency while the money remains in the account with the bank, or renewal of term deposits in the client's account, as well as daily receipt deposits that are mandatory for all business entities (Dinars received in cash on any basis must be paid to the account of the business entity within the deadline of seven days). It was observed that in the structure of the total number of executed transactions, the participation of cash transactions decreased from 15.02% (as much as it was in 2020) to 12.94% (as much as was recorded in 2023).

Non-cash transactions made in foreign currency account for 21.94% of the total value of non-cash transactions. The number of transactions with high-risk countries makes up 3.60% in relation to the total number of international transactions, and in the total value of international transactions it represents 4.75%, while the number of transactions with offshore areas makes up 1.15% relative to the total number of international transactions, and in the total value of international transactions it represents 1.87%. The mentioned volume of transactions has influence, but not to a great extent.

Graph: Structure according to the number of executed cash and non-cash transactions in the amount of EUR 15,000 or more in dinar equivalent in 2023



Non-cash Dinar transactions amounting to more than 15,000 euros in the total value of all executed transactions account for 81.44%, while the share of non-cash foreign exchange transactions is 17.59% and cash transactions less than 1%.

Banks have established specific controls in the execution of cash and non-cash transactions in the sense that it is mandatory to control the origin of the funds paid into the accounts and it is mandatory to obtain appropriate documentation when it comes to payments over 15,000 euros, as well as when paying high-risk clients, regardless of the amount of the transaction which pays. The majority of banks have prescribed by internal acts the obligation to determine the origin of funds even for much lower amounts of funds that are paid in the case of low-risk and medium-risk clients. In the case of international transactions, it is mandatory to apply the regulations that regulate foreign exchange operations, according to which clients, along with orders for payments abroad, also submit supporting documentation proving that payment. The majority of banks have prescribed an obligation by internal acts for international inflow transactions, according to which clients are required to submit documentation, especially in the case of inflows from high-risk countries and billing basis codes recognized as risky by the National Risk Assessment.

Banks have information systems that enable them to reliably monitor clients and their transactions (business operations) and to observe unusual behavior models for all risks, which has an effect on the reduction of vulnerability.

Legal framework and supervision

In order to understand the legal framework, it should be pointed out that this sector is governed by the Law on Banks.⁹⁶ In Serbia, there is a comprehensive legal and regulatory framework that provides the NBS, as a public authority, with the appropriate authority to issue or revoke a license for operation of banks, which contains the necessary measures to prevent criminals or their associates from owning or being beneficial owners, of significant or controlling interest, or to perform management functions in the bank.⁹⁷

The NBS has at its disposal an effective sanctioning regime, since it carries out sanctioning according to the sectoral law, according to which it has the possibility of imposing significantly higher amounts of fines than those lay down in the AML/CFT Law.

The NBS has developed its own methodology for assessing the ML/TF risk to which banks are exposed, with a focus on prevention. Based on the risk matrix developed in this methodology, a supervisory assessment of the exposure to the ML/TF risk of each individual bank is carried out and onsite supervision is planned. The risk assessment performed for only one bank found it to be high risk and this bank is under permanent supervision, six banks are at medium high risk, twelve banks are at medium low risk, and one is at low risk, which confirms that the vulnerability assessment is of the banking sector at a medium level.

In order to adequately assess the residual risk, in addition to assessing the level of exposure to inherent risk, the management and controls of this risk are also assessed. In this regard, the impact of basic risk factors such as: the size of the business network, the structure of clients, products/services/transactions, reliance on third parties, correspondent relations with foreign banks and other relevant factors (among other things, the integrity of employees) is assessed. It is also assessed whether the bank has established an adequate system for managing the ML/TF risk (corporate governance, organizational structure, policies/procedures/other internal acts, the process of identifying/measuring/monitoring and reporting on the said risk,

⁹⁶"Official Gazette of RS", no. 91/2010 and 14/2015

⁹⁷Decision on the implementation of the provisions of the Law on Banks related to the granting of preliminary approval, a license to operate a bank and certain consents and approvals of the National Bank of Serbia ("Official Gazette of the RS", no. 82/2015 and 29/2018).

internal control system). Taking into account the level of inherent risk and the management and control system, the bank's exposure to the ML/TF risk is assessed.

Supervision of banks is carried out in offsite⁹⁸ and onsite inspections.⁹⁹ The NBS can exercise supervision over any member of the banking group. Onsite supervision is carried out on the basis of the adopted annual plan of onsite inspections, and if necessary, an extraordinary inspection can be performed.

Onsite supervision is performed on the basis of the manual for performing onsite supervision. The manual and methodology for assessing the ML/TF risk at banks were updated in April 2022 in accordance with the results of the 2021 National Risk Assessment.

<i>Number of supervision procedures performed at banks:</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>
1) in which onsite/offsite inspection was carried out	6	5	6
2) in which irregularities were identified in onsite or offsite inspection and to which a measure was imposed due to the irregularities found:	3	2	4
a) in the form of a Decision on the imposition of a fine	3	0	1
finest imposed on banks	5,150,000.00 rsd		3,000,000.00 rsd
imposed fines on members of the governing body	1,910,000.00 rsd		
b) to whom a written warning was sent	3	2	4
3) through sending a questionnaire (offsite inspection)	49	43	40

In the onsite supervisions, the implementation of the provisions of the Law on Prevention of Money Laundering and Financing of Terrorism, as well as the Law on Central Records of Beneficial Owners, was controlled.

Irregularities were identified during the observed period during onsite inspections, which in terms of type do not significantly differ from those determined in the period related to the previous NRA. The most frequently observed irregularities are that the bank: did not adequately identify the beneficial owner of the client, while this number is insignificant in relation to the total number of inspected files (at three banks, in a total of five cases, of which in one case the irregularity refers to the fact that the bank determined the prescribed information about the beneficial owner, but did not do so in the required manner); when opening an account without the physical presence of the client, he did not take some of the additional measures; did not report to the APML a transaction for which there are grounds for suspicion of money laundering (sporadic cases when looking at the number of controlled transactions) mainly as a result of inadequate analysis of transactions; did not obtain all prescribed data when establishing a business relationship with the official; did not apply all the measures prescribed

⁹⁸ Offsite inspections are carried out continuously, through the control of reports, both regulatory and internal, which are prepared for the management of the banks, and which the banks are obliged to deliver to the National Bank of Serbia on a monthly basis, together with the adopted internal acts, as well as based on the analysis of the responses to the Questionnaire on the management of the ML/TF risk delivered to banks at least twice a year. This analysis, i.e. a summary of the findings relating to the entire banking sector, is publicly published once a year on the website of the National Bank of Serbia.

⁹⁹ Onsite inspections are carried out in the bank by inspecting the business books and other documentation of the bank.

when establishing a business relationship with an offshore legal entity or a person that has an offshore legal entity in its ownership structure.

In a small number of cases, it was determined that the bank's internal acts governing the area of ML/TF risk management are in some parts imprecise, incomplete and inconsistent with each other, as well as that the number of employees engaged in establishing and monitoring business relations with by the client disproportionate in relation to their obligations, taking into account the size of the bank, as well as the spread and number of its territorial network.

Irregularities related to the risk assessment made by the bank were also observed, in the sense that it does not contain a risk analysis in relation to the type of client, business relationship, services that the bank provides within its activity, or transaction.

The National Bank of Serbia regularly informs the Administration for the Prevention of Money Laundering about all the findings from the control as well as the measures taken, along with the submission of relevant documentation. In addition to the Administration for the Prevention of Money Laundering, other relevant competent authorities (e.g. Ministry of Finance - Tax Administration, Securities Commission, Deposit Insurance Agency) are also informed about the results of the control.

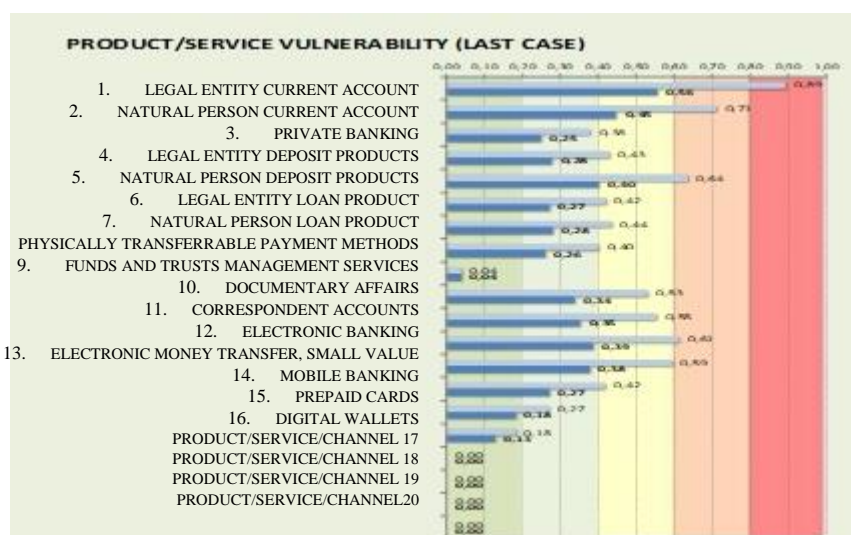
In the observed period, compared to the previous one, a significantly lower number of clients were found with irregularities (compared to the total controlled sample), and the identified irregularities relate to less significant deficiencies than in the previous period.

Products and services

Banks are required to perform a risk analysis for each product/service they provide as part of the ML/TF risk analysis. The bank is obliged to include the risk of money laundering arising from the introduction of new products/services and to inform the National Bank of Serbia about the introduction of a new product, no later than 30 days before the planned introduction.

In relation to the list of products and services that was analyzed for the purposes of preparing the previous NRA, on this occasion the digital wallet service was analyzed, which represents the digitization of existing types of payment cards that have been offered by banks before. The analysis includes the following products: 1. current accounts of legal entities (including entrepreneurs); 2. current accounts of natural persons; 3. private banking; 4. deposit products of legal entities; 5. deposit products of natural persons; 6. credit products of legal entities; 7. credit products for natural persons; 8. bearer negotiable instruments (not cash, but checks, cards, bills, etc.); 9. asset and trust management services; 10. documentary work; 11. correspondent accounts; 12. electronic banking; 13. mobile banking; 14. e-money transfer of small value (quick transfer); 15. prepaid cards, 16. video identification and 17. digital wallet service.

The largest number of products that were analyzed in the previous NRA were not fundamentally changed in the last three years, so their ratings were not fundamentally changed either.



The chart shows that the initial (inherent) vulnerability (materiality) of an individual product, marked in light blue in the chart, can be high. However, the overall vulnerability rating of each individual product, in addition to the inherent vulnerability rating, is also influenced by the quality of general control mechanisms in preventing money laundering.

When assessing the vulnerability of products/services, the following criteria were taken into account: total scope/value of the product; average product transaction volume; the profile of customers using said products; the existence of an investment/deposit feature of the product; the level of cash activity associated with the product; frequency of international transactions related to the product and other factors of susceptibility of the product (anonymity, existence of money laundering typologies related to the product/service, use of the product for tax evasion, possibility of monitoring transactions, use of the product without physical presence and established control mechanisms). The criteria were also considered: the level of transparency of the product/service; product/service complexity and product/service value.

Given that special control mechanisms have been established for all analyzed products, using the criteria for assessing product vulnerability, all banking products have been assessed to the level of medium vulnerability (exposure to risk).

According to the assessment of overall vulnerability (materiality), the product with an increased degree of risk is the current account of legal entities, given that it is the most represented product in the banking sector, that investments through them are possible and significant, while activities related to cash on medium- high level, that the frequency of international transactions related to this product at a high level (payment transactions with foreign countries, when it comes to legal entities, are carried out through these accounts), as well as that the use of this product through an authorized person is possible and very frequent. However, during the overall evaluation of this product, it was also taken into account that anonymous use of this product is not possible, that there are significant typologies that are included in this product, that transactions on the accounts of legal entities are very transparent and easy to follow, as well as that they are specific controls for this product very extensive and comprehensive, and this product is rated as medium vulnerable.

Management of funds and trusts was assessed with a low level of risk, given that these services are not represented in the banking sector of Serbia. In addition, the digital wallet service was rated as one of the least risky, given that this service is relatively new on the banking market of Serbia, that it is not offered by all banks and that it is not currently used by a large number of clients, that the amounts of these transactions are limited by the set daily/monthly limits, that funds that will to be used for payment through a digital wallet, the client previously deposits it into his bank account, which means that anonymous use of this

service is not possible, that all transactions related to this service are settled from the client's account so that they are easy to track and that the use of this product without physical presence is impossible.

Low-risk products can also be other products that have been assessed as low-risk by the banks, with mandatory positive opinions from the National Bank of Serbia, so simplified customer CDD measures can be applied to these products.

Bearing in mind that the video-identification procedure is only a way of identifying and verifying the client's identity, which also enables the use of other banking products and services, this product is not particularly valued because most of the criteria considered for other products could not be applied. Video-identification is strictly regulated by the secondary legal act of the National Bank of Serbia, this service is provided by seven banks, no irregularities were found during the controls, and there were no cases of misuse of this service.

Data on the quantity and quality of suspicious activity reports

According to data obtained from the APML, in the period from 2021 to 2023, banks reported a total of 2,439 SARs. Of the mentioned number, the number SARs in 2021 was 866, in 2022 782 and in 2023 791. From 2021 to 2023, the APML made a total of 551 disseminations (pieces of information, initiatives) to other competent authorities (prosecutors' offices, Security Intelligence Agency, Ministry of Finance - Tax Administration). Compared to the previous period, a slight decrease in the number of reports was observed, but the quality of SARs filed by banks was further improved. In the banking sector, there has been an increase in the number of AML/CFT employees, which is an indicator that the top management understands the importance of preventive AML/CFT work.

In SARs, banks still identify ML typologies such as: fraudulent legal transactions and extraction of money through related parties, extraction of funds from the account of a legal entity through an entrepreneur, trade in cars and money laundering through money loans of unknown origin, re-export and transit transactions, VAT fraud and purchase secondary raw materials. In SARs, the same codes of the basis of execution of transactions for cash and non-cash transactions in Dinar and foreign currency payment transactions still appear.

Example of suspicious activity detected

One of the disseminations concerns an SAR filed by a bank about the operations of three companies registered in Serbia, at the same address, whose owners are non-residents from the same country (Bulgaria). The bank stated, among other things, that the account of a client - legal entity registered as an LLC, was credited in the total amount of several million euros in 2020 and 2021. Most of the funds were transferred as daily receipts and mainly in rounded amounts. These funds were then transferred to the bank accounts of three companies based on *trade in goods and services*. Bearing in mind that the bank's client received inflows exclusively on the basis daily receipt deposits, in rounded amounts, and that the entire balance was then transferred to three legal entities, whose owners are non-residents, as well as due to the suspicion that the client is becoming a "fictitious channel" for funneling money, the bank believed these were indications of potential ML and for that reason filed the SAR.

Training and integrity of bank employees

All bank employees who directly perform tasks related to clients and transactions have been trained so far. The training includes the relevant provisions of the legislation governing AML/CFT, freezing of assets with the aim of preventing terrorism and the WMDPF, and

protection of personal data. Topics that are most common in banks are: introductory training for new employees, implementation of the "Know your customer" principle, recognition of suspicious transactions and persons, customer identification, customer risk analysis, classification and reclassification of customers. Most banks regularly, at certain intervals, and whenever there is a change in the legal regulations or internal acts of the bank, conduct training for all bank employees, and the members of the bank's organizational units in charge of AML/CFT receive additional training in the relevant organizational units from their group, at expert meetings in the country and abroad. Trainings organized by competent authorities, primarily the APML and the NBS, are generally conducted within the framework of regular meetings organized by the Association of Serbian Banks.

In terms of proportion, the larger amount of irregularities and deficiencies noted in the onsite inspection procedure relate to the identification of the beneficial owner of the client.

The banking sector has established high criteria for the implementation of programs for checking the integrity of employees. However, despite this, in a certain number of cases, disciplinary proceedings against employees are conducted in banks, and criminal proceedings have been initiated by the competent state authorities against a certain number of persons employed in banks, which is explained in more detail in the section related to threats.

Conclusion

The banking sector is still the most organized sector when it comes to implementation of ML risk mitigation measures. In terms of market entry control mechanisms in the banking sector, there are comprehensive regulations that also include AML-related obligations, which are consistently applied in the licensing process. The NBS implements an effective supervision regime (administrative measures and fines have been imposed). The banking sector applies effective techniques for mitigating the ML risk, which have a sufficient impact on the reduction of residual risk. In order to reduce the residual risk, banks have: established their own systems for managing the ML/TF risk, applied a risk-based approach, taking into account the results of the National Money Laundering Risk Assessment; appointed AML/CFT compliance officers; formed a special organizational unit that deals exclusively with the implementation of activities related to the prevention of money laundering and the financing of terrorism; laid down procedures for internal reporting of violations of the provisions of the AML/CFT Law through a special and anonymous communication channel; passed internal acts to regulate the frequency of transaction monitoring depending on the estimated level of risk, especially for clients who are classified in the highest risk level, as well as the monitoring periods of interconnected cash transactions, in accordance with the recommendations of the National Bank of Serbia and its business policy; implemented software for monitoring transactions and clients in order to detect transactions in which there are grounds for suspicion of money laundering and terrorism financing; established mechanisms to include the field of prevention of money laundering and financing of terrorism in the external auditor's report; adequately arrange the system of internal controls and internal audits and pay due attention to employee training; for all products/services/transactions established control mechanisms to mitigate the vulnerability of each individual product/service/transaction.

The inherent risk is adequately managed and no significant residual risk has been identified. Continued focus in training in the coming period should be on identifying the beneficial owner of the client, assessing the ML/TF risk in relation to the type of client, business relationship, product/service that the bank provides as part of its activity or transaction. Also, it is necessary for banks to undertake additional activities to improve the integrity of employees.

Financial leasing sector

General description of the sector and its structures (materiality)

The financial leasing sector of Serbia is rated as low vulnerability.

All financial leasing providers operating with a work permit in Serbia are registered with the Serbian Business Registers Agency as LLCs under activity code 6491 - Financial leasing.

**Table: Overview of basic parameters
(in thousands of Dinars, in %, as of December 31, 2023)**

Ownership structure according to the nationality (residency) of the owner	Number	Assets		Capital		Employees	
		Amount	Share	Amount	Share	Number	Share
Leasing providers wholly (100%) or majority owned by domestic persons	8	131.050.37 1	80.0%	9,100,948	70.1%	299	77.5%
Leasing providers wholly (100%) or majority owned by foreign legal entities	7	32,796,756	20.0%	3,878,575	29.9%	87	22.5%
In total	15	163.847.12 7	100.0%	12,979,52 3	100.0%	386	100.0 %

Of the eight financial leasing providers with a 100% or majority ownership by domestic persons, seven are owned by domestic banks with foreign capital. The founders of four financial leasing providers are persons who do not belong to the financial sector, while the founders of the other financial leasing providers are banks, members of banking groups or other financial institutions.

Total balance sheet assets as on 31/12/2023, amounted to about 1.4 billion euros (163.8 billion Dinars), while the total capital as on December 31, 2023, amounted to about 110 million euros (12.9 billion Dinars).

In the last few years, there has been an increase in the number of concluded contracts, which resulted in an increase in the total balance sheet assets, which represents only 2.5% of the total balance sheet assets of the financial sector, which is under the jurisdiction of the National Bank of Serbia.

The largest part of investments based on financial leasing at the end of 2023 was approved to companies that do not belong to the financial sector (84.6%), while entrepreneurs participated in the total investments with 6.4%, public companies with 3.2%, farmers with 2.8%, and natural persons with 2.7%.

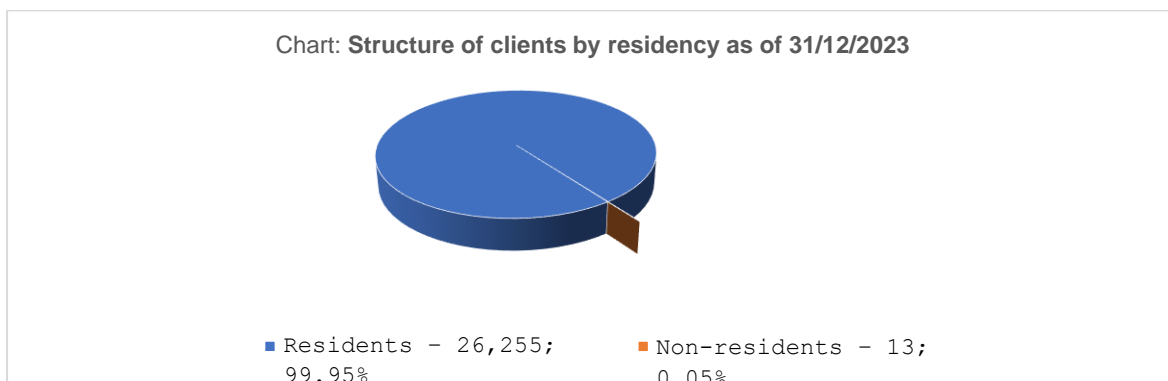
At the end of 2023, the structure of claims per financial leasing object was made of financing of passenger vehicles with 43.2%, while the financing of cargo vehicles, minibuses and buses amounted to 34.8%. Financing of construction machinery and equipment accounted for 7.6% of total receivables based on financial leasing, while agricultural machinery accounted for 5.3%.

On 31/12/2023 15 financial leasing providers had the permission of the National Bank of Serbia to perform financial leasing activities, two of which were in the process of voluntary liquidation, the implementation of which was approved by the National Bank of Serbia. All

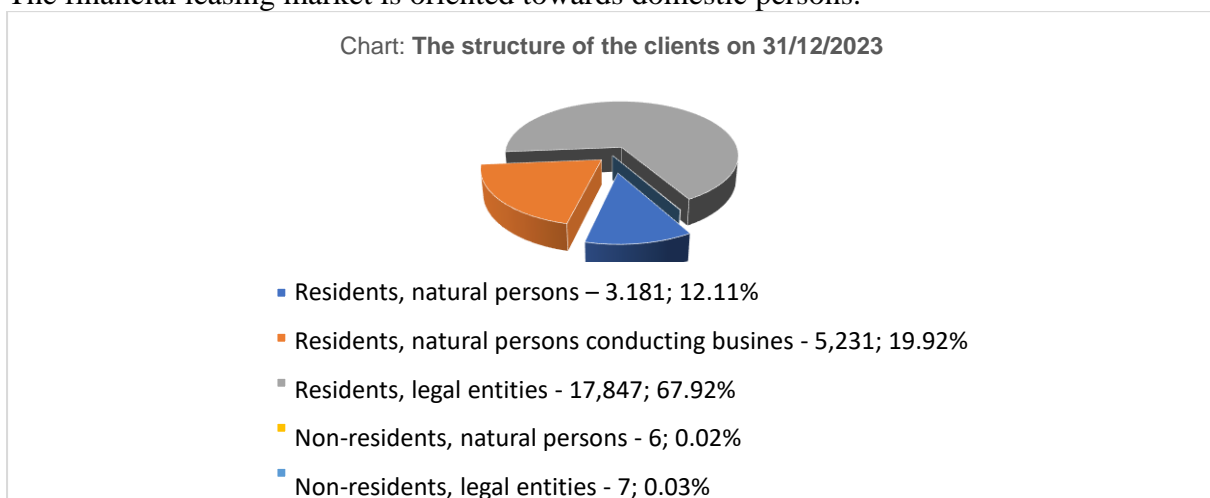
providers of financial leasing, except for one registered in Stara Pazova, are registered in Belgrade.

Vulnerability factors

Total number of clients of financial leasing providers as on 31/12/2023 was 26,272, while the participation of non-residents is negligible and amounts to 0.05%, so the geographical factor has no influence on the vulnerability of the sector.

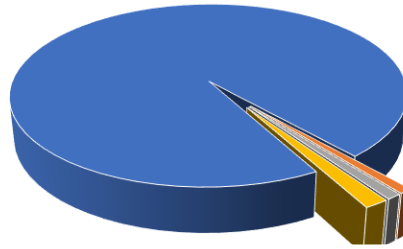


The financial leasing market is oriented towards domestic persons.



Bearing in mind that in this period as well as in the period of the previous NRA, most of the clients are resident legal entities (the participation of non-residents is negligible), below is an overview of these clients by form of business entity.

Chart: **Structure of clients - resident legal entity according to the form of their organization as of 12/31/2023**

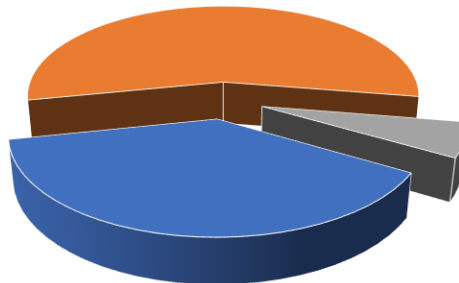


- Legal entities incorporated as limited liability companies - 17,000; 100.00%
- Legal entities incorporated as joint stock companies (AD) - 100; 0.59%
- Legal entities incorporated as other legal forms (e.g. limited liability partnerships, partnerships) - 180; 1.00%
- Other (associations, endowments, foundations, sports associations, etc) - 295; 1.65%

The majority of resident legal entity clients are LLCs, of which only 28 legal entities (0.16%) have a trust in the ownership structure (3 from United Kingdom, 2 from Liechtenstein, one each from Luxembourg, France, Malta, and Turkey), which does not significantly affect vulnerability (likelihood of money laundering).

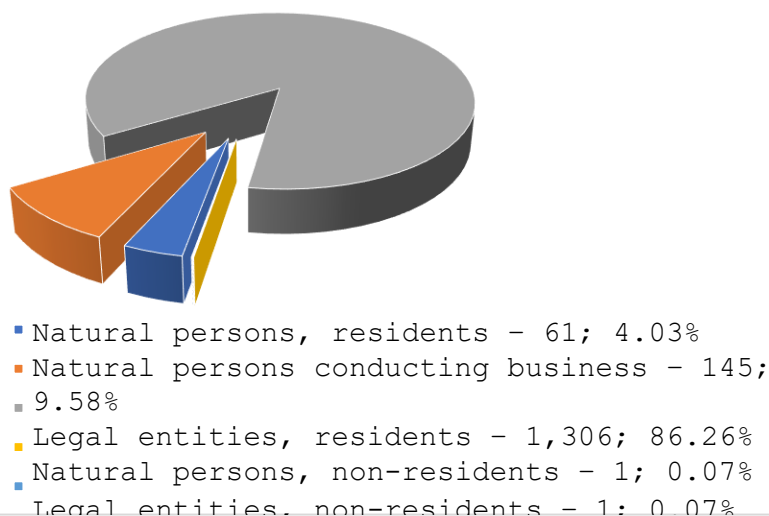
According to the risk analysis, all clients are divided into three categories - low, medium and high risk of exposure to the ML/TF risk.

Chart: **Structure of clients in the financial leasing sector classified by risk level as of today 31/12/2023**



- Total number of low risk level clients - 10,106; 38.47%
- Total number of medium risk level clients - 14,652; 55.77%

Chart: Structure of high-risk clients as of 31/12/2023



Most of the clients who are rated as high risk are resident legal entities, and they are mainly classified in this category due to the risk of the activity they are engaged in. When it comes to non-residents, only two clients are classified as high risk, one natural person and one legal entity.

Regarding the structure of the clients (the number of clients - domestic and foreign PEPs, high-risk clients - legal entities with a complex ownership structure, those with persons from offshore geographical areas or trusts in the ownership structure, the number with officials in the management structure, as well as the number of non-resident natural persons and legal entities from high-risk and offshore geographical areas and countries with strategic deficiencies etc.) the conclusion is reached that the risk exposure is low, given that the individual share of each of them in the total number of parties in the financial leasing sector is low.

The low level of ML/TF risk through the business of financial leasing is also influenced by the fact that providers of financial leasing are not allowed to perform payment transactions or deposit operations, all payment and collection transactions based on financial leasing are carried out cashless, through banks, as well as that they cannot have representatives or intermediaries. In addition, financial leasing is almost the only permitted activity of financial leasing providers. Also, in the observed period (2021-2023), financial leasing providers did not provide financial services to providers of services related to digital assets.

Legal framework and supervision

The sector of financial leasing providers is defined by the Law on Financial Leasing.¹⁰⁰

The decision related to the issuance of permits and consents of the National Bank of Serbia¹⁰¹ is aligned with the recommendations of the Moneyval Committee, and the standard requirements related to a "clean criminal record" are met.

An effective sanctioning regime is available, since sanctioning is carried out according to the sectoral law.

The National Bank of Serbia has developed its own methodology for assessing the ML/TF risk to which financial leasing providers are exposed. Based on the risk matrix

¹⁰⁰ Law on Financial Leasing ("Official Gazette of the RS", no. 55/2003) and its amendments published in the "Official Gazette of the RS", no. 61/2005, 31/2011, 99/2011 - other law and 99/2011 - other law.

¹⁰¹ Decision on the implementation of the provisions of the Law on Financial Leasing related to the issuance of permits and consents of the National Bank of Serbia, "Official Gazette of the RS", no. 85/2011 and 29/2018

developed in this methodology, a supervisory assessment of the exposure to the ML/TF risk of each individual provider of financial leasing is carried out and onsite supervision is planned. Based on this assessment, it was concluded that in the sector of financial leasing providers, there is not a single financial leasing provider that was rated as high risk (rating 4), and only one was rated as medium-high risk (rating 3) where onsite inspection was performed in 2024, which is why confirmed that the vulnerability assessment of the financial leasing sector is at a low level. Onsite supervision is carried out on the basis of the inspection manual, while measures against providers of financial leasing are applied in accordance with internal methodologies, which were created on the basis of the Law on Financial Leasing.

In the observed period (2021-2023), in addition to continuous offsite supervision¹⁰² (on the basis of answers to submitted questionnaires, 94 offsite inspections were carried out), and three onsite inspections¹⁰³ were carried out. In one financial leasing provider, no irregularities were found, in one the irregularities were eliminated during the control procedure, and in one, due to the observed omissions, a written warning was issued. The key deficiencies observed in the onsite supervision are mainly related to failures of a technical nature. In the specific controls performed, the observed deficiencies related to individual cases of incorrect, i.e. untimely, assessment of the client's risk and the identification and verification of the identity of the representative of the legal entity, while irregularities related to the identification of the beneficial owner of the client were found only in one case when due to a change in ownership structures of a domestic legal entity, data on the beneficial owner were not obtained in the prescribed manner. In relation to the previous risk assessment, there was a significant reduction in the number of irregularities related to the identification of the beneficial owner, when the identified irregularities were noted in a total of 26 cases. No suspicious activities were detected in the operations of the financial leasing provider by onsite supervision. All those that, based on the prescribed indicators, indicated suspicion were reported to the APML.

Product rating

The financial leasing product is rated as low vulnerability, because anonymous use of the product is not possible, given that financial leasing contracts are always concluded in the presence of the client, a very small number of clients are non-residents or clients connected to off-shore areas, cash-activities are not possible, the typologies involving the product are present but rare (there are no typologies related to the invoicing of leasing items), specific controls are very extensive and comprehensive, especially in the case of high-risk clients. The aforementioned includes a leasing contract where the total amount of the leasing fee paid by the lessee is not higher than 15,000 euros in Dinar equivalent, so this product can be classified as a low ML/TF risk to which simplified CDD can be applied.

Data on the quantity and quality of suspicious activity reports

According to the report of the APML, in the period from 2021 to 2023, four providers of financial leasing reported a total of 22 reports on suspicious activities, which compared to

¹⁰² Offsite inspections are carried out continuously, through the control of reports, both regulatory and internal, which are prepared for the management of financial leasing providers, and which they are obliged to submit together with the adopted internal acts to the National Bank of Serbia on a monthly basis, as well as based on the analysis of responses to Money Laundering and Terrorist Financing Risk Management Questionnaire which is delivered at least twice a year. This analysis, i.e. a summary of the findings relating to the entire sector, is publicly published once a year on the website of the National Bank of Serbia.

¹⁰³ Onsite inspections are carried out at the provider of financial leasing by inspecting business books and other documentation.

the previous NRA represents an increase in the number of these reports (when there were eight). These reports involve the suspicion of: the origin of the funds, the beneficial owner, and the business activity of the client, when financing the purchase of luxury passenger and cargo vehicles. The subject of the SARs were twenty-five domestic natural persons, twenty-four domestic legal entities (all registered in the form of LLC), 1 entrepreneur and 2 foreign legal entities (both registered in Cyprus in a form corresponding to Serbian D.O.O.). The data contained in 4 reports were forwarded to the competent prosecutor's office. However, despite a noticeable improvement in the number of SARs, only four financial leasing providers reported suspicious activity.

Training and integrity of employees in financial leasing providers

Members of management bodies and employees of financial leasing providers act conscientiously and professionally, and not a single case of colluding with criminals, divulging information or being corrupt has been recorded. In this sector, in the period from 2021 to 2023, no disciplinary proceedings were conducted due to problems with the integrity of employees (due to participation in fraud, theft, corruption, etc.). All employees of financial leasing providers who directly perform tasks related to clients and transactions have been trained to date. The relevant provisions of the regulations governing the prevention of money laundering and financing of terrorism, freezing of assets with the aim of preventing terrorism and WMPDP, and protection of personal data are included in the training.

Conclusion

The final assessment of the financial leasing sector's vulnerability to money laundering took into account the assessment of general criteria and the assessment of inherent vulnerability, whereby the probability of residual risk was assessed as low. Techniques for mitigating the ML/TF risk are effective and their application sufficiently affects the reduction of this risk to which providers of financial leasing are exposed. Financial leasing providers pay due attention to employee training, use a special AML program that enables the classification of parties by risk level, apply lists of indicators for recognizing suspicious transactions related to money laundering and terrorism financing published on the website of the Administration for the Prevention of Money Laundering, have established their own systems for management of the mentioned risk and internal acts have adequately arranged the system of internal controls, apply adequate CDD, assess the exposure to the risk of money laundering taking into account the results of the National Risk Assessment. However, considering that only four providers of financial leasing made reports of suspicious activities in the following period, training on the topic of identifying and analyzing suspicious activities should be strengthened.

Sector of other payment service providers and e-money issuers - payment institutions, public postal operator providing payment services and e-money institutions

Size and structure of the sector (materiality)

The ML vulnerability of this sector is assessed as medium.

On 31/12/2023, payment services in Serbia were provided (in addition to banks) by nine payment institutions (by five less compared to the previous NRA), one public postal operator and six e-money institutions (by four more compared to the previous NRA - hereinafter: Institutions). In the observed period, 4 payment institutions received permission to issue e-money, that is, they became e-money institutions, and for that reason, the number of payment institutions decreased, and the number of e-money institutions increased. With the exception

of two e-money institutions that are in the form of a joint stock company and the public postal operator that is in the form of a public company, all other Institutions are in the form of a limited liability company. Two Institutions are owned by foreigners, and the rest are owned by domestic individuals and legal entities that have been operating in various spheres of the economy for many years and have built a good business reputation.

The share of the balance sheet of these institutions in the total balance sheet of the entire financial sector is negligible (as of December 31, 2023, it amounted to EUR 118,963,147.57).

Vulnerability factors

The Institution's vulnerability assessment was carried out in terms of assessment of input variables related to control mechanisms for preventing money laundering (general input variables), and then in terms of assessment of input variables of inherent vulnerability. The key factors that were analyzed concern the comprehensiveness of the legal framework for preventing money laundering, the effectiveness of supervisory activities, the availability and application of administrative and penal measures, entry control mechanisms (licensing), the integrity of employees in Institutions, the level of knowledge of employees in Institutions regarding the prevention of money laundering, the efficiency of the business compliance function and monitoring and reporting suspicious activity, availability and access to information on beneficial ownership, availability of reliable identification infrastructure, independent sources of information, client profiles, use of representatives, level of cash use, frequency of international transactions, as well as other vulnerability factors (e.g. anonymous use of products, difficult disclosure of transaction records, existence of money laundering typology by abuse of the subject category of other financial institutions, use of the subject category of other financial institutions in fraud or evasion schemes taxes, indirect use of products).

Licensing and supervision

Serbia has comprehensive laws and regulations regarding preventive measures for the prevention of money laundering in the sector of non-bank payment service providers and e-money issuers, as well as an established effective supervision regime regarding the prevention of money laundering, which includes offsite and onsite supervision in accordance with the approach based on risk assessment.

Pursuant to the provisions of the Law on Payment Services, the National Bank of Serbia grants licenses for the provision of payment services and the issuance of e-money, whereby the manner and conditions are prescribed in detail by secondary legal acts. The aforementioned regulations regulate, among other things, issues related to: the good business reputation of the members of the management body and the future head of the Institution, professional qualifications and experience for the future head of the Institution, the eligibility conditions of persons with qualified participation in the Institution (including the condition that business and other activities of these persons are not related to money laundering or terrorism financing), the establishment and implementation of an efficient and reliable internal control system, which is included in all business activities of the Institution and which ensures continuous monitoring of the risks to which the Institution is exposed (including the risk of money laundering), as well as adequate resources which the Institution has (IT system, personnel structure). The National Bank of Serbia particularly appreciates whether there are indications that a payment institution, i.e. an e-money institution, is being established, or that participation in them is being acquired for the purpose of money laundering or financing terrorism, where it is especially considered whether the source of the applicant's capital can be determined, i.e. the source of funds for the

acquisition of qualified share, as well as whether, according to information provided to it by the authority responsible for the prevention of money laundering and terrorism financing and other information at its disposal, linked these persons or persons connected with them to money laundering or terrorism financing. The National Bank of Serbia particularly looks at the whether the person who will have qualified share is a PEP, a member of the PEP's immediate family members and a close associate of the PEP within the meaning of the law regulating the prevention of money laundering and terrorism financing. In addition, the members of the management body, the future manager, the qualified owner - a natural person and persons closely related to the qualified owner - a legal person should submit a list of associates, with evidence of their criminal record.

In the observed period, the National Bank of Serbia received a total of four requests for granting a license to provide payment services (of which three requests were rejected as irregular since the applicants did not edit the documentation within the deadline), five requests to supplement the license to provide payment services and six request for granting permission for issuing e-money (of which one request was rejected due to non-fulfilment of the conditions prescribed by the Law on Payment Services and the Law on Prevention of Money Laundering and Financing of Terrorism). In the observed period, the National Bank of Serbia issued a total of one license for the provision of payment services, five amendments to the license for the provision of payment services and five licenses for the issuance of e-money.

Also in the observed period, the National Bank of Serbia gave 12 approvals for the appointment of directors and managers at the Institutions. In addition to the above, the National Bank of Serbia gave four positive opinions regarding the acquisition, that is, the increase of qualified participation in the Institution.

Pursuant to the provisions of the Law on Prevention of Money Laundering and Financing of Terrorism, the National Bank of Serbia, among other things, supervises the compliance with this law by payment institutions, the public postal operator based in Serbia, established in accordance with the law regulating postal services and the institution of e-money. Within the National Bank of Serbia, the Payment System Sector performs offsite and onsite supervision over the operations of Institutions, which, among other things, includes supervision over money laundering risk management in these institutions. A total of 12 employees work in the organizational unit for offsite and onsite supervision of the Institution (one more than the previous NRA). All employees who perform supervisory activities have university education. In addition to the director of this organizational unit, who is involved in all supervisory activities, employees actively participate in drafting laws, amendments and additions to existing regulations, a list of indicators for recognizing suspicious transactions, internal manuals, methodologies, instructions and procedures, as well as in cooperation with international and domestic bodies. Active support for these activities is provided by the Directorate for Legislative and Legal Affairs with three employees.

In the observed period, the National Bank of Serbia carried out three procedures of onsite supervision and 162 offsite supervisions at Institutions, which also include money laundering risk management. Also, in the observed period, the Institution's license to work was revoked, due to established serious irregularities, including irregularities related to money laundering risk management. The most frequent irregularities that were observed in the procedures of onsite supervision were related to the fact that: a copy of the user's personal identification document was not obtained; neither a printout extract of an ID card with a chip, which can be used to determine and verify the address of the payer, nor any other official document, was obtained, but a photocopy of an ID card with a chip was obtained, by examining which it is not possible to determine the address of the person; the obtained copy of the payer's personal identification document does not contain all the necessary data, i.e. the date, time and personal name of the person who, during the identification and verification of the user's

identity, inspected that personal identification document; the accuracy of the collected data was not checked before the transfer of funds in the amount of more than 1,000 euros in Dinar equivalent, in the sense that the address does not contain all the necessary data (place, street and number, but e.g. only the place or only the street and number) or the address given on the order differs from the address specified in the obtained identity card; a statement on the status of the official was not obtained. In connection with the above, measures have been issued which ordered that these irregularities be eliminated within the given period. Institutions have submitted reports on eliminated irregularities and improved internal acts within the given period.

Meanwhile, in January 2024, verification procedures were initiated in order to determine the unauthorized provision of payment services to five sports betting companies in Serbia, which are still ongoing.

Within the sector of other payment service providers and issuers of e-money, there has been no application of criminal law measures in connection with non-compliance with laws and regulations on the prevention of money laundering.

In addition, the Institutions have prepared programs for professional education, training and improvement of employees, they check the acquired knowledge of employees and keep the relevant results. Also, in the observed period, there were no violations of the integrity of the directors or employees of the Institutions, and in this regard it was concluded that (a large) majority of the employees of the Institutions believe that the regime of criminal sanctions for non-compliance with prescribed obligations based on the prevention of money laundering, as well as for criminal acts related to money laundering such as corruption and collusion (between the Institution's officials and money launderers) sufficiently deterrent for the purpose of exerting a positive influence on individual behavior patterns.

Institutions have developed a program of annual professional education, training and development of employees who perform tasks of preventing and detecting money laundering and terrorism financing, which is adapted to the needs of employees in accordance with their position in the Institution. Institutions organize various types of trainings for other employees as well (seminars, e-learning, presentations), perform knowledge checks of employees who have attended relevant trainings, keep the results of employee knowledge checks, whereby the employees of the Institutions are aware of the consequences of non-application of laws and procedures. Training is mandatory. The compliance officer and deputy are trained 1-2 times a year at seminars and workshops. Employees of the institution are trained by a compliance officer/deputy at least once a year. The employees of the representatives must be trained before starting work, then once a year, and if necessary, extraordinary trainings are also conducted. The supervision of the institution's operations checks whether the representatives' employees have attended training according to the adopted annual program and whether the knowledge check has been carried out, as well as whether the related data is properly maintained and stored.

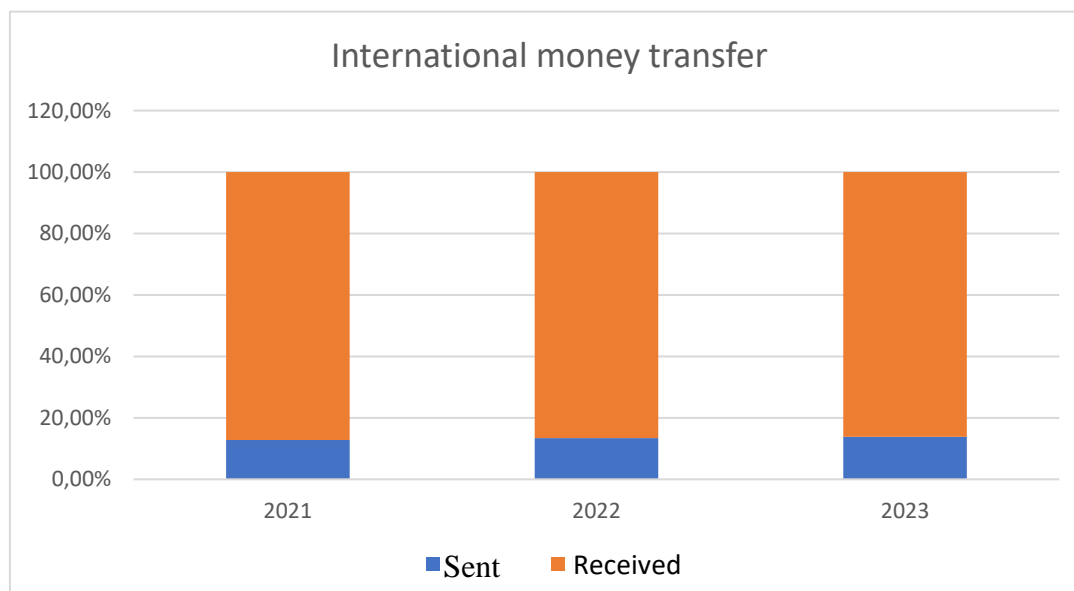
Institutions have an adopted business strategy that contains clearly defined business goals and procedures for monitoring the achievement of those goals. The risk management strategy contains an overview and definitions of all risks to which the institution is exposed or may be exposed (including the risk of money laundering), long-term goals, principles of risk taking and risk management. Employees are familiar with their jobs, duties and responsibilities. They have also adopted procedures in the area of prevention of money laundering and financing of terrorism, and they are conducting an internal audit of the performance of tasks related to the prevention of money laundering and financing of terrorism. All Institutions have appointed a person in charge of carrying out the obligations from this law (compliance officer) and his deputy, while ensuring cooperation between the compliance officer and other organizational

units. Also, a large number of institutions have improved application solutions for tracking transactions.

In the period since the previous NRA, a new List of Indicators for recognizing grounds for suspicion of money laundering or terrorism financing at payment institutions and e-money institutions (April 13, 2023) was adopted as a reaction to new trends and typologies of committing these crimes acts by abuse Institutions.

Payment services and e-money

The most common types of payment services provided through Institutions are still the services of transferring funds to the payee's payment account (utility and other payments) and international money transfer services. The services of transferring funds to the payee's payment account (utility and other payments) are provided by a total of eight payment institutions (by four less compared to the previous NRA), the public postal operator and five e-money institutions (by four more compared to the previous NRA risk assessment). International remittance services are provided by a total of six Institutions through *the Western Union, RIA, MoneyGram* and *KoronaPay systems*, with the fact that based on the available data, the amount of remittances received in relation to remittances sent through these institutions is still dominant (out of the total of international remittances made in in 2021 87.18% refers to receiving, and 12.82% refers to sending; in 2022, 86.58% refers to receiving, and in 2023, 86.18% refers to receiving, and 13.82% on sending). The average amount of both received and sent remittances is 325 euros. The risk of this service is rated as medium, bearing in mind that the largest number of remittances are received from the countries where citizens of Serbian origin live, which apply high standards in the field of preventing money laundering and terrorism financing (Germany, Austria, USA, Switzerland, France, Sweden)., and that transaction amounts are relatively low. Also, in the observed period, a reduced number of migrants using the remittance service was noticeable, as a result of the changed migrant route.



Currently, payment services in Serbia are provided through a network of agents by eight payment institutions (three less compared to the previous NRA) and four e-money institutions (three more compared to the previous NRA). This is the result of the fact that three payment institutions (which provided payment services through representatives) became e-money

institutions in the observed period, continuing to provide the payment services they provided while they had the status of payment institutions. The number of representatives through which the Institutions provide payment services recorded continuous growth in the observed period, and in 2023 it reached the number of 5,521 representatives. Bearing in mind the nature of the payment services that are mostly provided by the Institutions, the parties are natural persons who generally do not establish a business relationship with the institutions, but perform a one-time payment transaction, whereby when providing the money transfer service, all users are identified regardless of the amount of the transaction. Although the Institution's clients are mostly natural persons, which reduces the risk of money laundering, the fact that business relations are not generally established with them increases their vulnerability, although this practice is gradually changing, bearing in mind that in the observed period, business relations were established with 3,121 users of international money remittances that often use this service. Parties mostly use cash for the realization of payment transactions, whereby the number of initiated transactions by paying cash to someone else's account (utility and other payments) decreased by 3.6% in 2023 compared to 2021, while the value increased by 13.7%, primarily as a result of inflation, i.e. rising prices utility services. The average value of a payment transaction in 2021 was cc 4,200 rsd, in 2022 it was 4,800 rsd, while in 2023 it was cc 5,600 rsd). The risk of this service is rated as medium considering the average amount of the transaction and the most common purpose of the transaction.

The share of transactions larger than 1,000 euros in the total number of cash transactions was only 0.4%. In the observed period, in the total value of payment transactions made through Institutions, Dinar transactions accounted for cc 86% and foreign currency (international remittances) with cc 14%. Although the intensive use of cash in this sector increases vulnerability, the nature and average value of transactions reduces vulnerability.

The issuance of e-money is still in its infancy, bearing in mind that there are six institutions licensed to issue e-money, with three institutions receiving the permit only in 2023. Issuance of e-money recorded a decline in 2022 and 2023 compared to 2021, because it was in 2022 that the e-money institution (which had the highest value of issued e-money) had its license to issue e-money revoked (among other things, due to inadequate implementation of the provisions of the AML/CFT Law), and the e-money institutions that in the meantime received permission to issue e-money until the end of 2023 did not start issuing it, i.e. at the end of this year no e-money was issued.

The law provides for an exception for the issuance of e-money, where issuers of e-money do not have to carry out CDD if, in accordance with the risk analysis, it is estimated that there is a low risk of money laundering or terrorism financing and if the following conditions are met: 1) amount E-money stored on the payment instrument cannot be topped up or maxed out the monthly payment limit is limited to 150 euros in Dinar equivalent and can only be used in the Republic of Serbia; 2) the maximum amount of stored e-money does not exceed 150 euros in Dinar equivalent; 3) the money stored on the payment instrument is used exclusively for the purchase of goods or services; 4) money stored on a payment instrument cannot be used in remote trade in the sense of the law regulating trade for initiating a payment transaction via the Internet or using means of remote communication, if the amount of the payment transaction exceeds 50 euros in Dinar equivalent value; 5) the payment instrument cannot be financed with anonymous e-money; 6) the issuer of e-money sufficiently monitors transactions or business relationships so that it can detect unusual or suspicious transactions; 7) there are no grounds for suspicion that money laundering or terrorism financing is involved; 8) it is not a question of buying e-money for cash or withdrawing cash in the value of e-money, where the purchased amount exceeds 50 euros in Dinar equivalent value. The set restrictions in the application of the mentioned exception led to the limitation of vulnerability of Institutions when using it. Namely, these restrictions are aligned with comparative practice

(European Union regulations) and are set to eliminate situations in which the risk of money laundering is not low. Apart from the condition that the obliged entity has assessed that there is a low risk, in order to avoid potential misuse of these services, low general monetary limits (total and monthly) and low special monetary limits in specific riskier situations (in the case of cash and the use of payment instrument for payments on the Internet), as well as the restriction of the use of a payment instrument for payment goods or services, limitation of replenishment of funds on the payment instrument, limitation of international transactions and prohibition of financing the instrument with anonymous e-money. Also, in order to avoid possible abuses that could not be foreseen, the issuer must be able to monitor these transactions. In practice, this exception is used to a very limited extent. From 2019 to 2022, only one e-money institution used the exception in respect of one payment instrument. The balance of the issued e-money stored on this payment instrument was in the amount of about 3 million Dinars, and it was accepted by about 20 business entities with which the institution had concluded contracts, while undertaking all actions and changes according to these business entities. After this institution was revoked (July 7, 2022), not a single institution issued e-money until the end of the reporting period. Bearing in mind that the materiality of this exception is low, and that strict restrictions on the use of this exception have been introduced in accordance with the best solutions from comparative practice, the vulnerability of this exception is assessed as low. The National Bank of Serbia carefully monitors the degree of use of this exception and, if necessary, will consider the need to introduce additional restrictions (as was the case in 2019, when restrictions and limits were tightened), as well as the exception itself.

Suspicious Activity Reports

On the basis of APML data concerning SARs filed by Institutions for activities made through the money transfer system (international remittances/money transfer) and by performing the service of transferring funds from or to a payment account, Institutions providing these services filed from 01/01/2021 to 31/12/2023 1,420 filed SARs (852 related to payment operations, while 468 related to money transfers). The increased volume of providing payment services has influenced the increase of SAR related to this service of Institutions. Taking into account the data held by Institutions on the users of payment services, it can be concluded that the quality of SARs is at a satisfactory level. For many persons identified in the SARs, the APML already opened a case, that is, they were already the subject of APML's scrutiny based on SARs filed other obliged entities or based on requests from other competent authorities or foreign counterparts. Most of the SARs, after analysis, were disseminated to the competent authorities for further action. When it comes to SARs involving money transfers, the downward trend in the number of SARs (already started in the period preceding this analysis) continues. This is the result of APML meetings with Institutions and training, which addressed issues such as the end of the migrant crisis, as well as the need for improved risk analysis instead of indicative reporting of suspicious transactions. The quality of reported SARs continues to improve. More detailed analyses are still being made before submitting SARs to the APML. Internet search, analysis of publicly available information and use of commercial databases can be noticed in the SARs filed by the Institutions. This led to a greater number of SARs where the connection with tax evasion is clearly visible. Inflows of funds to residents clearly indicate that these are no longer transactions related to migrants, but raise suspicions involving "freelancers"; the number of transactions is decreasing, while the value is increasing; significant inflows from overseas (USA) and developed countries (EU), on average of high values (not something indicative of transactions carried out for migrants). Outgoing money transfers suggests an increased number of persons from foreign countries working in Serbia and sending aid to their home country, while incoming money transfers mainly originate from

the USA and the EU and suggest they are either earnings to non-residents working from Serbia or aid from migrants who have already crossed into the countries of the West. Taking into account that, when it comes to money transfers, Institutions set relatively low limits, both in the value of individual transactions and the total value of executed transactions on a monthly basis, their services cannot represent a significant threat from the aspect of money laundering.

Other vulnerability factors

An assessment was made as to whether there are any additional factors that can make institutions vulnerable to the ML risk, and it was concluded that: 1) there is limited anonymous use of the product - the AML/CFT Law provided for an exception from CDD which gives issuers of e-money an option not to carry out CDD if, in accordance with the risk analysis, it estimated that there is a low ML/TF risk and if the conditions under the law are met; 2) limited existence of ML typologies in the area of abuse of international money remittance services - information on ML schemes and typologies is published on the APML website; 3) the limited use of this category of other financial institutions in fraud and tax evasion schemes - based on APML data from SAR analysis, in some cases a connection with tax evasion was observed; 4) limited possibility of indirect use of Institution's products - the use of e-money is possible in non-face-to-face setting, whereby e-money institutions are obliged under the AML/CFT Law to carry out CDD in accordance with the provisions of this law. Institutions enable the acceptance of payment cards on the Internet, and when establishing a business relationship with merchants and they are also obliged to apply adequate CDD in the course of that relationship. Bearing in mind that the Institutions enable the acceptance of payment cards in cooperation with banks that are members of card systems, merchants with whom a business relationship will be established are also subject to verification by the bank. Also, the National Bank of Serbia made it possible for Institutions in Serbia to establish a business relationship with the client through video-identification with the adoption of the Decision on the conditions and method of identifying and verifying the identity of a natural person using electronic means of communication. This further digitized financial services, taking into account all the risks of money laundering and terrorism financing that this method of client identification implies, in accordance with the best international practice. Therefore, this decision sets out in detail the conditions that the Institution must fulfil in order to be able to identify and verify the identity of a natural person using means of electronic communication (i.e. video identification), and the Institution's duty to inform the National Bank of Serbia about the fulfilment of the required conditions is laid down before the introduction of this services. In the observed period, not a single institution offered users the possibility of video identification.).

Conclusion

The most significant factors that led to the vulnerability assessment are the intensive use of cash, which affects the increase of vulnerability, while the nature and average value of transactions and the very small participation of transactions of a larger amount affect the reduction of vulnerability, as well as the significant reduction of issued e-money. Residual risk is increased by insufficiently frequent onsite supervision. In this sense, despite the fact that there was no particular reason for concern, i.e. that the consequences are not particularly significant due to the limited possibilities for money laundering through the Institutions, it is necessary to intensify the supervisory activities of the National Bank of Serbia in the field of supervision over the Institutions, so that the supervisor is fully convinced that it has a real picture of this sector, and how to rectify potential shortcomings in the Institution's work on

time and avoid possible harmful consequences. This should, in particular, be done by intensifying onsite supervision and targeted controls in the areas of greatest risk.

Authorized currency exchange operators

General description of the sector and its structure (materiality)

Exchange operations are exclusively operations of providing services - buying from natural persons and selling to these persons effective foreign money and checks denominated in foreign currency.¹⁰⁴ An authorized currency exchange operator may carry out exchange operations at one or more exchange offices, and for each exchange office an authorization from the National Bank of Serbia is obtained.

The sector of authorized currency exchange operators in Serbia is assessed as moderately vulnerable.

The size of the currency exchange sector based on the number of business entities that perform this activity is variable, bearing in mind that on a daily basis, decisions are made on the issuance/revocation of authorization to perform exchange operations, and as of December 31, 2023, 2,169 entities were registered as performing currency exchange operations at 3,104 exchange offices. Based on the number of authorized currency exchange operators and currency exchange offices by years, there was a slight decrease in the number of registered authorized currency exchange operators and a relatively stable number of currency exchange offices, as shown in Table 1.

Table 1 - Number of authorized currency exchange operators and exchange offices

Year	total number of currency exchange operators	number of exchange offices
2021	2.174	3.092
2022	2,248	3.204
2023	2.169	3.104

In the observed period, 1,117 authorizations were issued for the performance of exchange operations. The decision on revocation of authorization to perform money exchange operations is made at the request of the client or when the authorized currency exchange operator no longer meets the prescribed conditions (*ex officio*). There were 577 decisions on revocation of authorization to perform exchange operations at the request of the client and 558 decisions on revocation of authorization *ex officio*. The National Bank of Serbia conducts detailed entry controls in accordance with the regulatory framework, which, among other things, include checking the suitability of owners/founders and significant managers (so-called *Fit&Proper* checks).

Table 2 - Data on issuance/revocation of authorizations

Year	Decisions issuing authorization	Decisions revoking authorization
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¹⁰⁴ Foreign exchange operations are governed in the Law on Foreign Exchange Operations ("Official Gazette of the RS", no. 62/2006, 31/2011, 119/2012, 139/2014 and 30/2018), and the detailed conditions and manner of performing these operations are regulated by the Decision on conditions and manner of performing foreign exchange operations ("Official Gazette of RS", no. 84/2018, 86/2018, 53/2020, 32/2022, 67/2022 and 39/2023).

	new currency exchange operators	new exchange offices	relocation	data change	Stricken off at the request of the client	Stricken off <i>ex officio</i>
2021	132	88	45	90	215	228
2022	130	79	42	93	198	254
2023	161	81	46	130	164	76
In total	423	248	133	313	577	558

Decisions on revocation of authorization can be made based on the client's request, or *ex officio*, when a supervisory examination finds that the authorized currency exchange operator does not meet the conditions for performing money exchange operations.

The National Bank of Serbia, based on territorial affiliation, classifies obliged entities into four regional units, namely: Belgrade, Niš, Novi Sad and Kragujevac. The territorial distribution of authorized currency exchange operators and exchange offices shows that 39.97% of authorized currency exchange operators and 43.94% of exchange offices are registered in the territory of the Belgrade region, while the smallest representation of authorized currency exchange operators is registered in the territory of the Niš region, i.e. 16.56% and 14.56% of exchange offices. The shown territorial distribution of authorized currency exchange operators for 2023 is approximately the same for a longer period.

Table 3 - Regional distribution of authorized currency exchange operators and exchange offices

Area	Number of authorized currency exchange operators	%	exchange offices	%
Belgrade	867	39.97	1364	43.94
Novi Sad	519	23.91	663	21.36
Niš	359	16.56	452	14.56
Kragujevac	424	19.56	625	20,14

From the aspect of the legal form, 81.30% of authorized currency exchange operators are entrepreneurs, 18.04% LLCs, while other legal forms are represented with percentages below 1%.

Table 4 - Structure of obliged entities per form of organization in 2023

Number of authorized currency exchange operators	2.284	%
entrepreneurs	1.857	81.30%
partnerships	10	0.44%
limited liability companies	412	18.04%
joint stock companies	3	0.13%
agricultural cooperatives	2	0.09%

Based on the data on the legal entity paid-in founding capital of authorized currency exchange operators as on December 31, 2023, it can be stated that authorized currency exchange operators operate with paid-in monetary and non-monetary capital in the amount of around RSD 41,827.38 million. Of the total amount of founding capital, 64.81% is founding capital of domestic origin (about 27,107.71 million RSD), and non-resident founding capital of authorized currency exchange operators represents a total of 35.19% of the total founding capital (about 14,719.66 million RSD). The founders of the exchange operators, who are non-

residents, have capital origins from Greece, China, Cyprus, Slovenia, Hungary, Turkey, the Netherlands and Germany.

Of the total number of authorized currency exchange operators as of December 31, 2023 (1,737), 80.08% are registered as entrepreneurs.¹⁰⁵ Bearing in mind the provision that the entrepreneur is responsible for all obligations arising in connection with the performance of his/her activity with his/her entire property and that this property includes the property he/she acquires in connection with the performance of the activity, the founding structure of the entrepreneur was not considered.

Factors influencing system vulnerability

From the data about the size of the currency exchange sector based on sector turnover¹⁰⁶, we see it amounted to 15.944 billion euros in 2023 (13.944 billion euros in 2021, 15.437 billion euros in 2022). The total turnover, the number of executed transactions and the average value of the executed transaction are shown in Table 5.

Table 5 - Traffic data based on submitted traffic reports by year

year	Total value of transactions in billions of euros	Total number of transactions	Average transaction value in euros	Number of purchase transactions	The average value of the purchase transactions in euros	Number of sales transactions	The average value of the sales transactions in euros
2021	13,944	63,965,768	218	52.134.441	143	11,831,297,	462
2022	15,437	71,796,129	215	59,128,822	158	12,667,307	477
2023	15,944	72.207.392	220.82	58,934,381	164.62	13.273.011	470,31

Based on the turnover data, it can be concluded that in the money exchange sector there are a large number of transactions with an average low value, with the share of transactions of purchase of effective foreign currency representing a larger share in the total number of transactions. In particular, we point out that the representation of non-resident parties in the total turnover of authorized currency exchange operators in 2023 was 0.133%, which in the best way indicates that the representation of cross-border threats in the total turnover is negligible.

The perceived risk of authorized currency exchange operators in the course of 2023 from the aspect of preventing money laundering and terrorism financing indicates that the weighted¹⁰⁷ rating of the entire sector of authorized currency exchange operators from the aspect of money laundering vulnerability is 1.733.¹⁰⁸ The largest number of authorized currency exchange operators, 353 (15.4% of the total number), was rated 1.79.¹⁰⁹

¹⁰⁵ Article 85 of the Law on Business Companies ("Official Gazette of RS", no. 36/2011, 99/2011, 83/2014 - other laws, 5/2015, 44/2018, 95/2018, 91/2019 and 109/ 2021)

¹⁰⁶The turnover of authorized exchange offices is shown from the reports submitted in the MEPO application; for authorized currency exchange operators without the turnover of damaged, out-of-circulation and foreign currencies and without the turnover of banks in the part of exchange operations

¹⁰⁷A risk assessment that takes into account the prevalence of currency exchange operators

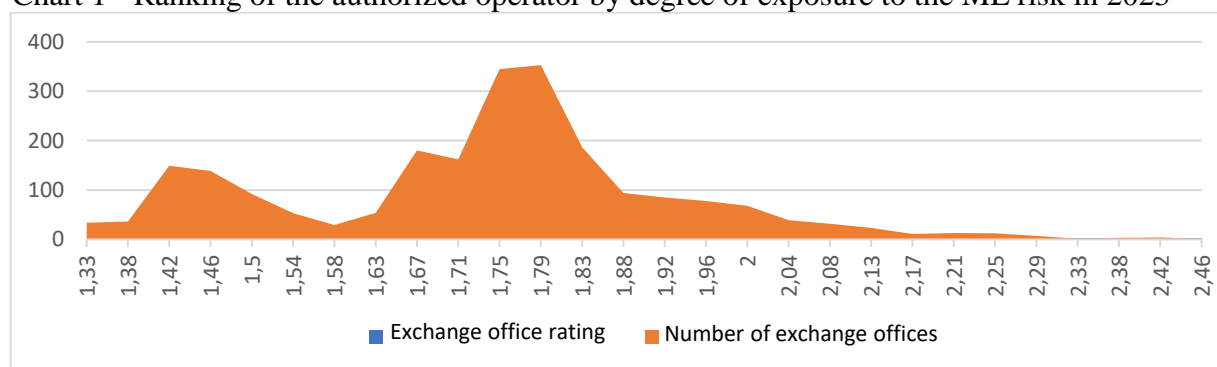
¹⁰⁸ The ranking of an authorized currency exchange operator can range from 1 to 2.67, where 1 is the least risky, and the coefficient 2.67 represents the riskiest authorized currency exchange operators, with the coefficient 1 being the least risky, while the coefficient 2.66 represents the riskiest authorized currency exchange operators by applying these matrices.

¹⁰⁹The risk ranges represent the following values: from 1 to 1.55 low-risk authorized currency exchange operators, from 1.56 to 1.99 medium-risk authorized currency exchange operators and from 2 to 2.67 high-risk authorized currency exchange operators.

Table 6 - The ranking range for authorized currency exchange operators by threat level in 2023

	Low risk Range 1- 1.55	%	Medium risk Range 1.56- 1.99	%	High risk Range 2.00- 2.67	%
Number of currency exchange operators	503	22.02	1.567	68,61	214	9.37

Chart 1 - Ranking of the authorized operator by degree of exposure to the ML risk in 2023



Based on the data on the size of the authorized currency exchange operator based on the number of currency exchange offices for the period 2021-2023, it can be concluded that about 81% of the authorized currency exchange operators perform exchange operations at one exchange office and that the largest number of authorized currency exchange operators hires two to four workers.

Supervision carried out, results of supervision and irregularities found

The National Bank of Serbia, in carrying out its supervisory function at exchange offices, conducts continuous supervision, through offsite and onsite supervision, based on risk assessment.

When drawing up the supervision plan, we start from the NRA findings, look at the structural and inherent risk of each individual operator, in terms of volume of turnover, number, amount and frequency of transactions, location, number of exchange offices, previous irregularities, etc.

In the observed period (2021-2023), a total of 8,553 inspections were carried out, which included ML issues, namely: 659 onsite and 7,894 offsite.¹¹⁰ The territorial distribution of the performed supervision roughly corresponds to the territorial distribution of the obliged entities.

Table 7 - Data on the number of performed inspections

year	number of onsite inspections	number of offsite inspections	
		Control of Annual Reports	Questionnaire control

¹¹⁰ Offsite supervision is performed by analyzing the data submitted at the request of the National Bank of Serbia from the Questionnaire on the implemented activities of currency exchange operators in the field of preventing money laundering and terrorist financing, Annual reports on the internal control performed and the measures taken after that control

2021	184	927	2,710
2022	236	725	1,440
2023	239	784	1.308

Where in the course of supervision it finds illegality or irregularities, the National Bank of Serbia may request that they be remedied within the time limit it sets, it can issue a decision on a temporary ban on the performance of exchange operations at the supervised exchange office or all exchange offices for a period of up to 30 working days, as well as to revoke the authorization to perform exchange operations at a controlled exchange office or all exchange offices. In the observed period, 49 decisions were made ordering authorized currency exchange operators to eliminate irregularities in the performance of money exchange operations.

Based on the identified irregularities in the inspection procedures in the observed period, 47 requests were submitted for the initiation of misdemeanor proceedings¹¹¹ due to acting contrary to the provisions of the AML/CFT Law (in 2021 - 11 requests, in 2022 - 11 requests and in 2023 - 25 requests).

The submitted requests refer to the following violations: the authorized currency exchange operator did not appoint a compliance officer and a deputy of a compliance officer to carry out operations in accordance with the Law on the Prevention of Money Laundering and Financing of Terrorism, the authorized currency exchange operator failed to provide to the APML the personal name and job title of the compliance officer and his/her deputy, failed to perform actions and measures to identify of client when performing two or multiple related transactions, failed to apply a list of indicators for identifying persons and transactions for which there are grounds for suspicion of money laundering or terrorism financing, failed to provide the Administration for the Prevention of Money Laundering with data related to cash transactions, failed to prepare an annual report on the internal control performed and the follow up measures taken, failed to take actions and measures to identify the client, failed to apply the indicators for suspicious transactions.

Also, 12 economic offense reports were submitted¹¹² for acting contrary to the Law on the Prevention of Money Laundering and Financing of Terrorism because the authorized currency exchange operator - legal entity, failed to: make a Decision on the appointment of a compliance officer of his deputy for the performance of certain actions and measures for the prevention of money laundering; to submit data to the APML on the personal name and job title of the compliance officer and his deputy for the performance of certain actions and measures for the prevention of money laundering; to submit to the APML the data on cash transactions¹¹³.

In the period 2021-2023 106 verdicts for misdemeanors stipulated in the AML/CFT Law were shared with the National Bank of Serbia.¹¹⁴ Table 7 shows an overview of verdicts for offenses under the AML/CFT Law by year.

Table 8 - Overview of verdicts for misdemeanors under the AML/CFT Law

Year	The number of court decisions	Total fines imposed
2021	24	RSD 280,000.00
2022	41	RSD 478,000.00

¹¹¹ Misdemeanor proceedings are initiated where the authorized exchange is in the form of entrepreneur (sole proprietorship).

¹¹² Proceedings for commercial offense are initiated when the authorized exchange is in the form of a company

¹¹³ In one case, a request for economic offense was filed for two related transactions totaling CHF 43,000

¹¹⁴ We point out that some of the submitted court decisions refer to requests submitted in previous years, due to the length of court proceedings

2023	41	RSD 635,000.00
Total	103	RSD 1,393,000.00

The National Bank of Serbia regularly submits appeals against delivered court decisions with the aim of tightening the sanctioning practice, which has the effect of raising awareness of the importance of compliance with regulations in this area. The National Bank of Serbia believes that the sanctioning policy should be stricter, which is why it is considering proposing the introduction of the possibility for the National Bank of Serbia to impose fines in administrative proceedings, which has proven to be a more effective mechanism in the case of all other obliged entities under the supervision of the National Bank of Serbia.

The effectiveness of supervision over this segment of obliged entities should also be seen from the aspect of the stable number of employees who perform these tasks (2021-26 employees, 2022-27 employees and 26 employees in 2023).

Risk

Exchange transactions are transactions of buying and selling effective foreign currency and there is no such thing as an "exchange product". The activity of a currency exchange operator is reflected in a transaction, which is performed with a natural person who sporadically or on an *ad hoc* basis requests the performance of the transaction (without establishing a business relationship), which is always present at the exchange office and which is always performed in entirety, in cash and at the time of performance of the transaction. In the supervision process, attention is focused on authorized currency exchange operators who, in addition to money exchange operations, also perform other activities or currency exchange operations in locations of increased risk (highways, airports, ports, areas arranged for organizing special games of chance, etc.) In particular, there are jobs that, as another activity, currency exchange operators perform as representatives of non-bank payment service providers, and this is addressed in the part of the risk assessment that refers to these institutions.

Data on the quantity and quality of suspicious transaction reports

Based on the data received from the APML in the specified period, authorized currency exchange operators submitted a total of 92 reports on suspicious activities (in 2021 - 16 reports, in 2022 - 39 reports and in 2023 - 37 reports). A comparative analysis of the number of SARs for the period covered by the previous NRA shows a slight increase in their number. After analyzing the filed SARs, the APML decided to disseminate the data contained in 4 reports to the competent prosecutor's offices.

The total amount of money contained in the SARs amounts to EUR 9,345,791.87.

Table 9 - Overview of values reported by suspicious activities

year	purchase	sale
2021	1,084,826.56	744,387.46
2022	2,525,293.24	2,259,121.06
2023	1,533,532.07	1,198,631.48

The SARs involve 79 domestic natural persons (two officials) and six foreign natural persons (three from China and one each from Montenegro, the Russian Federation and Morocco).

Taking into account the total turnover and the number of transactions performed by authorized currency exchange operators, it can be concluded that the number of SARs filed is insufficient. Also, the explanations of suspicion in the SARs are not always comprehensive.¹¹⁵

Training

The National Bank of Serbia conducts training for obtaining a certificate, and after the training, it tests the knowledge of persons/employees who will directly carry out foreign exchange operations. In the observed period (2021-2023), 30 training events were held with and 3,072 persons for obtaining the certificate to perform foreign exchange operations. In the same period, there were no cases of rejection of requests for attending training and obtaining a certificate for performing exchange tasks due to a person's being convicted (criminal record).

Employee integrity

In terms of integrity, the persons who perform foreign exchange operations, in addition to having to hold a certificate for performing exchange operations, are also obliged to fulfil the following conditions: not to have been convicted in a final decision of any of the criminal offenses against the economy, property, life and body, public order and peace, official duties and legal instruments, for criminal offenses of money laundering and terrorism financing and/or for other criminal offenses and/or economic offenses that make that person ineligible for performing foreign exchange operations.

The results of the supervision showed that the compliance officers did not take disciplinary measures against the employees.

In order to better inform and educate authorized currency exchange operators, the NBS and APML posted a number of documents on their websites about AML/CFT: laws and by-laws (regulations, guidelines, instructions, lists of indicators for reporting suspicious transaction and other acts), informative papers (e.g. Recommendations for reporting suspicious activities), FATF recommendations, etc.

Currency exchange operations means buying and selling effective foreign currency *ad hoc* from/to natural persons, so the presence of cash in this sector is 100%. This is a type of service in which the business relationship with the client is not established. In the sector, there are no clients who are legal entities, no arrangements with complex and non-transparent ownership and management structures, no unregistered entities or registered ones that provide professional intermediary services in jurisdictions with a low level of control mechanisms for preventing money laundering and terrorism financing, etc. In the currency exchange sector, transactions are not carried out through representatives, but currency exchange operators often act as representatives of non-bank payment service providers. In the currency exchange sector, anonymous use of products is available in certain cases (authorized currency exchange operator is obliged to identify the client in cases set out by the Law on Prevention of Money Laundering and Financing of Terrorism, but they can identify the client whenever performing a transaction), even though the transactions are recorded through software and are easy to identify. There is an ML typology involving the abuse of currency exchange operators; however, their use in fraud or tax evasion schemes is very rare. A natural person is always present at the exchange office, so there is no indirect use of the product.

Provision of currency exchange services through currency exchange ATMs has invited special attention of the supervisory authority, because authorized currency exchange operators

¹¹⁵ The SARs filed usually include only one ML/TF indicator, without substantiating data that could indicate a well-founded suspicion concerning the criminal origin of the money or other such circumstances that would be of importance for the future case.

showed interest in this type of service. Namely, currency exchange transactions using ATMs are performed without the presence of any employees, they are located in busy areas, which reduces the possibility of applying all customer monitoring measures.

Acknowledging the geographic risk of certain authorized currency exchange operators, as well as the risk of service provision through ATMs, the National Bank of Serbia amended *the Decision on the conditions and manner of carrying out currency exchange operations*, specifying and additionally regulating the performance of activities at international airports or ports, in the area behind the place where border checking of persons is performed, and/or in a dedicated area for providing special games of chance (hereinafter: restricted zone). In such cases, the authorized currency exchange operator is obliged to indicate this in their request, to enter, whenever it sells or purchases currency at the exchange office located in the restricted zone, the personal details of the resident/non-resident, from a valid ID card or passport, which makes the NBS supervision more efficient.

The same regulation expands the obligation of the authorized currency exchange operator, and makes it stricter, to have video equipment that enables continuous video recording of the cash register and storage of videos for the last at least 30 working days, which directly enables the supervisory authority to identify suspicious and related transactions.

Product risk

The inherent vulnerability score for currency exchange operators, and the final vulnerability rating for currency exchange operators is medium.

Conclusion

The specificity of the sector is reflected in the constant change in the number of authorized currency exchange operators, as a result of the issuance and withdrawal of authorization to perform money exchange operations, so one of the constant compliance risks (despite the measures taken by the supervisory authority) is the possible insufficient knowledge of newly registered currency exchange operators as to compliance with the legislation. Exchange operations are mainly performed by entrepreneurs with a small number of employees, at busy locations, often performing some other economic activity, which might reduce the level of attention they apply to AML measures. In 2024, in order to reduce the residual risk of newly registered authorized currency exchange operators, the National Bank of Serbia introduced the practice of submitting a list of obligations, actions and measures in the field of money laundering prevention that the authorized currency exchange operator should take in their operations.

Life insurance market

General description of the sector and its structures (materiality)

The life insurance sector in Serbia is assessed as low vulnerability for ML.

At the end of 2023, there were ten obliged entities operating on the life insurance market in Serbia, four of which dealt with life insurance only, and six with both life and non-life insurance. All companies were registered in Belgrade, except for one which was registered in Novi Sad.

One company is domestically owned, nine are foreign owned.

Six more non-life insurance companies and four reinsurance companies operate on the Serbian market, but they are not obliged entities under the AML/CFT Law, which is why they are not the subject of this analysis and assessment.

All insurance companies that operate based on a license from the National Bank of Serbia are registered in the Serbian Business Registers Agency as joint stock companies under activity code 6511 - life insurance.

There are also forty-six life insurance intermediaries operating on the market, who are treated as obliged entities, thirty-three of which are registered in Belgrade, four in Novi Sad, two in Pančevo, and one each in Kragujevac, Kraljevo, Šabac, Bačka Palanka, Bačka Topola, Zrenjanin and Subotica.

All insurance brokers operating with a license from the National Bank of Serbia are registered with the Serbian Business Registers Agency as LLCs under activity code 6622 - insurance brokerage companies.

The balance sheet value of the insurance sector (with reinsurance) at the end of 2023 amounted to 3,204 million euros (375,484 million Dinars), while 2,565 million euros (300,592 million Dinars) of this amount involves insurance companies that perform life-insurance business, while the balance sheet amount which involves life insurance only, amounts to 1,285 mln euros (150,629 million Dinars).¹¹⁶ In 2023, the average premium for a life insurance contract is 300 euros, while the situation is similar with annuity insurance (~300 euros). The average premium of supplementary life insurance under per contract is slightly less than 25 euros. Life insurance related to investment funds units generate an average premium per contract of around 580 euros, but have a negligible share in the total premium of life insurance.

In the total balance sheet of the financial sector supervised by the National Bank of Serbia (6,534 billion Dinars), which in 2023 amounted to about 80% of GDP, the banking sector is represented by 90.9%, while insurance, as per the balance sheet, capital and number employees, ranks second with 5.7%.

In 2023, insurance companies realized a total premium of 1.3 billion euros (155.3 billion Dinars). In the premium structure in 2023, the share of non-life insurance was 80.3%, while the share of life insurance was 19.7%, due to the higher nominal growth of the non-life insurance premium (18.6%) than the growth of the life insurance premium (6.3 %).

Factors influencing system vulnerability

The insurance sector is governed by the Insurance Law.¹¹⁷ The decision related to the issuance of permits and consents by the National Bank of Serbia¹¹⁸ is aligned with the recommendations of the Moneyval Committee, while the fit and proper requirements, related to "clean criminal record" (no conviction for criminal and other punishable acts), have been met by are applied: 1) to the founder, acquirers of shares, persons appointed for members of the management body as well as beneficial owners and associates of the mentioned persons; 2) equally to legal and natural persons founders, that is, acquirers of ownership.

An effective sanctioning regime is available, since punishment is carried out according to the sectoral law, which allows for a wide range of administrative sanctions, from sending a written warning for minor violations to fines for the company and members of the management, to the revocation of the company's license in case of more serious violations of regulations, or dismissal of the management's members.

Bearing in mind the still insufficient development of life insurance in Serbia, as well as the structure of insurance products, which is based on traditional products, the opportunities

¹¹⁶According to the official median exchange rate of the National Bank of Serbia on December 31, 2023.

¹¹⁷Insurance Law ("Official Gazette of the RS", no. 139/2014) and amendments to that law published in the "Official Gazette of the RS", no. 44/2021.

¹¹⁸Decision on the implementation of the provisions of the Insurance Law relating to the issuance of a license to perform insurance/reinsurance operations and certain approvals of the National Bank of Serbia ("Official Gazette of the RS", no. 55/2015, 69/2015 - correction, 36/2017 and 29/ 2018 and 44/2024).

for money laundering are relatively small, i.e. the sector is not attractive for such purposes, which is the main factor in the low vulnerability of this activity. The introduction of life insurance products, which are particularly risky from the point of view of money laundering and terrorism financing, is still in the initial phase, so the structure and representation of life insurance products on the market has not changed since the previous NRA.

Supervision performed and its results

Supervision, in accordance with the Law on Insurance, is carried out through offsite and onsite inspections. In addition to insurance companies that have a license to carry out life insurance, supervision is also carried out at insurance brokering companies when they perform life insurance brokering activities. Risk-based is approach when performing supervision. It is estimated how much the supervised entity is exposed to the ML/TF risk, then how well it manages that risk and finally what the net risk is, as a basic input when laying down inspection activities. According to the current assessment, the inherent risk is low to medium low, the management is adequate, so the residual risk is also low. This is confirmed by the individual risk assessments that are done on an annual basis for all obliged entities.

Onsite inspections are carried out on the basis of the annual plan. AML/CFT inspections carried out in the period 2021-2023 were only specific and targeted. In the period 2021-2023 180 offsite inspections in the field of insurance were carried out based on the answers to the submitted questionnaires. Three onsite inspection procedures were carried out, which resulted in imposition of supervisory measures on insurance companies, as well as one follow-up onsite inspection. The most significant results of these control procedures are related to raising the level of importance and quality of the function of preventing money laundering and terrorism financing in insurance companies (e.g. organizational changes with the aim of more adequate positioning toward the top management), full harmonization of the provisions of all internal acts with the AML/CFT regulations, as well as editing the files of all clients to ensure completeness of the documentation related to the ML/TF issues. Several written warnings were issued and orders were issued to insurance companies to improve their ML/TF risk management systems, and the orders were duly complied with. In this way, the insurance activity has been further strengthened in terms of its ability to manage this risk, the objective level of which, as already indicated, has not fundamentally changed (increased) in relation to the previous NRA.

Client risk

At the end of 2023, the total number of clients was 406,808, of which the representation of non-residents was only 1,104. Of the total number of clients, 97.24 were classified as low risk, 2.25% as medium risk and 0.52% as high risk.

Below is the overview of structure per residency and risk category.

Residents:	On 31/12/2023 (%)	Non-residents:	On 31/12/2023 (%)
High risk	0.51	High risk	2.54
Medium risk	2.24	Medium risk	4.53
Low risk	97.25	Low risk	92,93

The total number of high risk clients (residents and non-residents) as on 31/12/2023	2,503
Natural persons	2,344

Legal entities	159
Entrepreneurs	0

Presentation of high-risk clients by risk profile, as of December 31, 2023:

Resident natural persons in total	PEP	Without physical presence	One-off premium over 15,000 euros	Change of name/ surname	Connection with offshore companies	Disproportion between the profile of the client and the amount of the payment	Other (internal) criteria
2,329	570	382	512	-	-	-	865

Non-resident natural persons in total	PEP	Without physical presence	One-off premium over 15,000 euros	From countries high risk	Change of name/ surname	Connection with offshore companies	Disproportion between the profile of the client and the amount of the payment	Other (internal) criteria
15	5	0	5	3	-	-	-	12

Resident legal entities in total	Offshore in the ownership structure	Trust in ownership structure	Other (internal) criteria
156	40	5	111

Non-resident legal entities in total	Offshore in the ownership structure	Trust in ownership structure	Other (internal) criteria
3	0	0	3

Looking at the representation by country in the structure of non-resident clients, Bosnia and Herzegovina is the most represented with 23.62%, followed by Montenegro with 15.58%, Germany with 8.54%, North Macedonia with 7.54%, Croatia with 7.04%, Austria with 5.03%, Russian Federation with 3.52%, Italy with 2.51% while in other countries, the representation is below 2%. The conclusion is that the geographical factor does not have a significant impact on the vulnerability of this sector, given that, logically, the most represented countries are from the surrounding area and countries where there are a lot of citizens of Serbia on temporary work.

Product risk

All products available in the insurance sector are rated as low vulnerability, including: low premium life insurance policy; a life insurance contract where the single premium instalment or multiple instalments of the insurance premium, to be paid in one calendar year, does not exceed the total amount of 1,000 euros in Dinar equivalent or if the payment of a one-off premium does not exceed the amount of 2,500 euros in Dinar equivalent; life-insurance policy in case of death which cannot be used as a collateral.

All types of life insurance in Serbia are divided into three groups, namely: Individual (non-group) mixed life insurance (life insurance in the event of death and in the event of survival and supplementary life insurance against the consequences of an accident/illness); Group (collective) mixed life insurance (life insurance for death and survival) and Annuity life insurance. The following criteria were used to evaluate the product: the total value/size of the product, the use of representatives, the profile of the main clients, the availability of a policy with investment characteristics, the level of cash activity, the possibility of cross-border use of

the product, the possibility of anonymous use of the product, indicators of product misuse in money laundering typologies, significant use of the product works tax evasion or in fraudulent schemes, difficulties in tracking data on payments based on these products.

Individual (non-group) mixed life insurance has the largest market share in life insurance. However, prevalence of very rich individuals, foreign and domestic officials, foreigners in general is very low in this product, and a negligible number of clients are classified into several risk groups. The availability of the policy with investment features is only available with this product but limited. Products that include an investment component (and as such are particularly interesting from the point of view of money laundering) are still in development and record slight growth by year (2021 - 6,588; 2022 - 8,362; 2023 - 11,056 contracts), however the representation of these contracts in life insurance contracts is still at a low level (0.7% of total concluded contracts, i.e. 2.5% of life insurance) compared to traditional life insurance products.

Relative representation Annuity life insurance is almost negligible. Due to its nature (one-off payment and periodic payments), this product is considered the most vulnerable from the ML/TF point of view. However, its negligible representation makes it impossible for such contracts to be used for ML or TF, because due to the payment itself, which usually exceeds 15,000 euros, they are immediately considered suspicious and reported to the APML.

The sale in Serbia of insurance products of foreign insurance companies, i.e. insurance companies that do not have a license to sell insurance in Serbia, is prohibited. Also, it is impossible to achieve any financial effect abroad through life insurance policies obtained in Serbia, i.e. from insurance companies licensed to sell insurance in Serbia. It is also a specificity that there is no cash activity as all insurance contracts are paid by transfer from bank accounts. Anonymous use of life insurance products is impossible in Serbia. There are no known examples of life insurance products being used to avoid paying taxes (because there are no tax incentives for life insurance), nor is anyone known to have been harmed by a fraudulent scheme involving a life insurance policy.

Suspicious activity detected and reported

The following table shows an overview of reported suspicious transactions in the last three years in the insurance sector:

	year			
	2021	2022	2023	Total
Number of reported suspicious transactions	27	13	15	55

The subjects of the SARs were 77 domestic natural persons, six domestic legal entities (all registered in the form of LLC) and three entrepreneurs. The total amount of money in the observation period contained in the reports on suspicious transactions amounts to 4,907,764 euros. The data contained in four reports were shared by the APML to the competent prosecutor's offices. In most of the SARs, the assessment of the client's activities by the obliged entity was not adequate, i.e. there was no reason for reporting the persons and their activities. Also, the impression is that in many cases, obliged entities report clients only when the insured sum is paid out, i.e. insurance benefits, while less attention is paid to determining the origin of the property when concluding the contract and paying the premium.

Conclusion

At the current level of development of life insurance, this sector is not attractive for money laundering purposes, which is the main factor for low vulnerability assessment for this activity. It is also supported by the elimination of practically all cash transactions from the sector, but also the strong commitment of insurance companies to continuously strengthen their ML prevention mechanisms and associated adverse events. In addition to the above, the life insurance sector is based on traditional products, where the opportunities for ML are relatively small, given that the main motive for their purchase is protection, not profit. The investment component in life insurance products is legally possible, but in practice it is an ephemeral phenomenon. Also, there is no reason for supervisory concern regarding the integrity of employees, knowledge of the AML/CFT area by employees, regular training of employees, and efficiency of the business compliance function. In addition to the above, strict market entry control is implemented through licensing procedures, with control mechanisms being continuously improved in order to reduce residual risk. The inherent risk is adequately managed and no significant residual risk has been identified. However, the qualitative value of the report and the correct assessment of suspicious activities by the obliged entity is what should be focused on in trainings in the coming period.

Voluntary pension fund management companies

General description of the sector and its structures (materiality)

The sector of voluntary pension funds in Serbia is, from the point of view of opportunities for money laundering, assessed as low vulnerability.

At the end of 2023, there were four companies - obliged entities operating on the VPF market in Serbia, one of which is domestically owned and three are majority foreign owned. All of them are registered in Belgrade, all of them have been licensed by the National Bank of Serbia, and they are registered in the commercial register under code 6530 - pension funds.

There are also two custody banks on the market¹¹⁹, as well as six legal entities that perform brokering activities¹²⁰ (five banks and one insurance company), but all of these entities are already treated as obliged entities.

Assets managed by VPF management companies (distributed in a total of seven pension funds) as on 31/12/2023 is 53.8 billion Dinars. In relation to the total financial sector supervised by the NBS, the share of VPFs is 0.8%, and the share of net assets of all VPFs in the gross domestic product of Serbia (GDP) is 0.7%.

The average contribution payment at the end of 2023 was 5,105.06 Dinars or 44 euros.¹²¹ The average amount of a one-off payment was 435,467.87 Dinars or 3,176 euros.

Factors influencing system vulnerability

The activity of VPF in Serbia is regulated by the Law on Voluntary Pension Funds and Pension Plans.¹²² The regulation - Decision related to the issuance of permits and consents of

¹¹⁹ Custody Bank is a bank that opens a cash account of a voluntary pension fund, collects pension contributions and pays out accumulated funds to fund members, opens and maintains securities accounts that make up the assets of a voluntary pension fund with the Central Securities Register in its own name, and for the account of members voluntary pension fund (collective custody account) and performs other custody services for the voluntary pension fund account

¹²⁰ The Voluntary Pension Fund Management Company can directly or through an intermediary perform services of providing information on membership in the voluntary pension fund, other actions that inform interested parties about the operation of the voluntary pension fund, as well as the distribution of prospectuses.

¹²¹ According to the official middle exchange rate of the National Bank of Serbia on December 31, 2023.

¹²² "Official Gazette of RS", no. 85/2002 and 31/2011

the National Bank of Serbia¹²³ is harmonized with the recommendations of the Moneyval Committee, concerning the requirements for a "clean criminal record" (not having been convicted of criminal and other punishable acts), and this applies: 1) to the founder, acquirers of shares, persons who are appointed as members of the management body as well as beneficial owners and associates of the mentioned persons; 2) equally to both legal and natural persons founders, that is, acquirers of ownership.

An effective sanctioning regime is available, since sanctioning is carried out according to the sectoral law, according to which a wide range of administrative measures is defined, from sending a written warning for minor violations of the regulations to fines for the company and members of the management, up to the revocation of the company's license in case of more serious violations of regulations, i.e. dismissal of members administration.

According to the regulations of Serbia, the so-called "third pillar of pension insurance" is regulated in such a way that it is not at all suitable for ML, due to the extremely difficult and strictly controlled conditions for withdrawing funds from the VPF, which is the main factor in the low vulnerability of this activity. The key population group is employed persons, namely those who work for employers willing to organize a pension plan. Certainly, the service of voluntary pension funds is also available to other citizens (up to 70 years of age) for individual contracting.

Supervision performed and its results

Supervision is carried out through offsite and onsite inspections. From 2021 to 2023, in addition to regular offsite supervision (25 offsite inspections were carried out using questionnaires), one targeted onsite AML inspection was also carried out, in connection with which follow-up communication was carried out with the APML about the need to strengthen the role of the AML compliance officer in VPF management companies. The inspections found that the VPF sector is adequately protected against ML and TF. The inherent risk is low to medium low, the management (control) is adequate, so the residual risk is also low. This is confirmed by the individual risk assessments that are done on an annual basis for all obliged entities.

Client risk

At the end of 2023, the total number of clients was 275,928, of which the share of non-residents is 0.68%. All are natural persons. Below is the structure by residency and risk category.

Residents:	On 31/12/2023	Non-residents:	On 31/12/2023
High risk	0.46	High risk	1.22
Medium risk	12.65	Medium risk	8.33
Low risk	86,89	Low risk	90.45

Presentation of high-risk clients by risk profile, as of December 31, 2023:

¹²³Decision on the detailed conditions and manner of issuing permits and consents to the VPF management company ("Official Gazette of RS", No. 29/2018).

Resident natural persons in total	PEP	Associated with the functionary	Without physical presence	Change of name/ surname	Connection with offshore companies	Disproportion between the profile of the client and the amount of the payment	Other (internal) criteria
1,278	389	30	26	-	6	-	833

Non-resident natural persons in total	PEP	Without physical presence	From high risk countries	Change of name/ surname	Connection with offshore companies	Disproportion between the profile of the client and the amount of the payment	Other (internal) criteria
23	1	-	-	-	-	-	22

According to the representation by country in the structure of non-resident clients, Bosnia and Herzegovina is the most represented with 31.72%, followed by Croatia with 24.37% and Montenegro with 18.20%. They are followed by the Russian Federation with 11.92%, North Macedonia with 2.61% and Slovenia with 2.45%. The share of other countries goes up to 1%. The conclusion is that the geographical factor does not have a significant impact on the vulnerability of this sector, given that, logically, the most represented countries are from the neighboring countries and countries whose citizens reside in Serbia on business.

Product risk

In terms of product, the VPF activity offers users one (unique) product, which is rated as low-risk from the point of view of money laundering.

In this regard, and on the basis of a detailed analysis of all parameters according to the appropriate methodology, it is estimated that the VPF sector is exposed to a low level of threat from money laundering and terrorism financing, and the justification is reflected in the fact that it is a sector that is not "stimulating" and profitable for money laundering, given the pronounced social component, as well as the fact that it is an alternative to financial security that is achieved through the regular pension system at old age. The VPF activity does not represent a significant source of ML/TF risk, i.e. it has a low vulnerability to money laundering due to: its position in the overall participation in the financial market of Serbia, its small share in the gross social product, the described nature of the activity as well as low size of individual transactions – payment of contributions of members of voluntary pension funds. The structure of obliged entities also did not indicate increased risks in this part of the financial sector.

The given assessment of vulnerability is also adequate for the reason that the development of this sector still rests on tax stimulation by the state, where, according to the published data for the year 2023, there is a tax relief for the payment of contributions up to RSD 7,529.00. Average monthly contribution payments currently do not reach the stated amount. Cash transactions are absolutely excluded, both when paying contributions and when paying the accumulated amount. All payments and withdrawals are made by bank transfers. Payments of contributions as well as the number of members from abroad are still negligible.

It is characteristic of voluntary pension funds that there is no possibility of cross-border use of the product. It is also characteristic that there is no cash activity because all payments are made by transfer from bank accounts (most often directly by the employer for its employees who are members of the voluntary pension fund). It is impossible to anonymously use the products of voluntary pension funds, i.e. anonymous membership in those funds. All obliged

entities have developed electronic bookkeeping and accounting systems, which record every payment. There are no known examples of the use of voluntary pension funds for money laundering in Serbia.

Integrity and the need for training

No disclosure of information was observed, and it was noted that employees are regularly trained according to all standards.

Conclusion

Applicable regulations make this sector absolutely unsuitable for money laundering, primarily due to the extremely difficult and strictly controlled conditions for withdrawing funds from the VPFs. Also, as regards the payment of funds to the fund, it is most often done through the employer who organizes the pension plan, which in itself represents a means of additional control and prevention of money laundering. There is no reason for supervisory concern regarding the effectiveness of the AML function in VPFs. Through licensing procedures, strict control of market entry is applied, with the control mechanisms being continuously improved in order to reduce residual risk. The inherent risk is adequately managed and no significant residual risk has been identified.

CONCLUSION			
SECTOR	VULNERABILITY	FACTORS AFFECTING LOWER VULNERABILITY	FACTORS INFLUENCING HIGHER VULNERABILITY
Banks	medium	<ul style="list-style-type: none"> • the bank applies effective techniques for mitigating the risk of money laundering; • banks have information systems that enable them to reliably monitor clients and their transactions (businesses) and to observe unusual patterns of behavior for all risks; • banks successfully fulfil the function of business compliance; • banks have adequately organized the system of internal controls, internal and external audits and pay due attention to employee training; • all products are rated as moderately vulnerable because banks apply adequate control 	<ul style="list-style-type: none"> • it is necessary for banks to undertake additional activities to improve the integrity of employees; • it is necessary for banks in employee training to further focus on identifying the beneficial owner of the client, assessing the ML/TF risk in relation to the type of client, business relationship, product/service and transaction.

		<p>mechanisms to mitigate the vulnerability of each individual product;</p> <ul style="list-style-type: none"> • The National Bank of Serbia implements an effective supervision regime (administrative measures and fines have been imposed). 	
Insurance sector	low	<ul style="list-style-type: none"> • at the current level of development of life insurance, this sector is not attractive for money laundering purposes; • it is based on traditional products, where the opportunities for money laundering are relatively small, given that the main motive of their purchase is protection, not profit; • function is effective; • all products are rated as low vulnerability; • The National Bank of Serbia implements an effective supervision regime. 	
Providers of financial leasing	low	<ul style="list-style-type: none"> • providers of financial leasing do not perform payment transactions or deposit operations; • all payment and collection transactions based on financial leasing are carried out cashless, through banks; • they cannot have representatives or intermediaries; • the financial leasing product is rated as low vulnerability; • function is effective; • The National Bank of Serbia implements an effective supervision regime; 	

Voluntary pension funds	low	<ul style="list-style-type: none"> • applicable legislation does not make this sector at all suitable for money laundering, primarily due to the extremely difficult and strictly controlled conditions for withdrawing funds from the voluntary pension fund; • the payment of funds to the fund is most often made through the employer who organizes the pension plan; • all products are rated as low vulnerability; • The National Bank of Serbia implements an effective supervision regime. 	
Other payment service providers and issuers of e-money	medium	<ul style="list-style-type: none"> • a greater number of institutions have improved application solutions for tracking transactions; • there was no violation of the integrity of the employees in the institutions; • institutions have prepared employee training programs, including employee training at representatives before starting work; • the intensive use of cash that affects the increase in vulnerability, while the nature and average value of transactions and the very small participation of transactions of a larger amount affect the reduction of vulnerability, as well as the significant reduction of issued e-money. 	intensive use of cash, which affects the increase of vulnerability, while the nature and average value of transactions and the very small participation of transactions of a larger amount affect the reduction of vulnerability, as well as a significant reduction of issued e-money.

<p>Authorized currency exchange operators</p>	<p>medium</p>	<ul style="list-style-type: none"> • the service/transaction vulnerability rating is medium; • the participation of non-resident transactions is at a negligible level; • The National Bank of Serbia implements an effective supervision regime; 	<p>the specificity of the sector is reflected in the constant change in the number of authorized currency exchange operators, as a result of the issuance and withdrawal of authorization to perform money exchange operations, so one of the constant risks in the application of regulations in this area (in addition to the measures taken by the supervisory authority) is the possible insufficient knowledge of newly registered currency exchange operators in the area compliance with regulations.</p>
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CAPITAL MARKET SECTOR

The Securities Commission has prepared an updated assessment of the vulnerability of the capital market sector to money laundering. According to the World Bank methodology and the additional criteria, it was determined that the degree of vulnerability of this sector in Serbia is medium low, which indicates the presence of the risk of money laundering, but its extent is limited.

An assessment of general input variables was performed, followed by an assessment of exposure by type of obliged entity, as well as an assessment by type of product.

The assessment of each individual parameter is given on the basis of the data available to the Securities Commission, data collected from obliged entities, data available to the Central Registry, Securities Depository and Clearing House, Belgrade Stock Exchange, NBS, APML, judicial authorities and other institutions in Serbia, as well as published data of international organizations.

When evaluating the general variables, in addition to the evaluations given by the supervisory authority, the assessment of risk factors by the private sector, as well as their comments, was especially taken into account.

Basic data on the capital market and on obligations under the AML/CFT Law that are under the remit of responsibility of the Securities Commission and their materiality in the country's financial system

The Securities Commission, as a supervisory and regulatory body of the Republic of Serbia, supervises compliance with the Law on Prevention of Money Laundering and the Financing of Terrorism (AML/CFT Law) by the following entities:

1. Investment fund management companies, which are authorized to engage in investment fund management in accordance with the laws governing investment funds in Serbia;
2. Broker-dealer companies (investment companies according to the provisions of the Capital Market Law "Official Gazette of RS" No. 129/21), whose regular activities include the provision of investment services to third parties, i.e. the professional performance of one or more investment activities, in accordance with the law governing the capital market;
3. Authorized banks (credit institutions), which are an organizational unit of a credit institution whose operations include the provision of one or more investment services to third parties, i.e. the professional performance of one or more investment activities in connection with one or more financial instruments, in accordance with the law regulating capital market;
4. Custody banks or depositories (credit institutions), which provide depository services defined by the laws governing investment funds in Serbia, i.e. manage the account of the investment fund, perform control tasks, monitor the fund's cash flow and safeguard the fund's assets;
5. Audit companies and independent auditors, who, in accordance with the Audit Law, have permission to audit financial statements (the risk assessment for these obliged entities is provided in the module for the DNFBP sector);
6. Provider of services related to digital tokens - providing one or more services related to digital assets in accordance with the Law on Digital Assets (the risk assessment for these obliged entities is provided within the special National Risk Assessment for the Digital Asset Sector);
7. Central Securities Depository and Clearing House (obliged entity under the AML/CFT Law as amended in November 2023) - which performs clearing, balancing and

registration of transactions with financial instruments in accordance with the Law on the Capital Market.

The following operated on the Serbian capital market on December 31, 2023:

- 14 broker-dealer companies (investment companies);
- 8 authorized banks (credit institutions with a license to perform investment company activities);
- 11 investment fund management companies, which manage the assets of 26 publicly offered investment funds (UCITS) and 6 alternative investment funds (AIF);
- 5 custody banks (depositories);
- 2 digital token-related service providers
- Central Securities Depository and Clearing House

Compared to the previous NRA period, the number of investment companies and depositories decreased, while the number of investment fund management companies increased, so there is a trend of increase in the number of participants in the domestic capital market, especially when it comes to the investment fund industry. More specifically, 11 investment fund management companies manage the assets of 32 investment funds.

Despite the above-mentioned increase in licensed participants in the capital market and the assets they manage, from the point of view of participation in the total balance sheet of the financial sector of Serbia, the capital market still has a small share, i.e. 2.2%, compared to the banking sector, which has a share of approx. 90%. The above suggests that banking products still remain the predominant sources of financing and investment. A look at the share of the capital market in the financial sector of the regional countries, reveals that the relationship between the capital market size and share are the same or similar. The markets are mostly illiquid, with the banks being the most represented in the structure of investors and with the largest assets. For example, according to an EBRD report, Slovenia's capital market is among the most underdeveloped markets in the EU.¹²⁴ The financial market of Bosnia and Herzegovina is also underdeveloped, with banks playing a leading role.¹²⁵ Such a market is also found in Montenegro, with the representation of banks of about 93% in the assets of Montenegrin FI sector as on December 31, 2023, while the share of investment funds is 0.5%.¹²⁶ The capital market in Bulgaria is also relatively shallow, with a market capitalization of around 10% of the gross domestic product, and the banking sector is stable and regulated in accordance with European Union regulations.¹²⁷

It is important to point out that highly liquid markets are more attractive for money laundering activities. Thus, the FATF Guidelines¹²⁸ for a risk-based supervision highlight that securities markets are often characterized by complexity, internationality, a high level of interaction, large scale, speed and anonymity and that some of these characteristics associated with the securities sector can create opportunities for criminal money laundering activities. The FATF report on ML/TF in the securities sector highlights the main vulnerabilities in the securities sector, and one of the vulnerabilities mentioned is the high liquidity of some market products, which often allows their easy conversion into cash.

One example for this claim is the case of Deutsche Bank from 2017, where the bank's clients transferred through branches in Russia and United Kingdom about 10 billion dollars

¹²⁴EBRD - Slovenia Country Strategy 2024-2029 Approved by the Board of Directors on 24 July 2024

¹²⁵ <https://www.cbbh.ba>

¹²⁶CBCG, ANO, Revenue and Customs Administration, Capital Market Commission

¹²⁷ <https://www.ebrd.com/resilient-bulgaria.pdf>

¹²⁸FATF: GUIDANCE FOR A RISK-BASED APPROACH SECURITIES SECTOR, October 2018

from Russia, using the so-called "mirror trades" of highly liquid securities, to bank accounts abroad, namely in Cyprus, Estonia and Latvia.¹²⁹

On the other hand, we have a capital market in Serbia that is mostly illiquid and where the trend of excluding companies from the Belgrade Stock Exchange has been going on almost continuously since the global financial crisis. Since the beginning of 2024, shares of only 22.5% of the total number of listed companies have been continuously traded on the Belgrade Stock Exchange, while even 77.50% of them were not traded.

In the capital market in Serbia, shares are traded on the regulated market, i.e. MTP (Belgrade Stock Exchange) and on the OTC market. The value of turnover on the OTC market accounts for a large share of the total turnover on the domestic capital market (about 99.6% on average in the observed period and mainly involves repo transactions of commercial banks), and when it comes to the number of transactions, the regulated market leads, which indicates a fragmentation of individual transaction values on the Belgrade Stock Exchange market segments.

In nominal terms, the total turnover on the Belgrade Stock Exchange is still far below the values recorded before the financial crisis, when the annual turnover of the Belgrade Stock Exchange exceeded EUR 2 billion. This is supported by the fact that during 2023, turnover on the Belgrade Stock Exchange amounted to around EUR 178 million, among the three lowest in the last 25 years, with a very small number of transactions (19,471). In addition, the negative trend of the total turnover, which was observed in the previous reporting period, accelerated. In addition to the above, in the observed period, an increase in the value of turnover and trading transactions on foreign markets, by clients of domestic investment companies, was observed.

When it comes to the amount of market capitalization, as an indicator of the size and degree of market development, it accounted for 6.7% of GDP in the observed period, which clearly indicates a trend of constant decline in comparison with the data presented in previous NRAs (2018-2020 period: 10 % of GDP, 2015-2017 period: 12.3 % of GDP).

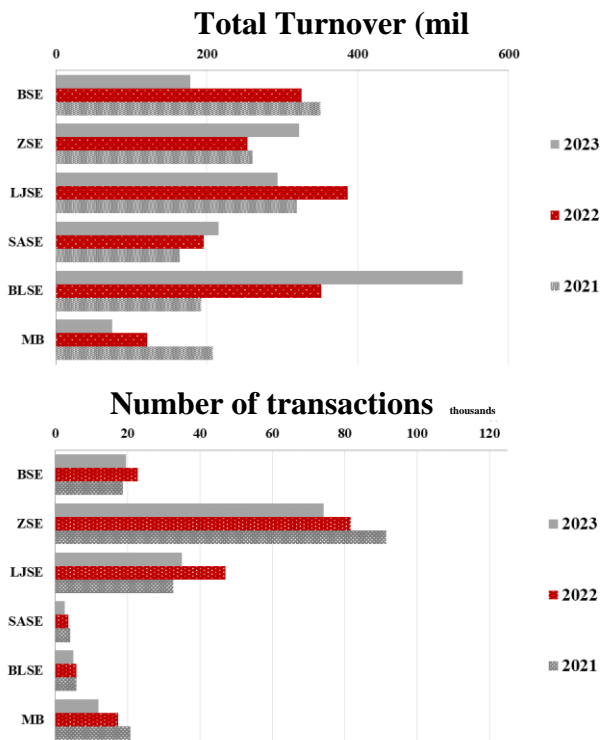
The largest part of the turnover on the Belgrade Stock Exchange was realized in the Prime Listing market segment, mainly from the trade in bonds of the Republic of Serbia (about 93% in 2023). These financial instruments, intended for financing the budget deficit, can be traded, in addition to the Belgrade Stock Exchange, on the OTC market, and their issuance is under the jurisdiction of the Ministry of Finance, that is, the Public Debt Administration.

From the point of view of the participation of members of the Stock Exchange in the total turnover, the dominant participation is held by the authorized banks with about 84% of the value of the total turnover. Authorized banks on the Belgrade Stock Exchange generate about 56% of the total number of transactions.

In addition to the above, we also analyzed data from the regional market in this assessment. The analysis of the turnover and number of transactions on the Belgrade Stock Exchange relative to the stock exchanges in the region (Zagreb, Ljubljana, Sarajevo, Banja Luka, Macedonia), shows that the turnover on these exchanges was several times higher than on the Belgrade Stock Exchange (*Chart 1*), but the capital markets of these countries still have characteristics of developing markets.

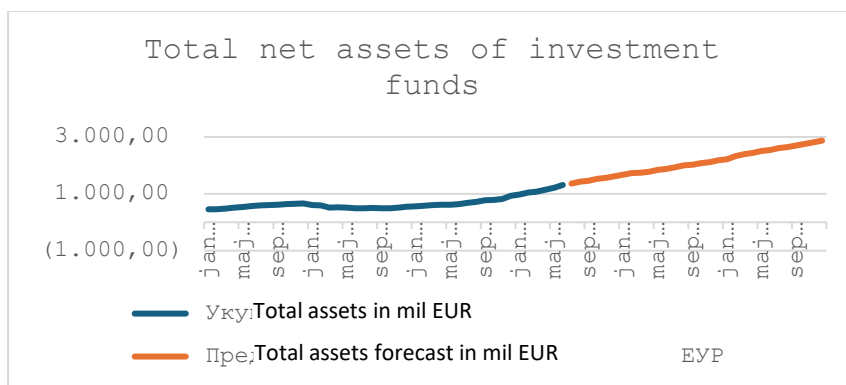
Chart 1. Analyses of realized turnover and number of transactions on the Belgrade Stock Exchange compared to stock exchanges in the region

¹²⁹ <https://www.fca.org.uk/news/press-releases/fca-fines-deutsche-bank-163-million-anti-money-laundering-controls-failure>



The investment fund industry in Serbia saw a growth trend in the observed period and an increase in its share by 0.5% in the total balance amount of the financial sector, compared to the previously analyzed period. Assets under management amount to just over EUR 948 million and are mainly in short-term deposits with commercial banks (about 75%). It should be noted that compared to the previous reporting period, the number of investment fund management companies increased by 120%, and the total assets under their management by 117%, with four companies owned by banks accounting for 85% of the capital of all management companies. The number of investment fund management companies grew the most in 2023. The purchase of investment units is carried out exclusively through accounts opened with banks. When assessing the risk of investment fund management companies, the fact that the investment unit is an instrument that is liquid, i.e. in accordance with legal provisions, the management company is obliged to buy investment units not later than five days from the fund member request submission date, which further increases the vulnerability of this segment and the possibility of possible abuse. Regardless of the fact that the newly established companies for the management of investment funds are still at the beginning of their operations, an assessment was made of the further trends of activities in the industry of investment funds in order to undertake all necessary activities in terms of reducing potential risks in the future (*Chart 2*).

Chart 2. Total net assets of investment funds



When we talk about the impact of virtual assets, in connection with the exposure in relation to this type of asset, two obliged entities answered that they have the option of investing in derivatives that have virtual assets as their basis, meaning that, on the one hand, the price of derivatives depends on the movement of the price of virtual assets, but they also pointed out that there is only market risk in it because if there is a drastic decrease in the value of the virtual asset that is the basis of the derivative, there will be a drop in the price of the derivative, which leads to the client suffering a loss. However, this is closely related to the riskiness of the financial instrument itself.

Level of product vulnerability on the capital market

An analysis of trading data on the Belgrade Stock Exchange, has found that there is a large number of transactions of low value in share trading, that the participation of block transactions as a riskier type of trading (due to larger amounts and the fact that these are agreed transactions) is at a low level, large number of companies listed on the stock exchange code whose shares have not been traded in the last year, so the trading of shares is assessed as a product with a low degree of vulnerability.

Of the total turnover in the trading of securities in the observed period, the largest part relates to the trade in bonds of Serbia, through authorized banks that trade predominantly for themselves and on their own behalf (about two thirds of the turnover value), and the above affects the rating of bonds as a product low degree of vulnerability.

Investment units as a product can be more attractive for investment, but also abuses of money laundering, primarily due to their liquidity and the legal obligation of redemption by the management company in the short term. Taking the above into account, as well as the growth trend of this segment of the capital market, as well as the structure of clients of management companies (a large number of natural persons with a low level of risk), has already been determined degree of vulnerability to money laundering compared to trading in stocks and bonds.

Structure of the sector vulnerability per obliged entity and client activity

According to the established situation in the observed period, the capital market is characterized by a large share of domestic clients - natural persons, with a very small representation of clients - risky forms of legal entities, non-residents and officials. Most of the transactions are carried out on the domestic market, the Belgrade Stock Exchange, by authorized banks, while an increase in the provision of trading services abroad has been observed among broker-dealer companies. Owners of investment units are mostly resident natural persons.

The following is a presentation of the basic characteristics of the capital market in the observed period according to the total number and structure of clients, transactions and turnover with obliged entities, as well as the income that obliged entities have achieved in providing their services to clients.

Chart 3. Overview of business income by type of obliged entity

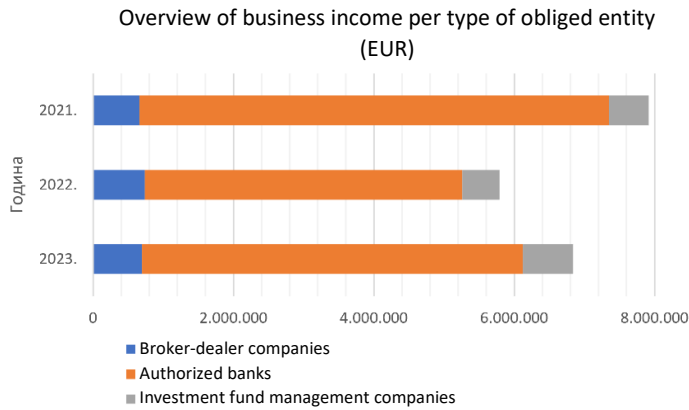


Chart 4. Structure of clients of investment companies **Chart 5.** Structure of clients of authorized banks

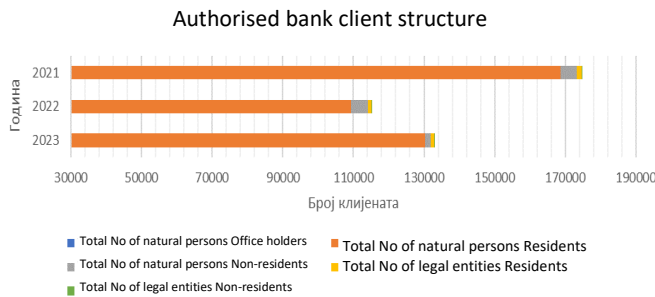
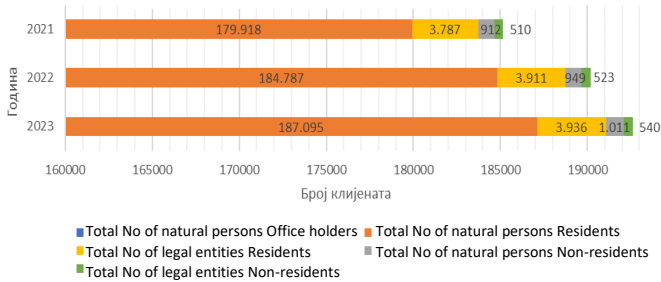


Chart 6. Structure of members of investment funds **Chart 7.** Total turnover by type of obliged entity

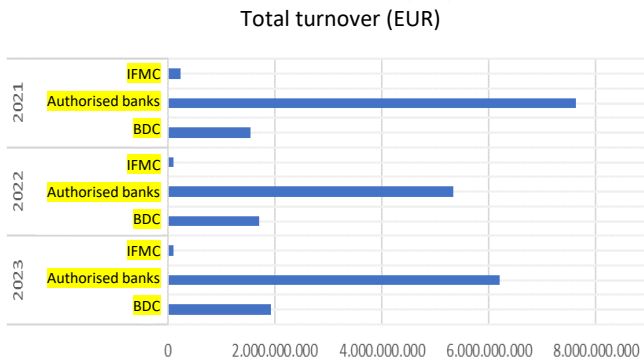
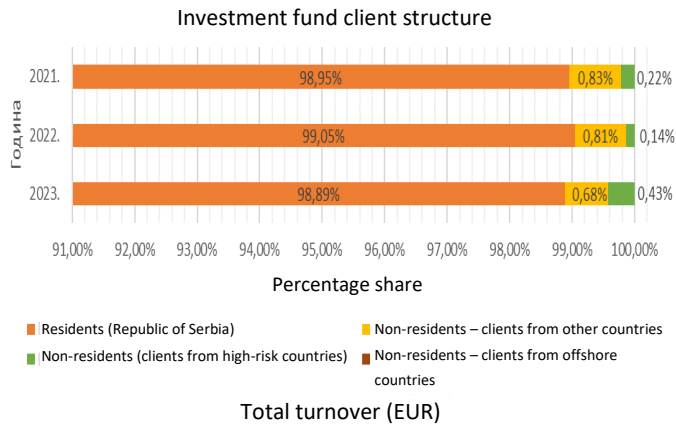
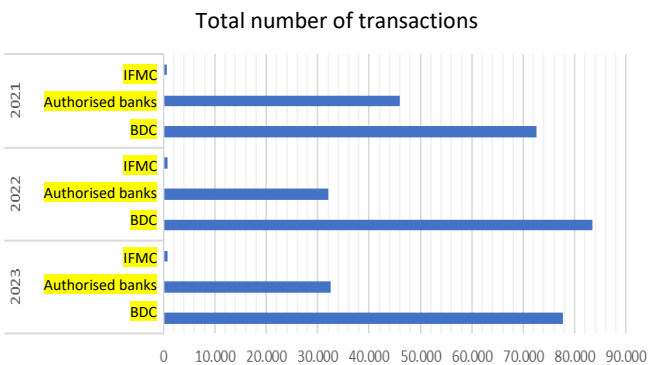
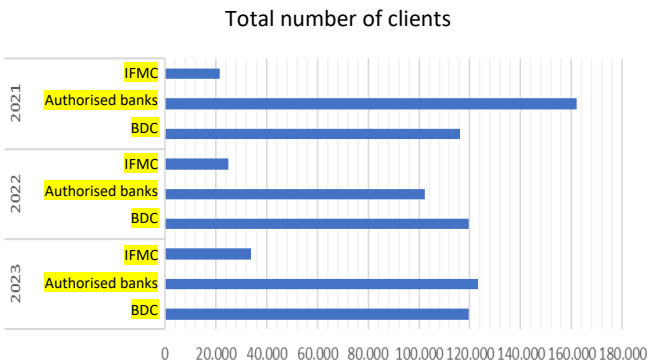


Chart 8. Number of clients by type of obliged entity **Chart 9.** Total number of transactions by type of obliged entity



Given the situation of the sector in the observed period, taking into account the assessment of product vulnerability, the structure and number of clients, their individual participation in turnover and the number of transactions, as well as the obliged entities' generated income, investment fund management companies were assessed with a higher degree of vulnerability compared to authorized banks and broker-dealer companies. As the clients of the depository are exclusively companies for the management of investment funds, which are

themselves also obliged entities under the AML/CFT Law, vulnerability of the depository is at an extremely low level, that is, it is almost non-existent.

Effectiveness of the supervision function

Obliged entities under the AML/CFT Law are subject to a multi-year system of comprehensive licensing, continuous and onsite supervision, which is carried out by the Securities Commission. Using a risk-based approach, the risk to which the obliged entity is exposed is assessed and - based on the general ML RA for obliged entities, an onsite supervision plan is drawn up. In this way, the Securities Commission directs the supervision function to the areas and obliged entities with the highest risk.

Table 1. Number of performed controls in the period from 2021 to 2023

	Offsite inspections	Onsite inspections	Irregularities found
2021	66	7	1
2022	70	12	4
2023	78	7	2

The illegalities and irregularities found in these procedures related to the identification of the legal entity, the legal representative and the keeping of records. Measures have been taken, i.e. decisions on remedial measures and warnings, requests for economic offenses were submitted to the competent authorities. With respect to commercial offenses filed, the Securities Commission has received a conviction, which resulted in the withdrawal of consent to the election of a member of the management of the investment company. Taking into account the number and type of measures imposed, as well as the nature of the observed illegalities and irregularities, it can be seen that the capital market obliged entities are familiar with the AML/CFT normative framework and that they are aware of the importance of complying with the relevant legislation, which is also indicated by the fact that the number of identified irregularities in relation to the previous period. In this regard, in the reference period, a greater number of onsite supervisions were conducted over auditing companies, obliged entities from the DNFBP sector, especially taking into account the number of these obliged entities, as the fact that they are a new obliged entity under the jurisdiction of the Commission, starting in 2020.

The Securities Commission, as a supervisory body for participants in the capital market, applies strict control measures in order to prevent perpetrators of criminal and other punishable acts as well as their associates from having a significant controlling share or having a management function in entities that are liable to the Commission, as in the case of licensing, registration, as well as in the process of continuous monitoring in subsequent changes in ownership. The licensing and registration process involves a detailed check of the ownership structure, beneficial ownership, origin of funds and eligibility of management members. In-depth analyses are carried out, which include the collection and verification of relevant documentation, as well as checks through available databases and cooperation with other competent authorities. The listed input controls certainly contribute to reducing vulnerability.

Regarding the quality of reported reports on suspicious transactions, it should be pointed out that economically stronger obliged entities (primarily authorized banks and depositories operating within commercial banks) have better information systems and more sophisticated equipment for monitoring client transactions compared to their profiles, as well as identification high-risk customers and transactions.

Table 2. Number of suspicious transaction reports

Year	2021	2022	2023
Number of suspicious transaction reports	8	7	15

Regarding the SARs filed, the largest number involves the so-called FOP (free of payment) transactions, where ownership of the shares is changed mainly through gifts. In connection with the above, it should certainly be borne in mind that the share of FOP transactions in the total number of transactions is small (0.8%-1.2%).

In addition to the positively evaluated criteria related to the comprehensiveness of the legal framework, supervisory procedures, availability and effectiveness of input controls, compliance functions, and by the private sector, as well as by the supervisory authority, what was proposed regarding the improvement of the anti-money laundering system and financing of terrorism is, first of all, holding direct presentations and trainings for all obliged entities under the jurisdiction of the Securities Commission, especially investment fund management companies, given that the number of investment fund management companies increased in the reference period.

Also, as part of the residual risk, the need was recognized, as in the last assessment, for additional training for employees of all obliged entities in terms of improving the quality and number of reported reports on suspicious activities, which are still not at an adequate level, and in this sense there is a certain degree of vulnerability. In addition to the above, there remains a part of the residual risk related to the small number of supervisors who supervise the implementation of the AML/CFT Law. This is especially considering that the Securities Commission, as a supervisory authority, supervises both auditing companies and service providers related to digital tokens, as well as the new obliged entity, the Central Registry of Securities, Depository and Clearing House. Since, compared to the previous period, there was a decrease in the number of employees who supervise the compliance with the law under the jurisdiction of the Securities Commission, and thus the AML/CFT Law, this is a vulnerability that should be reduced in the coming period.

The final securities sector vulnerability assessment

Based on all of the above and in accordance with the World Bank's methodology, the capital market sector was assessed as a sector with moderate to low vulnerability to money laundering, meaning that the final vulnerability assessment remained unchanged relative to the previous NRA.

The following criteria had an effect on the assessment: small share of the capital market in the Serbian financial sector structure, a large share of inactive and low-risk clients, obliged entities do not receive cash transactions, but all payments are made through accounts opened in banks, all financial instruments are dematerialized and read on name and it is not possible to hide the ownership, the trading is carried out in the largest volume of government bonds of the Republic of Serbia as a standard risk-free financial instrument, and that by the obliged entities of the AML/CFT Law with a small participation in the turnover of other clients, a small participation of non-residents and officials as clients, strict regulations from this area and strong entry controls, obliged entities' awareness of the risk of money laundering and compliance with all international standards when adopting regulations, as well as long-term comprehensive continuous and onsite supervision of obliged entities based on risk assessment.

In addition to the above, during the assessment, the data of the competent authorities and the fact that participants in the capital market, both as obliged entities and their clients, were not the subject of investigations into money laundering activities, and that no breach of integrity among the obliged entities' employees was established. Also, in the observed period, no elements indicating abuses on the capital market were identified, that is, there were no

criminal charges for manipulation and insider trading, as predicate crimes. All of the above indicates that the risk of money laundering in the capital market exists, but that it is reduced due to the aforementioned characteristics of the capital market.

In order not only to assess the vulnerability of the sector in the observed period but also to plan preventive measures, it is important to emphasize that in 2021 Serbia adopted the Strategy for the Development of the Capital Market for the period 2021-2026 in which, among other things, investment funds, for which a certain degree of vulnerability was determined in this assessment, were recognized as one of the more significant sources of institutional demand and investment in long-term securities. In that regard, what's up? can expect in the coming period, in terms of additional and corporate emissions bonds (bonds of companies) and local governments, state issues securities, the establishment of alternative investment funds, as well as the appearance of financial instruments in the form of digital assets, will certainly have a positive effect on the further development of the capital market and the increased activity of investors (especially foreign) on the domestic capital market. However, it is to be expected that the further development of the capital market will open up space for all "launderers" and be a potential new opportunity for them to transfer illegally acquired money. The Securities Commission, as a regulatory body of the capital market, together with the active participation of obliged entities in the capital market, as well as judicial authorities, will continue to implement ongoing education and other necessary preventive measures to mitigate upcoming risks and prevent money laundering on the capital market.

Conclusion

The capital market represents only 2.2% of the total balance sheet of the financial sector and is characterized by low liquidity. As of December 31, 2023, the following were operating on the capital market of Serbia: 14 broker-dealer companies (investment companies); 8 authorized banks (credit institutions with a license to perform investment company activities); 11 investment fund management companies, which manage the assets of 26 publicly offered investment funds (UCITS) and 6 alternative investment funds (AIFs); 5 depository banks (depositories); 2 digital token service providers and the Central Securities Depository, Depository and Clearing House.

The obliged entities and their clients were not the subject of investigations into money laundering activities, and no violation of the integrity of the obliged entities' employees was established. Also, no elements indicating abuses on the capital market were identified, that is, there were no criminal charges for manipulation and insider trading, as predicate crimes.

There is a strong supervisory activity over obliged entities, regular training of obliged entities, as well as strong cooperation with relevant institutions on AML/CFT issues.

Factors that indicate a higher probability of ML:

Increase in the share investment funds and digital assets (VA)

The industry of investment funds records a growth trend, investment units as a product can be more attractive for investment but also abuse of money laundering, primarily due to their liquidity and the legal obligation of redemption by the management company in the short term. Also, the emergence of financial instruments in the form of digital assets will attract investors and eventually open up space for the transfer of illegally acquired money.

Unsatisfactory level of suspicious transaction reporting

The quality of SARs is better than in the previous NRA, but it is still not at a satisfactory level.

Factors that indicate a lower probability of ML:

Characteristics of the capital market

Low participation of the capital market in the structure of the financial system of Serbia, weak liquidity, a large share of inactive and low-risk clients, obliged entities do not receive cash transactions, dematerialized and registered financial instruments, a large share of government bonds of the Republic of Serbia in trading.

Strict legislation and regulations

There are strict regulations in this area, high awareness of obliged entities about the risk of money laundering and the need for compliance with international standards, extensive control during licensing of obliged entities, continuous and comprehensive regular onsite supervision and based on risk assessment, as well as cooperation with relevant institutions.

FACTORING

The factoring companies sector has been assessed as medium-low vulnerable and which has a medium exposure to the money laundering threat.

Factoring is a financial service involving the buying and selling of current outstanding or future short-term monetary debt arising from a contract for the sale of goods or provision of services in the country or abroad. The factor can be a bank or a company.¹³⁰ Banks are not required to obtain approval to perform factoring operations.¹³¹ According to data from the Serbian Chamber of Commerce and Industry, at the end of 2023, seven banks in Serbia generated factoring-related turnover in the total amount of EUR 1,675.1 million, which accounts for 90.9% of total factoring turnover. The presence of factoring operations in Serbia is low/medium low.

Total factoring turnover by year in millions of euros: Market share of factoring in the financial part of the system:

	2019	2020	2021	2022	2023
Total factoring turnover	990.1	932.3	1,084.3	1,659.9	1,843.6
Turnover of factoring companies	122	103.3	114,011	147,635	168,498

The register of factoring companies is maintained by the Business Registers Agency.

Obligated entity	2019	2020	2021	2022	2023
Factoring	0.09%	0.08%	0.11%	0.13%	0.14%

Overview of the number of factoring companies by year.¹³²

	2019	2020	2021	2022	2023	30/06/2024
Number of factoring companies	17	18	18	21	22	23

Factoring companies are mostly organized as limited liability companies, except for two that are organized as joint stock companies.

There are no trusts in the founding structure of factoring companies in Serbia.

The share of domestic capital is dominant and prevails among factoring companies, with only one factoring company having a higher share of foreign capital than domestic capital.

Legal entities are dominant in the structure of founders, and this percentage is around 60%, while natural persons appear as founders in a percentage of 40%.

Also, a specific feature of a factoring company is that it participates in the capital market through the issuance of digital tokens, in order to raise and finance its factoring activities.

In terms of legal framework, this sector is mainly governed by the Law on Factoring. This law was amended in 2018 in order to ban persons with criminal convictions from establishing or owning factoring companies. Now, natural and legal persons who are founders and owners of factoring companies must submit proof, in accordance with the law, that they have not been convicted. This obligation also extends to previously established factoring companies. In addition, there are regulations that are common, i.e. they apply to multiple obliged entities, namely the AML/CFT Law and the Guidelines for ML/TF Risk Assessment, which were amended by the APML in 2020 and 2022. The guidelines address risk mitigation, continuous monitoring, and documentation that the obliged entity must have, and a separate chapter addresses the types of risks in factoring companies.

¹³⁰ Law on Factoring "Official Gazette of RS", no. 62/13 and 30/18

¹³¹ Regulated by the Law on Banks, "Official Gazette of the Republic of Serbia", No. 107/05, 91/10 and 14/15.

¹³²Data from the Information on the Factoring Services Sector, prepared for the purposes of the National Risk Assessment 2024, by the Payment System and Non-Banking Financial Institutions Group of the Ministry of Finance.

This vulnerability assessment also considered the requirements that a company must meet in order to be able to carry out factoring activities. The legal requirements are a minimum share capital of 40,000,000 dinars (it must always be no less than that amount) and an approval to carry out factoring activities issued by the ministry responsible for finance. The ministry responsible for finance revokes the approval to carry out factoring activities from a factoring company if it is found during the supervision procedure that the factoring company no longer meets the requirement related to the share capital, that the approval to carry out factoring activities was given on the basis of false data, if it is found during the supervision procedure that the procedure for obtaining the approval was not complied with, or in the event of termination of the factoring activities. In terms of employee integrity, the results of offsite supervision suggest that in the reference period, out of the total number of factoring companies covered by offsite supervision, five did not prepare an annual report on the internal control. Considering the level of knowledge of employees in factoring companies about AML/CFT, it was found, based on the information collected through questionnaires, that all employees have taken AML/CFT training. Obligated entity staff have access to all information related to the NRA, typologies and other publications of professionals, and representative international bodies and organizations published by the APML.

In the reference period, the APML carried out 71 offsite inspections, i.e. in each year of the reference period, all active factoring companies that had economic activity in the previous year were subject to offsite supervision. Each offsite supervision ends with development of risk matrices which produce ratings according to the level of risk. The criteria and values used in calculating risk take into account the structural risk of the obliged entity, the inherent risk, and finally the quality of the control and risk management systems, all of which as the final result give the net risk of the obliged entity's business activities. According to the ratings given by the matrix, all factoring companies are mostly in the medium level of risk, a smaller percentage in the low level of risk, while there are none that are in the high level of risk.

It can be concluded that factoring companies mostly comply with the AML/CFT Law, the inherent risk of this group of obliged entities and their business is found to be significantly reduced; however, a certain residual risk nevertheless remains. In order to address this residual risk, and to mitigate it as much as possible, the APML reaches out through offsite supervision and training of all factoring companies, as well as through onsite supervision wherever the assessment shows that the residual risk is higher than usual.

Table of offsite inspections at factoring companies

Year	2021		2022		2023	
Type of supervision	AML/CFT	CRBO	AML/CFT	CRBO	AML/CFT	CRBO
Number	3	2	2	2	1	/

In 2021, 3 onsite inspections of factoring companies were carried out for compliance with the AML/CFT Law. An irregularity was identified relating to one obliged entity's risk analysis, both at the client level and at the level of the entire business (self-risk assessment), which was not made in accordance with the supervisor's Guidelines.

The proceedings ended with a conviction, the legal entity was fined 300,000.00 dinars and the responsible person in the legal entity was fined 30,000.00 dinars. The Commercial Court of Appeal overturned the verdict and returned the case to the first-instance court for a retrial.

In 2022, 2 onsite inspections of factoring companies were carried out. The inspections examined compliance with the AML/CFT Law, as well as the Law on the Central Records of

Beneficial Owners ("Official Gazette of the Republic of Serbia", No. 41/18, 91/19, 105/21 and 17/23). No irregularities were found in the supervised obliged entities.

In 2023, 1 onsite supervision of factoring companies was carried out. The supervision involved examination of compliance with the AML/CFT Law. A total of 6 irregularities were identified: the supervised entity failed to make a risk analysis, failed to identify and verify the identity of the client which is a legal entity, failed to identify and verify the identity of the representative of the client which is a legal entity, failed to ensure regular internal control, failed to prepare a list of indicators for identifying ML suspicion, and failed to keep records of data in accordance with this law.

In 2023, one complaint was filed against factoring companies due to 6 irregularities. The first-instance court issued a guilty verdict, fining the legal entity 550,000.00 dinars, and the responsible person in the legal entity 60,000.00 dinars. The appeal proceedings are ongoing.

In 2021, two onsite inspections were carried out for compliance with the Law on the Central Records of Beneficial Owners.¹³³ In one case, one irregularity was identified: the obliged entity failed to record the change of its ownership structure within the required period in the Central Records of Beneficial Owners, in accordance with the Law on CRBO.

In the above case, a misdemeanor report was filed for failure to record the BO data in the Central Records within the required period. The misdemeanor court dismissed the filed report.

According to the reactions of factoring companies, it was observed that they consider the existing sanctions regime to be sufficiently severe, especially considering that the minimum statutory sanctions are also very strict. An important deterring element is that factoring companies are particularly concerned about their reputation and business reputation, therefore they do not want their business name to be associated with ML/TF or to potentially risk being convicted of an offense or misdemeanor related to ML/TF.

In the reference period, the APML delivered 11 training events intended for factoring companies. Some training sessions were specialized for factoring companies, while the topics of other training sessions were conceived to be comprehensive in nature, and were also attended by other obliged entities. Particular care was taken to ensure that the training sessions addressed any newly enacted bylaws, such as the APML's Guidelines or other novelties and changes in activities aimed at AML/CFT. Factoring companies have always responded and actively attended such training sessions. A high level of business compliance is observed with this class of obliged entities, because according to the results of offsite supervision, they mostly comply with the law.

In the reference period, factoring companies reported two suspicious transactions, and the reasons for the report were doubts as to the the identity of the beneficial owner of the legal representative, suspicious behavior of the client, as well as doubts as to the the authenticity of business documentation. These reports support the claim that factoring companies also monitor client-related risk, i.e. that someone else is managing the client's assets.

In the reference period, the APML's Supervision Section forwarded two reports to the APML's Sector for Analytics and Prevention of Terrorist Financing regarding suspicious activities observed during the supervision procedure. The basis for forwarding in both cases was the complex ownership structure of the supervised entity.

It should be noted that the APML's Supervision Section is one of the few DNFBP supervisors that have filed SARs resulting from the supervision process. As can be seen from the SAR descriptions, the emphasis was on the complex ownership structures of factoring companies.

¹³³"Official Gazette of the Republic of Serbia", No. 41/18, 91/19, 105/21 and 17/23.

Therefore, the engagement of the APMML Supervision Section can be assessed as positive from the aspect of understanding supervisor's obligation to file SARs resulting from their supervisory examinations.

The private sector's opinion was also taken into account in the NRA drafting process: the sector indicated that they were satisfied with the existing system of cooperation, which had improved over time, through the exchange of information, as well as training, while in the coming period it would be necessary to intensify training related to SAR reporting and issues related to beneficial ownership.

Finally, considering the reference period, it can be concluded that the cooperation between the supervisor and obliged entities has been raised to a higher level. In the coming period, the supervisory authority will work intensively to eliminate the identified sectoral shortcomings and on further continuous education of obliged entities.

Conclusion

- The factoring sector consists of a small number of obliged entities;
- Market share is negligible, especially compared to banks that offer factoring services as a product;
- The requirements for establishing a factoring company and engaging in factoring are clearly laid down, both in terms of the founding share and in terms of persons who are not permitted to engage in these activities;
- The level of knowledge and integrity of employees is at a high level;
- All obliged entities in this sector are subject to offsite supervision on an annual basis;

Factors that indicate a higher likelihood of ML:

- Increase in the number of factoring companies The factoring sector has seen a growing trend year on year
- Entities that offer factoring services in an electronic form are emerging

Factors that indicate a lower likelihood of ML:

- Characteristics of the capital market
- The low share of factoring in the structure of the Serbian financial sector, and the still small number of factoring companies, allows for continuous offsite and onsite supervision of this sector and maintaining high awareness with obliged entities about the risk of money laundering and the need for compliance with regulations in this area.

VULNERABILITY OF DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPs)

Representatives from the following stakeholders participated in the analysis of the vulnerability of the DNFBP sector: APLM, the Tax Administration, Games of Chance Administration, Customs Administration, Ministry of Internal and Foreign Trade, Ministry of Information and Telecommunications, Securities Commission, Chamber of Public Notaries of Serbia, Bar Association of Serbia, as well as the competent misdemeanor and commercial courts, prosecutors office, Ministry of Interior and Serbian Business Registers Agency.

It is particularly important that the representatives of the private sector took part in this risk assessment at meetings in person, and collection and analysis of information through questionnaires, thus contributing to a comprehensive and impartial analysis and evaluation of the current state of the DNFBP sector.

Vulnerability to money laundering in the DNFBP sector of Serbia was assessed with the following obliged entities under the Law on Prevention of Money Laundering and Financing of Terrorism "Official Gazette of the RS", no. 113/2017, 91/2019, 153/2020 and 92/2023: intermediaries in the sale and lease of real estate, organizers of special games of chance in casinos and organizers of games of chance via means of electronic communication, auditing companies, entrepreneurs and legal entities engaged in providing accounting services, postal operators, lawyers and notaries public, but also with entities that are obliged under the AML/CFT Law, where it was assessed, based on data and analysis, and previous risk assessments, that there may be a risk that the sectors are also used for money laundering. These sectors are: investors in construction of residential and non-residential buildings, activity of trade in items made of precious metals, car trade activity.

Taking into account the representation of the sector in the market, it can be stated that of all representatives of the DNFBP sector, the real estate sector is the most represented, followed by the games of chance sector, lawyers, accountants, postal operators, notaries, and auditors.

Below is an overview of supervisory authorities and obliged entities they supervise for compliance with the AML/CFT Law.

Supervisory authority	Obliged entity
Administration for the Prevention of Money Laundering	Entrepreneurs and legal entities engaged in accounting service providers
Securities Commission	Auditing companies
Games of Chance Administration	Organizers of special games of chance in casinos
Ministry of Trade, Tourism and Telecommunications	Organizers of games of chance via electronic communications
Ministry of Information and Telecommunications	Intermediaries in the sale and lease of real estate
Ministry of Information and Telecommunications	Persons engaged in postal traffic
Bar Association of Serbia	Lawyers
Chamber of Public Notaries	Public notaries

In the reference period, the number of obliged entities by year is as follows:

Obliged entity	2021	2022	2023	30.6.2024.
Real estate sale and lease brokers	1 017	1 097	1 203	1 255
Games of chance via means of electronic communication - online	23	23	25	28
Casinos/Games	2	2	2	2
Accountants	646	3 701	5 573	5 672
Auditors	76	77	75	75
Lawyers	11 449	11 822	12 230	-

Public notaries	225	226	224	233
Postal operators	53	56	55	57

When it comes to business assets and business income, according to the financial reports submitted to the Serbian Business Registers Agency on 31/12/2023, the real estate sector leads, namely the construction of residential and non-residential buildings, followed by the gaming sector.

Type of entity	Total assets - Operating assets (<i>data in RSD thousands</i>)	Operating income** (<i>data in RSD thousands</i>)
	Real estate brokers (activity code 6831)	13,595,781
Real estate sector (activity code 4120)	991,465,452	559,386,144
Organizers of games of chance through means of electronic communication	61,171,118	98,813,204
Casinos/Games	1,535,534	1,455,956
Slot machines	72,200,316	107,727,447
Organizers of special games of chance - betting	58,166,291	94,224,116
Classic games	4,191,024	6,054,058
Postal operators (activity codes 5320 and 5310)	48,094,967	52,723,644
Auditors	10,068,963	11,580,759
Accountants (Register of Accounting Service Providers)	38,120,605	47,768,138

The legislative framework has been significantly improved and harmonized with FATF Recommendation 28. Specifically, it is forbidden for criminally convicted legal entities and natural persons to be founders, owners or members of the management bodies of legal and natural persons to engage in this activity as entrepreneurs if they have been convicted for any of the listed criminal offenses, including the criminal offenses of money laundering and terrorism financing.

With the adoption of new sectoral laws, this ban was tightened and expanded so as to now include a prohibition of prior convictions to prison terms for criminal offenses committed in Serbia and abroad. The ban applies both to the legal entity/entrepreneur, as well as to the founders, owners and management structure.

The assessment of the vulnerability of the DNFBP sector was made on the basis of data related to the comprehensiveness of the legal framework for the prevention of money laundering; effectiveness of supervisory procedures and practices; availability and application of administrative measures; availability and application of criminal sanctions; availability and effectiveness of input control mechanisms; employee integrity; level of employees' AML knowledge; effectiveness of the business compliance function; the effectiveness of SAR monitoring; the level of market pressure in terms of meeting standards in the field of preventing money laundering; availability and access to beneficial ownership information; the availability of reliable identification infrastructure and the availability of independent sources of information), as part of the inherent assessment, and the plan of measures and activities that were defined for certain sectors as activities that were missing in order to improve the work of institutions in the system for preventing money laundering and terrorism financing (residual risks).

Table - Sectoral vulnerability

Sector	Vulnerability
--------	---------------

Real estate sale and lease brokers	Medium with a tendency towards high
Lawyers	High
Games of chance via means of electronic communication – online	Medium with a tendency towards high
Accountants	Medium with a tendency towards high
Casinos	Medium
Auditors	Medium
Public notaries	Medium
Postal operators	Medium low

Overview of all services and products provided by the DNFBP sector in the reference period by risk category:

Obligated entity	Name of service/product	Level of risk
Postal operators	Value shipment	Low
	Cash on delivery parcel	Low
	Reference book	Medium
Auditors	Audit of financial statements	Medium
Public notaries	Contract on the transfer of real estate	Medium to high risk
	Agreement on assignment of claims	Medium to low risk
	Agreement on co-investment and construction and division of facilities	Low risk
Real estate sale and lease brokers		
Sale	house (sale)	High
	house (purchase)	Medium
	apartment (sale)	High
	apartment (purchase)	High
	business facilities (purchase)	High
	business facilities (sale)	Medium
	construction land (purchase)	High
	construction land (sale)	High
	agr. land (purchase)	Medium
	agr. land (sale)	High
	garage (sale)	High
	garage (purchase)	Medium
	Other (e.g. Forest)	Low
Lease	house (lease)	Medium
	house (rent)	Medium
	apartment (lease)	High
	apartment (rent)	High
	short-term apartment (lease)	High
	short-term apartment (rent)	High
	business facilities (lease)	Medium
	business facilities (rent)	Medium
	agr. land (lease)	Medium
	agr. land (rent)	High
	garage (lease)	High
	garage (rent)	Medium
	Other (e.g. forest)	Low
Investors in real estate construction/direct sales		
Trade	house (sale)	High
	house (purchase)	Medium
	apartment (sale)	High
	apartment (purchase)	High

	business facilities (sale)	High
	construction land (purchase)	High
	construction land (sale)	Low
Operators of special games of chance in casinos	Texas Hold'em Poker (product)	Medium
	American Roulette (product)	Medium
Operators of online games of chance	online betting (product)	Medium
	virtual games (product)	Medium
	online slots (product)	medium height
Accountants	comprehensive accounting services	medium to high risk
	earnings calculation	Low
	tax consulting	medium to high risk
	establishment/registration in SBRA	medium to high risk
	preparation of financial statements	Medium
Lawyers	purchase and sale of real estate or a company	High
	management of the client's assets	Medium
	opening or disposing of a bank account	Medium
	collection of funds necessary for the establishment, performance of activities and management of companies	Medium
	establishment, operation or management of companies or entities under foreign law	Medium

Games of chance

The gaming sector is characterized by rapid economic growth and technological development, and the total market share of the gaming sector in the DNFBP sector in years is as follows:

2021	2022	2023
3.23%	3.35%	3.54%

As on 31/12/2023, a total of 70 games of chance operators - legal entities were operating in Serbia, all of which being the form of LLC, and the table below provides an overview of the number of approvals/permits by type of games of chance:

Type of game of chance	Casinos	online	Betting	machines	classic games of chance
Number of approvals/permits	2	23	20	60	1

One legal entity can hold a permit, or approval for organizing one or more types of games of chance, and the regional distribution of the organizers of games of chance is as follows: Belgrade region - 60%; region of Vojvodina – 16%; the region of Šumadija and Western Serbia - 13% and the region of Southern and Eastern Serbia - 11%.

Within the games of chance sector, only organizers of special games of chance in casinos and organizers of games of chance through electronic communication are obliged entities under the AML/CFT Law. In the period 2021-2023 there was no significant increase in the number of these obliged persons, so according our review their numbers are as follows:

2021	2022	2023
23	23	25

23% of organizers of games of chance on machines also organize online games, while the percentage of organizers of games of chance/betting is 68%.

Pay-ins and pay-outs 2021-2023

Type of game of chance	Pay-ins	Pay-outs	Pay-ins (RSD)	Pay-outs (RSD)	Pay-ins (EUR)	Pay-outs (EUR)
Casinos	0.22%	0.18%	7,327,781,786	5,507,431,546	62,402,445	46,900,577
Online	62.14%	64.00%	2,043,227,816,135	1,947,487,988,619	17,399,864,565	16,584,556,541
Betting	9.07%	8.70%	298,371,909,996	264,785,425,497	2,540,896,704	2,254,878,534
Machines	27.92%	26.71%	918,141,019,449	812,719,649,531	7,818,770,508	6,921,015,718
Classic games of chance	0.64%	0.41%	20,965,830,797	12,325,418,211	178,542,311	104,961,672

In the reference period (2021-2023), pay-ins and pay-outs in the games of chance sector show a constant and uniform growth trend in all types of games of chance. Total pay-ins increased in 2023 by 57% compared to 2021, while the percentage increase in total pay-outs in 2023, compared to 2021, was 56%.

Bearing in mind that the use of digital assets (VA) is developing rapidly, the assessment also considered the use of cryptocurrency, taking into account their increasingly frequent use as means of payment. Although obliged entities in the gaming sector still do not use this type of payment, the development of modern technologies indicates a potential emerging risk when it comes to the use of this financial tool. Furthermore, with the aim of analyzing the profile of clients, and assessing the geographic risk, we looked at clients in the games of chance sector, who are only natural persons, and found that in the period 2021-2023, the representation of non-residents in the total number of clients was at most 2.7%, and this is particularly pronounced in casinos, where they make up about 60% of the total number of customers, while the largest percentage of non-residents is only 1.70% of the games of chance operators via electronic communication. Also, the percentage of PEPs as clients in all games of chance operators is extremely low, and did not exceed 0.0018%.

Supervision in the games of chance sector

The Administration for Games of Chance, as a specialized body in the field of games of chance became operational on March 1, 2019. It is an administrative body within the ministry for finance established and governed by the law on amendments and supplements to the law on games of chance.¹³⁴

The Administration for Games of Chance, within its competences prescribed by the Law on Games of Chance¹³⁵, in addition to the control function, also has the function of licensing, which ensures AML/CFT preventive action in the field of games of chance, in particular when it comes to the issuing of approvals for operating games of chance.

Offsite supervision is carried out continuously over all obliged entities, and in the period 2021-2023, 9 onsite and offsite supervisions were carried out, which in relation to the total

¹³⁴ Off. Gazette of the RS no. 95/18"

¹³⁵ Off. Gazette of the RS no. 18/20

number of organizers of games of chance who are obliged entities under the AML/CFT Law makes up 36% of supervision coverage.

In the reference period, 21% of operators were at a high level of risk, 61% at a medium level of risk, and 18% at a low level of risk.

Irregularities were found in all inspections, and the number of orders imposed in the decisions following the onsite inspections, indicates a high level of non-compliance of the obliged entity's business with the regulations in the AML/CFT area.

Furthermore, in light of the growing number of unlicensed games of chance offers, regardless of the fact that it is not possible to directly launder money through illegal activities (since the winnings remain illegal), the Games of Chance Administration filed 19 criminal reports in the period 2021-2023 due the unauthorized organization of special games of chance, without the approval of the Administration for Games of Chance. Also, in the period 2019-2023, 5 approvals were revoked.

Relative to the previous assessment, we can say that there was progress in the field of games of chance, primarily in terms of improved organizational and technical capacities of the supervision function, and especially the establishment of an electronic system for supervision, which, given a smaller number of inspectors, facilitates supervision and allocates the Administration's resources to the greatest-risk areas, and constitutes an important tool for a more effective identification of suspicious transactions.

The private sector was involved in the assessment and provided generally positive evaluations, except concerning to the availability and access to information on beneficial ownership, in terms of the availability of the identification structure and independent sources of information for foreign persons or entities, which it believes has room for improvement.

Casinos

Special games of chance in casinos can be organized by legal entities based in Serbia, whose registered main activity is gambling and betting on the basis of a permit, which is issued by a decision of the Government. A legal entity can obtain a license to organize special games of chance in casinos, if that person or its majority founder owns a stake in at least one casino and if it has been organizing games of chance in casinos for at least five years.

Currently, 2 organizers have a license to organize special games of chance in casinos in Serbia, and both casinos are located in the territory of the city of Belgrade, and they host the so-called "live games" on the tables, as well as special games of chance on the machines. In the observed period, there were no changes in the number of casinos, that is, it did not change for a long period of time, and so far there have been no cases of license revocation.

The ownership structure of the obliged entities is as follows: one casino is owned by a domestic natural person, who is also the beneficial owner of the specific legal entity, while in the other is owned by a domestic legal entity with a share (stake) of 90% of the capital, and the other 10%-stake comprises two beneficial owners – one domestic and one foreign person.

When it comes to the vulnerability of this type of games of chance, the most significant factor is the use for cash, which is dominant, and the fact that the clients are exclusively natural persons can pose specific risks coupled with the jurisdiction from which they come, and thus affect exposure to high risk clients.

As far as entry into the casino is concerned, the Law on Games of Chance stipulates that entry into the casino is allowed to persons of legal age, with the obligation of the organizer to provide a permanent database, as well as a written statement of the person declaring under material and criminal liability that they participate in the games of chance for themselves and on their own behalf. The AML/CFT Law also provides for a specific case of identification and verification of the client's identity when they enter the casino. The application of this provision

and the client’s statement that they participate in the games of chance for themselves and on their own behalf, essentially constitutes the identification of the BO of the client - a natural person, who thereby confirms that they are not under anyone's control.

Also, the Rulebook specifying the conditions for the implementation of audio and video surveillance, the method of keeping documentation and physical protection in the casino, the implementation of video surveillance and the storage of documentation in the slot club, i.e. the betting place, enables the monitoring of the areas where transactions take place, i.e. the parts of the casinos that are subject to audio and video surveillance, which includes critical areas in which can lead to ML, including tables for games of chance, machines and similar parts of the premises, such as the reception desk and cash register, the path of movement of money and chips, etc.

However, even though casinos have strict fraud prevention systems and protection against all criminal activities, residual risk still exists, and casinos can still be considered a significant channel for money laundering through gambling activities, taking into account, among other things, geographic risk, that is, the fact that non-residents make up as much as 60% of the total number of parties, as well as the speed and volume of cash transactions. The analysis indicates that the number of non-residents coming from blacklisted countries is not large and amounts to 0.58 % in relation to the total number of non-residents, while the number of PEPs is extremely small, and amounts to 0.0238% in relation to the total number of clients. The representation of clients according to the level of risk at casinos in the reference period is as follows: high 0.13%, medium 14.09% and low 85.78%.

The analysis covered, in addition from the data from the offsite inspections which are carried out continuously for both obliged entities, also the result of one onsite supervision carried out in 2022, which found a discrepancy between the AML/CFT Law requirements and their implementation in practice. Namely, the obliged entities show an uneven level of understanding of the obligations under the AML/CFT Law when it comes to integrity of the compliance officer and the related employment procedures, primarily bearing in mind the findings of the above onsite supervision.

This suggests there is a constant need to improve understanding by obliged entities of their obligations under the AML/CFT Law, and their implementation in practice. Also, despite the current levels of regular training engaged in by obliged entities, the technical knowledge of this area is also needed to all AML/CFT stakeholders.

Obliged entity training

<i>period</i>	<i>internal</i>	<i>external</i>	<i>in total</i>
2021-2023	13	5	18

Suspicious activity reporting

Concerning the effectiveness of SAR monitoring and reporting by this group of obliged entities, one notices a need to improve understanding and develop awareness and knowledge for identifying them, given the low level of SARs, both in number and insufficient quality. In this sense, the need to improve the SARs from this group of obliged entities has been highlighted. Namely, in the period 2021-2023, only 6 SARs were filed, and these reports were submitted by one of the two casinos, namely: 2021 - 3; 2022 – 3 and 2024 – 0.

Bearing in mind the above, the number of SARs filed by casinos, in comparison to the previous NRA, when there were 15, shows a significant downward trend.

Product risk

A review of the product risk has found poker and roulette games risk as medium, bearing in mind that the mandatory registration of players reduces it to a certain extent, however, the impact of large cash payments and the significant participation of non-resident clients require the application of enhanced CDD.

Conclusion

It follows from the above that although the exposure to risk in casinos still remains quite high, which is primarily influenced by the significant number and speed of cash transactions and the number of non-resident clients, the results of the assessment indicate that there is an awareness of the risks, but that certain weaknesses are still present, primarily in the area of reporting suspicious transactions and employee integrity. The fact is that to a certain degree there is still a discrepancy between the obligations established by the regulations in the area of AML/CFT and their implementation in practice by a part of the obliged entities.

Factors having an effect on a higher level of ML vulnerability:

- Dominant use of cash, as well as a large number of transactions
- Geographic risk - a significant number of non-resident parties
- The number of reports of suspicious transactions is low, showing a significant downward trend compared to the previous NRA
- Uneven level of understanding of the obligations under the AML/CFT Law on integrity of compliance officer and the recruitment procedure (employment relationship)
- Cryptocurrencies - a potential emerging risk when it comes to using this financial tool, although they are not yet used in the gaming sector

Factors having an effect on a lower level of ML vulnerability:

- The normative framework is adequate and in line with international standards
- Regulated verification of the client's identity when entering the casino, as well as audio and video surveillance
- Licensing - organizers are prevented from having convicted individuals in their ownership and management structure
- The control function is operational in full capacity - offsite and onsite supervisions are carried out continuously
- The percentage of PEPs is negligible

Games of chance through electronic communication - online

The right to organize games of chance via means of electronic communication, in accordance with the Law on Games of Chance, is held by the State Lottery of Serbia and organizers whose registered main activity is gambling and betting, to which the Administration for Games of Chance has transferred the right to organize special games of chance through electronic communications. The majority of organizers, or 61%, operate as part of the so-called of "mixed operation"¹³⁶, which brings with it certain risks as it involves a greater use of cash.

¹³⁶ mešovito priređivanje

The regional distribution of this group of obliged entities is as follows: Belgrade region - 76%; region of Vojvodina - 8%; the region of Šumadija and Western Serbia - 12% and the region of Southern and Eastern Serbia - 4%.

All organizers of games of chance through electronic communication are domestic legal entities, and below is an overview of their ownership structure:

	2021	2022	2023
<i>Domestic legal entities</i>	21	21	23
<i>of which foreign ownership (25% or more)</i>	9	10	13

In most cases, the beneficial owners of the mentioned legal entities are domestic persons (52%).

In the case of organizers of games of chance via electronic means of communication, the fact that the players are not physically present complicates the process of checking the client's identity, that is, it is one of the significant factors that affect their vulnerability.

Circumstances point to a higher risk of money laundering by the organizers of games of chance through means of electronic *communication* such as:

- business that implies the absence of "face-to-face" contacts, which may carry certain risks and require alternative or additional methods of compliance;

- cash payment enabled: most payments to organizers via electronic means of communication are made directly from accounts from financial institutions. However, the obliged entity can function as part of a mixed arrangement that also includes betting shops, i.e. games of chance on machines, so-called "terrestrial betting". In this way, clients may be able to add cash to their registration accounts at the payment-disbursement point, and then use them for "online" games, and the majority of organizers of special games of chance through electronic communication means operate as mixed organizers;

- use of registered accounts with obliged entities: without satisfactory internal controls, clients can use these accounts for depositing and withdrawing without gambling and with minimal stakes;

- prepaid cards: using cash to finance a prepaid card presents similar risks as with cash.

Accordingly, with this type of arrangement, the exposure to risk is constantly increased due to the large number of transaction flows and the lack of face-to-face interaction.

This is especially considering that the percentage of organizers of games of chance via means of electronic communication who received cash payments from parties to top up their account amounts to 78 %, while the percentage of cash payments in relation to total payments is slightly more than 33%.

Bearing in mind the above risks, i.e. the fact that the increasing use of online services in the digital economy, i.e. the development of modern technologies, emphasize the need for the establishment of strong detection mechanisms, the Law on Games of Chance stipulates that the organizer of special games of chance through means of electronic communication obliged to use information and communication system for organizing games of chance through means of electronic communication (ICS). In this sense, with the successful implementation of the ISC in July 2021 made it possible to store, archive and exchange data electronically in the software solution of the Administration for Games of Chance which is used for the purpose of supervising the organizers of games of chance, which significantly improved the effectiveness of the supervisory function in the observed period.

The above allowed for record-keeping of transactions, which further facilitates the development of specific risk indicators and prioritization, i.e. it is an important tool for more effective identification of suspicious transactions which ensures allocation of the Administration's resources to the highest risk zones.

In response to the above-described risks and technological challenges and development, the ICS of the Games of Chance Administration was upgraded in 2023 with a module for supervision, monitoring and detection of fraud in the area of AML/CFT that enables: monitoring of transactions in real time; player data analysis; validation of the data submitted to the Games of Chance Administration for the calculation of fees, as well as a proactive approach, the result of which is the submission of data on completed transactions above 15,000 euros in Dinar equivalent value for 32 players/clients in 2023, which were reported to the APML by the Games of Chance Administration.

In the analysis of the number of transactions, a significant growth trend was observed in 2022 relative to 2021 (266%), and after the introduction of ICS, while in 2023 that increase was 27%, and the average value of an individual transaction shows a decrease in 2023 compared to 2021.

According to the above, regardless of the inherent risks that it poses, online operation has certain mitigating elements, such as easier monitoring of transactions.

Looking at the profile of clients, as an indicator of risk, it was determined that the percentage of non-residents in this type of games of chance provision is only 1.70%, while the percentage of PEPs as clients is negligible and did not exceed 0.0014% in the reference period. The representation of clients per risk level among the organizers of games of chance via means of electronic communication in the observed period is as follows: high 0.31%, medium 5.00% and low 94.69%.

Supervision

As part of the activity of checking compliance with legal obligations, offsite supervision is carried out continuously over all obliged entities, and in the period 2021-2023, in accordance with the inspection oversight plan, and 8 field inspections of the organizers of games of chance through means of electronic communication, which in relation to the number of 23 organizers makes 34.8% of the coverage of supervision.

Irregularities were found in all supervision, and the number of orders in the decisions made in with the mentioned procedures of their onsite supervision, indicates certain sizable issues with non-compliance of the obliged entity's business with legal regulations in the area of prevention of money laundering and financing of terrorism.

The most common irregularities that represent economic offenses refer, among other things, to the fact that select obliged entities did not make a decision appointing a compliance officer and their deputy; before the appointment of the responsible person and his deputy, they did not provide evidence/ deed of the competent authority on their criminal record, which makes them ineligible to perform the duties of the compliance officer and the deputy of the compliance officer; they did not inform the Administration for the Prevention of Money Laundering about the personal name and job title of the compliance officer and his deputy; they did not pass an act by which they were obliged to determine the procedure by which, when establishing an employment relationship at the workplace, where the provisions of this law are applied, the candidate for that workplace checks whether he has been convicted of criminal offenses that result in the acquisition of illegal proceeds or criminal acts related to terrorism or do not apply that procedure.

Bearing in mind the regional distribution of obliged entities, the largest number of inspections was carried out in the Belgrade region, where the largest number of detected irregularities was determined - 87%, while in the region of Šumadija and Western Serbia - 13%.

Tabular overview of the total number of inspections, identified irregularities and the total amount of imposed fines in the period 2021-2023:

<i>Mr. Odin</i>	<i>number of offsite supervisions</i>	<i>number of onsite supervisions</i>	<i>Total number of identified irregularities</i>	<i>Fine imposed in RSD</i>	
				<i>Legal entity</i>	<i>Responsible person</i>
2021	21	3	17	240,000	40,000
2022	21	3	18	385,000	59,000
2023	23	2	11	3,500,000	320,000
In total	65	8	46	4,125,000	419,000

The results of offsite and onsite supervision indicate that the organizers of games of chance via means of electronic communication have to a certain degree adopted the AML/CFT standards, and that the need to improve the understanding of obliged entities related to their obligations under the AML/CFT Law and ensure they are implemented in practice, is still pronounced, and specific technical knowledge is also necessary for AML/CFT stakeholders.

In order to address these shortcomings, obliged entities have access to all information related to typologies, as well as all news related to AML/CFT Law that are published on the websites of the APML and the Administration for Games of Chance. Furthermore, in addition to the law as the primary source of information, the improved 2022 Risk Assessment Guidelines, also plays a significant role in overcoming the above deviations as well as training programs for obliged entities, co-organized by the Games of Chance Administration and APML in the observed period.

Also, according to data from offsite supervision, obliged entities held a total of 162 trainings in the period 2021 - 2023, namely:

<i>period</i>	<i>internal</i>	<i>external</i>	<i>in total</i>
2021-2023	112	50	162

Products and services

Products in this type of preparation are evaluated as follows: online betting - medium risk; virtual games - medium risk and online slots - medium high.

The lack of physical presence of the client, as well as the possibility of paying in cash in the case of "mixed arrangements", through pay-in/payout points in betting places or in slot clubs, leads to a medium risk of the product online betting and virtual games, while a much larger amount of payments in online slots in relation to on other products, affects the increase in the degree of risk. The fact that the players are not physically present, which complicates the process of verifying the client's identity, as well as the possibility of paying in cash, require the application of enhanced actions and measures.

Suspicious activity reporting

With this group of obliged entities, improvement is needed in the area of effectiveness of monitoring and reporting on suspicious transactions, since there is still insufficient understanding, awareness and knowledge among certain organizers, although the dynamics are positive. As a result of the onsite supervision carried out in 2023 on obliged entities who organize special games of chance via means of electronic communication, the Games of Chance Administration reported to the APML, data on transactions over 15,000 euros for 5 players, for which there were indications of money laundering, since they made cash payments in betting places in the amount of over 15,000 euros did not play and after a certain period, demanded the payment of cash back.

According to APML data on SARs filed by organizers of games of chance via means of electronic communication, for 2021-2023, there were 65 SARs by 10 obliged entities, including: 2021 - 6; 2022 – 26 and 2023 – 33.

Regardless of the fact that a greater number of obliged entities/organizers of games of chance via electronic of communication filed SARs in the observed timeframe and that the number of reports increased significantly compared to the previous NRA, given the total volume of transactions, that number should be higher.

Also, compared to the previous NRA, the quality of the SARs has improved to a certain extent, and obliged entities in more cases refer to the potential illegal origin of the funds, indicating also other circumstances that they find unusual in the specific case. In addition to the above, a number of SARs refer to cases where the obliged entity also reports a person not specifically because of suspicion of potential money laundering, but because of suspicion that the person/persons are acting in a suspicious way that is not in accordance with the rules for participating in games of chance, and a number of reports concerns misuse of payment cards (various types of fraud).

Bearing in mind the above, it can be stated that despite the training, guidelines, list of indicators, the residual risk still exists, since there is need to expand understanding, awareness and knowledge in identifying suspicious transactions on the part of obliged entities / organizers of games of chance through means of electronic communication.

Also, bearing in mind that risk analysis implies an understanding of risk and represents one of the key functions in the risk assessment process, the assessment reviewed and took into account data from offsite and onsite supervision related to the obliged entities' risk analyses under Article 6 of AML/CFT Law. The general conclusion is that their quality is uneven and in a certain number of cases unsatisfactory, that is, that some analyses do correspond to a set standards, yet their quality can vary significantly from one obliged entity to another. In this sense, in order to raise their quality to a higher level, it is necessary to significantly improve the current situation and raise the level of knowledge of obliged entities in this segment.

Given the above circumstances, to assessment suggests that improvements are needed for this group of obliged entities, such as better effectiveness of the compliance function and staff integrity, that is, the effectiveness of risk management, and especially as far as effectiveness of monitoring and reporting on suspicious transactions is concerned.

Conclusion

Taking into account the results of onsite supervision, it is clear that there is still insufficient understanding of the importance of compliance with reporting procedures and obligations related to the prevention of money laundering and financing of terrorism by individual organizers of games of chance through means of electronic communication.

The answer to the risk associated with the lack of direct contact with this group of obliged entities can be adequate checks and verification measures, i.e. mandatory video identification. Also, obliged entities should be aware of the fact that online techniques can make it possible to hide real identities and sources of funds.

In this regard, relative to the previous NRA, and in terms of applying enhanced CDD, these obliged entities carry out additional identity checks, in addition to their obligation to use the ICS of the Administration for Games of Chance, to check the data of the Agency for the Prevention of Corruption, the unique personal ID (JMBG), the geolocation system for checking the user's IP address, telephone verification, etc. These additional identity checks are made using new technologies and online tools, which positively affect the degree of accuracy and efficiency of the process of verifying the identity of the client and player profile, so the vulnerability is in this regard is reduced to a certain extent. However, the related residual risk

still exists, and the way to overcome it in order to reduce vulnerability is to introduce mandatory video identification.

Factors demonstrating a higher degree of vulnerability to money laundering:

- The absence of face-to-face contact complicates the identity verification process, which is why additional identity verifications are carried out using new technologies, but the residual risk still exists*
- The control function is operational in full capacity - offsite and onsite supervisions are carried out continuously*
- Extremely high percentage of irregularities in onsite supervision, although it is noticeable a slight improvement, taking into account the average of economic offenses per obliged entity*
- The number of SARs has increased, and the quality has improved to a certain extent, but significant improvement is still needed*
- Cryptocurrencies - a potential emerging risk when it comes to using this financial tool, although they are not yet used in the gaming sector*

Factors affecting a lower degree of vulnerability to money laundering:

- The normative framework is adequate and compliant with international standards*
- The organizational and technical capacities of the supervision function have been improved by establishing an electronic monitoring system*
- The possibility of having licenses for organizing several types of games - the so-called "mixed arrangement", carries with it specific risks (higher possibility of using cash)*
- A mitigating feature – the possibility and easier monitoring of transactions*
- Licensing - organizers are prevented from having convicted natural persons in their ownership and management structures*
- The percentage of officials (PEPs) is negligible, as is the number of non-resident parties*

Accountants and auditors

The sectoral law introduced the obligation to register accountants in the Register of Accounting Service Providers, which is managed by the Serbian Business Registers Agency (hereinafter: SBRA). It should be noted here that the activity code 69.20 covers business entities engaging in accounting, bookkeeping, auditing, and tax consulting.

Enrolment in the Register of Accounting Service Providers is done on the basis of a license previously issued by the Chamber of Authorized Auditors (hereinafter: the Chamber), which introduces the obligation of licensing, if the stipulated conditions are met. The Chamber of Certified Auditors is entrusted with the public authority to issue work permits, while the SBRA is authorized to maintain the Register of Accounting Service Providers (hereinafter the Register).

Up to 30.6.2024 a total of 5,672 legal entities, and entrepreneurs who were licensed in accordance with the Accounting Law, were registered in the Register kept by the SBRA.¹³⁷

A legal entity which files a request for license must prove the identity of its BO, in the manner and within the meaning of the law governing the Central Records of BOs.

One of the reasons for revoking an accountant's license is acting contrary to the regulations governing AML/CFT, where the Chamber revokes the accounting service license based on a reasoned proposal of the authority responsible for implementing AML/CFT regulations. So far, there has been no revocation of license on this basis.

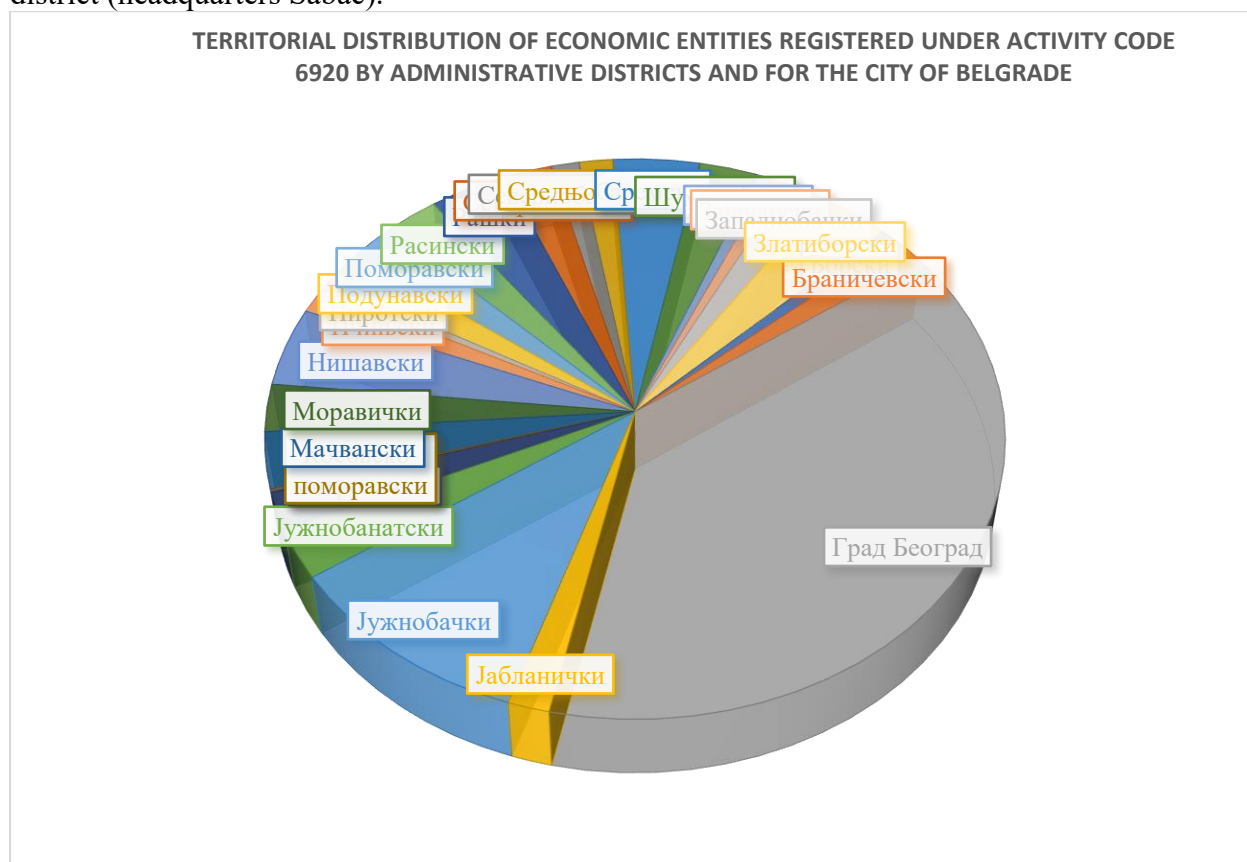
¹³⁷ Source: Business Registers Agency

Market share of accounting companies and entrepreneurs registered in the DNFBP system:

Obligated entity	2019	2020	2021	2022	2023
Accountants	2.32%	2.47%	2.19%	1.96%	2.11%

The market share of companies and entrepreneurs did not record major changes during the observed years and ranges around 2%.

In terms of the geographical distribution of business entities registered under the activity code 6920, it was observed that the largest concentration is in the territory of the City of Belgrade, followed by South Bačka administrative district (headquarters Novi Sad), Nišava administrative district (headquarters Niš), Srem administrative district (headquarters Sremska Mitrovica), Zlatibor administrative district (headquarters of Užice) and Mačva administrative district (headquarters Šabac).



Supervision

According to the supervisory authority's risk matrix, 8% of accountants were at a high-risk level in the observed period, 65% of accountants were at a medium risk level, and 27% of accountants were at a low risk level.

Number of offsite inspections in the reference period

Obligated entity	2019	2020	2021	2022	2023	30.6.2024.	In total
Accountants	295	246	229	308	315	152	1545

Number of onsite inspections

Obligated entity	2019	2020	2021	2022	2023	30.6.2024.	In total
Accountants	6	6	20	42	42	12	128
<i>The number of irregularities that represent an economic offense by year</i>							
Obligated entity	2019	2020	2021	2022	2023	30.6.2024.	In total
Accountants	61	81	210	100	220	54	726
<i>The number of irregularities that constitute an offense by year</i>							
Obligated entity	2019	2020	2021	2022	2023	30.6.2024.	In total
Accountants	0	0	18	257	139	40	454

The identified irregularities relate to: failure of the obliged entity to report suspicious activity of his client, risk analysis, identification of clients, representatives and beneficial owners, appointment of a compliance officer, deputy and member of the top management responsible for the implementation of the AML/CFT Law and submission of their details to the APML, procedure for identifying the PEP and offshore entities, internal control, annual professional training program, employee education, indicator lists and record keeping.

In the reference period, onsite supervision of the implementation of the Law on Central Records of Beneficial Owners was carried out and a total of 56 inspections were carried out, in which 9 irregularities were found. In accordance with the regular inspection procedure and the procedure for established irregularities, misdemeanor proceedings were initiated before the competent misdemeanor courts.

From 2019 to 2024, the competent commercial courts ruled in 31 cases, legal entities were sentenced to fines in the total amount of 59.211,59 EUR, and responsible persons in legal entities in the total amount of 10,514.37 EUR.

When it comes to misdemeanor courts, 24 verdicts were handed down, and the entrepreneurs were fined in the total amount of EUR 19,799.78.

In the estimated period, the Supervision Department, submitted criminal charges to the competent prosecutor's offices involving three legal entities that were subject to onsite inspection due to the well-founded suspicion that they had committed a criminal offense under Article 353 of the Criminal Code, i.e. they had engaged in certain activities without authorization, the performance of which was required by the law or other regulations adopted on the basis of the law permission of the competent authority (in this case for the provision of accounting services).

The results of the monitoring indicate that it is necessary to continue to invest efforts in the training of obliged entities.

Inspectors working in the Supervision Department continuously attend trainings organized by domestic and foreign institutions. Two employees have a CAMS certificate (Certified Anti-Money Laundering Specialist) and one inspector has a CFE certificate (Certified Fraud Examine).

Further plans relate to the continuation of training related to both the role of accountants in the system for preventing money laundering and terrorism financing, as well as strengthening awareness of money laundering typologies and the possibilities of accounting services being misused for the purpose of money laundering. In addition to training, APML improved the official website, with the aim of better informing obliged entities, and a manual for accountants with models of internal acts was created, which should contribute and facilitate the implementation of actions and measures prescribed by the AML/CFT Law for this group of obliged entities.

As a form of preventive action, the Supervision Department disseminates guidance for operation to newly established obliged entities - accountants (in a period of 3 years, 1786 of these notifications were disseminated).

Suspicious activity reporting

From 2019 to 30.6.2024, 47 suspicious activities were reported to APML by legal entities and entrepreneurs that provide accounting services. After the analysis of the SARs (in the period 2019-2020), 25% of all submitted reports were shared with the Tax Administration, and in the period 2021-2023, even 74% of the reports were disseminated, of which 65% to the competent prosecutor's office, and the rest to the Tax Administration.

The reasons for filing the SARs were diverse: due to suspicion of withdrawing money without grounds, illogically high costs for legal and consulting services, cash payments to cover material costs, advance payments and payments of the founder's loans for liquidity in large amounts without proof of origin, non-delivery of required/appropriate business documentation to the obliged entity, suspicious payments to a foreign partner in large amounts by related legal entities, connection with legal entities registered in offshore destinations and suspicion of the identity of the beneficial owner, suspects that the person is connected with TF, considering that the payment of all tax obligations for employees, etc., has not been made.

Conclusion

Significant progress has been made in this area, primarily with the introduction of the obligation to license accountants (for which a clean criminal record is a condition), as well as the introduction of a special Register of accounting service providers. The normative framework is adequate and harmonized with international standards, accountants are prevented from having convicted natural persons in their ownership and management structure. Bearing in mind the number of registered obliged entities in this sector, it can be concluded that the number of SARs filed is small and therefore the APML's intention is to intensify training, with a special emphasis on case studies, money laundering typologies, as well as raising awareness about potential abuses of accountants by organized criminal groups, as well as individuals.

Accountants are one of the key levers used by criminal structures in the process of money laundering, given that after a criminal act is committed, it is necessary to make an appearance of legality of certain transactions through bookkeeping. Hiring the accounting sector is very attractive for potential "money launderers" because any accounting document submitted for posting, if it has formal correctness, will be posted regardless of whether the business changes have occurred or not.

In addition to the above, accountants can also provide tax consulting services, which is also attractive to "money launderers", because accountants can provide them with professional advice regarding tax regulations.

In the previous period, the cooperation of the supervisory body - APML and the private sector - professional associations can be positively evaluated. As a result of the cooperation, a special analysis of the legal framework and the situation in the accounting sector was prepared, based on the activity plan that followed the previous NRA. The conclusion is that activities to reduce vulnerability are: prevention, education, raising awareness of risks. As a result of these conclusions, APML organized a series of training sessions, both in the form of webinars and through workshops attended by hundreds of accountants.

It is necessary in the coming period, especially considering the large number of accountants, to intensify training for this group of obliged entities, in order to improve their system for combating money laundering and terrorism financing, and so that they understand

their importance in that system, because they have the opportunity to see an aspect of their clients' business that other obliged entities do not see, since they have insight into their business documentation, and see much more than other obliged entities.

According to all of the above, insufficient awareness of risks, lack of resources and knowledge necessary for the implementation of rules related to AML/CFT among accountants can especially affect the vulnerability of this sector, and in the coming period, preventive work with accountants should be further improved through continuous education.

Factors affecting a higher degree of vulnerability to money laundering:

- Although the sector of accountants is well organized, there are noticeable weaknesses that are reflected in the way they perform checks and manage risks, and for this reason their exposure and vulnerability to money laundering is significant,*
- Extremely high percentage of irregularities in onsite supervision, although a slight improvement is noticeable, taking into account the average of economic offenses per obliged entity*
- The number of reports of suspicious activities decreased compared to the previous period,*
- Insufficient number of inspectors in relation to the size of the sector.*

Factors affecting a higher degree of vulnerability to money laundering:

- Accountants must have a license from the Ministry of Finance to work, while APML can make a proposal to revoke the license if the regulations on AML/CFT are violated,*
- It is forbidden for the founders/owners to be legal/natural persons with criminal convictions or serious violations of the AML/CFT regulations, which reduces the vulnerability of the audit sector,*
- A significant progress in this sector is the introduction of the obligation to license legal entities, i.e. entrepreneurs for the provision of accounting services, as well as the introduction of a special Register of Accounting Service Providers, which is managed by the SBRA*
- APML performs annual supervision in accordance with the risk assessment, checking compliance with AML/CFT regulations and quality control of accountants' work*
- Efficient offsite and onsite supervision carried out by APML in accordance with a risk-based approach,*
- Effective supervision by the APML of compliance with the Law on CRBO by obliged entities,*
- Well-established practice of ongoing training*
- Accountants had the opportunity to attend numerous training events and seminars, and the Section for Supervision makes an effort to continuously update guidelines, procedures, checklists in a timely manner, to be involved in development of documents such as Recommendations for reporting suspicious activities, in order to transmit the legal regulations to the obliged entities, but despite this, offsite and onsite supervisions do find irregularities.*

Auditors

The functioning of the auditing profession is regulated by the Law on Auditing ("Official Gazette of RS", No. 73/19, hereinafter: Law on Auditing) and by-laws adopted for its implementation. This law, among other things, sets out the conditions and rules for the audit of financial statements, and redefines the responsibilities regarding the implementation of the work quality control system, as well as the system of public supervision over the work of this profession.

As on December 31, 2023, there were a total of 75 audit firms operating in Serbia, four of which were 100% foreign-owned, two were majority foreign-owned, while the rest of the audit firms were owned by domestic individuals and legal entities. Regarding the legal form of organization, all audit companies are organized as LLCs.

The new 2020 law, tasked the Securities Commission with imposing sanctions, and this further improved the sanctioning system and the independence of supervision from the influence of the profession (a solution proposed in accordance with the requirements of EU regulation and best practice).

Work licenses for auditors and permits for audit companies are issued by the Ministry of Finance.

To assess the size and importance of the audit sector, one took into account the fact that auditing in Serbia is mandatory for regular annual financial statements and consolidated financial statements of large and medium-sized legal entities, public companies in accordance with the law regulating the capital market and all legal entities, i.e. entrepreneurs whose total income achieved in the previous business year exceeds 4,400,000 euros in Dinar equivalent.

The share of auditors in the total number of companies submitting FS

		2021	2022	2023		
Total number of obliged entities submitting FS		281.165	285,712	286.335		
Total number of persons liable for FS audit		4,464	5,026	5.561		
The share of persons liable for audit in the total number of companies that submit FS		1.59 %	1.7 6 %	1.94 %		
table: overview of income by auditing companies						
year	name	Revenues from the provision of auditing services	Income from the provision of tax consulting services	Income from providing accounting services	Total Business Revenue (RSD)	Revenues excluding auditing services (RSD)
2023	<i>Earned income</i>	3,969,641,201.00	1,765,077,305.00	551,965,136.00	8,350,438,387.00	4,380,797,186.00
2023	<i>Share of certain types of income in the total</i>	47.54%	21.14%	6.61%	100.00%	52.46%
2022	<i>Earned income</i>	3,550,992,085.00	1,170,350,720.00	493,224,768.00	7,813,944,627.00	4,262,952,542.00
2022	<i>Share of certain types of income in the total</i>	45.44%	14.98%	6.31%	100.00%	54.56%
2021	<i>Earned income</i>	2,781,141,417.00	963,412,413.00	387,153,382.00	6,379,906,340.00	3,598,764,923.00
2021	<i>Share of certain types of income in the total</i>	43.59%	15.10%	6.07%	100.00%	56.41%
2020	<i>Earned income</i>	2,685,945,070.00	1,198,388,706.00	375,514,093.00	7,373,514,979.00	4,687,569,909.00
2020	<i>Share of certain types of income in the total</i>	36.43%	16.25%	5.09%	100.00%	63.57%

The analysis of the data shows that the representation of those subject to audit their financial statements (who are potential clients to auditing firms) in the total number of those

obliged to prepare and publish financial statements is negligible, which certainly indicates a small scope of the auditing profession, but on the other hand is appreciated and the fact that the auditors are mostly large legal entities and persons with a large income.

In contrast to the previous risk assessment, now when assessing the importance of the audit sector, the fact that auditing companies, in addition to auditing financial statements, very often provide tax consulting and accounting services is also taken into account. Based on the analysis of the income generated by these companies by type of income, it follows that in the reference period, on average, about 40% of auditing companies also provided tax consulting services, that about 25% also provided accounting services, and that the income from the performance of business audits of financial statements in the total income of auditing companies amounted to less from half of the total revenues of auditing companies, which also shows the low participation of the auditing profession within the DNFBP sector.

The Securities Commission, as a supervisory and regulatory body of Serbia, supervises the compliance with the Law on Prevention of Money Laundering and Terrorism Financing by auditing companies and independent auditors, who, in accordance with the Auditing Law, have a valid license for auditing financial statements.

In order to assess the vulnerability of the audit sector, factors related to the well-regulated legislative framework were considered and analyzed. Namely, auditing companies in accordance with the Law on Audit are required to have a license to perform audit work, and the audit is performed by licensed authorized auditors.-Permits and licenses are issued by the Ministry of Finance, and the Securities Commission has the authority to revoke the auditing company's work permit, among other things, if the auditing company, that is, an independent auditor, acts contrary to the regulations governing the prevention of money laundering and terrorism financing.

An analysis of the risk and ownership structure of the companies whose financial statements are audited - clients, has found that the majority were residents, and out of 21.82 % of the companies (average for the reference period), whose owners were non-residents, about 11.58 % (average for the reference period) was assessed as high risk (mostly it is a geographic risk). Also, relative to the findings of the 2021 National Risk Assessment, and looking at the data on the activity and form of organization of clients of audit firms, it follows that in this sense the value of this risk factor is at a lower level than in the previous NRA.

Legal form / risk category of the obliged entity's clients (auditing companies)	2021	2022	2023
Joint stock company	4.73%	4.06%	4.02%
High risk	10.58%	10.31%	7.38%
Low risk	60.10%	80.53%	83.38%
Medium risk	29.33%	9.16%	9.23%
Limited liability company	68.61%	65.57%	70.90%
High risk	6.39%	6.49%	5.09%
Low risk	63.33%	81.30%	80.97%
Medium risk	30.27%	12.20%	13.94%
Public joint-stock company (Capital Market Act)	5.02%	4.10%	2.32%
High risk	6.33%	5.28%	5.32%
Low risk	87.33%	89.06%	83.51%
Medium risk	6.33%	5.66%	11.17%
The rest	16.27%	19.10%	16.16%
High risk	6.84%	8.02%	7.11%
Low risk	66.90%	70.91%	80.58%

Medium risk	26.26%	21.07%	12.31%
Local self-government	3.61%	3.08%	3.16%
High risk	6.29%	3.52%	3.91%
Low risk	91.19%	93.97%	94.53%
Medium risk	2.52%	2.51%	1.56%
Business association	1.36%	3.70%	3.21%
High risk	1.67%	0.00%	0.38%
Low risk	93.33%	99.16%	66.54%
Medium risk	5.00%	0.84%	33.08%
Branch of a foreign company	0.39%	0.39%	0.22%
High risk	5.88%	0.00%	5.56%
Low risk	64.71%	92.00%	88.89%
Medium risk	29.41%	8.00%	5.56%
In total	100.00%	100.00%	100.00%

Source: SEC

Beneficial owners of audit firm clients	in 2021	in 2022	in 2023
Resident owners	76.86%	74.33%	83.33%
Non-resident owners:	23.14%	25.67%	16.67%

Source: Register of Beneficial Owners

Risk category of non-resident owners	in 2021	in 2022	in 2023
High risk	10.13%	14.59%	10.02%
Medium risk	18.40%	12.20%	12.57%
Low risk	71.48%	73.20%	77.41%

Source: SEC

Representatives of audit companies, whose comments and opinions were also taken into account, believe that the audit sector has a low risk, taking into account the nature of the audit service, i.e. the fact that this service is used by certain legal entities that were previously established and operate in accordance with the relevant laws, as well as the fact that they are legal entities that usually exist sufficiently for a long time that they had to meet certain conditions in order to become the subject of auditing (income level, size, nature of public company). Also, they believe that the risk is much greater in business entities that are not covered by auditing because they have a turnover of less than EUR 4.4 million.

Profession risk and Product risk

The auditing of financial statements is rated as a medium risk product.

When assessing vulnerability, the following factors were also taken into account: the audit cannot be performed through a representative or with a representative or a third party, the audit is performed in direct communication with the client, there is an obligation to keep records, the audit of financial statements is performed for the previous business year, the contract is concluded for every engagement. Also, this evaluation of the product was influenced by the fact that, even though about 70% of clients are legally organized as a LLC, of all those companies, over 60% were assessed as low-risk.

All of the above points to a small vulnerability of the auditing sector, but the risk of money laundering and financing of terrorism always exists among the clients of auditing companies, and auditors must not ignore them, nor can they apply simplified CDD when auditing financial statements.

Supervision

The number and control performed in the period from 2021 to 2023:

	Offsite	Onsite	Irregularities found
2021	76	0	0
2022	77	22	11
2023	75	19	5

Irregularities identified and measures taken

Total number of irregularities found	Decisions	Economic offense complaints	Warning
16	7	7	9

The largest number of illegalities and irregularities that were determined in the supervision procedures (at 13 companies) related to the identification of the legal entity, the legal representative (improper or out-of-date documentation). Regarding the identification of beneficial ownership of clients by the obliged entity, a total of 4 illegalities, i.e. irregularities, were found (which related to obtaining the personal document of the beneficial owner, entering the date, time and person who carried out the identification, obtaining an extract from the competent register, possessing documents confirming the implemented actions and measures), while in one case, as a result of illegalities found, a decision was made to file a request for economic offense against the obliged entity and the responsible person. In the remaining three cases, the Securities Commission issued written warnings, taking into account the nature and scope of the illegalities and irregularities found. The Warnings issued were mostly about deficiencies in record keeping, old copies of scanned personal documents, identification documents, and the like.

Also, when it comes to identifying the beneficial owner of the client, in one onsite supervision, a discrepancy was found in the data on the beneficial owners registered in the Central Records of Beneficial Owners and the beneficial owners identified by the obliged entity on the basis of the available documentation and available information about the client, of which APML and the Serbian Business Registers Agency were informed.

Regarding the filed requests for economic offense resulting from onsite supervision procedures, the Securities Commission has received feedback on 5 convictions of auditing companies and their responsible persons.

The Securities Commission closely monitors the events and business activities of auditing companies and at least once a year, through continuous supervision, checks the implementation of the AML/CFT Law in the reporting period, as well as the established system of control and risk management, and in this way constantly innovates risks used in risk matrix from each individual obliged entity. The risk matrix for each obliged entity includes an assessment of the level of structural risk, then the level of inherent risk and an assessment of the level of quality of the control system and risk management system, in order to obtain the overall net risk and risk trend for each individual obliged entity. Based on the determined level of risk, the Commission adopts an annual Plan for the implementation of onsite supervision, in which the scope and frequency of the implementation of onsite supervision are determined.

Also, when evaluating the effectiveness of supervisory procedures and practices, the fact that, in accordance with the Law on Audit, the Commission is responsible for controlling the quality of the work of audit companies, independent auditors and licensed authorized

auditors in order to check whether they act in accordance with the audit with the IAS and the provisions of the aforementioned law, which it can certainly improve a better assessment of obliged entities and understanding of their operations and in the matter of the application of the provisions of the AML/CFT Law. In this regard, in the period from 2021 to 2023, a total of 42 quality controls of audit companies' performance were carried out due to irregularities established in the procedures for quality control of the work of audit companies and authorized licensed auditors, and in connection with the application of the Law on Auditing and related regulations, a total of sixteen measures were imposed, of which eight measures ordering elimination of irregularities for audit companies and eight measures were issued to licensed authorized auditors in those companies.

Compared to the previous NRA period, when in 2020 the Commission had just assumed responsibility over the audit sector and had much less experience and information about the operations of audit companies, now it is certainly necessary during the assessment (for example, the knowledge of the obliged entity's employees, the number of trainings have attended, compliance functions, market pressure and the like) taking into account the experience and impressions of the supervisors who performed onsite supervision in the field and who are in contact with the subjects of supervision. In the 2021 National Risk Assessment, one of the activities, which was identified as necessary to improve the system for ML/FT, was to improve the level of knowledge of auditors, especially in the part related to the quality of reported reports on suspicious activities, which was then badly rated. In this regard, a significant number of trainings intended for auditing companies were carried out, and this assessment already shows progress in that part, i.e. there is a noticeable improvement in the quality of reported reports, and obliged entities in a greater number of cases point to circumstances that are recognized as unusual in the specific case, citing a wider range of data, which is certainly significant progress in relation to the quality of applications that were considered in the previous NRA.

The number of supervisors is decreased compared to 2020, while the total number of obliged entities under the jurisdiction of the Commission has increased.

As for administrative and criminal sanctions, it was assessed that they had a positive impact on the behavior of management bodies and employees of obliged entities, and based on previous knowledge and experience, the sanctions implemented have an effect of deterrence on auditing companies from violating the provisions of the law. This is supported by the fact that in onsite supervision in 2022, half (50%) of the supervised companies were found to have irregularities, while in 2023, the participation of companies with established irregularities was much lower (26%).

It is her opinion that the majority of employees in audit companies act conscientiously, but also that there is always a certain degree of risk that individual employees may be subject to grossly negligent behavior.

It is a fact that audit companies and independent auditors have been in the supervision system for many years, which suggests there is an increased awareness and attention on the part of managers when controlling existing and hiring new auditors, and also, according to the available data, employees of audit companies; according to the available information, auditing company staff were not recorded as being defendants in criminal ML cases. Due to the irregularities found in the reporting period in the quality control procedures of audit companies and authorized licensed auditors, and in relation to the Law on Audit and professional regulations, the Securities Commission imposed a total of sixteen measures (8 against audit companies and 8 against the licensed authorized auditors in the companies). For example, during an examination of an audit firm, a measure of conditional revocation of the work permit was issued for a period of six months, and the authorized licensed auditor was issued a public warning due to the violation of the provisions of Article 12 of the Law on Auditing, according

to which the audit firm filed to meet the condition for auditing financial statements, because the only member of the company was not an authorized licensed auditor.

Suspicious activity reporting

In the reference period, out of a total of 28 SARs filed by eleven obliged entities, information from 4 SARs were further disseminated for potential action by the competent public prosecutor's office, while data from 9 SARs were shared with the Tax Administration. In a certain number of cases, the data from the SARs was not disseminated, because they were submitted after the APML's prior disseminations to the competent authorities based on an earlier SAR by different obliged entities. Bearing in mind that the assessment of the SAR quality is better, but still not at a high level, as well as the fact that the reports in this reference period were mainly from auditing companies from the territory of Belgrade and Novi Sad, the assessment is that there is room for advancement and improvement of the level of knowledge of employees obliged entity.

When updating the national risk assessment, the private sector was also consulted. Namely, audit firms generally have high confidence in the effectiveness of supervision activities and the integrity of staff, rating these aspects very positively. Also, knowledge of the system for preventing money laundering and terrorism financing among employees, as well as compliance functions, was assessed by obliged entities as solid, but also that there is room for additional improvements. And obliged entities agree that the effectiveness of monitoring and reporting on suspicious activities is an area that requires further work in order to achieve greater efficiency.

Conclusion:

The established assessment of the auditor's vulnerability was influenced by the following criteria: small participation of the audit sector in the structure of the DNFBP system of Serbia, a large share of low-risk clients, a small share of those subject to audit in the total number of companies that have an obligation to submit financial statements, a low share of income which auditing companies achieve from audits of financial statements in the total revenues of the companies, the fact that this service is used by certain legal entities that were previously established and work in accordance with the relevant laws, as well as that they are legal entities that usually exist long enough to had to meet certain conditions in order to become the subject of an audit of financial statements is assessed as a low-risk product, the audit cannot be performed through a representative or with a representative or a third party, the audit is performed in direct communication with the client, there is an obligation to keep records, the audit of financial statements is performed for the previous business year, as well as strict regulations in this area are also strong entry controls, obliged entities' awareness of the risk of money laundering and compliance with all international standards when adopting regulations, as well as long-term comprehensive continuous supervision of obliged entities based on risk assessment.

Given that the Securities Commission, as a supervisory authority, in addition to auditing companies, also supervises capital market stakeholders, there is a risk that needs to be mitigated when it comes to the number of employees who supervise the implementation of the AML/CFT Law in the coming period, especially if there should be significant increases in activity or risk in these sectors. Also, as in the last assessment, there is the residual risk of obliged entity employees that requires further training in terms of improving the quality and

number of SARs, and identification of clients, given that the SAR quality is still not at a satisfactory level.

Factors influencing the higher degree of money laundering threat:

- The most frequent irregularities relate to the identification of legal entities and beneficial owners.*
- The quality of SARs has improved, but not enough, with the need for additional training of employees.*
- Insufficient number of inspectors: In addition to supervising auditing companies, the Securities Commission also supervises other types of obliged entities under the AML/CFT Law, and in this regard, the number of inspectors is found to be a risk that needs to be mitigated in the following period, especially if there would be a significant increase in activity or risk in these sectors*

Factors influencing the lower level of money laundering threat:

- Audit companies must have a license from the Ministry of Finance to operate, while SEC can revoke the license if the regulations on AML/CFT are violated. It is forbidden for the founders/owners to be legal/natural persons with criminal convictions or serious violations of the AML/CFT regulations, which reduces the vulnerability of the audit sector.*
- The share of auditors in the total number of companies that must submit financial reports is less than 2%.*
- Revenues from auditing make up less than half of the total revenues of auditing companies; other income is mainly tax consulting and accounting services.*
- The audit is performed in direct communication with the client, with the obligation of records and the conclusion of the contract upon engagement, and the audit cannot be performed through a representative.*
- The Securities Commission performs continuous and onsite supervision of independent auditors and licensed authorized auditors in accordance with risk assessment, checking compliance with the AML/CFT regulations and performs quality control of the work of audit companies and auditors in accordance with the Law on Auditing.*

Lawyers

The legal profession as an independent, independent and self-regulating profession is governed by special legislation - the Law on Legal Profession, the Statute of the Bar Association and the Code of Professional Ethics.

Supervision over the implementation of AML/CFT Law

The Bar Association is in charge of supervising lawyers for their compliance with the AML/CFT Law.

The Bar Association of Serbia performs both offsite and onsite supervision in applying the AML/CFT Law. 16 onsite supervisions were launched (5 supervisions of lawyer partnerships, 5 supervisions in joint legal offices and 6 supervisions of individual lawyers).

On the basis of supervision, sanctions may be imposed on lawyers who do not comply with the above regulations. The most severe sanction is a strike off from the Directory of Lawyers, especially considering that all members of the Bar Association are informed about it, and it involves dissemination that information within the profession and leaves an indelible mark on the lawyer's career. It is also necessary to point out that adequate sanctioning of activities incompatible with the law practice strengthens the preventive effect.

The Commission has defined four basic criteria for onsite inspection: size of the office, headquarters of the office, form of organization of the office and type of legal work that the office mainly engages in. The Commission made the decision to start the control in law partnerships based in Belgrade. This decision is based on the Commission's expectation that the conducted inspections will achieve the maximum effect by covering the largest number of lawyers, as well as on the Commission's assessment that there is a so-called "high risk" in these offices because the nature of the work performed by lawyers in the so-called "corporate lawyering" to a greater extent corresponds to situations in which there is an obligation of lawyers to undertake certain actions in accordance with the Law.

The Commission defined two additional criteria for performing onsite inspection:

- the answers of individual lawyers to specific questions from the questionnaire, which were formulated based on the situations described in the risk indicators for identifying suspicion,
- collected data and information that indicate the existence of suspicion of money laundering and terrorism financing in the activities of individual lawyers, whether they were submitted by the APML in accordance with the Cooperation Agreement or that data was obtained in another way.

It should be stated that the Bar Association of Serbia did not update the Guidelines for risk analysis and assessment in the reference period, which can be stated as a vulnerability of the system. This will certainly be addressed after the adoption of the new AML/CFT/VASP/PF NRAs.

Lawyers have shown that they are aware of the need for knowledge of the matter regulated by the AML/CFT Law and the knowledge of this matter among lawyers is increasing.

In terms of knowing lawyers' obligations arising from the AML/CFT Law, the Bar Association's Law Academy is of great importance for lawyers, and it already took significant steps towards the optimal education of participants by carefully integrating the education on AML/CFT into existing subjects.

Suspicious Activity Reports

In the analyzed period (2021-2023), a total of 7 SARs were filed.

- 2021: 6 SARs
- 2022: 1 SAR
- 2023: No SARs.

SARs were filed by 7 lawyers. The following were the reasons:

- the lawyer in the capacity of attorney submits to the APML a proposal for the initiation of misdemeanor proceedings due to the violation of the provisions of the AML/CFT Law related to the restriction of cash transactions, where the main motive is that the person he represents is potentially harmed by a third party in a sales relationship whose object is real estate (the person gave down payment to the seller, and this is it neglected and sold the real estate to a third party who also gave a down payment, allegedly in cash, in the amount of over EUR 15,000.00).
- Various cases in which the lawyer appears as a representative of the person on whose behalf he submits an application to the APML, and most often against persons with whom the lawyer's client has a dispute of a property-law nature (cases are related to the lease of agricultural land, restitution, loan agreement and recognition debt, in violation of the right of pre-emption in connection with disposing of real estate, non-payment of real estate lease tax, tax evasion).

After the analysis, the information contained in the SARs was not submitted to other state authorities for further action because it was already clear based on the SARs themselves that there was no suspicion on ML and that the SARs were motivated by the intention to use the APML in the resolution of private disputes of persons who were clients of the lawyers who submitted the SARs, i.e. because it was estimated at that moment that there were not enough elements to submit the information to another state authority for further proceeding.

The total amount of money contained in the suspicious activity reports amounts to EUR 5,052,776.00. The total amount per year is as follows: 2021 = EUR 5,004,776.00, 2022 = EUR 48,000.00. A certain number of reports do not specify a specific amount of money, but talk about immovable and other types of property without specifying the value or talk about other circumstances that were the reason for the report.

The subjects involved in SARs included a total of 12 domestic natural persons, 3 foreign natural persons (one person each from the USA, Austria and the Russian Federation), 5 domestic legal entities (all registered in the form of LLCs), 2 domestic persons registered as an entrepreneur and one domestic agricultural farm.

Based on the above, it can be concluded that, first of all, considering the number of registered obliged entities in the sector, a small number of reports on suspicious activities were submitted to the APML. The tendency from the previous period for lawyers as a rule to submit reports to the APML as a representative of one of the clients in the corresponding procedure/dispute, without adequate explanation of the doubt as to the origin of the money or property that is the subject of the SAR, with an incidental mention of the criminal offense of money laundering (or other criminal acts) in the application, with the aim of justifying the submission in that way SARs to the APML and with the expectation that they will receive certain information from the APML that they could then use in a dispute or procedure that is being conducted (or could potentially be conducted) before some of the state authorities. In this regard, we emphasize that during 2023 the APML received several submissions from lawyers that could not be treated as SARs, bearing in mind that it was already clear from the submissions themselves that the motive for submitting them was not to fulfil obligations in the sense of AML/CFT Law, but the desire to use APML in a way that would benefit the client on whose behalf the lawyer is acting.

Training

In cooperation with the APML, a webinar on Trade-based ML was held on March 18, 2021.

➤ The Bar Association's Academy and the OSCE Mission in Serbia organized a forum on the topic "Lawyer's behavior in cases of corruption and economic crime" on December 8, 2023.

➤ Plans are being actively worked on to introduce a special course within the Bar Academy that would exclusively deal with ML/FT issues, which would significantly improve the study of this area and contribute to a much more thorough education of the participants, which would allow them to specialize in these issues.

Conclusion:

The fact that all law partnerships, along with the fulfilment of formal legal obligations, have drawn up an internal act that precisely regulates the procedure in case of suspicious transactions and that decisions have been made that designate specific persons in the office to handle such cases speaks in support of the fact that there is awareness among certain groups of lawyers, but it is still necessary to invest additional efforts to increase the number of obliged entities who apply the AML/CFT Law, i.e. that all lawyers in the future engage in the application of the AML/CFT Law, and this should be achieved through education within the

Bar Association of Serbia, but also through education and notifications sent to each individual lawyer through regional chamber. Training of lawyers through seminars in cooperation with the judicial academy is planned.

Also, efforts are being made to ensure that the branch chambers throughout Serbia are actively involved and support the Bar Association of Serbia, because this networking would significantly raise the money laundering prevention system for lawyers to a higher level.

It is of great importance to continuously carry out indirect and then onsite supervision of lawyers in order to control the implementation of the AML/CFT Law.

Factors affecting a higher degree of vulnerability to money laundering:

- Necessary networking of all branch chambers within the Bar Association of Serbia,
- A small number of launched offsite controls of lawyers,
- A small number of launched onsite inspections of lawyers,
- Considering the number of registered obliged entities in the sector, a small number of reports on suspicious activities were submitted to the Administration,
- The quality of suspicious activity reports is not at a satisfactory level,
- Low level of awareness of lawyers regarding risk management.

Factors affecting a lower degree of vulnerability to money laundering:

- Satisfactorily established practice of continuous holding of trainings.

Intermediaries in the sale and lease of real estate

Intermediaries in the sale and lease of real estate (hereinafter: real estate brokers) are part of the DNFBP part of the system with a share of 23% in the total turnover of the sector real estate.

Forms of organization of business entities registered in **the Register of Real Estate Brokers** of the Ministry

Year	Business entities		Entrepreneurs
		Ltd.	
2019	929	533	396
2020	987	560	427
2021	1017	585	432
2022	1097	633	464
2023	1203	712	491
2024	1255	747	508
Total:	1255	747	508

Intermediation turnover, i.e. the business income of legal entities is 94% higher than that of entrepreneurs. The reason for this state of legal entities and their survival on the market is that they are present in large cities where the volume of real estate transaction/rental services is large, and the value of transactions is large.

The amendments to the special Law on Real Estate Sale and Lease Intermediation, which governs the conditions and manner of commencing the operations of Intermediaries, by entering them into the Register of Real Estate Brokers held by the Ministry, and verification of the professional qualifications of agents (employees) through a professional licensing exam, had the aim of aligning with FATF recommendations.

The monitoring and assessment of the assessed risk (customer, service, transaction) from the sectoral assessment of real estate has been improved with an emphasis on residual risk according to the determined activities prescribed in the Action Plan.

Client analysis

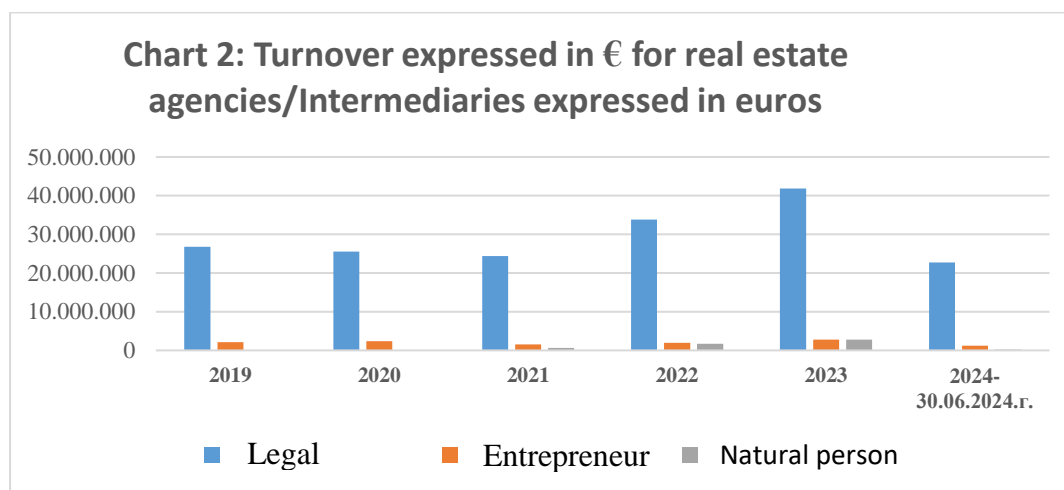
In 90% of cases, the beneficial owner is a domestic natural person. When it comes to foreign ownership of non-residents, they are mostly the citizens of Cyprus and the Russian Federation.

Intermediaries enter into business relationships mainly directly (face-to-face) with the clients. In addition to this direct method, the services can also be implemented through video identification, through a third party/representative, lawyer or another intermediary.

The total number of direct brokering services provided, annually, is 91%, with an average volume of 22,000 services. Most of the clients are residents, while the most common non-residents are from Russia 6%, BiH 1.5% and Montenegro 1%.

The representation of officials (PEPs) as a broker's client among residents has increased by 100% compared to the previous national assessment.

The total turnover of the purchase and sale of real estate through the Intermediary, on average on an annual basis, with the business income of the real estate activities that have been paid amounts to € 38 million (cashless through banks, cash, credit, leasing and virtual currency). In the most common cases, intermediaries mainly mediate in the sale/purchase/rent of apartments and houses. In the last few years, an increase of 5% has been observed when it comes to the volume of turnover of houses (sale), apartments (sale/purchase), business premises (sale), construction land turnover (sale) and garage turnover, which confirms the increase in risk to higher level with the turnover of the Intermediary from the collection of the intermediary fee to 3% of the agreed purchase value.



The fees are paid by the customer in cash in 79% of cases, given that it does not exceed the value of €15,000 (includes cash and/or non-cash through the bank).

The significant increase in the total business income of the ten most profitable Intermediaries is 19% on average per year, last year it amounted to a total of €35 million, and the list every year includes the same business entities list (from the Belgrade, South Bačka, North Bačka, Raška and Moravica districts).

The legal entities on the real estate brokerage market, which on an average have 9 employed agents, generate about 94% more turnover than entrepreneurs and natural persons together.

Conclusion

Real estate sale and lease brokers, bearing in mind their primary business activity and link to the real estate sector, represent a higher risk sector. Namely, despite continuous supervision, a number of intermediaries are still not aware of their position and obligations under the AML/CFT Law. A large part of obliged entities still considers their business activities to be low-risk in terms of money laundering in their self-assessments, and they have a low level of knowledge when it comes to the system for preventing money laundering and terrorism financing.

As to the assessment of the client risk in this assessment, in the course of developing this NRA, the intermediaries stated that purchase and sales are still mostly carried out in cash (this means cash/physical cash and cashless through banks), and this is the method of transaction realization in 59% of all payment of all services. Using cash in itself is a payment method that poses inherently a higher risk. Although in a small number of intermediaries, still, payment using virtual currencies has also been identified.

Clients/their principals in 90% of cases are persons who sell/buy their old (used) real estate. Real estate brokers rarely sell real estate they own.

The average number of employees is approximately 2 employees per the Intermediary.

Supervision

Thirty-two inspectors were engaged supervision in the AML/CFT area. However, a market inspector's supervisory powers are laid down in 33 laws, which results in a decrease of the number of onsite/field inspection of Intermediaries.

Supervision of Intermediaries showed that their clients in 93% of cases are natural persons who sell/buy/rent their old real estate. Agreements establishing of a business relationship of real estate intermediation are concluded between the parties, without mandatory certification by a notary. However, the intermediators are frequently avoided because the parties want to avoid paying intermediation fees in real estate transactions, so they enter into contract directly, or through lawyer or notary services.

The following is examined in the course of inspection: assessment of the level of structural, inherent and residual risk of the obliged entity, as well as assessment of the quality level of the control system and risk management system.

The most common irregularities found by desk-based supervision in the observed period (Sample 85% Register of Real Estate Brokers)

The name of the established irregularity	Number
Risk analyses were not performed in accordance with the Guidelines	18
Compliance officers and their deputies have not been appointed	14
The identity of the client has not been established	5
Data on compliance officers were not filed to the APML within 15 days from the date of their appointment	11
APML was not informed about suspicious cash transactions above RSD equivalent of EUR 15,000	3
BO/PEP client identification procedure was not developed	3
Lists of indicators have not been developed	1
Records are not kept in accordance with the Law	3
Annual reports have not been prepared	2
AML/CFT staff training plan as not been passed	2

Irregularities that found in the carried out inspections resulting in court proceedings, in aggregate

Year	2019	2020	2021	2022	2023	2024
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Type of inspection	Offs	Ons	Offs	Ons	Offs	Ons	Offs	Ons	Offs	Ons	Offs	Ons
Number of inspection	841	191	889	163	746	142	899	138	874	129	793	0
Inspections, total	1032		1052		888		1037		1003		793	
Total measures imposed	20		15		8		19		9		3	
Complaints for irregularities found	Mis d.	Econ. offense	Mis d.	Econ. offense	Mis d.	Econ. offense	Mis d.	Econ. offense	Mis d.	Econ. offense	Misd .	Econ. offense
Number irregularities found	18	4	4	11	7	4	16	3	6	3	2	1
Number of court decisions	12	4	4	7	2	4	8	4	5	2	1	/

The reasons for the irregularities mainly include insufficient awareness with the Intermediary about the importance of knowing and complying with the regulations, especially the development of a risk analysis and the notification of the responsible person details, so that the sanctioning policy of the courts in the case of monetary sanctions and verdicts in the Criminal Code (misdemeanor) is up to €425 and the Criminal Code (misdemeanor) max. 1250 € and for the responsible person 425 €.

There is an average increase in the effects for detected irregularities by the PU in control with an average annual amount of €350,000.

Suspicious Activity Reports

In the observed time period, relatively few SARs were filed, namely: for 3 domestic natural persons and 24 foreign natural persons (16 from Russia, 2 from Belarus, 2 from Bosnia and Herzegovina, and 1 each from Ukraine, UAE, Turkey and Montenegro). The reports generally do not contain additional data that would adequately indicate suspicions about the origin of the money or other circumstances that would be important for the analysis of the specific case. Based on reports on suspicious activities submitted by intermediaries, no information was provided to other state authorities.

An analysis of SARs filed has showed that the reasons for the SARs in most cases were as follows: the real estate buyer is a foreign citizen from the UAE (this was the only reason for the report); the tenant, a citizen of Turkey, has been sentenced to prison for the unauthorized carrying of a weapon that was found on him at the border crossing when leaving Serbia; reporting persons, citizens of Russia, because the intermediary considers them high-risk, and as an explanation of such status states that it is a "citizen of a country that has been sanctioned by the UN and the Council of Europe" and others.

The total number of SARs is actually a consequence of insufficient knowledge of the regulations governing the area of ML/FT on the part of one obliged entity who submitted a large number of reports exclusively in relation to persons he classified as high risk, without any additional explanation. The total monetary amount contained in the suspicious activity reports is 5,901,082.92 €.

Training

There is a need to improve the understanding of Intermediaries and raise awareness of risk assessment, which are related to their obligations according to the regulations, as well as their implementation in practice. Trainings, workshops were held in the largest cities of Serbia with the support of MUST, PKS and APML, an average of 15 per year with the participation of 27% of inspectors and about 43% of active Intermediaries, all for the purpose of raising awareness of compliance with regulations in the area of AML/CFT. The trainings are always attended by the same agents, who are employed by brokers with an estimated low risk for supervision, the others do not participate.

Conclusion:

In the following period, it is necessary to improve personnel potential of inspectors, the quality of comprehensive supervision of Intermediaries and in continuous controls of supervised entities, to check whether registered business entities have recorded, stored and accurate data on the beneficial owner and especially whether they have carried out risk assessment in accordance with regulations.

The notion of cash was pointed out as a particular problem. The private sector pointed out as disputed the prescribed legal definition of the term cash in the Law on Money Laundering/FT, which leads to confusion for the Intermediary when taking data from the client and what to accept as a payment method, i.e. to adopt as correct whether cash or non-cash payment through banks, belong to the same category of cash payments and yes it is necessary to specify the legal definition in this sense.

Although the supervision of the work of agents has been increased by checking the possession of work licenses, which has resulted in a 30% increase per year in the number of natural persons who obtain a license/certificate for the work of an agent in real estate brokerage based on the Law on Mediation in Traffic and Leasing of Real Estate, bearing in mind that Possession of a license is a condition for working with the Broker. However, the illegal hiring of agents is still present on the labor market.

Factors affecting a higher degree of vulnerability to money laundering:

- Partial application of sanctions related to measures from supervision were not fully implemented by the courts due to time delay and small amounts/below the limit in verdicts,*
- Incomplete implementation of regulations related to the prevention of money laundering at real estate brokerage agencies,*
- Incomplete application of available legal means for monitoring, recording and reporting suspicious transactions,*
- Incomplete implementation of the defined procedure for verifying beneficial ownership, with the risk of verifying the origin of financial/other transactions such as shares in corporations and other forms of business entities,*
- Partial implementation of the regulations due to the impossibility of in-depth analysis of the client and the availability of high-quality and appropriate commercial data on the financial and banking status of the client and the way of performing the transaction.*

Factors affecting a lower degree of vulnerability to money laundering:

- The field of real estate brokerage and rental is well regulated by regulations,*
- In accordance with the planned inspections, the market inspection carried out 85% of the controls, which can be considered a good result but an incomplete control,*
- Full implementation of the prescribed conditions for starting mediation activities, through the control mechanisms of licensing and registration of agents,*

- Full application of the prescribed procedures for the appointment of a compliance officer and his deputy for the execution of actions and measures of the AML/CFT. Internal procedures prescribe actions aimed at preventing employees from criminal and corrupt activities in the field of money laundering.

Public notaries

In accordance with the Law on Public Notaries (hereinafter: ZJB), notaries are a service of public trust, and notaries are experts in the field of law, who are entrusted with public powers by the state, and who are appointed by the minister responsible for affairs of the judiciary.¹³⁸ A notary public is not a client's representative, but a person who is authorized to perform the duties specified by this law.¹³⁹ Also, a public notary may not intervene in the conclusion of legal affairs, take a guarantee or provide other security to a client in connection with an official action, and he is obliged to take care that the persons working for him do not undertake such actions.¹⁴⁰

Area of the Court of Appeal in Belgrade	The area of the Court of Appeal in Novi Sad	The area of the Court of Appeal in Kragujevac	The area of the Appellate Court in Niš
81	69	51	32

Table no. 1 – Statistics of notary posts filled per appeal court territories as on August 1, 2024

All employees of the notary's office are obliged to keep as a business secret all information they learn in the performance of their duties at the notary's office regarding the prevention of money laundering and financing of terrorism. For violation of the obligation to keep a business secret, the employee is liable as for a serious violation of the work obligation. The provision of the ZJB on disciplinary responsibility of public notaries and the disciplinary procedure is foreseen to apply accordingly to notary trainees, notary associates and notary assistants, as well as to deputies and acting notaries.¹⁴¹

According to the Chamber's records, no disciplinary proceedings against notary trainees, notary associates and notary assistants have been conducted so far.

The AML/CFT Law stipulates that public notaries are obliged entities when they prepare or confirm (solemnize) documents in connection with the following activities¹⁴²:

- 1) purchase or sale of real estate or companies,
- 2) property management,
- 3) opening or disposing of a bank account (bank account, savings account or securities account),
- 4) collection of funds necessary for the establishment, performance of activities and management of companies,
- 5) establishment, operation or management of a company or foreign legal entity.

The role of a public notary is particularly important in the procedure of real estate transactions, which in Serbia are regulated by the Law on Real Estate Transactions ("Official

¹³⁸ Article 2 of the Law on Public Notaries

¹³⁹ Article 52, paragraph 1 of the Law on Public Notaries

¹⁴⁰ Article 52, paragraph 3 of the Law on Public Notaries

¹⁴¹ Article 167, paragraph 1 of the Law on Public Notaries

¹⁴² Article 4. AML/CFT Law

Gazette of RS", no. 93/2014, 121/2014 and 6/2015)¹⁴³. The contract on the transfer of real estate is concluded in the form of a document certified (solemnized) by a notary public, and the notary public in whose territory the real estate that is the subject of the contract is located is exclusively responsible for this work, and if the real estate that is the subject of the contract is located in the territory of several notaries public, each of those public is responsible notary. A contract that is not concluded in the specified manner has no legal effect.¹⁴⁴ If the public notary, on the basis of an inspection of the real estate register or in another way, determines that the object of the contract on the transfer of real estate is an object or a separate part of the building for which a use permit has not been issued or in respect of which the legalization procedure is in progress, he is obliged to warn the contracting parties and enter a warning about it in accordance with the rules governing its notarial activity, and if the contracting parties object to entering a warning, the notary refuses to take the requested official action.¹⁴⁵

In the reporting period, notaries public issued a total of 365 decisions by which they refused to take official action, that is, by which they refused an offer to establish a business relationship, which adequately demonstrated their preventive action. Some of the reasons why public notaries refused to establish a business relationship are: required traffic of illegally built buildings, impossibility of determining the authority for representation, supporting documentation of the client has deficiencies and does not contain usual information, etc.

Number of adopted decisions on rejection:		
2021	2022	2023
130	107	128

Table No. 2 - number of decisions on refusal to undertake official action made by public notaries

Bearing in mind the participation of politically exposed persons (officials) in proceedings before public notaries, in table no. 3 shows the number of cases in which PEPs approached the notary's office as a client.

Data on the number of cases where the participant in the procedure is an official	
Year	
2021	805
2022	326
2023	407

Table No. 3 - number of cases in which PEPs are participants in the proceedings before public notaries

Year	Total number of clients - resident natural persons	Total number of clients - non-resident natural persons	Total number of clients - resident legal entities	Total number of clients - non-resident legal entities
2021	365,738	5,607	27,721	959
2022	320.802	5,726	31,892	121
2023	310.285	7,165	28,653	61

Table no. 4 - Total number of clients - resident and non-resident natural and legal persons for 2021-2023

¹⁴³Immovable property, within the meaning of this law, means: land (agricultural, construction, forest and forest land), buildings (business, residential, residential-business, economic, etc.) and other construction objects, as well as special parts of buildings (apartments, commercial premises, garages and garage spaces) where there may be a separate property right (hereinafter text: real estate); while the sale of immovable property represents the transfer of ownership rights to immovable property by legal action, with or without compensation.

¹⁴⁴ Article 4 of the Law on Real Estate Transactions

¹⁴⁵ Article 4a. of the Law on Real Estate Transactions

By processing the collected data, it was determined that the largest number of clients are non-resident natural persons and legal entities, classified by citizenship, i.e. country of registration, from the following countries:

For 2021: Croatia, Bosnia and Herzegovina, Germany, Montenegro, Russia, Austria, Hungary, USA, China, etc.

For 2022: Russia, Germany, Bosnia and Herzegovina, Croatia, Austria, Montenegro, USA, Hungary, China, etc.

For 2023: Russia, China, Germany, Bosnia and Herzegovina, Austria, Croatia, Montenegro, Hungary, USA, etc.

Supervision

Public Notary Chamber performs onsite and offsite supervision.

According to type, the Chamber performs:

- 1) Regular supervision - according to the previously adopted supervision plan (performed at least once every 2 years);
- 2) Extraordinary - at the request of the Ministry of Justice, the Prosecutor's Office, the Ministry of Interior, and other competent state authorities, or if there is a complaint from the parties and/or participants in the procedure regarding the work of the public notary, which casts doubt on the work of the public notary;
- 3) Follow-up - to check whether the measures ordered to the obliged entity have been carried out

From June 2022 to June 2024, it conducted onsite professional supervision over the work of 118 notary public offices, and within which a special part of the supervision refers to the application of AML/CFT Law.

Onsite supervision of the work of public notaries is carried out by a Commission made up of a total of 15 members, also notaries public, who, with their many years of work and experience, contribute to quality and professional supervision.

In the reporting period, 4 disciplinary procedures were conducted due to serious violations of the law, that is, disciplinary offenses committed by public notaries, in which the public notaries were declared responsible.

Supervisor: Notary Public Chamber of Serbia							
Year	Number of obliged entities	Number of offsite supervisions	Number of onsite supervisions	Number of identified irregularities	Number of proceedings initiated	The outcome of the proceedings/imposed sentence	Type of sentence imposed
2021	225	225	3	0	1 ¹⁴⁶	1	Fine
2022	226	226	67	1	1	1	Fine
2023	224	224	51	2	2	2	Fine

Table no. 6 - Total number of performed supervisions, initiated procedures and pronounced measures in the period 2021-2023 and in connection with the implementation of the AML/CFT

If the public notary suspects or has grounds for suspicion that the financial resources, which are related to the transaction that is the subject of legal work, are the result of criminal

¹⁴⁶The procedure was initiated in 2021, and based on the results of onsite supervision carried out in 2020

activity, or that they relate to the financing of terrorists, he is obliged to immediately report it to the APML.¹⁴⁷

Year	SARs	Total amount of money involved in SARs
2021	238	EUR 19,611,758.74
2022	239	EUR 24,137,600.42
2023	197	EUR 28,191,682.74

Table no. 7 - data from the APML - Department of Analytics on the number of suspicious activity reports submitted by public notaries

SARs were filed by 93 public notaries, and the most common reasons for an SAR were: the price of the real estate is significantly higher or lower than the estimated market value of the real estate, the price of the real estate was paid in full before the conclusion/certification of the contract, suspicion that the person is not buying the real estate for himself but for another, disposal of immovable property in a short period of time after its acquisition, etc. The data contained in the reports were submitted to the following authorities: 38 initiatives were submitted to the Tax Administration, 11 initiatives were submitted to the BIA, 10 initiatives were submitted to the competent prosecutor's offices and 7 initiatives were submitted to the MOI.

Cooperation

The Chamber of Public Notaries of Serbia, as a supervisory body, continuously acts on the requests of competent state authorities, primarily on requests for the delivery of data and documentation from the Ministry of Interior, as well as on requests for providing the necessary information from the competent Higher Public Prosecutor's Offices, in appropriate procedures. Based on the submitted requests of the Ministry of Interior or competent Higher Public Prosecutor's Offices, the Chamber decides on and conducts extraordinary supervision of the work of public notaries in the cases to which the subject requests relate, and the results of which supervision the Chamber informs the authorities that sent the requests.

The competent authority that sent the request	Number of sent requests
MOI - Directorate of Criminal Police	5
Higher Public Prosecutor's Office in Belgrade	4
Higher Public Prosecutor's Office in Niš	2
Higher Public Prosecutor's Office in Novi Sad	2
Higher Public Prosecutor's Office in Kraljevo	2

Table No. 5 - number of requests submitted to the JKS by competent authorities in the period 2021-2023

Conclusion:

Based on the APML report, and the findings of offsite and onsite supervision, it was determined that in the coming period it is necessary in particular to work on further improving the quality of reports on suspicious activities that notaries public as obliged entities submit to the APML. At least once a year, the Chamber of Public Notaries of Serbia, in cooperation with the APML - Sector for Analysis and Prevention of Terrorism Financing, organizes and holds mandatory training for all notary offices on the topic "Analysis of suspicious transactions", in which

¹⁴⁷ Article 58 and 59 AML/CFT Law

special attention is paid to examples of good and bad practices in the application process suspicious transactions by public notaries as obliged entities of the Law.

Considering the number of notaries public, as registered obliged entities, as well as the fact that the APML has received a significant number of reports on suspicious activities, it can be said that notaries public properly accept the obligations established by the AML/CFT Law. The Chamber of Public Notaries will continue with the practice of improving the knowledge and regularly informing notaries and employees in notary offices regarding the obligations prescribed by the AML/CFT, primarily with the aim of further improving the quality of reports on suspicious activities, as well as in relation to new technologies and products related to digital asset m.

In accordance with the established risks and in light of the risks of real estate, which carry the greatest threat of money laundering, the training plan and program of public notaries will be adjusted.

Factors influencing a higher degree of vulnerability to money laundering:

- Further need to improve SAR quality,*
- It is necessary to provide additional training for public notaries and compliance officers,*
- Bearing in mind the vulnerability of the real estate sector, in the coming period it is necessary to pay special attention to onsite supervision in the real estate trade segment*

Factors affecting a lower degree of vulnerability to money laundering:

- High awareness of public notaries and employees in offices about the importance of the role in anti-money laundering and anti-money laundering system,*
- Effective offsite and onsite supervision,*
- A large number of SARs filed by public notaries,*

Postal operators

The market of postal services in Serbia is regulated through the activities of the Ministry of Information and Telecommunications (hereinafter: MIT), which is responsible for the field of postal services, as well as the activities of the national regulator. Regulatory body for electronic communications and postal services (hereinafter: RATEL). MIT supervises the implementation of the Law on Postal Services and the regulations adopted on the basis of the law, while RATEL is an independent regulatory body that has the obligation to regulate the field of postal services through appropriate by-laws, to issue and revoke work permits, to keep a register of issued and revoked permits for postal operators, which is publicly available on the RATEL website, as well as yes through its actions, enable competition and prevent any form of monopolistic action on the market of postal services.

The Inspection for Postal Services is the supervisory authority over the implementation of the AML/CFT Law for obliged entities engaged in postal services, and the obligation is in force from 2020, bearing in mind that persons engaged in postal traffic are recognized and included in the list of obliged entities of the aforementioned law, due to the noticeable exposure to criminal acts of tax evasion and other tax crimes of merchants, who sell their goods through postal shipments, because the same crimes are treated as predicate crimes for the crime of money laundering. Inspectors for postal services supervise the implementation of the Law on Postal Services, as well as the implementation of the AML/CFT Law and the Law on the Central Records of Beneficial Owners, when it comes to postal operators.

The supervision plan is aligned with the assessed risks and the risk matrix is updated in order to adequately assess the obliged entities who request more priority supervision compared to others.

Postal operators are business entities that perform one or more postal services. On the market of postal services in Serbia, postal services are provided by: public postal operator (hereinafter: JPO), i.e. Public company "Post of Serbia"; Belgrade, which has a special license for providing universal postal services, with the right to perform reserved postal services, and postal operators who have approvals for performing other postal services.

According to territorial representation, there are 30 postal operators authorized to provide postal services in internal postal traffic on the territory of Serbia. In international postal traffic, 17 postal operators are authorized to provide services. Courier services, which are more prevalent in larger cities, primarily in Belgrade and Novi Sad, are provided by 25 operators. General characteristics of the postal market for the period 2021-2023s, are given in the Table (data source RATEL):

Table 1: Characteristics of the postal market

Year	Number of postal operators	Number of services	Revenue in billions of RSD (from postal services)	Number of employees
2021	53	312,976,000	27,7	18,911
2022	56	301,104,000	29.4	18,752
2023	55	277,797,000	33.6	18,459

In 2023, the percentage of the assets of companies whose main activity is the provision of postal services in the assets of the DNFBP sector - companies¹⁴⁸ is 2.10%, while the percentage of the assets of entrepreneurs whose main activity is provision of postal services in the assets of the DNFBP sector - entrepreneurs is 066%. Also, in 2023, the percentage of the assets of companies and entrepreneurs, whose main activity is the provision of postal services, in the assets of the financial sector¹⁴⁹ amounts to 070% (data source SBRA).

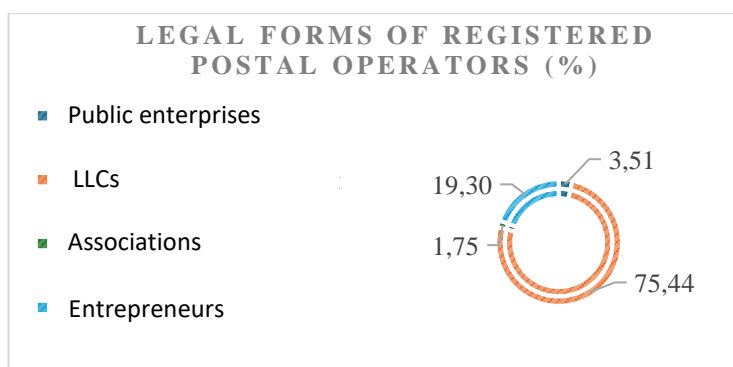
In 2023, a significant increase in the number of employees at other postal operators of 6.7% was recorded.

It is also important to point out that in the total volume of postal shipments on the postal market in domestic and international traffic from year to year, the five largest postal operators participate with around 98%, while all the others together participate in the total volume with around 2%.

The structure of postal operators consists of: 2 public companies 100% owned by the state, 11 entrepreneurs, one association and 43 limited liability companies.

¹⁴⁸The DNFBP sector includes assets of companies and entrepreneurs, activity codes 3212, 4120, 4511, 4519, 5310, 5320, 6920, 9200

¹⁴⁹The financial sector includes the assets of the following institutions: banks, insurance companies, financial leasing providers, VPFMCs, IFMCs, closed/private investment funds, broker-dealer companies, other financial institutions, factoring companies, payment institutions and electronic money institutions



According to the data on the structure of obliged entities (share of domestic and foreign capital), whose main activity is the provision of postal services, the predominant share is domestic capital. Eight postal operators are majority owned by members of business entities, foreign companies. Of the 5 largest operators, two have a complicated ownership structure. Two postal operators, whose beneficial owners are natural persons, founders and owners of the Trust, have risky forms. However, it is estimated that the risk of misuse of the service with the aim of money laundering and terrorism financing with this form of operator is low, because they have a small volume of services-shipments that are delivered to recipients via parcel machines, and the contents of the shipment are products that were purchased through the official internet platform from registered sellers.

When it comes to the activity of postal services, postal operators perform it in accordance with a special license, license or approval, pursuant to Article 64 of the Law on Postal Services. If the business entity meets the requirements, the Minister of Information and Telecommunications issues a Decision to the business entities as a prior consent for obtaining a license, i.e. proof of the fulfilment of the conditions for providing postal services.

The legal framework related to the prevention of money laundering and the financing of terrorism by persons engaged in postal traffic is rounded and complete and is regularly updated and improved in accordance with changes in the national and global postal market, as well as changes related to risks in the subject area. In this regard, regulations are continuously analyzed, experiences are exchanged with other supervisory bodies related to the above, and proposals are made to improve all acts relevant to the prevention of money laundering and terrorism financing.

Product / service risk

The risk to which postal operators are exposed in terms of preventing money laundering and terrorism financing, through the postal services they provide, is based on the financial nature of the postal money order and the payment of the redemption amount for redemption postal items. Services and risks are given in the Table:

Table 2: Services and risks

Number	Type of service	Service risk
1.	Postal orders in domestic and international traffic	Financial nature of the service, sending money and paying cash to the user's address

2.	Payment of the redemption amount (Cash On Delivery parcels)	The financial nature of the service, the purchase postal parcel is a valuable postal parcel containing goods, upon delivery of which the courier takes the amount of money directly from the recipient, which represents the value of the contents of the parcel, expressed through the marked value of the purchase by the sender. The postal operator delivers the received money in cash (redemption amount) from the recipient of the shipment to the sender's current account, to the indicated address or pays it out at the premises of the postal operator
3.	Value (insured) parcels in domestic and international postal traffic	Shipments in internal postal traffic are collected closed

The risk of the postal money order service in domestic and international traffic is medium, taking into account its financial nature, the possibility of sending money in domestic and international traffic (only on the basis of bilateral agreements with authorized postal operators), as well as the set of measures that are applied. The amount of money that can be paid out per money order is limited, the recipient of the money must be identified, employees carry out enhanced CDD when the money order transaction will be made for a beneficiary from a FATF listed country (additional documentation is obtained on the purpose and intended nature of the funds and the origin of the property) and a copy of the personal document is obtained, regardless of the amount of the money order. These transactions/users are automatically recorded in the dedicated application. The internal documents also contain lists of indicators for recognizing well-founded suspicions that money laundering is involved. Clients who use international money order services are mostly residents and a smaller number are foreigners from neighboring and Western European countries. Senders of money orders in internal postal traffic are 99% natural persons, while recipients of money, in accordance with the general conditions for the performance of the universal service, are exclusively natural persons.

The risk of the purchase amount service is low, because the purchase shipments were mostly created as a result of ordering goods within the framework of distance shopping, where the purchase amount is money that represents the value of the goods contained in the shipment, and in the previous period they were not identified mechanisms of money laundering and terrorism financing through this service. This is supported by the fact that the senders of the redemption items, that is, the recipients of the redemption amount, are identified by the postal operators, which records are kept in electronic form. Considering the number of services performed, as well as the fact that the service can be performed without concluding a contract (access contract), we are of the opinion that in most cases the senders are legal entities.

The risk of the letter of value service in domestic and international traffic is low, because valuable shipments, as a rule, do not contain money and, even in the previous period, mechanisms of money laundering and terrorism financing through this service were not identified. This is supported by the fact that the senders of valuable items are identified by postal operators, which is recorded in electronic form. Considering the number of services performed, as well as the fact that the service can be performed without concluding a contract (access contract), we are of the opinion that in most cases the senders are legal entities.

Supervision

The Inspection for Postal Services carries out supervision through offsite, onsite inspection oversight and preventive action - official advisory visits.

Number of inspections by year for the period 2020-2023 is given in the Table:

Table 3: Number of inspections of postal services

Year	Number of offsite supervisions	Number of onsite supervisions	Number of advisory supervisions	Number of irregularities in onsite supervision
2020	/	/	40	/
2021	/	/	/	/
2022	28	3	/	/
2023	18	4	/	/

Business entities that have submitted a request to verify the fulfilment of the conditions for starting and performing other postal services, i.e. the legal representative, in the process of verifying the prescribed conditions, an advisory visit related to the prescribed obligations in accordance with the AML/CFT Law is carried out. During the supervision, no irregularities were found in connection with the prevention of money laundering and the financing of terrorism.

The private sector assessed that the cooperation with the supervisory authority in the field of postal traffic is extremely useful in terms of consultation and clarification, while the operators expressed themselves negatively regarding the availability of information and previous experiences in the region, which can be explained by the fact that redemption and value shipments are not subject this type of surveillance in the region and member states EU.

It can be stated that the majority of employees act conscientiously, that postal operators conduct trainings and educations, that they use the Guidelines, as well as that they have prepared lists of indicators for recognizing suspicious transactions. Operator representatives actively participate in trainings and seminars. Awareness of the importance of complying with reporting procedures and obligations related to the prevention of money laundering and financing of terrorism largely depends on the organizational structure of the operators and compliance officers, among the obliged entities.

Suspicious Activity Reports

Postal operators have adequate and appropriate software for monitoring and recording complex and unusually large transactions, they have a good understanding of the scope of their reporting obligations related to suspicious transactions and activities, they keep records of transactions that are available and that allow identified suspicious transactions to be reported to the APML. 33 persons were reported to the Administration for the Prevention of Money Laundering, and after an APML analysis, the data was disseminated to the competent authorities for further action (Tax Administration). Namely, all SARs involve persons who used the postal money order service (as a separate service, and as part of the service - payment of the purchase amount for delivered purchase items). A satisfactory number of reports on suspicious activities were submitted, which in terms of content can also be rated as satisfactory. The reports refer to natural persons and in the majority of cases related to suspicion of unregistered business activities, i.e. trade in various types of goods that were previously advertised on the Internet, while part of the reports related to the provision of appropriate services on the basis of which inflows were made.

In most cases, clients are marked as low and medium-low risk.

Conclusion:

Bearing in mind the future development of postal activity and the globally present substitution of postal services with electronic services, in the era of digitization, no new risks have been recognized.

Taking into account all the aforementioned treatment measures to mitigate the risk, a residual risk still exists. The residual risk is affected by the large turnover of employees at postal operators, which is characteristic of all service activities in the country and region. Also, the existence of residual risk is influenced by the fact that shipments in internal traffic are delivered closed, to ensure the inviolability of the contents of the shipment, but with the obligation to declare the contents by the sender. In this regard, it is necessary to continue with the permanent training of employees in order to improve the loyalty of employees with postal operators and to recognize suspicious transactions based on the list of indicators, because in the event of suspicion, the postal operator can request the opening of the shipment, in order to check the declared content of the shipment.

Analyzed risks, carried out supervisions, prepared analyses and reports, acquired experiences from supervisory authorities and international experiences, as well as all other activities realized in the reporting period, as well as a comprehensive approach to combating all challenges in this area, have directly influenced that the risk of the sector in this reporting period will be at a lower level.

Factors affecting a higher degree of vulnerability to money laundering:

- It is necessary to increase the number of trainings and educations.

Factors affecting a lower degree of vulnerability to money laundering:

-Continuous onsite supervision is carried out,

-Continuous offsite supervisions are carried out,

- Postal operators have a good understanding of the scope of their reporting obligations related to suspicious transactions and activities, keep records of transactions that are available and which enable identified suspicious transactions to be reported,

- A satisfactory number of reports on suspicious activities were submitted, which in terms of content, I can also rate it as satisfactory,

Entity type	Materiality (as of December 31, 2023)			VULNERABILITY	CONCLUSION
	Number of obliged entities	Total assets - Business assets (data in thousands of Dinars)	Business income** (data in thousands of Dinars)		
Organizers of games of chance via means of electronic communication	25	61,171,118	98,813,204	Medium with a tendency towards high	<ul style="list-style-type: none"> - The normative framework is adequate and compliant with international standards - The organizational and technical capacities of the supervision function have been improved by establishing an electronic monitoring system - The possibility of having licenses for organizing several types of games - the so-called "mixed arrangement", carries with it specific risks (higher possibility of using cash) - Cryptocurrencies - a potential emerging risk when it comes to using this financial tool, although they are not yet used in the gaming sector - Licensing - organizers are prevented from having a convicted natural person in the ownership and management structure - The percentage of officials is negligible, as is the number of non-resident parties - The absence of face-to-face contact complicates the identity verification process, which is why they are carried out additional identity checks using new technologies, but the residual risk remains there is - The control function is operational in full capacity - offsite and onsite supervision are performed continuously - A very high percentage of irregularities in onsite supervision, although a slight improvement is noticeable, taking into account the average of economic offenses per obliged entity - A mitigating feature - the possibility and easier monitoring of transactions - The number of SARs has increased, and the quality has improved to a certain extent, but significant improvement is still needed
Casinos	2	1,535,534	1,455,956	Medium	<ul style="list-style-type: none"> - The normative framework is adequate and compliant with international standards - Regulated client identity check when entering the casino, as well as audio and video supervision - Licensing - organizers are prevented from having in the ownership and management structure natural persons who have been convicted - The predominant use of cash, as well as a large number of transactions - Cryptocurrencies - a potential emerging risk when it comes to using this financial tool,

					<p>although they are not yet used in the gaming sector</p> <ul style="list-style-type: none"> - The percentage of officials is negligible - Geographic risk - a significant number of non-resident parties - The control function is operational in full capacity - offsite and onsite supervision are performed continuously - The number of reports of suspicious transactions is extremely low, showing a significant downward trend compared to the previous NRA - Unequal level of understanding of obligations under AML/CFT Law, which refers to integrity compliance officer and the procedure for establishing an employment relationship
Intermediaries in the sale and lease of real estate	1 203	13,595,781	9,754,714	Medium with a tendency towards high	<ul style="list-style-type: none"> - The field of real estate brokerage and rental is well regulated by regulations. - In accordance with the plan and early inspections, the market inspection carried out 85% of the controls, which can be considered a good result but an incomplete control. - Partial application of sanctions related to surveillance measures were not fully implemented by the courts due to time delay and small amounts/below the limit in verdicts. - Full implementation of the prescribed conditions for starting mediation activities, through the control mechanisms of licensing and registration of agents. - Full application of the prescribed procedures for the appointment of a compliance officer and his deputy for the execution of actions and measures of the AML/CFT. Internal procedures prescribe actions aimed at preventing employees from criminal and corrupt activities in the field of money laundering. - Incomplete implementation of regulations related to the prevention of money laundering at real estate brokerage agencies. - Incomplete application of available legal means for monitoring, recording and reporting on suspicious transactions. - Incomplete implementation of the defined procedure for verifying beneficial ownership, with the risk of verifying the origin of financial/other transactions such as shares in corporations and other forms of business entities. - Partial implementation of the regulations due to the impossibility of in-depth analysis of the client and the availability of high-quality and appropriate commercial data on the financial and banking status of the client and the way of performing the transaction.
Postal operators	55	48,094,967	52,723,644	Medium low	<ul style="list-style-type: none"> - Continuous onsite supervisions are carried out, - continuous offsite supervisions are carried out, - Postal operators have a good understanding of the scope of their reporting obligations related to

					<p>suspicious transactions and activities, keep records of transactions that are available and which enable identified suspicious transactions to be reported,</p> <ul style="list-style-type: none"> - A satisfactory number of SARs were submitted, which in terms of content, can also be rated as satisfactory, - It is necessary to increase the number of training courses.
Auditors	7 5	10,068,963	11,580,759	Medium	<ul style="list-style-type: none"> - Audit companies must have a license from the Ministry of Finance to operate, while SEC can revoke the license if the regulations on AML/CFT are violated. It is forbidden for the founders/owners to be legal/natural persons with criminal convictions or serious violations of the AML/CFT regulations, which reduces the vulnerability of the audit sector. - The share of auditors in the total number of companies that must submit financial reports is less than 2%. - Revenues from auditing make up less than half of the total revenues of auditing companies; other income is mainly tax consulting and accounting services. - The audit is performed in direct communication with the client, with the obligation of records and the conclusion of a contract upon engagement. - The Securities Commission performs annual supervision in accordance with the risk assessment, checking compliance with the AML/CFT regulations and quality control of the work of companies and auditors. - The most frequent irregularities relate to the identification of legal entities and beneficial owners. - The quality of reports of suspicious activities has improved, but not enough, with the need for additional training of employees.
Accountants	5573	38,120,605	47,768,138	Medium with a tendency towards high	<ul style="list-style-type: none"> - Accountants must have a license from the Ministry of Finance to work, while the APML can make a proposal to revoke the license if the regulations on AML/CFT are violated. - It is forbidden for the founders/owners to be legal/Natural persons with criminal convictions or serious violations of the AML/CFT regulations, which reduces the vulnerability of the audit sector, - A significant progress in this sector is the introduction of the obligation to license legal entities, i.e. entrepreneurs for the provision of accounting services, as well as the introduction of a special Register of Accounting Service Providers, which is managed by the SBRA - Effective offsite and onsite supervision carried out by APML in accordance with the approach based on risk assessment, - Effective supervision by the APML over the implementation of Law on BO by obliged entities,

					<ul style="list-style-type: none"> - The sector of accountants is well organized, but there are noticeable weaknesses that are reflected in the way they perform checks and manage risks, and for this reason their exposure and vulnerability to money laundering is significant. - The number of reports of suspicious activities decreased compared to the previous period, - Insufficient number of inspectors, Well - established practice of continuous training - Accountants had the opportunity to attend numerous trainings and educations, and the supervisory branch makes an effort to continuously and timely update guidelines, procedures, checklists, participate in the adoption of documents such as Recommendations for reporting suspicious activities, in order to bring the legal regulations closer, despite this in are observed through offsite and onsite supervision irregularities
Public notaries	224			Medium	<ul style="list-style-type: none"> - High awareness of public notaries and employees in offices about the importance of the role in anti-money laundering and anti-money laundering system, - Effective offsite and onsite supervision, - A large number of reports of suspicious activities by public notaries, but it is report quality needs to be improved, - It is necessary to provide additional training for public notaries and compliance officers in offices, - Bearing in mind the vulnerability of the real estate sector, in the coming period it is necessary pay special attention to onsite supervision in the traffic segment real estate
Lawyers	12230			High	<ul style="list-style-type: none"> - Necessary networking of all branch chambers within the Bar Association of Serbia, - A small number of launched offsite controls of lawyers, - A small number of launched onsite inspections of lawyers, - Considering the number of registered obliged entities in the sector, the Administration received a small number of reports on suspicious activities, - The quality of suspicious activity reports is not at a satisfactory level, - Low level of awareness of lawyers regarding risk management. - Well-established practice of continuous holding of trainings

PRECIOUS METALS

Business entities that deal in precious metals and jewelry, as per their activity, engage in the production of jewelry and related items, production of precious metals and the wholesale trade of watches and jewelry. These entities are not obliged entities under the AML/CFT Law, and are subject to the supervision of the MUST for compliance with the provisions on the limitation of cash payments for goods and the trade and purchase of items made of precious metals. Activities that include the circulation of precious metals in terms of cash payments are low-risk and not significant in terms of vulnerability in the DNFBP sector. The number of active business entities with the registered predominant activity of trading in precious metals is 998 in 2024, namely 152 legal entities and 846 entrepreneurs. A decrease in the number of registered entrepreneurs has been observed in recent years by an average of 213% in all areas of the RS, mainly due to the strike off from SBRA to personal request. The share of market turnover of precious metals in the total turnover of the RS amounts to 0.23%.

The Ministry of Internal and Foreign Trade (MUST) is responsible for issuing permits for the export/import of gold and silver. In accordance with legal regulations, in the period 2019-2024, not a single person who submitted the prescribed/required documentation for obtaining an import/export permit was rejected. Export/import of finished items/jewelry made of gold and silver is free.

The competence of the NBS in this area is that it can export and export abroad, as well as import and import from abroad, gold bars and gold in unprocessed and minted form, as well as buy and sell gold bars in the country, and use the services of melting and pouring gold bars. The Law on the National Bank of Serbia also allows the NBS to acquire small amounts of precious metals, also directly, from persons authorized to wash precious metals.

The Directorate for Measures and Precious Metals (Directorate) is an administrative body within the Ministry of Economy and performs professional and public administration tasks related to the control of manufactured items made of precious metals by business entities.

Supervision is carried out individually by the competent authorities in accordance with the authorizations of the NBS, the Directorate, the Market Inspection, the Tax Inspection and the Customs Administration.

The Market Inspection (MUST) carried out 772 continuous direct/field supervision in accordance with the Law on inspection oversight, Article 46 of the AML/CFT Law over the limitation of cash payments, the Law on Trade and special by the Law on items made of precious metals and took 7 measures. Supervision over the turnover and purchase of items, according to all the regulations regulating the record of items in trade and market supervision, is performed by market inspectors in accordance with the specified special law.

There was no violation of Article 46 of the AML/CFT Law, which stipulates the limitation of cash payment of goods in the amount of 10,000 euros, or more in Dinar equivalent. Based on available information from the competent judicial authorities, there are no initiated criminal proceedings and no reported suspicious transactions in the observed period, related to AML/CFT and the activities of production, import and trade of objects made of precious metals.

The market inspection also controlled 6 pawnshops, whose main activity is *other auxiliary activities in the provision of financial services, except for insurance and pension funds*, which perform purchase of items made of precious metals and not trade in goods and services. The inspection imposed 6 measures in the area of purchase of items, by initiating court proceedings, but only under the Law on Trade.

Irregularities observed in the control of the circulation of gold objects in relation to the total number of inspections carried out in 2019-2024 related to other circulation and

proceedings under Article 46 of the Law on Prevention of Money Laundering and Financing of Terrorism

Year	2021		2022		2023		2024	
Type of inspection	Onsite		Onsite		Onsite		Onsite	
Number of inspections	2		51		251		224	
Total measures imposed	2		2		1		/	
Complaints filed for irregularities found	Misdem.	Ec. offense	Misdem.	Ec. offense	Misdem.	Ec. offense	Misdem.	Ec. offense
The number of the fortress. irregularities		1	1	1		1	/	/
Number of court decisions							/	/

Irregularities noted in the supervision of the MUST related to: the prominence of the sales price in the currency of the turnover, documents on the sale of goods, declaration and failure to keep records of the turnover of goods (KEP).

The courts resolved 2 misdemeanor charges, which were related to failure to keep records of turnover according to the Law on Trade, with a fine of € 255.

The Directorate performed a total of 10,848 controls and processed 1,720,053 manufactured items from precious metals.

The Tax Administration carried out supervision over 127 business entities that engaged in precious metals trade in the following areas: audit of VAT, profit tax, personal income tax, audit of turnover records through the fiscal cash register. It imposed a total of 64 measures, which achieved an effect/revenue of € 50,455.

The Customs Administration, which controls the cross-border traffic, seized 87.6 kg of gold items due to illegal transfer.

Business entities that carry out the activity of production and trade of items made of precious metals are not obliged entities under the Law on Prevention of Money Laundering and Financing of Terrorism, but are obliged to apply the provision for the limitation of cash payments.

The special new Law on Items Made of Precious Metals now precisely specifies supervision by Market Inspectorate and the Directorate in the area of control of production, turnover and keeping records of items made of precious metals, which has led to adequate supervision of this activity and a drastic reduction of risks in recent years.

The vulnerability in the area of production and trade of precious metal products is low. Simplified CDD can be applied for the entire service of trading in items made of precious metals, and enhanced CDD for items made of precious metals (repurchase, otkup).

Conclusion:

It is necessary to legally clearly regulate the sale of precious stone objects, as there is no legal regulation for this area. The lack and absence of regulations means a free market and the inability of controlling the circulation of items made of precious stones.

The import/export of jewelry made of precious metals that are not part of the permit regime can also be considered as a possible threat. Also, the wholesale trade in metal and non-metallic waste and scrap intended for recycling is not clearly regulated or defined, in the case of wholesale trade in waste and scrap.

The activity of production and trade of objects made of precious metals does not only represent an assessed low vulnerability, but it is also a possible threat to the system when buying and pawning objects. Considering that some the ML court cases mention that the money acquired through illegal activities was invested in a pawnbroker's business for the purpose of purchasing or crediting clients who pledged their items made of precious metals and precious stones, as well as through the purchase of secondary raw materials. Therefore, it is necessary to harmonize and clearly set out by regulation the supervisory competences over this market as part of the financial sector engaging in auxiliary activities in the provision of financial services, except for insurance and pension funds.

TRADE IN CARS

Business entities that carry out car sales are not obliged entities under the Law on Prevention of Money Laundering and Financing of Terrorism, however their activity in terms of cash payments is important for vulnerability. Pursuant to Article 46 of this law, business entities are obliged to observe the prescribed limit on cash payment for goods, which also applies in the event that payment for goods and services is made in several interconnected cash transactions in the total amount of €10,000 or more in Dinar equivalents.

Active business entities with registered predominant activities according to the Law on the Registration Procedure in the Serbian Business Registers Agency and the Regulation on the Classification of Activities, for car traffic is 1401 in 2024, legal entities 1099 and entrepreneurs 302.

A large increase in the registration of entrepreneurs has been observed in recent years by an average of 320% in the areas of the city of Belgrade, Vojvodina, Šumadija and Western Serbia. The share of the market turnover of the car and motor vehicle sector in the total turnover of the RS amounts to 1.8%.

The market inspection carried out continuous supervision in accordance with the Law on Inspection Oversight, Article 110, paragraph 6, and in connection with Article 46 of the Law on Prevention of Money Laundering and Financing of Terrorism with respect to the cash payment threshold. Supervision was carried out in onsite inspection in the observed period over 939 business entities.

Inspections of cash payment of goods according to Art. 46. AML/CFT Law (MUST)

Year	2021		2022		2023	
Type of inspection	Onsite		Onsite		Onsite	
Number of inspections	122		121		246	
Total measures imposed	1		12		14	
Complaints filed for irregularities found	Misdem.	Ec. off.	Misdem.	Ec. off.	Misdem.	Ec. off.
The number of the fortress. irregularities	/	1	/	12	5	9
Number of court decisions	/	1	/	12		6

48 measures were taken and 48 reports were submitted due to the use of cash, and according to the data submitted by the courts, the proceedings initiated in the previous period ended in 29 verdicts (other cases are pending), with fines imposed exclusively for the use of cash in used cars trade by breaching Article 46 of the AML/CFT Law. The value of sanctions ranges from €341 to € 5968 for legal entities and from € 34 to € 341 for the responsible persons in a legal entity.

Also, the Tax Administration under the Law on Tax Procedure and Tax Administration and the Law on Fiscal Cash Registers, constantly checks obliged entities dealing in car traffic. Out of 513 audits, 63% of audited obliged entities were found with irregularities, with newly detected revenue totaling € 6,693,826.

Car traffic is also monitored by the Customs Administration under the Customs Law, which (as part of its monitoring and recording the number of cross-border car imports), recorded a higher export than the import of new cars, while the import of used cars is higher than exports. During the observed period, customs officers temporarily detained a total of 1,068 motor vehicles for further inspection.

Accordingly, in the coming period, it is necessary to improve the quality of comprehensive supervision through continuous controls and enhanced interagency cooperation of competent state authorities in those controls. Simplified CDD can only be applied for new car sales/purchases, while enhanced CDD should be applied in used care sale/purchase. Vulnerability risk is medium in the general overview of risks for new and used car traffic.

Conclusion: Given that the car trade represents a high threat to the DNFBP sector, therefore, in order to completely reduce the risk in the car trade, it is necessary to eliminate cash transactions for all payments when buying/selling used cars and transferring all transactions to the banking sector.

SECTORAL RISK ASSESSMENT SUMMARY
FINANCIAL SECTOR
BANKS
Number of obliged entities and materiality: 20 banks, balance sheet amount EUR 50.71 billion
VULNERABILITIES
<ul style="list-style-type: none"> ▪ the bank applies effective techniques for mitigating the risk of money laundering; ▪ banks have information systems that enable them to reliably monitor clients and their transactions (businesses) and to observe unusual patterns of behavior for all risks; ▪ banks successfully fulfil the function of business compliance; ▪ banks have adequately organized the system of internal controls, internal and external audits and pay due attention to employee training; ▪ all products are rated as moderately vulnerable because banks apply adequate control mechanisms to mitigate the vulnerability of each individual product; ▪ The NBS implements an effective supervision regime (administrative measures and fines have been imposed). ▪ it is necessary for banks to take additional action to improve the integrity of employees; ▪ the banks should focus its employee training on identifying the client’s BO, assessing the ML/TF risk in relation to the type of client, business relationship, product/service and transaction.
THREATS
<ul style="list-style-type: none"> ▪ Money laundering through the sector: assets that are subject to money laundering using the products and services of the banking sector are involved in the banking

system, often under the guise of transactions related to trade, real estate transactions and business activities related to agriculture. In this way, under the guise of business activities, very complex and complex transactions are carried out in order to conceal their true purpose and purpose, i.e. money laundering.

- Embedded "insiders": insiders, including bank employees, in addition to accountants, occasionally exploit their authority in the financial system to help carry out money laundering, which is a constant business risk.
- Proactive detection of "insiders": Serbia has developed and continues to develop its capacities that allow it to detect and combat the threat that comes from persons representing insiders placed in financial institutions. Considerable efforts have been focused on this weakness, which has been detected in the system as a weak point, and the results of the money laundering case indicate that progress has been made in this fight.
- Strong cooperation between regulators and obliged entities: Financial institutions and regulators constantly work together to strengthen the financial system in the fight against money laundering through regular knowledge improvements and information exchange about money laundering schemes, complex transactions through the banking sector, thus constantly improving the compliance of actions and measures with new challenges.
- Cooperation of competent institutions: Cooperation of the police, tax police and financial institutions contributes to further strengthening Serbia's ability to timely detect sophisticated money laundering schemes in this way, creating a strong deterrent mechanism.

RISK: MEDIUM TO HIGH

INSURANCE SECTOR

Number of obliged entities and materiality: 10 insurance companies and 55 life insurance agents, total assets EUR 1.29 billion

VULNERABILITIES

- at the current level of development of life insurance, this sector is not attractive for money laundering purposes;
- it is based on traditional products, where the opportunities for money laundering are relatively small, given that the main motive of their purchase is protection, not profit;
- the business compliance function is effective;
- all products are rated as low vulnerability;
- The National Bank of Serbia implements an effective supervision regime.

THREATS

There were no cases of money laundering in this period. It remains vulnerable considering, first of all, the variety of products available to clients, the possibility of one-time payments and annuity payments in larger amounts than contracted, the increase of premiums or contributions, the possibility of purchasing policies that serve as collateral for a loan, the right to direct compensation from the insured case to third parties, life insurance policies which contain the option to purchase investment units and in that sense exposed to money laundering.

RISK: LOW

FINANCIAL LEASING PROVIDERS

Number of obliged entities and materiality: 15, balance sheet amount EUR 1.4 billion

VULNERABILITIES
<ul style="list-style-type: none"> ▪ providers of financial leasing do not perform payment transactions or deposit operations; ▪ all payment and collection transactions based on financial leasing are carried out cashless, through banks; ▪ they cannot have representatives or intermediaries; ▪ the financial leasing product is rated as low vulnerability; ▪ the business compliance function is effective; ▪ The National Bank of Serbia implements an effective supervision regime
THREATS
It was not directly used for money laundering activities, but it is necessary to keep in mind in the case of high-value leasing transactions (such as luxury vehicles) that it may be exposed to money laundering through the use of traditional money laundering methods in this sector.
RISK: LOW
VOLUNTARY PENSION FUNDS
Number of obliged entities and materiality: 4, balance sheet amount EUR 10.8 million
VULNERABILITIES
<p>. by positive regulations it is regulated so that this sector is not at all suitable for money laundering, primarily due to the extremely difficult and strictly controlled conditions for withdrawing funds from the voluntary pension fund;</p> <ul style="list-style-type: none"> • payment of funds to the fund is most often made through the employer who organizes the pension plan; • all products are rated as low vulnerability; • The National Bank of Serbia implements an effective supervision regime
THREATS
There are no direct cases of money laundering, however, pension funds and their connection with international transactions in a significant amount may represent the potential for money laundering through primarily investment-related schemes.
RISK: LOW
OTHER PAYMENT SERVICE PROVIDERS AND E-MONEY ISSUERS
Number of obliged entities and materiality: 9 payment institutions, 1 public postal operator, 6 e-money institutions, the balance of the sum of EUR 118.96 million
VULNERABILITIES
<ul style="list-style-type: none"> • a greater number of institutions have improved application solutions for tracking transactions; • there was no violation of the integrity of the employees in the institutions; • institutions have prepared employee training programs, including employee training at representatives before starting work; • intensive use of cash, which affects the increase of vulnerability, while the nature and average value of transactions and the very small participation of transactions of a larger amount affect the reduction of vulnerability, as well as a significant reduction of issued e-money
THREATS

No cases of money laundering have been identified, but there are sectoral risks, bearing in mind the possibility that it can be used in certain cases as an alternative to the banking sector, and that suspicious reports have been identified in this regard, especially in the part of the business that refers to foreign exchange transactions and deposits, which can be used for criminal activities.

Threat level: Medium

RISK: MEDIUM

AUTHORIZED CURRENCY EXCHANGE OPERATORS

Number of obliged entities and materiality: 2,169, balance sheet amount EUR 356.97 million

VULNERABILITIES

- the service/transaction vulnerability rating is medium;
- participation in transactions by non-residents is at a negligible level;
- The National Bank of Serbia implements an effective supervision regime;
- the specificity of the sector is reflected in the constant change in the number of authorized currency exchange operators, as a result of the issuance and withdrawal of authorization to perform money exchange operations, so one of the constant risks in the application of regulations in this area (in addition to the measures taken by the supervisory authority) is the possible insufficient knowledge of newly registered currency exchange operators in areas of regulatory compliance.

THREATS

Frequent transactions in significant amounts: a significant number of frequent transactions that are just below the legal limit - structured transactions that add up to significant amounts
 Insufficient number of suspicious activity reports: many exchange offices do not fulfil the legal obligation to report transactions that exceed the limit for reporting cash transactions under AML/CFT Law

Involvement of persons from a criminal background: individuals associated with criminal activities use exchange services to change significant amounts of money where reports of suspicious activity have not been reported, indicating a greater possibility of misuse of exchange services by high-risk customers

Strengthened regulatory measures: The National Bank of Serbia files criminal charges against unauthorized currency exchange, which indicates effective regulatory oversight of the sector

Improved cooperation between competent institutions and obliged entities: reports from payment institutions and banks facilitated the detection and investigation of suspicious activities in exchange offices, which indicates effective mutual cooperation

Improved identification of structured transactions: cases in which structured transactions have been identified indicate the vigilance of competent institutions and vigilance when it comes to this way of executing transactions.

RISK: MEDIUM TO HIGH

CAPITAL MARKET

Number of obliged entities and materiality: 14 broker-dealer companies (investment companies); 8 authorized banks (credit institutions with a license to perform investment company activities); 11 investment fund management companies, which manage the assets of 26 publicly offered investment funds (UCITS) and 6 alternative investment funds (AIFs); 5 depository banks (depositories); 2 digital token service providers and the Central Registry, Securities Depository and Clearing House, 2.2% of the financial sector balance sheet

VULNERABILITIES
<ul style="list-style-type: none"> ▪ Increase in participation of investment funds and digital assets ▪ The industry of investment funds records a growth trend, investment units as a product can be more attractive for investment but also abuse of money laundering, primarily due to their liquidity and the legal obligation of redemption by the management company in the short term. Also, the emergence of financial instruments in the form of digital assets will attract investors and eventually open up space for the transfer of illegally acquired money. ▪ Unsatisfactory level of suspicious reports ▪ The quality of reports on suspicious activities is better than in the previous NRA, but it is still not at a satisfactory level. ▪ Characteristics of the capital market ▪ Low participation of the capital market in the structure of the financial system of Serbia, low liquidity, a large share of inactive and low-risk clients, obliged entities do not receive cash transactions, dematerialized and registered financial instruments, a large participation of government bonds of the Republic of Serbia in trading. ▪ Strict legislation and regulations ▪ There are strict regulations in this area, high awareness of obliged entities about the risk of money laundering and the need for compliance with international standards, extensive control during licensing of obliged entities, continuous and comprehensive regular onsite supervision based on risk assessment, as well as cooperation with relevant institutions.
THREATS
<p>Low level of threat compared to other sectors considering the strict regulation and dematerialization of securities which reduces anonymity. Although it is classified as a low-threat sector, capital markets remain relevant for monitoring the growing risks and the exposure that may arise on that basis.</p>
RISK: LOW TO MEDIUM
FACTORING
<p>Number of obliged entities and materiality: 22, 0.14% share in financial system</p>
VULNERABILITIES
<p>The factoring sector consists of a small number of obliged entities and the market share is negligible (especially if a parallel is drawn with banks that offer factoring services as a product)</p> <p>The conditions for establishing a factoring company and engaging in factoring are clearly defined, both in terms of the founding share and in terms of persons who are not allowed to engage in these activities;</p> <p>The level of knowledge and integrity of employees are at a high level;</p> <p>Cooperation with the supervisory authority is constant, and all obliged entities of the sector are subject to offsite supervision on an annual basis;</p> <p>Although irregularities were observed in the onsite supervisions, this sector can be assessed to be mostly in compliance with the law and by-laws in the area of AML/CFT.</p>
THREATS
<p>There are no reported cases of money laundering, but taking into account the international nature of the business and the lack of strict rules and procedures for preventing money laundering and for cross-border transactions makes this sector vulnerable, especially when offshore entities are involved.</p>
RISK: LOW

DNFBP SECTOR
CASINOS
Number of obliged entities and materiality: 2, Total assets - Business assets (data in thousands of Dinars) 1,535,534 Business income (data in thousands of Dinars) 1,455,956
VULNERABILITIES
<ul style="list-style-type: none"> ▪ The absence of face-to-face contact complicates the identity verification process, which is why additional identity checks are performed using new technologies, but the residual risk still exists ▪ The control function is operational in full capacity - offsite and onsite supervisions are carried out continuously ▪ An extremely high percentage of irregularities in onsite supervision, although a slight improvement is noticeable, taking into account the average of economic offenses per obliged entity found ▪ The number of reports of suspicious transactions has increased, and the quality has improved to a certain extent, but significant improvement is still needed ▪ Cryptocurrencies - a potential emerging risk when it comes to using this financial tool, although they are not yet used in the gaming sector <p>Factors contributing to a lower degree of vulnerability to money laundering:</p> <ul style="list-style-type: none"> ▪ The normative framework is adequate and in line with international standards ▪ The organizational and technical capacities of the supervision function have been improved by establishing an electronic monitoring system ▪ The possibility of holding licenses for organizing several types of games - the so-called. "mixed arrangement", carries with it specific risks (higher possibility of using cash) ▪ A mitigating feature – the ability and easier tracking of transactions ▪ Licensing - organizers are prevented from having in the ownership and management structure <ul style="list-style-type: none"> ▪ natural persons who have been convicted • The percentage of officials is negligible
GAMES OF CHANCE USING ELECTRONIC COMMUNICATION
Number of obliged entities and materiality: 25, Total assets - Business assets (data in thousands of Dinars) 61,171,118 Business income (data in thousands of Dinars) 98,813,204
VULNERABILITIES

The absence of face-to-face contact complicates the identity verification process, which is why additional identity checks are performed using new technologies, but the residual risk still exists

The control function is operational in full capacity - offsite and onsite supervisions are carried out continuously

An extremely high percentage of irregularities in onsite supervision, although it is noticeable a slight improvement, taking into account the average of economic offenses per obliged entity

The number of reports of suspicious transactions has increased, and the quality has improved to a certain extent but significant improvement is still needed

Cryptocurrencies - a potential emerging risk when it comes to using this financial tool, although they are not yet used in the gaming sector

The normative framework is adequate and in line with international standards

The organizational and technical capacities of the supervision function have been improved by establishing an electronic monitoring system

The possibility of holding licenses for organizing several types of games - the so-called "mixed arrangement", carries with it specific risks (higher possibility of using cash)

A mitigating feature – the ability and easier tracking of transactions

Licensing - organizers are prevented from having convicted natural persons in the ownership and management structure

The percentage of officials is negligible

THREATS

Illegal organization of games of chance: organization of games of chance without the permission of the competent institution and the impossibility of monitoring money flows, especially the monitoring of cash transactions, gives greater opportunities for money laundering.

Nature of transactions - cash transactions: Frequent deposits and withdrawals of cash, profit paid to natural persons, frequent execution of cash transactions under the law to persons, enables a better process of concealment and layering of money.

Structured transactions: Payments to accounts in smaller amounts - multiplied transactions executed by a larger number of individuals indicate a typological pattern of money laundering - the intention of individuals to avoid reporting suspicious activities.

Use of "front persons": Use of persons who are presented as nominal owners instead of the real beneficiaries and used to conceal the persons to whom the funds are really intended.

Regular audit, supervision and reporting: Regular control by the tax authorities, identified irregularities show the proactive role of the competent institutions and efforts to detect through regular monitoring activities for which the approval of the competent institution has not been given.

Inter-agency cooperation: The cooperation between the Administration for the Prevention of Money Laundering and the Ministry of Interior and supervisory and inspection authorities enables effective monitoring of suspicious patterns of behavior and leads to the investigation of high-risk cases.

Reporting of suspicious activity: Reporting of suspicious activity by other obliged entities and identification of possible money laundering modalities for the gaming sector contributes to effective scrutiny on the sector.

RISK RATING: MEDIUM TO HIGH

ACCOUNTANTS

Number of obliged entities and materiality: 5573, Total assets - Business assets (data in thousands of Dinars) 38,120,605 Business income (data in thousands of Dinars) 47,768,138

VULNERABILITIES

- Accountants must have a license from the Ministry of Finance to work, while APML can make a proposal to revoke the license if the regulations on AML/CFT are violated,
- It is forbidden for the founders/owners to be legal/Natural persons with criminal convictions or serious violations of the AML/CFT regulations, which reduces the vulnerability of the audit sector,
- A significant progress in this sector is the introduction of the obligation to license legal entities, i.e. entrepreneurs for the provision of accounting services, as well as the introduction of a special Register of Accounting Service Providers, which is managed by the SBRA
- Efficient offsite and onsite supervision carried out by APML in accordance with the approach based on risk assessment,
- Effective supervision of the Administration over the implementation of Law on CRBO by obliged entities,
- The sector of accountants is well organized, but there are noticeable weaknesses that are reflected in the way they perform checks and manage risks, and for this reason their exposure and vulnerability to money laundering is significant,
- The number of reports of suspicious activities decreased compared to the previous period,
- Insufficient number of inspectors,
- Well-established practice of continuous holding of trainings
- Accountants had the opportunity to attend numerous trainings and educations, and the supervisory branch makes an effort to continuously and timely update guidelines, procedures, checklists, participate in the adoption of documents such as Recommendations for reporting suspicious activities, in order to bring the legal regulations closer, despite this they are observed in offsite and onsite supervisions irregularities

THREATS

Direct participation in money laundering schemes: accountants issued fictitious invoices and assisted clients in concealing funds and withdrawing cash from client accounts for the purpose of money laundering.

Vulnerability to abuse by OCG: the accounting sector is used to establish legal companies and create false invoices, which enables criminal networks to launder significant amounts of money.

Co-supervision and inter-agency cooperation: intensive supervision, suspicious activity reports and cooperation of competent institutions help to identify weak links in the anti-money laundering system of accountants, which stems from several reports sent to prosecutors based on suspicious activity reports reported by financial institutions.

Cross-sector cooperation: the monitoring of transactions related to accounting agencies by financial institutions enables an effective review of exposure to money laundering risks related to accounting agencies and the transactions carried out.

RISK: HIGH

LAWYERS

Number of obliged entities: 12,230

VULNERABILITIES

- Necessary networking of all branch chambers within the Bar Association of Serbia,
- A small number of launched offsite controls of lawyers,
- A small number of launched onsite inspections of lawyers,

- Considering the number of registered obliged entities in the sector, a small number of SARs were filed to the APML,
- The quality of suspicious activity reports is not at a satisfactory level,
- Low level of awareness of lawyers regarding risk management.
- Well-established practice of continuous holding of trainings

THREATS

High-risk services: lawyers often carry out transactions related to other high-risk areas (real estate and banking) and manage significant assets on behalf of the client, which can potentially obscure the right choice of assets

Participation in cash transactions: frequent execution of transactions in an amount that is just below the legal limit for reporting cash transactions indicates the suspicion of structured transactions

SAR reporting: although they are obliged to report suspicion of money laundering, there are cases in which lawyers did not fulfil their preventive role according to AML/CFT Law

Supervisory role: increased scrutiny of lawyers' accounts and cross-border transactions led to the identification of suspicious activities, which led to effective action by regulatory bodies and law enforcement authorities.

International cooperation: sharing information with neighboring countries has demonstrated the ability to identify individuals linked to money laundering that compromise the profession

RISK: HIGH

PUBLIC NOTARIES

Number of obliged entities: 224

VULNERABILITIES

- High awareness of public notaries and employees in offices about the importance of the role in the AML/CFT system,

- Effective offsite and onsite supervision,

- A large number of SARs filed by public notaries, but their quality needs to be improved,

- It is necessary to provide additional training for public notaries and compliance officers in offices,

- Bearing in mind the vulnerability of the real estate sector, in the coming period it is necessary to pay special attention to onsite supervision in the real estate trade area

THREATS

Role in high-risk real estate transactions: Notaries are essential to real estate transactions in Serbia, a sector highly prone to money laundering, making them critical entry points for illicit funds to enter the financial system.

Failure to identify suspicious activities: In cases involving the same persons or illogical and rapid real estate transactions, notaries public did not always identify suspicious activities, indicating the need for further improvement of monitoring and preventive actions.

Identified vulnerabilities: Cases where notaries public have faced accusations of abuse of office indicate an increased focus of supervisory authorities and law enforcement services, which improves compliance and prevents violations of the AML/CFT regime.

Increased number of SARs: Notaries are consistently submitting a higher number of SARs, indicating that oversight measures are leading to improved system compliance.

RISK: MEDIUM TO HIGH

REAL ESTATE SALE AND LEASE BROKERS
Number of obliged entities and materiality: 1203, Total assets - Business assets (data in thousands of Dinars) 13,595,781 Business income (data in thousands of Dinars) 9,754,714
VULNERABILITIES
<ul style="list-style-type: none"> - The area of real estate brokerage and rental is well regulated by regulations. - In accordance with the planned inspections, the market inspection carried out 85% of the controls, which can be considered a good result but an incomplete control. - Partial application of sanctions related to surveillance measures were not fully implemented by the courts due to time delay and small amounts/below the limit in verdicts. - Full implementation of the prescribed conditions for starting mediation activities, through the control mechanisms of licensing and registration of agents. - Full application of the prescribed procedures for the appointment of a compliance officer and his deputy for the execution of actions and measures of the AML/CFT. Internal procedures prescribe actions aimed at preventing employees from criminal and corrupt activities in the field of money laundering. - Incomplete implementation of regulations related to the prevention of money laundering at real estate brokerage agencies. - Incomplete application of available legal means for monitoring, recording and reporting on suspicious transactions. - Incomplete implementation of the defined procedure for verifying beneficial ownership, with the risk of verifying the origin of financial/other transactions such as shares in corporations and other forms of business entities. - Partial implementation of the regulations due to the impossibility of in-depth analysis of the client and the availability of high-quality and appropriate commercial data on the financial and banking status of the client and the way of performing the transaction.
THREATS
Although intermediaries do not appear as defendants in money laundering cases, they are closely and closely connected with the riskiest sector - the real estate sector. The analysis showed that real estate brokers were used by persons who are under investigation for suspicion of organized crime and money laundering. This makes them a sector exposed to the risk of money laundering.
RISK: MEDIUM TO HIGH
POSTAL OPERATORS
Number of obliged entities and materiality: 55, Total assets - Business assets (data in thousands of Dinars) 48,094,967 Business income (data in thousands of Dinars) 52,723,644
VULNERABILITIES
<ul style="list-style-type: none"> - Continuous onsite supervision is carried out, - Continuous offsite supervisions are carried out, - Postal operators have a good understanding of the scope of their reporting obligations related to suspicious transactions and activities, keep records of transactions that are available and which enable identified suspicious transactions to be reported, - A satisfactory number of SARs were filed, which in terms of content, can also be rated as satisfactory, - It is necessary to increase the number of trainings and educations.
THREATS
Two persons are suspected of money laundering of EUR 378,844 through fictitious business documentation in which the operator's sector was used. This sector is involved in the

concealment of money from illegal trade where the funds are ultimately integrated into the real estate sector and high-value goods.

RISK: MEDIUM

AUDITING

Number of obliged entities and materiality: 75, Total assets - Business assets (data in thousands of Dinars) 10,068,963 Business income (data in thousands of Dinars) 11,580,759

VULNERABILITIES

- Audit companies must have a license from the Ministry of Finance to operate, while SEC can revoke the license if the regulations on AML/CFT are violated. It is forbidden for the founders/owners to be legal/natural persons with criminal convictions or serious violations of the AML/CFT regulations, which reduces the vulnerability of the audit sector.
- The share of auditors in the total number of companies that must submit financial statements is less than 2%.
- Revenues from auditing make up less than half of the total revenues of auditing companies; other income is mainly tax consulting and accounting services.
- The audit is performed in direct communication with the client, with the obligation of records and the conclusion of a contract upon engagement.
- The Securities Commission performs annual supervision in accordance with the risk assessment, checking compliance with the AML/CFT regulations and quality control of the work of companies and auditors.
- The most frequent irregularities relate to the identification of legal entities and beneficial owners.
- The quality of SARs has improved, but not enough, with the need for additional training of employees

THREATS

Closely and inextricably linked with the accounting sector. There is no direct involvement in money laundering cases, nor have auditors been found to be involved in money laundering, but the professional services of this sector can indirectly help money laundering - given the transactions carried out by clients and the manner of reporting, therefore intensive supervision remains a key component in prevention.

RISK: MEDIUM

**RISK ASSESSMENT OF LEGAL PERSONS AND LEGAL
ARRANGEMENTS**

Summary

The legal framework in Serbia, in particular the Law on Companies governs the establishment, management and liquidation of business entities, including entrepreneurs. The amendments from 2021 introduced stricter requirements for registering a business seat (registered office) in order to fight against phantom companies that operate at fictitious addresses. This law explains in more detail the types of permitted business structures, including the joint and several liability of members who exercise control over the company during forced liquidation, which aims to prevent misuse of business entities. These risk mitigation measures were introduced based on the findings of the 2021 national risk assessment.

The Law on Companies lists various forms of organization of business entities, including entrepreneurs, partnerships, limited liability companies, and others. In addition, organizations such as cooperatives, associations, foundations and endowments, which are defined by special laws, acquire the status of a legal entity upon registration. All business entities are obliged to open a bank account and to make transactions through it.

The Serbian Business Registers Agency (APR) manages 23 centralized electronic registers, ensuring a uniform registration procedure on the territory of Serbia. The registration procedure is transparent, public and in accordance with EU directives, and ensures public access to registered data and documents.

The Law on the Registration Procedure provides for criminal sanctions for submitting inaccurate information or forged documents in the registration procedure, for which a prison sentence of three months to five years is provided. There are also administrative sanctions, including fines for late (untimely) submission or updating of registered information. Changes in legal or formal ownership must be registered immediately, and both new and former owners are responsible for ensuring that registration is updated in a timely manner.

The Law on Companies specifies the general conditions for the establishment of business entities that apply to all forms of organization. The requirements include the submission of articles of incorporation, articles of association and contracts related to the company. The founding act is either a decision if there is one founder or a contract if there are several founders. There are no restrictions on the functions that the founder can have in the company; founders can be responsible persons such as director or to be part of the management structure, including the function of the president of the Board of Directors or members of the Board of Directors.

According to SBRA data, limited liability companies, joint stock companies and partnerships are the most represented in Serbia. The total number of registered business entities grew from 133,417 in 2021 to 137,253 in 2023. Limited liability companies are by far the most common form of organization with 95% of all registered entities, while the number of partnerships and joint stock companies decreased slightly in this period. Entrepreneurs (self-employed individuals) showed significant growth, especially after 2020, their number increased from 290,445 in 2021 to 330,567 in 2023. The annual growth rate of entrepreneurs reached 7.31% in 2023, which indicates a continuous trend in the expansion of entrepreneurs. Over 95% of the total number of registered entities are classified as micro and small enterprises, with LLCs being the most frequently chosen form. In 2023, 93,517 micro enterprises were registered, which is 84.5% of the total number. Although micro-enterprises dominate in number, large enterprises generate the most revenue even though there are only 598 of them in total. In 2023, the number of new registered LLCs decreased slightly because of introduction of the mandatory electronic registration in May 2023. The procedure is now more complex, and in some cases the assistance of a lawyer or notary public may be needed, so individuals have opted for registering as entrepreneurs (sole proprietors, sole trades) because of a simpler registration procedure. Business entities with complex ownership structures (where another

legal entity is involved in at least one layer of ownership), often have wholesale trade, consulting or IT as their registered business activity. Such business activities often involve cross-border activity. It is often the case that such companies are partially owned by foreign legal entities. For example, 1174 such companies engaged in non-specialized wholesale trade and 1033 companies in consulting services.

All joint-stock companies, public companies as well as large and medium-sized companies and companies with a total income of more than 4.4. EUR million are subject to audit obligations, which reduces the ML/TF risk, given that audit companies are obliged entities under the AML/CFT Law. SBRA rigorously monitors compliance with the audit obligation, entities that act contrary to this obligation are regularly identified, proceedings are initiated against them and sanctions are imposed. Every year Serbian competent authorities strike off thousands of companies through forced liquidation, and impose tens of thousands of bans on the disposal of assets, as well as measures to suspend TIN or initiate tax control.

Branches and representative offices of foreign companies represent less than 2% of all registered business entities. Their presence in Serbia has been stable for the most part in the last five years and serves to facilitate real economic ties; most of them come from the USA and countries from the region (BiH, Montenegro, Croatia, Slovenia and North Macedonia) and from several offshore territories (Cyprus and the UK).

In the last few years, the number of business entities in foreign ownership has been growing steadily, which goes along with the pronounced growth of direct foreign investments. The figure reached 12.5% of business entities, primarily in the form of LLCs. The largest number of business entities in Serbia is still financed by domestic capital, with the foreign capital, especially from Slovenia, Cyprus and Austria, amounts to 17.79% of ownership in LLCs (DOO). Joint-stock companies show a similar trend, with 13.32% of the capital of foreign entities. The number of foreign citizens operating in Serbia as entrepreneurs is insignificant (approximately 4%) but is constantly increasing. Generally speaking, in Serbia, there is a growing trend of foreign participation in domestic business in various forms, although their number is still only a very small compared to the number of companies and entrepreneurs that are entirely domestically owned.

Serbia has implemented a reliable system for identifying beneficial owners in accordance with FATF standards, through the AML/CFT Law and the Central Records of Beneficial Owners (CRBO). Serbia maintains and publishes the Central Register of imposed measures, which consolidates data on business entities, their owners, directors and members of the supervisory board, who have been subject to criminal, misdemeanor or administrative offences. Obligated entities review this data before establishing a business relationship or facilitating business.

Starting from 2023, over 90.5% of business entities have fulfilled their obligations to register in the CRBO. LLCs showed the greatest compliance with this obligation (94.74%), while branches of foreign companies lag behind in this regard (30.63%). Enforcement measures, including fines and procedures provided for by law effectively contribute to compliance; between 2021 and 2023, over 8,000 fines were imposed for non-compliance with the law.

CRBO significantly mitigates AML/CFT risks by increasing transparency of ownership. However, there are still difficulties with regard to certain forms of business entities that comply with the law to a lesser extent.

The largest number of beneficial owners in Serbia are domestic natural persons, in 87.84% of registered entities, while foreign natural persons appear as beneficial owners in 22,719 entities. About 90% of beneficial owners are from Serbia, while other countries are represented by less than 1% each. As of 2023, CRBO recorded 186,905 beneficial owners, of

which over 72% were classified as owners of at least 25% of shares or voting rights. Riskier categories of ownership have declined significantly.

Supervisory authorities, including APML, conduct regular inspections of obliged entities, and any non-compliance with legal provisions, including the obligation to update data on the obliged entity, results in sanctions, including fines and legal procedures. From 2021 to 2023, a number of inspections found violations of provisions related to the keeping of accurate and up-to-date records of beneficial owners, especially with accounting and factoring companies, as well as with entities under the supervision of Securities Commission (KHOV). These cases of violation of the provisions were resolved with warnings, fines and procedures for economic offense, aiming to improve compliance with the law.

In addition to the above, during the supervision procedure, there were cases where the BO data for the client was different from the data in the CRBO, and they raised suspicion on money laundering, which was the reason to notify the APML thereof.

There are few requests from abroad for BO information because the CRBO is publicly available. Foreign financial intelligence units (FIUs), mostly neighboring or other European countries such as Montenegro, North Macedonia, Slovenia and Germany, requested BO information from the APML in 15 cases. The requests mainly concerned financial transactions involving Serbian legal entities. On the other hand, the APML sent 164 requests to the foreign FIUs seeking BO information for the purposes of its analysis.

Trusts cannot be established under domestic law, however, trusts established under foreign law are recognized in the AML/CFT Law. Approximately 300 legal entities in Serbia are connected to trusts through the ownership structure. Trusts and offshore entities are classified as high risk from the point of view of ML and are subject to increased monitoring. As on 31.12.2023, no obliged entity in Serbia has trusts as direct clients, although these appear in ownership structures and Serbian competent authorities monitor such relations with increased attention, especially within the scope of inspections by supervisory authorities.

A small upward trend of the presence of trusts in the ownership structures of legal entities was observed, although the total number is still negligible compared to the total number of legal entities in Serbia. Germany, Cyprus, Austria and Hungary dominate as the countries of choice for the origin of trusts, which reflects the fact that such a legal arrangement is important for doing business at the regional level. Trusts are mostly used by non-residents (especially as trustees and beneficiaries), with the exception of trust protectors. Other forms of legal arrangements besides trusts have not been found in Serbia.

Trusts are not direct clients of banks or other obligors, and the only trust account that existed in one bank was inactive and then closed. At the same time, obliged entities successfully identify the presence of trusts in the ownership structures of their clients. Due to the small number of such clients, obliged entities and supervisory authorities are able to constantly monitor their business. In 2023, 344 bank clients with trusts in the ownership structure were identified, and the largest number of those trusts were registered in Cyprus. Similarly, 35 financial leasing clients and 7 insurance clients indicated that they had trusts in their ownership structures, again the most from Cyprus. All entities that have a trust in the ownership structure are considered high-risk and are subject to enhanced actions and measures by the obliged entity and supervisory authorities. The above data indicate that the presence of trusts in Serbia is negligible in the material sense and the subject of intensive monitoring at several levels of the AML/CFT system, which significantly reduces the ML/TF risk.

An analysis of foreign legal entities from high-risk jurisdictions, which are on the FATF list, revealed that only a few entities have ties to such jurisdictions, such as Croatia and Bulgaria. This kind of connection mostly testifies to inevitable business connections between countries and does not indicate an increased risk on the macro level, with the exception of certain specific cases.

An analysis of involvement of business entities in ML cases has highlighted that business entities, especially small businesses, play a central role in laundering illegal proceeds. Money is most often laundered through fictitious transactions, in which, fake invoices and documents are used, business activity is simulated, i.e. one that did not actually happen. Such entities are often under the control of organized criminal groups and are used to move and integrate dirty money into the legitimate financial system. The analysis of 140 ML cases revealed that 130 companies were involved, of which the largest number were LLCs, as well as entrepreneurs and cooperatives. The registered activity of most of these entities *is trade, they are classified as micro or small companies, they are not subject to audit, they have no employees, and in the event that they submit financial statements, they state that they operate without losses.* LLCs are also commonly used to avoid taxes and withdraw cash. Joint-stock companies are generally not misused due to a more complex regulatory framework and oversight mechanism, while associations and entrepreneurs show a certain level of exposure.

These trends generally prove that money launderers in Serbia mostly use simpler schemes, which involve smaller entities such as LLCs and entrepreneurs, which have minimal regulatory obligations, are less monitored and have flexible accounting practices, which allows them to easily make fictitious transactions. Such entities often lack a large part of the capital, so if they eventually go out of business or are liquidated by the competent authorities, the broader money laundering operation will suffer only minor damage.

The exception is a recent trend, which involves professional accountants designing and managing an ML operation, and this has been found in a number of cases.

In cases of organized crime, the general characteristics of abuse of legal entities are similar to the above-mentioned factors. The analysis of money laundering through organized crime has identified two different categories of companies: companies that actually operate and companies that are legally established but do not perform any economic activity. Legitimate companies often use business structures that are controlled by organized crime groups to withdraw cash from accounts, thus reducing tax obligations.

In contrast to the above, entities established by criminal organizations serve as professional laundromats and channels for professional money laundering, issuing false invoices for non-existent goods or services. These fictitious companies facilitate a series of transactions within an organized network, allowing launderers to funnel money through accounts and ultimately make it available to criminal actors without detection. These entities have no employees and the founders are often socially vulnerable categories of people who register the company for a small fee. In more sophisticated cases, complex networks of related business entities, often with the involvement of foreign legal entities, have been found to serve for transferring money across the border and conceal the origin of that money.

The real estate sector is increasingly seen as a target for money laundering, whereby illegal funds are invested in the construction and sale of real estate, thereby enabling the integration of dirty money into legitimate economic flows.

Registered agricultural holdings are increasingly used in money laundering schemes, especially by organized criminal groups. Owners of these farms open dedicated accounts for transactions related to agriculture, but often misuse them to withdraw illegal funds, which are then returned to the organizers of the criminal scheme. In this way, agricultural holdings are placed in the last stage of the money laundering process, where dirty money is turned into cash. In the period from 2021 to 2023, 26 such cases were identified, with banks often failing to verify such transactions. Although the number of such cases is relatively small, due to the ease of cash withdrawals and weak oversight, agricultural holdings represent an increasing risk for money laundering.

In Serbia, the prosecution of legal entities for money laundering is often ineffective, especially when it comes to fictitious companies that, as a rule, have no assets or real operations

and are quickly shut down after enabling the execution of illegal activities. These companies are set up with minimal capital to conceal the origin of the funds, making it difficult to recover any money or hold individuals accountable. However, in cases where companies have significant assets, especially in the real estate and construction sector, the competent authorities have brought charges. International cooperation is essential for the search for information and criminal prosecution in cross-border money laundering cases involving organized crime.

An analysis of data obtained from Serbian Tax Administration has shown that many business entities involved in ML are also related to tax evasion, which is the most frequent ML predicate offence. A large part of these companies, mostly small or micro- companies founded with minimal capital, are often fictitious companies without real assets or operations and eventually close down after being (mis)used. Proceedings for tax crimes are primarily initiated against natural persons responsible for the operations of these companies and not against the companies themselves, since many of them are insolvent. The analysis found multiple reoffenders running numerous companies, some of which are linked to money laundering through tax crimes.

In the observed period, the tax police identified 881 business entities as *phantoms* or *launderers*, based on established risk criteria. *Phantoms* as a rule conceal business data, avoid filing tax returns and lack required documentation or transparency. *Launderers* are companies that simulate legal transactions through fictitious transactions aimed at tax evasion. Both types of companies are used to create false documents such as invoices and often help regular businesses avoid taxes, especially VAT. These entities are short-lived and usually shut down after completing the illegal business for which they were established. In response to that, TINs were suspended for numerous entities due to non-compliance with the law, and charges were brought against several responsible persons.

Analysis of data from supervisory authorities on the risk levels of business entities faced by obliged entities confirmed that LLCs, especially micro and small companies, face the greatest risk from potential money launderers. The banking sector reported the largest number of suspicious transactions related to high-risk business entities, which often operate within the scope of wholesale trade, real estate, construction and vehicle sales. Of all types of legal entities classified as high-risk by the obliged entities - LLCs account for about 8%, JSC about 10%, other forms (limited partnerships, general partnerships) about 4% and entrepreneurs about 3%.

In the period 2021 – 2023, the Serbian Ministry of Justice processed numerous ML-related mutual legal assistance requests involving legal entities, specifically LLCs. Out of a total of 253 cases, 38 requests were related to domestic and foreign LLCs, and the property in question is estimated at EUR 296.8 million and GBP 100,000.00. The largest confiscation of property was related to Kazakhstan (EUR 168.2 million), and it is about tax evasion and unauthorized gambling. The outgoing requests involved 23 domestic and foreign LLCs, with assets totaling EUR 13.4 million and USD 9 million. The Public Prosecutor's Office for Organized Crime also dealt with LLCs in 14 cases with a total of 22 business entities, where EUR 12.2 million and USD 57,225.00 were the subject of the investigation, and there was one case involving EUR 12 million in gold. In addition, Serbia cooperated with Spain in joint investigations of LLCs involved in narcotics trafficking and ML. As for international police cooperation, most of the 209 business entities that were spotted for suspicious activities involve LLCs. Financial Investigations Unit and the police regularly exchanged data on LLCs and through Europol and Interpol worked on numerous cases of money transfers through these entities. The tax police sector was also involved, with 50 sent and 11 received requests regarding LLCs suspected of tax evasion and ML, which caused significant financial damage to the State. Legal entities, especially LLCs, continue to be the focal point of these international efforts to detect and prosecute ML activities.

In the period 2021 – 2023, 2.947 companies were reported for suspicious transactions, with 79.16% of the reports being filed by banks. LLCs were the most reported, in 2.057 reports, followed by entrepreneurs in 865 reports. The total value of suspicious transactions with legal entities exceeds EUR 1.15 billion. Legal entities - non-residents are involved in 141 reports, while the largest number of reports involve legal entities - residents. Auditors, notaries public and accountants contributed significantly to the reporting of suspicious transactions, in addition to banks. In addition, the APML exchanged 723 reports with foreign counterparts regarding legal entities primarily engaged in the transfer of cash for goods, such as used cars and secondary raw materials, raising the issue of possible tax evasion and potential ML schemes.

1.1. Introduction and applied methodology

The risk assessment was co-drafted by the representatives of the Ministry of Economy, the Serbian Business Registers Agency, National Bank of Serbia, Securities Commission, Ministry of Finance - Tax Administration, Tax Police Sector, Ministry of Finance - Administration for the Prevention of Money Laundering, Ministry of Justice, Ministry of the Internal and Foreign Trade, Chamber of Public Notaries, Ministry of Internal Affairs, Supreme Public Prosecutor's Office, Public Prosecutor's Office for Organized Crime, Supreme Court of Serbia, Higher Court in Belgrade - Special Department for Organized Crime, Ministry of Agriculture - Administration for Agrarian Payments, Ministry of Construction, Transport and Infrastructure, Central Securities Depository and Clearing House as well as obliged entities under the AML/CFT Law.

For the purposes of assessing the threat of money laundering from the point of view of the misuse of legal structures for money laundering, the following information was used: data related to the legislative and institutional framework for the establishment and registration of business entities, data on the classification of business entities by size, data on the type of activity, data on the beneficial owner, the origin of capital, the involvement of business entities in money laundering cases, the number of suspicious transactions related to business entities/legal entities, mutual legal assistance, data on the level of risk in business entities by legal form as assessed by supervisory authorities.

For the assessment of risky legal entities and legal arrangements in the process of updating the Risk Assessment, the World Bank Methodology was used (module on legal entities - Risk assessment for legal entities and legal arrangements) with adaptations aiming to respond to Serbian settings. We also note here that Serbia took part in the Regional Risk Assessment of Legal Forms and Legal Arrangements.

The Methodological Framework was supplemented, based on national experience and other components in order to have a comprehensive methodological approach to the NRA, which takes into account the specificities of the economic and business environment and the national characteristics of the country, such as the regional distribution and concentration of economic activities, depending on the natural and socio-economic factors.

In addition to the methodological elements included in the World Bank's methodology, this report concludes each segment of the analysis with an assessment of the key findings against a scale of probabilistic impact, i.e. the degree to which the identified factor (e.g. a specific threat scenario or element of vulnerability) has an impact on the likelihood of money laundering in Serbia. For this purpose, the following scale is used:

Assessment of individual factors		For mean (average) summary calculations
+3	Significant increase in ML/TF probability	between +3 and +2
+2	Partial increase in ML/TF probability	between +2 and +1
+1	Small increase in ML/ FT probability	between +1 and 0

0	Neutral impact on the ML/TF probability	0
-1	Slight decrease in ML/TF probability	between 0 and -1
-2	Partial decrease in ML/TF probability	and between -1 and -2
-3	Significant decrease in ML/TF probability	and between -2 and -3

Scores for each identified factor are assigned based on the expert consensus of the NRA working group, after reviewing the qualitative rationale and all quantitative data underlying the specific factor.

The report is thematically divided into the following segments:

- Vulnerability Analysis - Section 2
- Materiality Analysis - Section 3
- Threat Analysis - Sections 4 and 5

2. FRAMEWORK AND VULNERABILITY ANALYSIS

2. 1. Legislative and institutional framework

The Law on Companies¹⁵⁰ regulates the legal position of companies and other forms of organization in accordance with this law, especially their establishment, management, status changes, changes in legal form, termination and other issues of importance for their status, as well as the legal status of entrepreneurs.¹⁵¹ This Law does not set out conditions, approvals or consents for the registration of business entities, but the registration or performance of a certain activity may be conditioned in special laws by the issuance of a prior approval, consent or some other act of the competent authority, and in these cases registration will be carried out only after the fulfillment of those special conditions. Companies can have only one predominant activity that is registered in the Register of Companies, while the company can perform all other activities that are not prohibited. and if it meets the conditions prescribed for the performance of that activity in accordance with a special law. Supervision over the performance of activities is carried out by competent authorities in accordance with special regulations.

The law specifies that the registered address of the registered office of a company or entrepreneur includes the city, municipality, town, street or square, house number, floor and apartment number.¹⁵² Amendments to relevant laws from 2020 and 2021 significant novelties related to the registration of the address of the headquarters of business entities (companies and entrepreneurs) were introduced in order to implement the principle of accuracy prescribed by the law governing the registration procedure¹⁵³: The registration of the address of the headquarters at an imprecise address was made impossible by the establishment in 2020 interoperability between the Register of Spatial Units and the Address Register maintained by the Republic Geodetic Institute and the registers maintained by the Serbian Business Registers Agency.¹⁵⁴ Therefore, in order for the address of the business entity to be registered, it must

¹⁵⁰ "Official Gazette of RS" no. 36/2011, 99/2011, 83/2014 - other laws, 5/2015, 44/2018, 95/2018, 91/2019, 109/2021)

¹⁵¹ The provisions of this law also apply to forms of economic activity that are established and operate in accordance with a special law.

¹⁵² Article 19 paragraph 3 of the Law on Companies ("Official Gazette of RS" no. 36/2011, 99/2011, 83/2014 - other laws, 5/2015, 44/2018, 95/2018, 91/2019, 109/2021)

¹⁵³ Article 3, paragraph 1, item 2 of the Law on the Registration Procedure in the Business Registers Agency ("Official Gazette of the RS", no. 99/2011, 83/2014, 31/2019 and 105/2021)

¹⁵⁴ Article 6, paragraph 4 of the Law on the Register of Spatial Units and the Address Register ("Official Gazette of RS", No. 9/2020)

exist in the Address Register as a structured set of geospatial data that uniquely determines the location and identification of the immovable property, which facilitates field control, for example, bearing in mind that the business entity is obliged to keep the articles of incorporation, the statute as well as business books of the company at the registered address of the company and to provide access to the same both to company members and authorities as well as to the Tax Administration and other competent state authorities.

Amendments to the Law on Companies in 2021 introduced the possibility of administrative sanctioning of business entities with out-of-date or incorrect information on the address of the registered office by applying the institute of compulsory liquidation, if the company does not register a new one within 30 days from the date of finality of the judgment ordering the deletion of the registered office address seat address. In this way, it is possible to remove companies and entrepreneurs with fictitious addresses from the legal circulation, that is, the so-called "phantom companies". These changes to the Law were necessary and followed the previous ML/TF Risk Assessment and the Tax Administration's observation of the "abuse of headquarters" by business entities and the phenomenon that the headquarters of several dozen or even hundreds of companies are registered at the same address. Also, in the period before the amendments to the Law, the number of citizens' petitions pointing to problems with public executors and public utility companies increased markedly, because the residential addresses of citizens, without their knowledge and consent, were reported and registered in the Register of Business Entities as addresses of their companies' and entrepreneurs' headquarters. The aforementioned amendments to the law made it possible for an interested party to file a lawsuit with the competent court to request the deletion of the registered address of the business entity's headquarters, if he/she did not allow the use of the premises owned by him for the management of the company's operations.¹⁵⁵

A significant novelty is the fact that the members of the company, *after striking off the company from the register in the process of forced liquidation, are liable for the company's obligations up to the value of the assets received, while the controlling member who has more than 50% of the voting rights in the company has unlimited joint and several liability for the company's obligations.*¹⁵⁶ This is an exception to the rule of limited liability of members of a company so forced liquidation is a sort of sanction for company members who fail to comply with their legal obligations and who often go to the extent of knowingly causing the initiation of the forced liquidation procedure in order to avoid liability for the assumed obligations.

Finally, the Law on the Registration Procedure in the Serbian Business Registers Agency stipulates that in addition to the representative of the company, both the new and the former owner are authorized to submit the application for the change of legal/formal owner in the company, so in practice this change is registered without delay, because it is certainly not in the interest of the former owner to be liable for public revenues based on his/her membership (share/interest), whereas it is not in the new owner's interest to delay updating the data, because in accordance with the Law on Companies,¹⁵⁷ he/she is considered the legal owner (member of the company and owner of shares) only from the moment of registration.

The amendments to the law regulating the tax procedure introduced the novelty that in cases of temporary suspension of the TIN, the Tax Administration can impose a temporary measure prohibiting the registration of the acquisition of stakes or shares in business entities,

¹⁵⁵ Article 19 paragraph 5-9, article 91 paragraph 6 point 8 and article 546 paragraph 1 point 7a of the Law on Companies ("Official Gazette of RS" No. 36/2011, 99/2011, 83/2014 - other law, 5 /2015, 44/2018, 95/2018, 91/2019, 109/2021)

¹⁵⁶ Article 548 of the Law on Companies ("Official Gazette of RS" No. 36/2011, 99/2011, 83/2014 - other laws, 5/2015, 44/2018, 95/2018, 91/2019, 109/2021)

¹⁵⁷ Article 3 of the Law on Companies (Official Gazette of the RS No. 36/11, 99/11, 83/14 (second law), 5/15, 44/18, 95/18, 91/19.109/21)

i.e. the establishment of new business entities, to founders with a share of more than 5% in business entities to which the TIN was temporarily suspended, for the duration of temporary TIN suspension, and a copy of the decision is submitted to the Serbian Business Registers Agency and the Central Registry, Securities Depository and Clearing House. In cases of suspension of the TIN, the bank is obliged to suspend the execution of the taxpayer's order for the transfer of funds from¹⁵⁸ the taxpayer's account from the moment of receipt of the decision, except for the purpose of settling tax obligations and secondary tax payments.

Legal entities and entrepreneurs are required to open a current account, keep funds in that account and make payment transactions through that account.¹⁵⁹ Legal entities and entrepreneurs are obliged to pay any cash received on any basis to their current account. The method of payment in cash through payments from the current account is possible only on the basis of original documentation from which the amount of the basis and purpose of payment can be determined, all of which is submitted for inspection and verification to the bank.¹⁶⁰

Summary:	
The legal framework in Serbia, in particular the Law on Companies, regulates the establishment, management and liquidation of business entities, including entrepreneurs. The 2021 amendments introduced stricter obligations regarding the registration of business addresses in order to fight against phantom companies operating from fictitious addresses. This Law also explains what types of business structures are allowed and imposes sanctions, including the joint and several liability of company members/shareholders who control the company during compulsory liquidation, which aims to prevent abuse by business entities. Risk mitigation measures were introduced based on the findings of the 2021 NRA.	
IMPACT ON RISK:	
Address confirmation: The introduction of compulsory liquidation for business entities with an inaccurate registered address reduces the risk of fictitious companies and improves transparency.	-2 Partial probability decrease for ML/TF
Liability of company members/shareholders: By introducing unlimited liability of members/shareholders who control the company during forced liquidation, liability is ensured, it is deterred from the deliberate abuse of companies for illegal activities, including ML/TF.	-2 Partial probability decrease for ML/TF

2.2. Registration of business entities

Business entities may not perform business activities unless they are registered in the relevant registers of the Serbian Business Registers Agency, without exception.

The Serbian Business Registers Agency manages the registers established by law as a single centralized electronic database, namely: 23 different registers and records for the entire territory of Serbia, which ensures a uniform registration practice and unique and equal conditions for starting business for all participants in business operations. In particular, it should be emphasized that the procedure for registering business entities is in line with EU

¹⁵⁸ Article 2 of the Law on the Payment of Legal Entities, Entrepreneurs and Individuals Who Do Not Perform Activities (Official Gazette of the RS No. 68/15) orders all legal entities and other forms of organization to open a current account with a payment service provider (bank), on that account they hold funds and make payments through that account traffic.

¹⁵⁹ Article 3 - Law on making payments to legal entities, entrepreneurs and natural persons who do not perform activities (Official Gazette of RS No. 68/2015)

¹⁶⁰ Article 3 - Law on making payments to legal entities, entrepreneurs and natural persons who do not perform business activities (Official Gazette of the RS No. 68/15), Article 2 - Regulations on the conditions and method of payment in cash in dinars for legal entities and for natural persons who perform business activities - ("Official Gazette of the RS", no. 77/2011)

directives and that all registers are completely transparent and public. In this analysis, the data of the Register of business entities (companies, entrepreneurs and foreign representative offices), the Register of financial reports and data on the creditworthiness of legal entities and entrepreneurs, and the Central Records of Beneficial Owners were used in particular.

The register is a unique, central, electronic database of documents prescribed as the subject of registration, as well as documents on the basis of which the registration was made.

Registered data and documents are public and available to all persons, and all government bodies and other interested persons¹⁶¹ have access to the entire database of the Agency's Register in real time, through the web service.

The registration procedure is based on the principles of publicity and availability, according to which registered data and documents are public and available to all persons, through the website of the Serbian Business Registers Agency and direct access to the register, while there are no excluded data in the status registers, as well as the principle of formality, according to which the registrar makes decisions based on the facts from the application, attached documents and registered data, without examination of the accuracy of the facts from the application, the credibility of the attached documents and the regularity and legality of the procedures in which the documents were adopted.

Regardless of the principle of formality, the law lays down conditions for registration that the registrar checks after receiving the application, such as whether the application was submitted by a person authorized to submit the application and whether it was filled out in accordance with the law, whether the application was submitted to the competent registry, whether the data or document is subject to registration, whether it is already registered, whether the application contains data and facts required for registration, whether prescribed documents are attached to the application, the content and form of which are determined by law, whether there is consistency between the data from the application and data from the attached documents and the data registered in the register, i.e. which are publicly available, is any other legal entity already registered under the same name, whether the application was submitted within the deadline prescribed by law, whether the registration of data or documents is contrary to a special law or an act of the competent authority, whether the address of the headquarters is in accordance with the Address Register,¹⁶² etc.

If it determines that the conditions for registration are not met, the registrar will make a decision dismissing or rejecting the application.

In 2023, following up on the registration applications filed for the Register of Business Entities (companies and entrepreneurs) **277.528 decisions** were, and they include: 245.762 decisions approving the application for registration (of a company or change of status); 28.117 decisions on dismissal due to non-fulfillment of the conditions for registration referred to in Article 14 of the Law on the Registration Procedure; 3,401 decisions on partial approval (registration of some information from the application could be registered and some information could not, so the application was rejected accordingly), as well as 248 decisions on refusal of registration.

¹⁶¹ On 31.12.2023, there were 41 commercial users of data delivery web services, including 15 commercial banks.

¹⁶² The address register contains data on street names and house numbers by populated areas for the territory of the Republic of Serbia and is one of the key state registers. It is regulated by the Law on the Register of Spatial Units and the Address Register (Official Gazette of the RS No. 9 of February 4, 2020). The data of the Address Register are public and are part of the National Geospatial Data Infrastructure.

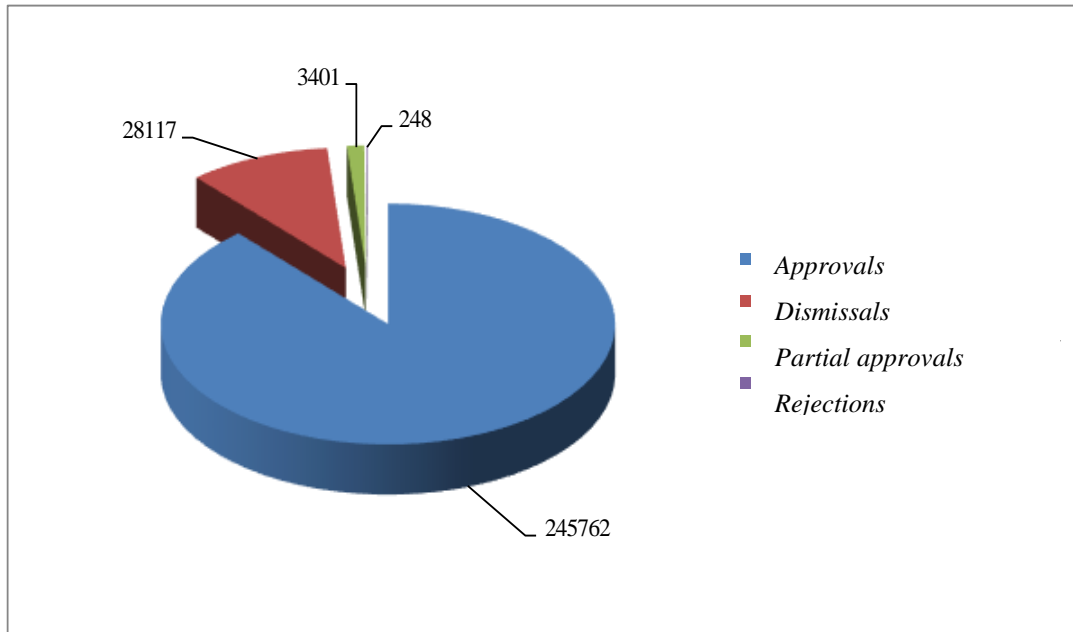


Chart: Serbian Business Registers Agency's handling of applications for data registration

The content of the register is prescribed by law, and the documentation attached to the registration application is regulated by the rulebook.

A company acquires the status of a legal entity by registering **in the Register of Business Entities** in accordance with the Law on the Registration Procedure at the Serbian Business Registers Agency, which regulates the registration, recording and publishing of data and documents that, in accordance with a special law, are the subject of registration, records and publication.¹⁶³

Legal forms of companies are

- partnership
- limited partnership
- limited liability companies
- joint stock company

Company members are persons who establish the company, i.e. who sign the founding act¹⁶⁴, as well as persons who subsequently join it¹⁶⁵ by entering into a share transfer agreement (with certified signatures of the contracting parties), as well as in other ways prescribed by law. The acquirer of the share acquires the share on the day of registration of the transfer of the share in accordance with the law on registration. Partners, general partners, limited partners and members of a limited liability company acquire the status of a member of the company at

¹⁶³ Law on the registration procedure in the Business Registers Agency ("Official Gazette of the RS", no. 99/2011, 83/2014, 31/2019 and 105/2021),

¹⁶⁴ When establishing a company, the signatures on the founding act are verified in accordance with the law regulating the verification of signatures, with the fact that the signature verification, if it is an electronic document, is replaced by a qualified electronic signature of the members of the company, issued by the certification body of the Republic of Serbia, except in in the case when the transfer of shares also results in the sale of real estate when solemnization by a public notary is mandatory. If it is a digitized document, the certification of the signature on the founding act can be replaced by a qualified electronic signature, i.e. a qualified electronic seal of a person who is authorized to certify signatures, manuscripts and transcripts in accordance with the law regulating the certification of signatures, manuscripts and transcripts.

¹⁶⁵ Article 97 of the Law on Companies

the moment of registration in the Register of Business Entities maintained by the Serbian Business Registers Agency in accordance with the law on registration, and shareholders in accordance with the law regulating the capital market.¹⁶⁶ A member of the company, in accordance with this law, can be any natural or legal person, domestic or foreign.¹⁶⁷

In addition to the above, the following relevant forms of organization, which are defined by special laws, acquire the status of a legal entity upon registration in the register:

- cooperatives
- cooperative unions
- public companies

Special forms of organization that are also registered in the Register of Business Entities are:

- entrepreneur (business-capable natural person who performs activities with the aim of generating income and who is registered as such in accordance with the law on registration)
- branch and representative office of a foreign company (they do not have the status of a legal entity and organizationally belong to a foreign legal entity).

In addition to the Register of Business Entities, the Agency maintains other status registers¹⁶⁸, and by registering in it, the following relevant forms of organization obtain the capacity of legal entity, and these are laid down by special laws as follows:

- associations
- endowments
- foundations
- representative offices of foreign associations, endowments and foundations.

Summary:	
<p>The Law on Companies provides for various legal forms of organization, including entrepreneurs, partnerships, limited liability companies, joint stock companies and others. In addition, organizations such as cooperatives, associations, foundations and endowments, defined by special laws, acquire the status of a legal entity through the registration process. All business entities are obliged to open a bank account and perform transactions through it.</p> <p>And the Serbian Business Registers Agency (APR) manages 23 centralized electronic registers, which ensures a uniform practice in the registration process throughout the Serbia. The registration procedure is transparent, public and in accordance with EU directives, which enables public access to registered data and documents.</p>	
Impact on risk:	
<p>Centralized electronic registers: SBRA maintains centralized and public databases, which ensures transparency and easy access to the data of business entities, which contributes to reducing the risk of ML/TF. Access to the registers is possible through the Agency's website at the Internet address; www.apr.rs</p>	<p>-1 Slight probability decrease for ML/TF</p>
<p>Real-time access for competent authorities: Some state authorities have real-time access to the entire SBRA database, which improves the monitoring and control of business entities.</p>	<p>- 1 Slight probability decrease for ML/TF</p>

¹⁶⁶ Capital Market Law ("Official Gazette of RS", No. 129 / 2021)

¹⁶⁷ Article 9a of the Law on Companies

¹⁶⁸ Status registers are databases of natural and legal persons, maintained by the SBRA or other competent state bodies and organizations of the Republic of Serbia, which record data whose legal effect includes acquisition, modification of the registered data or termination of the capacity of a natural or legal person.

Mandatory bank accounts for business entities: The obligation for all legal entities to open accounts and perform transactions through a bank account ensures a traceable financial trail.	-2 Partial probability decrease for ML/TF
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2.3. Consequences, responsibility and sanctions for irregularities in the procedure of registration of business entities

Recording in the status register is prescribed as a condition for performing an activity or performing an activity.¹⁶⁹

The Act on the Registration Procedure in the Serbian Business Registers Agency¹⁷⁰ prescribes a criminal offense for a person who reports untrue information to the register or submits a false or modified document with the intention that such information or document is used as the real one in the registration and record keeping process, shall be punished by a prison sentence of three months up to five years. Therefore, any person who has knowledge that untrue information has been registered in the register, submitted a false or modified document with the intention of using such information or document as the real one in the registration and record keeping process, may submit a criminal complaint to the competent authority against the person who reported the untrue information or submitted a false/altered document, i.e. against an unknown person. We emphasize that all state authorities and commercial banks have unrestricted access to the database of status registers maintained by the SBRA and that they are notified of any changes to the data in the register in real time.

For this criminal offense during the reporting period, 47 criminal charges were filed, of which 19 persons were dismissed, while proceedings are being conducted against 24 persons, an indictment was filed for 2 persons, while one person was acquitted.

In addition to the above, an administrative sanction, i.e. an increased monetary fee for registration, is provided, which is implemented by the registration authority for each applicant who reports a change of data in an untimely manner. Namely, the provisions of Article 10 of the Law on the Registration Procedure at the Serbian Business Registers Agency prescribe that the applicant is obliged to submit an application to the Agency within 15 days from the date of creation of the data or document that is the subject of registration, i.e. changes to the registered data or document, if the law no other deadline has been set. For the application that was submitted after the expiration of the specified deadline, a fee is paid in accordance with the regulation governing the fees charged by the Agency for its services.

Certain deviations and non-compliance are sanctioned through the mechanism of Compulsory Liquidation (e.g. the company does not have a legal representative for more than three months, financial reports for the previous two years have not been submitted, the address of the headquarters (registered office) is not correct, the company has been issued a measure prohibiting the performance of activities, obtaining a permit, license or approval for the performance of registered activities, etc.), and especially bearing in mind the specific breakthrough of legal personality described above after deleting the company from the

¹⁶⁹ The provision of Article 3 of the Law on Inspection Supervision stipulates that an unregistered entity is a supervised entity that performs an activity or carries out an activity, and is not registered in the appropriate register maintained by the SBRA or another authority or organization competent for the registration of the establishment of a legal entity and another entity (hereinafter: basic register), when registration in this register is prescribed as a condition for performance of activities or performance of activities.

¹⁷⁰ Law on the registration procedure in the Business Registers Agency (Official Gazette of the RS No. 99/2011, 83/2014, 31/2019, 105/2021) - "Criminal offense Article 45. - Whoever reports untrue information to the register or submits a false or altered document in intention to use such information or document in the registration and record keeping process as the real one, he will be punished with imprisonment from three months to five years."

Register. In this way, the Registry has the *de facto* role of a supervisory body in the part of ensuring the compliance of companies with legal norms in the part in which their failure to act in accordance with the law is sanctioned only as a consequence of forced liquidation.

Finally, the Serbian Business Registers Agency cannot delete a business entity or register changes in cases where it has been notified by the Tax Administration that a temporary measure of suspension of TIN or Tax Control has been imposed on the business entity by entering the measure in the Central Records of Temporary Restrictions of Personal Rights.

The law¹⁷¹ stipulates that both the new and the former owner are authorized to register the change of legal/formal owner in the company, so that in practice this change is registered without delay, because it is certainly not in the interest of the former owner to be liable for public revenues based on membership, and it is not in the interest of the new owner to delay the updating of data, because in accordance with the Law on companies¹⁷² he/she is considered the legal owner only from the moment of registration.

Summary:	
The Law on the Registration Procedure introduces criminal sanctions for submitting false information or falsified documents during the registration procedure, which is punishable by a prison sentence of three months to five years. In addition, there are administrative sanctions, including fines, for late submission of data or updating of registered information. Changes in legal or formal ownership must be registered immediately, and both new and former owners are responsible for updating the registration in a timely manner. In the observed period, the Serbian Business Registers Agency filed 47 criminal charges in identified cases of providing false information or falsified documents during the registration process.	
Impact on risk:	
Criminal penalties for false/false information: Imposing criminal penalties for filing incorrect or false information during registration deters the misuse of business entities for AML/CFT purposes.	-2 Partial probability decrease for ML/TF
Administrative sanctions for late updating: Administrative sanctions (fines) for late updating ensure that the information in the register is accurate and up-to-date, thus reducing the possibility of AML/CFT through outdated records.	- 2 Partial probability decrease for ML/TF
Dual responsibility for changes in ownership: The legal obligation for new and former owners to ensure timely registration of changes in ownership helps maintain transparency in the legal ownership of entities.	-2 Partial probability decrease for ML/TF
Limited number of cases of criminal prosecution: the existence of criminal sanctions for submitting false information can have a deterring effect. A certain number of filed criminal charges for inaccurate data exists, but the number of completed proceedings so far needs to be increased.	+1 Slight probability increase for ML/TF

2.4. Conditions for establishment

In accordance with the provisions of the law governing the registration procedure, the registrar, after submitting the registration application, checks, among other things, whether he is competent to act on the application (in the sense of whether the application is within the jurisdiction of the registry to which it was submitted), whether the application was submitted

¹⁷¹ Article 5 Law on the registration procedure in the Business Registers Agency (Official Gazette of the RS No. 99/2011, 83/2014, 31/2019, 105/2021)

¹⁷² Article 3 of the Law on Companies (Official Gazette of the RS No. 36/11, 99/11, 83/14 (second law), 5/15, 44/18, 95/18, 91/19.109/21)

by the person authorized to submit the application and whether it was signed in accordance with by this law (e.g. whether it was submitted by a registered legal representative, if it is an electronic application, whether it was signed with a qualified electronic certificate of a compliance officer, etc.), whether the application contains data and facts necessary for registration (e.g. whether it contains the identification data of the founder, whether the information about the address of the headquarters has been entered in accordance with the Address register), whether prescribed documents, the content and form of which are determined by law, are attached to the application, whether the facts from the application agree with the facts from the documents attached to the application and the data registered in the register that acts on the application, i.e. with the data registered in to the competent register, which are publicly available, whether the registration of the data or document is contrary to a special law (for example whether the person establishing/acceding the legal entity is on the list of designated persons of the UN¹⁷³), whether the registration of the data or document is in contradiction with the act of the competent authority adopted in accordance with the law (e.g. whether the person establishing or acceding the business entity was subject to a measure prohibiting the acquisition of shares, as well as whether a temporary measure was issued to the legal entity as a result that it is not possible to register changes of certain data in the register (e.g., change of member, representative, headquarters, etc.).

The Law on Companies stipulates the general conditions for establishment that are common to all companies - the articles of incorporation, statutes and contracts related to the company.¹⁷⁴ A company acquires the status of legal entity on the day it is registered in the register. The founding act is the constitutive act of the company that has the form of a founding decision if the company is founded by one person or a founding agreement if the company is founded by several persons. The minimum number of founders or members of a joint-stock or limited liability company is one person. In the case of partnerships and limited partnerships, the minimum is two. The law does not provide for restrictions regarding the functions in a business entity that can be performed by the founder of the business entity. Therefore, the founder can be a responsible person of the company at the same time - most often as a legal representative (i.e. a director/manager) or can participate in the management structure, as a president or member of the Management Board, Supervisory Board, shareholder. The law stipulates the restriction that the director of a joint stock company cannot be any person who is a director or member of the supervisory board in more than five companies. The basic capital of a limited liability company is at least 100.00 dinars, and the share capital is 3,000,000.00 dinars, unless a higher amount is prescribed by a special law. A member of the company acquires a share in the company in proportion to the value of his share in the total share capital of the company. A share may belong to a larger number of persons (co-owners of shares who regulate their mutual relations in connection with co-ownership shares by a separate contract). The company can acquire its own shares based on the decision of the general meeting, but it cannot acquire its own shares so that it remains without company members. A sole proprietorship cannot acquire its own share. The transfer of shares is free, unless otherwise specified by law or the founding act.

¹⁷³ Article 8, paragraph 7 of the Law on Limiting the Disposal of Property for the Purpose of Preventing Terrorism and the Proliferation of Weapons of Mass Destruction (Official Gazette of the RS 29/2015, 113/2017 and 41/2018) stipulates that the registration authority will not make an entry in the register if when he examines the list of designated persons, he finds that designated person proposed for director, responsible person or majority owner of a business entity, association, endowment, foundation

¹⁷⁴ Article 11 of the Law on Companies (Official Gazette of RS No. 36/11, 99/11, 83/14 (second law), 5/15, 44/18, 95/18, 91/19.109/21)

There are also certain additional conditions related to the establishment and registration of companies that are obliged entities under the Law on Prevention of Money Laundering and Financing of Terrorism or are registered in the area of high-risk activities.

Summary:	
The Law on Companies prescribes general conditions for the establishment of business entities, which apply to all types of companies. These conditions include the submission of articles of incorporation, articles of association and contracts related to the company. The founding act is either a decision if there is one founder or a contract if there are several founders. There are no restrictions on the functions that the founder can have in the company; founders can be responsible persons such as directors or be part of the management structure, including being the head of the Board of Directors or a member of the Board of Directors.	
Impact on risk:	
No impact	0 neutral probability impact for ML/TF

3. ANALYSIS OF MATERIALITY

3. 1. Structure of registered business entities

According to the data of the Serbian Business Registers Agency, in the Register of Business Entities, most of the registered/registered companies are in the form of limited liability companies, joint stock companies and partnerships.

Table: Number of registered business entities by year

As on 31/12 ¹⁷⁵		Total number of business entities		
		2021	2022	2023
Companies	Limited liability company	125085	128058	129259
	Partnership company	980	894	817
	Limited partnership	163	148	135
	Joint stock company	1185	978	978
	Public enterprises	561	569	561
	Social enterprises	185	167	149
	Cooperative	3159	3173	3175
	Cooperative Union	32	32	32
	Business association	1	1	0
	Branch of a foreign legal entity	752	799	855
	Representation of a foreign legal entity	1300	1300	1292
	TOTAL	133417	136209	137253

When analyzing the number of registered business entities in the observed period, the first thing one can notice is a slight decrease in the number of registered business entities in 2021 compared to the previous year (2020 - 130,852) by 5,767 entities, but already in the following years that number was growing year-on-year.

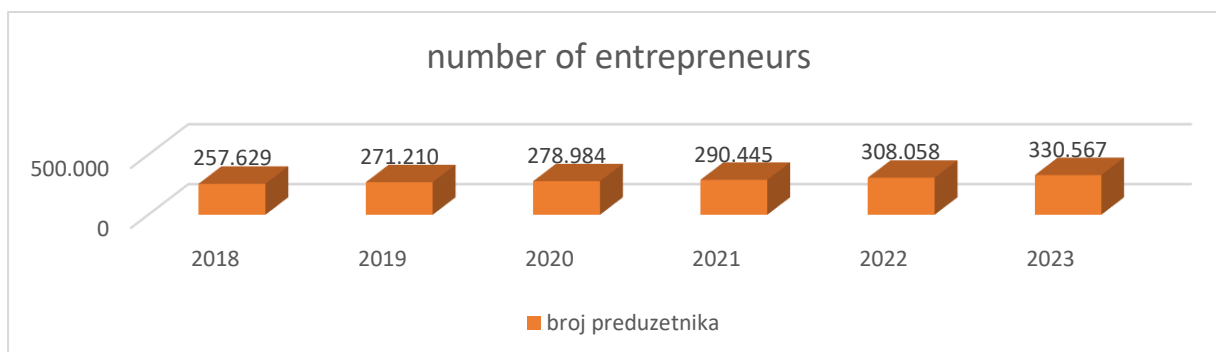
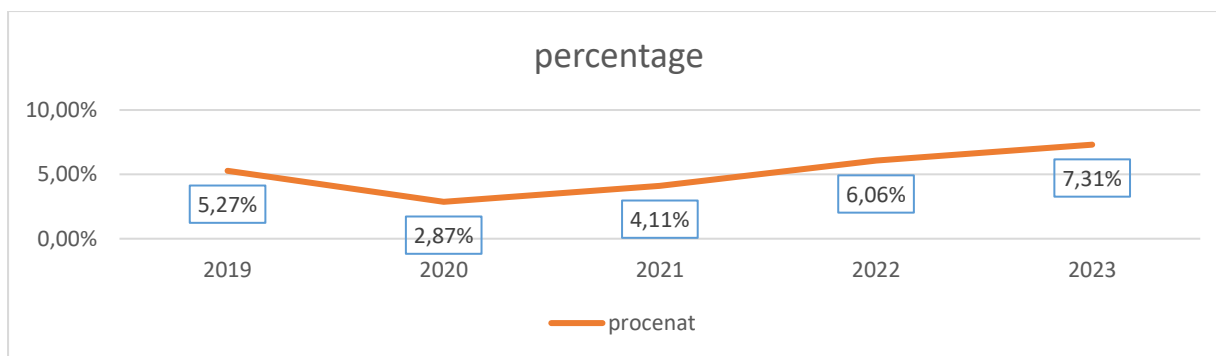
According to the data of the Register of Business Entities of the Serbian Business Registers Agency, the most represented company organization form is the limited liability company in each of the observed years and as on 31.12.2023, their number stands at 129,259. According to the number of members of a limited liability company, single-member limited liability companies make up 80% of the total number, that is, only 20% are multi-member limited liability companies.

Table: Number of registered entrepreneurs by year

Entrepreneurs (active status on 31/12)	2021	2022	2023
	290,445	308,058	330,567

When it comes to entrepreneurs, in all three observed years, and compared to the previous period, the trend of growth in the number of registered entrepreneurs continued, at an annual level of 4.11% in 2021, then 6.06 % in 2022 and 7.31% in 2023 (2018-257,629, 2019-272.210, 2020-278.984). This growth trend is particularly pronounced after 2020 and continues year on year.

¹⁷⁵ The data refer to all companies registered in the register of companies, except for those that were stricken off as on December 31 of the analyzed year. The total number of registered companies includes all legal entities that are in liquidation, bankruptcy or forced liquidation.



All companies registered in the Register of Companies are also classified by size into large, medium, small and micro companies.¹⁷⁶

Table: Overview of data on the number of registered business entities by year, by size and legal form

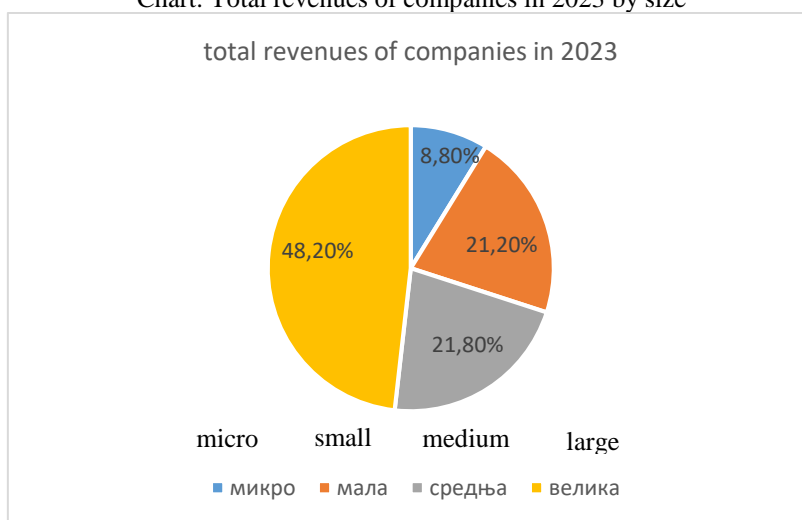
year	2021				2022				2023			
	micro	small	medium	large	micro	small	medium	large	micro	small	medium	large
Joint stock company	660	170	113	68	592	158	100	67	524	140	97	61
A social enterprise	155	1	0	0	137	1	0	0	122	3	0	0
Limited liability company	88,813	12,674	1,844	412	89,999	13,929	2,119	494	88,769	14,400	2,184	514
percentage	95.285%	94.79%			95.57%	95.31%			95.74%	95.57%		
Public company	152	253	102	29	142	253	106	29	135	250	107	28
Limited partnership	130	8	1	1	113	9	1	1	103	8	1	1
Branch of a foreign company	406	77	17	16	420	71	25	17	416	92	22	13
Partnership	779	47	1	0	693	49	1	0	639	45	1	0
Business association	1	0	0	0	1	0	0	0	0	0	0	0

¹⁷⁶Legal entities and entrepreneurs are classified into large, medium, small and micro, in accordance with the criteria prescribed by the Law on Accounting ("Official Gazette of RS", no. 73/2019 and 44/2021 - other law). Those legal entities and entrepreneurs who do not exceed two of the following criteria are classified as micro legal entities: average number of employees - 10, business income - 700 thousand euros and value of total assets - 350 thousand euros. Those legal entities and entrepreneurs who do not exceed two of the following criteria are classified as small legal entities: average number of employees - 50, business income - 8.0 million euros and the value of total assets - 4.0 million euros. Medium-sized legal entities are those legal entities and entrepreneurs that do not exceed two of the following criteria: average number of employees - 250, business income - 40 million euros and the value of total assets - 20 million euros. Large legal entities are classified as legal entities and entrepreneurs who exceed the two criteria for medium-sized legal entities.

Cooperative	2,094	141	12	2	2,046	144	13	2	1,991	130	12	2
Cooperative Union	24	0	0	0	24	0	0	0	23	0	0	0
In total	93,214	13,371	2,090	528	94,167	14,615	2,365	610	92,722	15,068	2,424	619

The largest number of companies, in over 95% of the total number of registered entities, is classified into the category of micro and small companies in the form of LLC. Also, data related to entrepreneurs in the observed period indicate that the largest number of them belong to these categories. According to the SBRA data for the year 2023, the most numerous type of companies in terms of size are micro companies - 93,517 or 84.5%, and the least are large companies - 598,¹⁷⁷ which generate the highest total revenues. Therefore, although the largest number of companies, classified according to their size, is micro, the total revenues that the companies of this category achieve are proportionally small compared to the revenues of large companies.

Chart: Total revenues of companies in 2023 by size



Source: Annual report on the operations of businesses for 2023, SBRA¹⁷⁸

According to the data of the registration authority, and taking into account the trends in the proportion of forms of organization in newly established business entities and other forms of organization of legal entities that are registered in the SBRA's status registers, the two most represented forms are still the limited liability company and entrepreneurs.

Table: Presentation of newly established legal entities by form of organization in the year

Legal form	2021	2022	2023
Entrepreneur	34378	41627	45606
Limited liability company	9299	11021	9417
Association	1818	1641	1768
Cooperative	196	85	54
Branch of a foreign company	90	90	98
Foundation	58	69	65
Representation of a foreign company	37	32	24
Endowment	5	0	0
Representation of a foreign association	3	10	3

¹⁷⁷ Source: Annual report on business operations for 2023, https://apr.gov.rs/upload/Portals/0/GFI_2024/Bilten/Bilten_GFI_2023__1_.pdf

¹⁷⁸ https://apr.gov.rs/upload/Portals/0/GFI_2024/Bilten/Bilten_GFI_2023__1_.pdf

Representation of a foreign foundation	3	1	6
Partnership	2	4	3
Limited partnership	1	1	0
Joint stock company	0	2	2

A slightly lower number of newly founded LLC (DOO) in 2023 compared to the two previous years was caused by the introduction of mandatory electronic registration of companies. The procedure for mandatory electronic registration of the establishment of companies in the Serbian Business Registers Agency began on May 17, 2023. The procedure for electronic registration is somewhat more complicated because it requires the participation of notaries public or lawyers in cases where the result is the sale of real estate or the future members of the company are non-resident legal entities. In addition to the above, it also implies a certain technical literacy of the applicant filing a registration application and the mandatory possession of a qualified electronic certificate. This ultimately led to a situation where the applicants, in the second half of 2023, more often chose *entrepreneur* as a form as they were able to register in a conventional way - by submitting a registration application "in paper".

Differences between a limited liability company and an entrepreneur	
Registration	
LLC (doo)	an entrepreneur
<ul style="list-style-type: none"> -obligatory founding act - the founder can be a natural or legal person, resident or non-resident - more registration fees - mandatory notification of any status change (head office, founder, merger, acquisition, responsible person, legal representative, change in capital) -can change owner 	<ul style="list-style-type: none"> - simpler procedure - there is no obligation to draw up the founding act, -no ability to merge, merge, extract or split -cannot change owner -lower registration and deletion fees - the founder is a natural person -can register temporary cessation of activities
Capital responsibility for obligations	
LLC (doo)	an entrepreneur
<ul style="list-style-type: none"> - for liabilities, it corresponds only to registered stakes, except in the case of breach of legal entity -obligatory deposit at the time of establishment, minimum RSD 100 - the registered stake can be increased -larger fines for misdemeanors, both the company and the responsible person in the company are responsible 	<ul style="list-style-type: none"> - he is responsible for business obligations with his entire assets without limitation, -no mandatory role -fines for misdemeanors are up to 10 times less than for a limited liability company - uniform penalty for the entrepreneur or manager
Keeping business books – taxation	
LLC (doo)	an entrepreneur
<ul style="list-style-type: none"> - keeping business books according to the double-entry bookkeeping system -obligation to submit financial reports SBRA - cannot be taxed flat-rate -pays profit tax -15% - 15% tax on gross capital income is paid on the payment of generated profit 	<ul style="list-style-type: none"> - keeping business books according to the system of simple or double bookkeeping - in the case of double-entry bookkeeping, financial reports are submitted by SBRA, - the possibility of flat-rate taxation - the possibility of employment of family members (replacing the entrepreneur) without registration - profit tax - 10% - he does not pay any additional tax on the payment of the generated profit
Stricken off from the registry, termination	
LLC (doo)	an entrepreneur
<ul style="list-style-type: none"> -bankruptcy (complicated, expensive and long-term process) - voluntary liquidation with the submission of proof that all debts and all creditors have been settled (the procedure takes a minimum of 4 months) 	<ul style="list-style-type: none"> - is deleted on the day of submission of the application for deletion, provided that the tax obligations have been settled, because he/she is responsible for business obligations with his/her entire personal property.

The advantages of doing business in the form of an entrepreneur are reflected in the fact that it is simpler and cheaper, there are lower tax rates, the possibility of pausing in the performance of activities, there is no tax on taking from property, the prescribed fines for offenses are lower, it is simple to delete activities from status registers. The same business methods for LLCs and entrepreneurs are provided for in the regulations on: trade, value added tax, safety and health at work, fiscal cash registers, payment transactions, foreign trade and customs operations.

In the Register of Business Entities, companies register only one, predominant activity, but in accordance with the law governing company status, they can also perform all other activities if they meet the conditions for performing them, which are prescribed by special laws. Other activities carried out by the company are reported to the Tax Administration.

As for the most represented activities in companies with a multi-layered structure (owned by other legal entities), these companies most often register the activities of non-specialized wholesale trade, consulting services and computer programming.

Table: The most represented registered activities of companies whose owner or one of the owners is a legal entity.

Activity code	Name of activity	Number of companies
4690	Non-specialized wholesale trade	1174
7022	Consulting activities related to business and other management	1033
6201	Computer programming	903
4120	Construction of residential and non-residential buildings	886
6820	Renting own or leased properties and managing them	563
3511	Production of electricity	531
5610	Activities of restaurants and mobile catering establishments	441
7112	Engineering activities and technical consulting	361
4110	Elaboration of construction projects	322
4941	Road freight transport	243
0111	Cultivation of grain (except rice), legumes and oilseeds	226
5510	Hotels and similar accommodation	219
7311	Activities of advertising agencies	207
6810	Buying and selling own real estate	179
5229	Other related activities in traffic	174
6202	Consulting activities in the field of information technology	168
3600	Collection, purification and distribution of water	168
7219	Research and development in other natural and technical-technological sciences	164
4399	Other specific construction works not mentioned	151
4211	Construction of roads and highways	146
7120	Technical examination and analysis	141
4646	Wholesale of pharmaceutical products	136
4791	Retail trade by mail or via the Internet	135
6920	Accounting, bookkeeping and audit work; tax consulting	133
4321	Installation of electrical installations	128
4511	Trade in cars and light motor vehicles	118
6420	Activities of holding companies	116
1039	Other processing and canning of fruits and vegetables	112
5630	Beverage preparation and serving services	111
4669	Wholesale of other machines and equipment	109
4711	Retail trade in non-specialized stores, mainly food, beverages and tobacco	107
4673	Wholesale of wood, building materials and sanitary equipment	107
4675	Wholesale of chemical products	104

The obligation to audit financial statements is prescribed by the Law on Auditing,¹⁷⁹ for all joint-stock companies, public companies, as well as large and medium-sized companies, and companies with a total operating income exceeding the amount of 4.4 million euros, regardless of size, as well as parent legal entities for consolidated annual financial statements.¹⁸⁰

Table: Total number of auditors, regardless of the size of the company

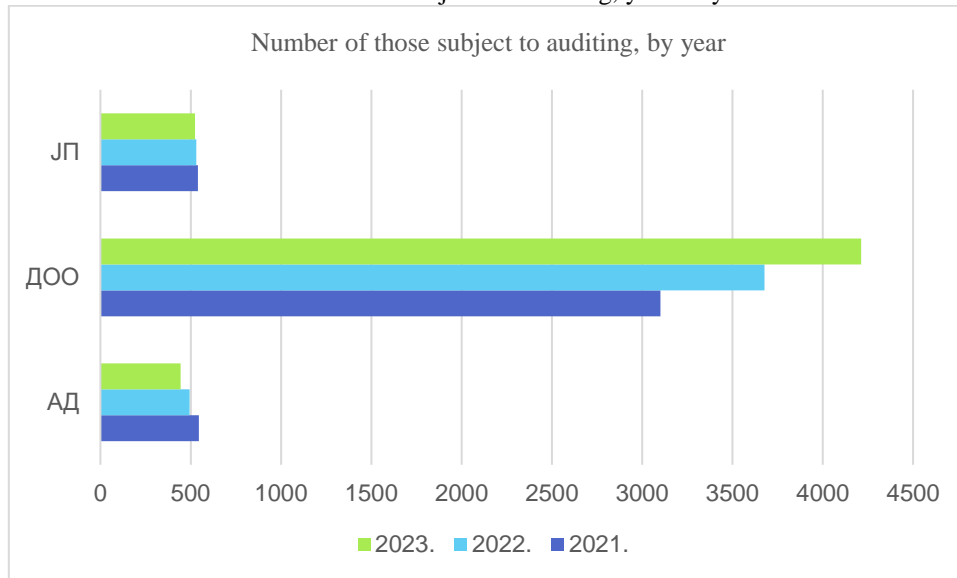
Order. no.	Legal form	2021			in 2022			in 2023		
		in total	Businesses and entrepreneurs	Financial institutions	in total	Businesses and entrepreneurs	Financial institutions	in total	Businesses and entrepreneurs	Financial institutions
1	Joint stock companies	546	456	90	494	409	85	445	364	81
2	Limited liability companies	3101	3085	16	3678	3661	17	4212	4191	21
3	Partnerships	2	2		4	4		4	4	
4	Limited partnerships	1	1		2	2		3	3	
5	Public enterprises	540	540		531	531		524	524	
6	Socially-owned enterprises	2	2		0	0		1	1	
7	Branches of foreign legal entities	43	43		46	46		59	59	
8	Cooperatives	25	25		27	27		35	35	
9	Other financial institutions	5		5	5		5	5		5
10	Other	35	2	33	44	3	41	47	1	46
11	Establishments	70	70		69	69		78	78	
12	Other legal entities	22	22		30	30		30	30	
13	Entrepreneurs	72	72		96	96		118	118	
14	TOTAL (lines 1 to 13)	4464	4320	144	5026	4878	148	5561	5408	153
15	Parent legal entities	690	690		719	719		696	696	
16	TOTAL (lines 14 and 15)	5154	5010		5745	5597		6257	6104	

The total number of subjects of auditing increased in the observed period, from 4,464 in 2021 to 5,026 in 2022, and then to 5,561 in 2023. The growth trend in the number of obliged entities is most noticeable for limited liability companies [DOO] (2021 - 3,101, 2022 - 3,678, 2023 - 4,212), while for joint stock companies [AD] (2021 - 546, 2022 - 494, 2023 year - 445) and public enterprises [JP] (2021 - 540, 2022 - 531, 2023 - 524) it shows a slight decrease.

¹⁷⁹ Article 26 of the Audit Law ("Official Gazette of RS" No. 73/2019)

¹⁸⁰In accordance with the Law on Amendments to the Law on Personal Income Tax, entrepreneurs who started keeping business books according to the double-entry bookkeeping system, became obliged to submit financial and other reports starting in 2019.

Chart: Trends in subjects of auditing, year on year



Legal entities and entrepreneurs can be classified according to their size into micro, small, medium and large legal entities, in accordance with the criteria and threshold values prescribed by the Law on Accounting¹⁸¹, and the classification is made on the basis of data on the average number of employees, business income and the value of total assets determined on balance date of regular annual report and statistical report for current year, and the determined size is used for the current year after verification by SBRA. The size of business entities can vary from year to year depending on the mentioned parameters.

From the aforementioned table, it can be seen how business entities are classified according to size and to what extent they have complied with the obligations of financial reporting in accordance with the Law on Accounting.

The table clearly shows that the largest number of business entities complied with the obligation to submit financial statements, especially those in the category of medium and large business entities.

Table: Total number of subjects of auditing who submitted a financial statement, by size

Ordinal number	Year	2021					2022					2023				
		In total	Companies, cooperatives and	Establishments	Other legal entities	Financial institutions	In total	Companies, cooperatives and	Establishments	Other legal entities	Financial institutions	In total	Companies, cooperatives and entrepreneurs	Establishments	Other legal entities	Financial institutions
1	Large	605	450	8	3	144	698	540	7	3	148	766	599	11	3	153
2	Medium	1950	1903	34	13		2176	2126	36	14		2388	2336	36	16	
3	Small	1490	1457	27	6		1727	1690	26	11		in 1989	in 1947	31	11	
4	Micro (without entrepreneurs)	347	346	1	0		329	327	0	2		300	300	0	0	
5	Entrepreneurs	72	72				96	96				118	118			
6	TOTAL (1 to 5)	4464	4228	70	22	144	5026	4779	69	30	148	5561	5300	78	30	153

¹⁸¹ Article 6 and 7 of the Law on Accounting.

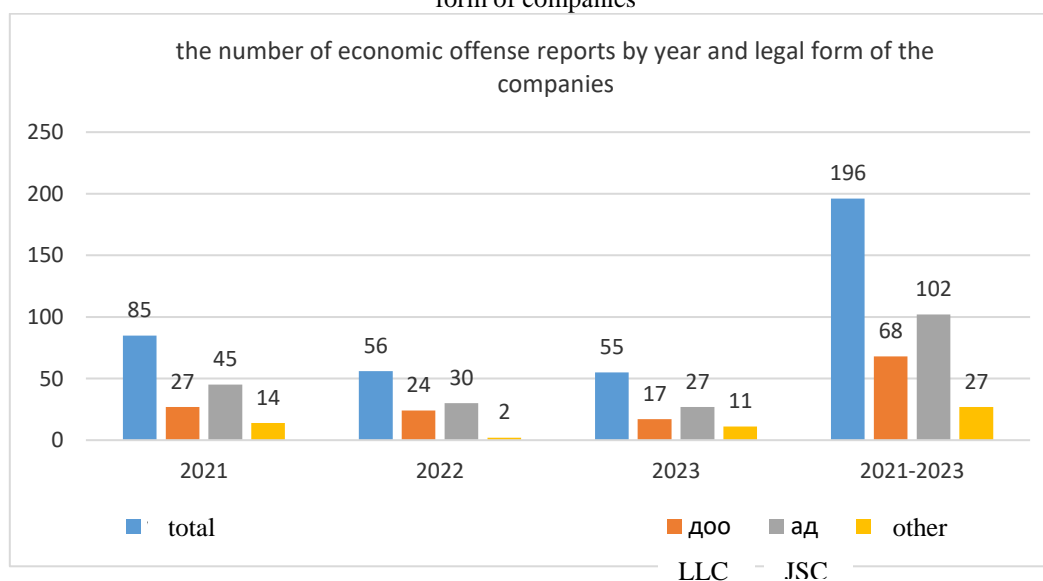
7	Parent legal entities	690	661	7	5	17	719	688	3	7	18	696	665	6	8	17
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Data on joint-stock companies, in addition to the Serbian Business Registers Agency, is also maintained by the Central Register of Securities Depository and Clearing. According to the data of this register, the number of active joint stock companies is decreasing from year to year.¹⁸²

An analysis of the data concerning financial statements submitted to the Serbian Business Registers Agency showed that there were entities, who were required to audit financial statements, who failed to fulfill this obligation, i.e. they did not submit financial statements with the supporting documentation and the auditor's report to the Agency, in order to be publicly published in the Register of Financial Reports.

In such situations, the Serbian Business Registers Agency, in accordance with its powers, files criminal charges against such business entities for the economic offense provided for in the Law on Accounting¹⁸³, due to failure to submit financial reports, for which a criminal sanction is prescribed - a fine in the amount of 100,000 to 3,000,000 dinars and for responsible person in the amount of 20,000 to 150,000 dinars.¹⁸⁴ During the reporting period 2021-2023, in relation to 196 companies that failed to submit financial statements, a procedure was initiated for the committed economic offense. Most of the of complaints (reports) were filed against limited liability companies, 68 of them, which is 34.69% in relation to the total number of companies that did not submit financial reports. With respect to the total number of companies in the form of a LLC, if viewed individually in each reporting year, it can be concluded that there is a small number of companies that do not submit financial reports.

Chart: Total number of economic offense (Article 46 of the Law on Accounting) reports filed, by year and legal form of companies

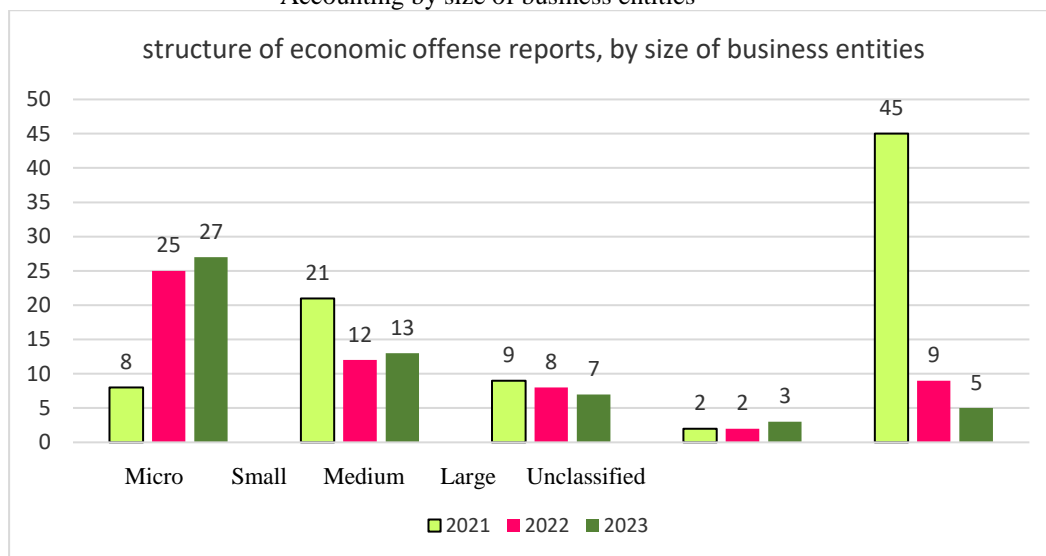


¹⁸² In contrast to the SBRA data, the data of the Central Securities Depository and Clearing House only includes active joint stock companies.

¹⁸³ Article 57 of the Law on Accounting (Official Gazette of the RS No. 73/19 and 44/21)

¹⁸⁴ Bearing in mind that signs of an economic offense appear after the prescribed deadline for submitting the financial report (June 30 of the following year), reports are submitted only in the following year, in relation to the year in which the deadline for submitting those reports expired.

Chart: Structure of submitted applications for economic offenses laid down in Article 46 of the Law on Accounting by size of business entities



Considering the size of business entities against which commercial offense reports were filed due to failure to fulfill the obligation to submit financial reports, they are predominantly micro and small business entities, and certainly the largest number of applications was filed against companies that were not classified by size, and this only in 2021. This is a consequence of the amendment of the Law on Companies, so in the period from 2021 to 2022, a certain number of business entities were stricken off in the process of forced liquidation¹⁸⁵ based on a court verdict, namely 10 companies (2022-4; 2023-6) and 4 entrepreneurs (2022-1; 2023.-3).

Particular consideration was given to the data of the Serbian Business Registers Agency concerning 87 reports filed for economic offenses against the auditors who failed submit the auditor's reports.¹⁸⁶

Table: Economic offense reports filed against those subject to auditing

Reports filed for economic offense - audit obligations					
Year	Limited liability company	Joint stock company	Public enterprise	Branch of a foreign company	Total
2021	7	23	4	/	34
2022	15	5	1	/	21
2023	9	19	4	2	32
Total	31	47	9	2	87

As a result of action of the Serbian Business Registers Agency, as the registration body, and the Ministry of Economy with respect to non-compliance with legal obligations by companies prescribed by the Law on Companies, in the period 2021-2023 16,371 business entities were stricken off in the process of forced liquidation.¹⁸⁷

Table: Companies stricken off in the process of forced liquidation

As on	31.12.2021.	31.12.2022.	31.12.2023.	TOTAL
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¹⁸⁵ Article 19 of the Law on Companies (Official Gazette of the RS No. 36/11, 99/11, 83/14 (second law), 5/15, 44/18, 95/18, 91/19.109/21)

¹⁸⁶ Commercial offense from Article 57, Paragraph 1, Items 18 and 19 of the Accounting Act

¹⁸⁷ This deletion was carried out in the compulsory liquidation procedure due to the reasons prescribed by Article 546 of the Law on Companies

				2021-2023
Number of stricken off companies	4. 719	5. 756	5. 896	16,371

The most common reason for the implementation of forced liquidation is failure to submit financial reports on operations in previous years.

Compulsory liquidation under Article 546 of the Law on Companies				
LEGAL FORM	LEGAL BASIS	2021	2022	2023
Limited liability company	Financial statements for the previous two years have not been submitted to the Registry of Financial Statements	2764	3699	3496
	The company was left without a legal or temporary representative	1255	1594	in 1968
	The company was left without a liquidation administrator	448	242	284
	The limited liability company did not comply until May 1, 2012	8	7	5
	Expiration of the time for which the company was founded	4	14	2
	Withdrawal of a permit, license or authorization to perform a registered activity	1	2	7
	The initial liquidation balance has not been submitted to the competent registry	1		
	Judgment ordering the deletion of the seat		4	6
	The termination of the company was ordered by a legally binding judgment		1	
Joint stock company	Financial statements for the previous two years have not been submitted to the Registry of Financial Statements	37	41	5
	The company was left without a legal or temporary representative	49	25	27
	JSC did not comply until 15.07.2012.	32	31	15
	The company was left without a liquidation administrator	8	2	1
Partnership	The partnership remained with one partner for more than three months	4	19	10
	The company was left without a legal or temporary representative	11	7	9
	Financial statements for the previous two years have not been submitted to the Registry of Financial Statements	62		26
	The partnership did not comply with the law until July 15, 2012.	8		
	The company was left without a liquidation administrator	7	5	5
Limited partnership	Financial statements for the previous two years have not been submitted to the Registry of Financial Statements	13	2	4
	The company was left without a legal representative	1	2	1
	The limited partnership remained without a general partner/limited partner for more than three months	1	5	4
	The company was left without a liquidation administrator		2	2

Harmonization of the factual situation with the legal one is also carried out through the procedure of striking off the entrepreneur, *ex officio*, from the register based on the fact that the entrepreneur's business account has been blocked for more than two years continuously, based on the initiative to start the procedure for deleting the entrepreneur from the register, submitted by the National Bank of Serbia or the Tax Administration.

Table: Overview of entrepreneurs stricken off at the initiative of the NBS, due to account being blocked for more than two years

Year	Number
2021	4303
2022	3882
2023	3089

In order to improve the transparency of business operations of business entities and increase the degree of security of legal transactions of all its participants, the SBRA keeps a

Central Register of Temporary Restrictions of Rights of Entities Registered with SBRA. These records include collected data on those business entities, i.e. their owners, directors and members of supervisory boards or other bodies, whose business has been sanctioned by imposing criminal, misdemeanor or administrative sanctions that are systematized in one place. This record is publicly available on the website of the Serbian Business Registers Agency, which means that a public notary/lawyer/bank/accountant/auditor should review it before starting the procedure for establishing a business entity, i.e. before establishing a business relationship/executing a transaction.

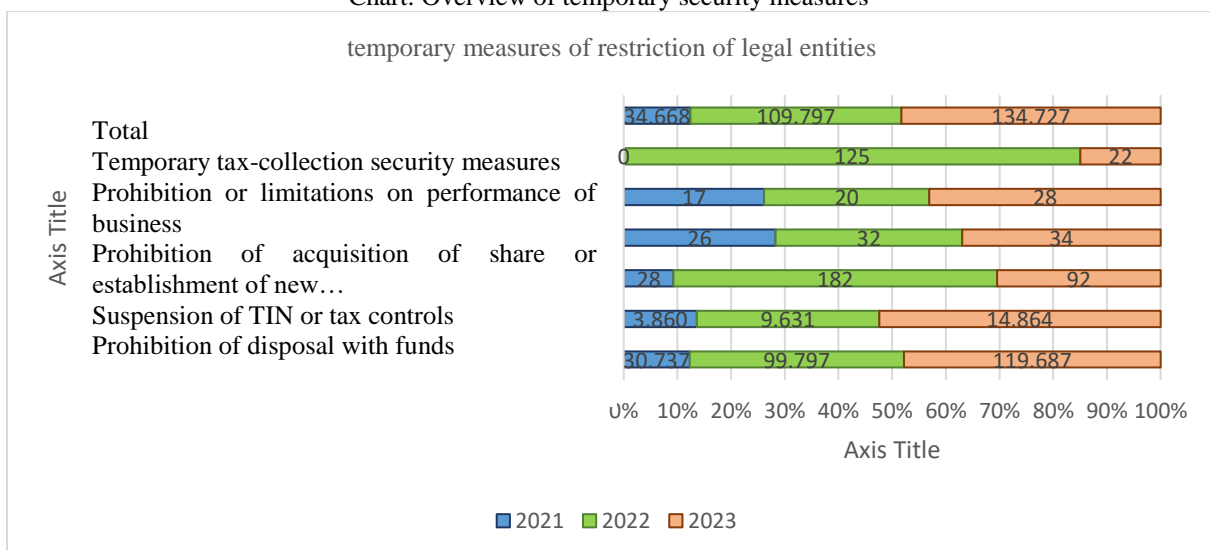
Therefore, the data related to the Central Register of Temporary Restrictions of Rights must also be taken into account, in terms of restrictions or prohibitions on the acquisition of shares or the establishment of new companies, i.e. measures of suspension of tax identification numbers (PIB) or tax controls. Most of these measures in the observed period was undertaken in 2023, when there were 134,727 bans, most of which involved the ban on the disposal of funds i.e. 119,687 and measures of suspension of TIN, or Tax Control - 14,864. The number of temporary restriction measures has a rising trend from year to year, and according to the data of the Serbian Business Registers Agency, the most common form of business entity with subject to an active temporary personal rights restriction measure was LLC and entrepreneur.

Table: Number of temporary restrictions on legal entities by type and year and in total according to data from the Central Records of Temporary Restrictions of Rights

Record of temporary restrictions of legal entities							
Year	Prohibition of disposal of funds	Suspension of TIN or tax audit	Prohibition of acquisition of shares or establishment of new companies	Prohibition of performance of duties or functions of the responsible person or entrepreneur	Prohibition or restriction of activities or responsibilities	Temporary measures to ensure tax collection	In total
2021	30,737	3,860	28	26	17	0	34,668
2022	99,797	9,631	182	32	20	125	109,797
2023	119,687	14,864*	92	34	28	22	134,727

*this data refers only to entities registered with SBRA

Chart: Overview of temporary security measures



The registration authority has applied the most administrative sanctions on business entities organized in the form of entrepreneurs and limited liability companies, which are the two most represented forms of organization.

According to data from the Central Register, the number of active joint stock companies is decreasing year by year.¹⁸⁸

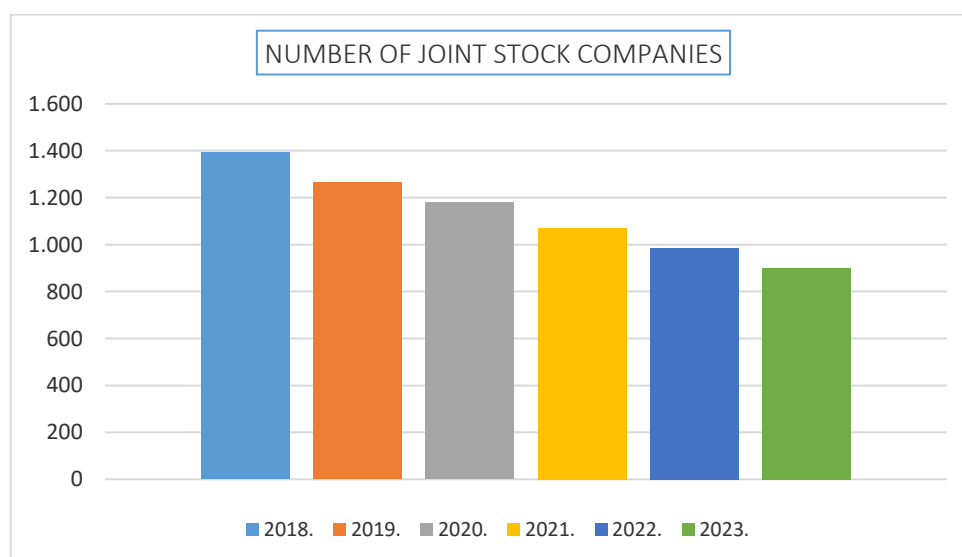
The total number of joint stock companies that are registered in the Register of Business Entities of the Serbian Business Registers Agency differs (is higher) from the total number of registered issuers of securities registered in the Central Register of Securities because they are kept in SBRA as joint stock companies and Companies that are not in compliance with the law, and as such are not issuers of securities.

Table: Serbian Business Registers Agency data for joint-stock companies

Joint-stock companies registered in the Register of Companies of the Serbian Business Registers Agency	Number of joint stock companies
Total number of joint stock companies as of 31.12.2021	1.185
Total number of joint stock companies as of 31.12.2022	1068
Total number of joint stock companies as of 31.12.2023	978

Table: Central Securities Depository and Clearing House data for active joint-stock companies

Data from the Central Securities Depository and Clearing House	Number of joint stock companies	share in %
Total number of joint stock companies as of 31.12.2021	1.071	100.00
Total number of joint stock companies as of 31.12.2022	984	100.00
Total number of joint stock companies as of 31.12.2023	901	100.00



¹⁸⁸ In contrast to the SBRA data, the data of the Central Securities Depository and Clearing House only includes active joint stock companies. The total number of joint stock companies that are registered in the Register of Business Entities of the SBRA differs (is higher) from the total number of registered issuers of securities registered in the Central Register of Securities because they are registered in the SBRA as *joint stock companies and business companies that are not in compliance with the law and as such are not issuers of securities*.

Chart: Trend of decrease in the number of joint stock companies

Bearer shares, nominal shareholders or nominal directors are not allowed in Serbia. Pursuant to the provisions of the Capital Market Law, all financial instruments (including shares) issued in Serbia are dematerialized, they are registered to the name, and registered as electronic records on the securities account kept with the Central Securities Depository and Clearing House. In this way, the legal owner of the financial instrument realizes certain rights in relation to the issuer. Also, the Law on Companies, which regulates the performance of the responsibilities of company directors, does not provide for the possibility of establishing the function of nominal director.¹⁸⁹

Data on all shareholders are completely transparent and the Central Securities Depository and Clearing House has data on each shareholder.

In the Central Securities Depository and Clearing House (Central Registry), the members of the Central Registry (domestic investment companies and credit institutions licensed to perform the investment company business) open accounts of financial instruments for their clients, enter and administer data on the owners of these accounts and are responsible for the accuracy of the entered data. Therefore, the statistical data of the Central Registry is based on queries about the entered addresses of permanent or temporary residence of natural persons, as well as the entered addresses of the headquarters (registered office) of legal persons. The Central Registry does not have any data on persons whose title over the issuers' shares registered in the Central Registry is kept in the custody and collective accounts of financial instruments. Data on these persons are held exclusively by members of the Central Registry who have opened the specified types of financial instrument accounts. Therefore, in the ownership structure, custody and collective accounts are displayed as domestic legal entities. Data on the participation of related parties, in accordance with Article 62 of the Law on Companies, are not available, given that the Central Registry does not keep records of related parties.

Summary:

According to the SBRA data, the most registered business entities in Serbia are LLCs, joint stock companies and partnerships. The total number of registered business entities increased from 133,417 in 2021 to 137,253 in 2023. LLCs are the most dominant form of organization, and make up more than 95% of all entities, while the number of partnerships and joint-stock companies showed a slight decline during the observed period. Entrepreneurs (self-employed) experienced significant growth, especially after 2020, with an increase from 290,445 in 2021 to 330,567 in 2023. The annual growth rate of entrepreneurs reached 7.31% in 2023, indicating a continuous trend of expansion. Over 95% of the total number of registered business entities are classified as micro and small enterprises, with LLCs being the most preferred form. In 2023, 93,517 micro enterprises were registered, which is 84.5% of the total number. While micro-enterprises dominate in number, large enterprises generate the most revenue, although they account for only 598 of the total number of entities. In 2023, there was a slight drop in the registration of new LLCs due to the introduction of mandatory electronic registration in May 2023. The process is more complex, requiring notary or legal assistance in certain cases, and has forced some individuals to choose the simpler and entrepreneur registration process, especially in the second half in 2023.

Companies with a complex ownership structure (at least one layer of legal entity ownership) often operate in sectors such as wholesale trade, consulting and IT. These sectors are often involved in cross-border activities, and a number of companies are owned by foreign entities. For example, 1,174 of them are involved in non-specialized wholesale trade, and 1,033 work in consulting services.

All joint-stock companies, public companies, as well as large and medium-sized companies and companies with a total business income of more than 4.4 million euros are subject to audit obligations, which reduces the risk of ML/TF considering that they are subject to auditing. Compliance with the audit obligation is strictly monitored by the SBRA, non-compliant entities are regularly identified, reported and sanctions are applied.

¹⁸⁹ Article 248 of the Law on Companies ("Official Gazette of RS" No. 36/2011, 99/2011, 83/2014 - other laws, 5/2015, 44/2018, 95/2018, 91/2019, 109/2021)

Every year, the Serbian authorities strike off thousands of companies through forced liquidation and apply tens of thousands of bans on the disposal of funds, suspension of TIN or tax controls.	
Impact on risk:	
Obligatory submission of financial reports for larger entities: Medium and large enterprises, LLCs with high revenues, public enterprises and JSCs are obliged to have an audit, which leads to a reduction of risk in this segment	-2 partial probability decrease for ML/TF
Controls not related to SPN: extensive application of tax and other controls and sanctions on legal entities significantly improves transparency..	-2 partial probability decrease for ML/TF
Mandatory electronic registration: The introduction of mandatory electronic registration for LLCs improves traceability and formalizes the process of registering business entities, thereby reducing the potential for misuse.	-1 slight slight probability decrease for ML/TF
Predominance of micro and small enterprises: These entities, which make up 95% of the total number, are often faced with a smaller scope of supervision since they are generally not subject to auditing obligation.	+2 partial probability increase for ML/TF
Foreign-Owned Business Entities: A notable number of foreign-owned entities operate in sectors such as consulting, IT and wholesale and use more complex ownership structures.	+1 small probability increase for ML/TF

3.2. Business entity origin and ownership structure

This part of the risk assessment aims to describe the scope and trends of foreign participation in legal entities, especially in entities with sufficient connection to Serbia.

On 31.12.2023, 1,292 representative offices of non-resident companies were registered, of which 139 representative offices have the headquarters of the legal entity/founder in countries from the list of offshore zones, while 855 non-resident business entities have their own branch on the territory of Serbia, of which 104 branches have the headquarters of the companies located in offshore financial centers.

Table: Total number of registered representative offices and branches of foreign companies by year

As on 31.12 (2021-2023)	Total number of business entities		
	2021	in 2022	in 2023
Branch of a foreign company	752	799	855
Representation of a foreign company	1,300	1. 300	1. 292

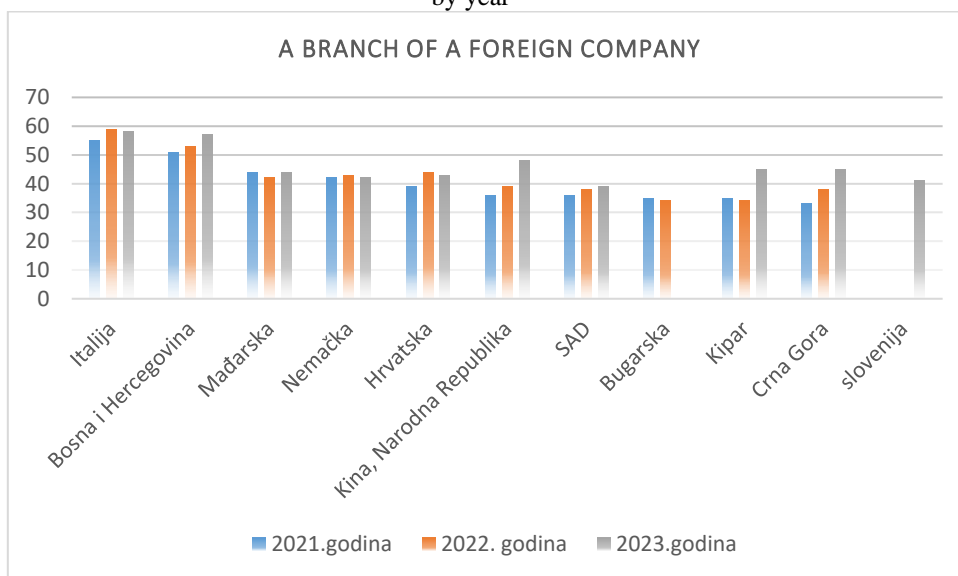
* In accordance with the provisions of Articles 573 and 574 of the Law on Companies, the name of the form of organization has been updated from a representative office/branch of a foreign company to a representative office/branch of a foreign company

Based on the analysis of data from the Register of Business Entities of the Serbian Business Registers Agency, branches and representative offices of foreign companies are represented, as a form of organization, in less than 2% in the observed period. They do not have the status of a legal entity and represent separate organizational parts of foreign companies with a note that the representative offices of foreign companies in Serbia can only perform preliminary and preparatory actions in order to conclude the legal transaction of the specific company.

Business entities from the regional countries (Italy, Bosnia and Herzegovina, Germany and Croatia) have, in continuity, had the most branches of foreign companies, and the number of these business entities is constant from year to year with minimal deviations. The data in the

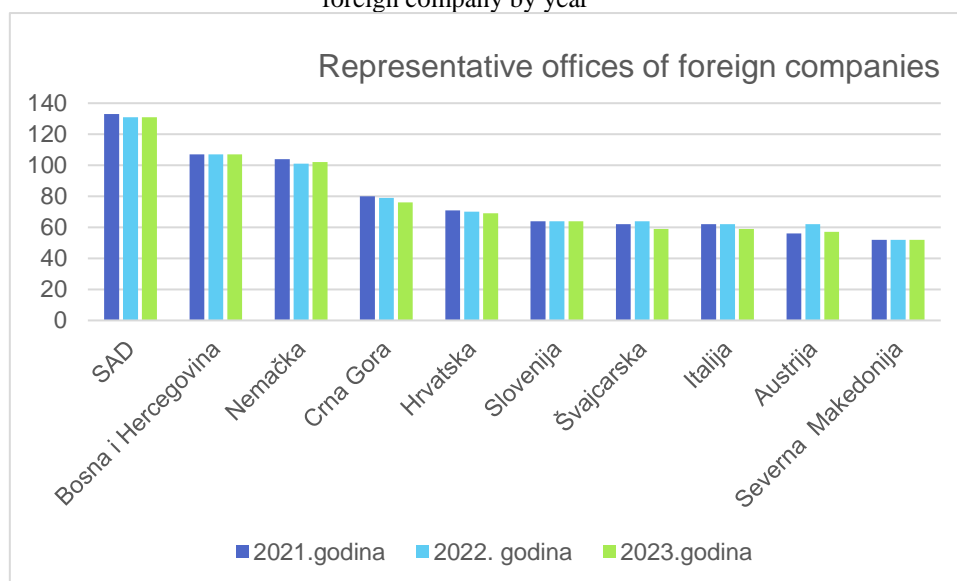
Register also shows that over 95% of these entities were registered before 2019. According to the number of registered branches of foreign companies, the only noticeable increase is in the number of the business entities whose parent company is based in the People's Republic of China, whose number is growing year by year, and Slovenia and Montenegro are in the top ten.

Chart: Overview of the 10 most represented countries of the founders of foreign company branches by year



The analysis of data on the number of representative offices of foreign companies shows that the largest number of representative offices is held by business entities from the United States of America, and that their number is constant in the entire period from 2021 to 2023, as is the number of representative offices of companies from Bosnia and Herzegovina. When looking at the data on the first ten representative offices, the most represented are business entities from the region, i.e. the former republics of Yugoslavia (Bosnia and Herzegovina, Montenegro, Croatia, Slovenia and North Macedonia), whose participation in the first ten together is 47.40%.

Chart: Overview of the 10 most represented countries of the founders of the representative office of a foreign company by year



No representative office or branch of a foreign business entity was involved in money laundering cases in the observed period.

Also, the analysis of data on representative offices and branches of foreign companies, whose headquarters are located in offshore zones, confirmed the results of the previous Risk Assessment, that the largest number of them are based in Cyprus, and that a much smaller number of them come from other offshore centers.

Registered representative offices of foreign companies from offshore areas*		
Number	Status	Country of seat of the legal entity/founder
50	Active	Cyprus
40	Active	United Kingdom
10	Active	Virgin (British) Islands
9	Active	Panama
6	Active	Liechtenstein
5	Active	Seychelles Islands
3	Active	Gibraltar
3	Active	Ireland
2	Active	Guernsey
2	Active	Liberia

Table: overview of registered representative offices of foreign legal entities as of December 31. in 2023, with data on the countries of the founder's headquarters - offshore countries *-<https://cthi.taxjustice.net/>

Number of registered branches of foreign companies - offshore areas*		
Company number	Status	Country of seat of the legal entity/founder
55	Active	Cyprus
23	Active	United Kingdom
6	Active	Ireland
5	Active	Virgin Islands (British)
3	Active	Hong Kong
3	Active	Gibraltar
3	Active	Seychelles Islands
2	Active	Marshall Islands
1	Active	Saint Vincent and the Grenadines
1	Active	Belize

Table: overview of the number of registered branches of foreign legal entities as of December 31, 2023 with data on the countries of the founder's headquarters - offshore countries; *- countries and zones that have tax incentives for establishment - jurisdictions with a preferential tax system -<https://cthi.taxjustice.net/>

Foreign legal entities did not establish endowments and foundations in Serbia during the observed period. Representations of foreign foundations and endowments are scarce and their total number does not exceed 2.5% relative to the number of domestic endowments and foundations, and the most of them are from the Germany. Data on an association's members are not registered and cannot be processed for statistical purposes, but the data on the founders of the association are available to the public as they are listed in the founding act, which is published on the Agency's website

Observed according to ownership, the share of business entities whose founders are foreign legal entities and natural persons increases slightly from year to year (2021-10.74%, 2022-11.66%, 2023-12.25%). Foreign natural and legal persons mostly establish or participate in the establishment of limited liability companies, and about 99% of business entities in which the founder is a foreign natural or legal person are limited liability companies.

Table: Structure of founders and owners of shares in business entities

	2021	2022	2023
Total, domestic natural and legal persons	196. 733	197. 229	195. 531
Total, foreign natural and legal persons	23. 680	26. 036	27,296

An overview of the ownership structure in the period from 2021 to 2023 is given in the following table.

Table: Percentage of domestic and foreign natural and legal persons who are founders or owners of shares in business entities

Ownership structure by age	Total number of owners of shares in companies	Total companies	Share in the total number of companies
Domestic natural persons			
2021	183794	133417	83.39%
2022	183402	136209	82.15%
2023	180784	137253	81.13%
Domestic legal entities			
2021	12939	133417	5.87%
2022	13827	136209	6.19%
2023	14747	137253	6.62%
Foreign natural persons			
2021	15051	133417	6.83%
2022	16979	136209	7.60%
2023	18026	137253	8.09%
Foreign legal entities			
2021	8629	133417	3.91%
2022	9057	136209	4.06%
2023	9270	137253	4.16%

If we take LLC as the most represented form of organization of business entity as an example, we can see from the registered data on citizenship that the largest number of foreign natural persons are from the Russian Federation, the People's Republic of China, Italy and Turkey, followed by region countries such as Slovenia, Croatia, Bosnia and Herzegovina.

Table: Number of foreign natural persons appearing as owners of shares in limited liability companies

The number of foreign owners of shares in the LLC	Citizenship
3172	Russian Federation
2281	People's Republic of China
1100	Italy
978	Turkey
888	Slovenia
771	Croatia
619	Germany

517	Bosnia and Herzegovina
483	Republic of North Macedonia
478	Montenegro

A comparison of the data on the share of foreign citizens shows constancy in the number of persons and countries from which share owners come, except with respect to citizens of the Russian Federation, whose numbers are on the increase, as there is a significant number of Russian citizens who, in light of the events in Ukraine, are moving to Serbia.

Registry data on the origin of foreign legal entities that are capital owners in active LLCs show a certain consistency. Thus on 31 December 2023 the list of foreign legal entities shows that the number and order of the most represented countries is almost the same, with the largest number of share owners coming from Cyprus (567), Slovenia (490), The Netherlands (474), Austria (460), Germany (422), Switzerland (407), Italy (383), Hungary (353), Croatia (343), United Kingdom (278), United States (277), but there is a noticeable increase in the number of legal entities from Montenegro (271).

There is a slight increase in the representation of foreign persons as a result of transfer of shares in a company from a domestic natural person to a foreign company from one neighboring country, by no more than 1.5%.

The number of foreign natural persons who operated as entrepreneurs in Serbia is insignificant in relation to the total number of entrepreneurs, but it is constantly growing from year to year (2021- 4.667, 2022- 8.390 and 2023 - 13.789) and in 2021 by 8, 86%, in 2022 by 79.77%, and in 2023 by 64.35% compared to the previous year.

Table: Entrepreneur founders structure

Entrepreneurs	Number of entrepreneur founders	Share in the total number of entrepreneurs
Domestic natural persons		
2021	285778	98.39%
2022	299668	97.28%
2023	316779	95.83%
Foreign natural persons		
2021	4667	1.61%
2022	8390	2.72%
2023	13789	4.17%

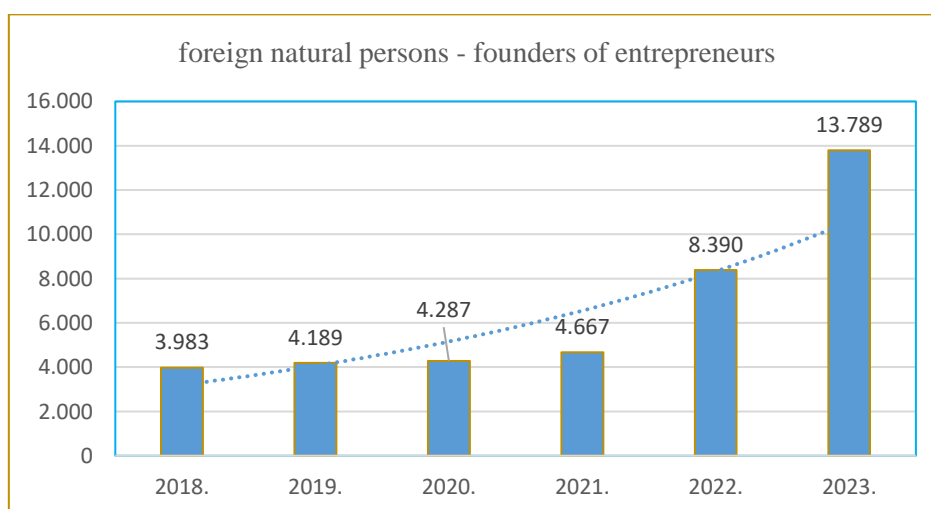


Chart: Trend of growth in the number of entrepreneurs whose founders are foreign natural persons

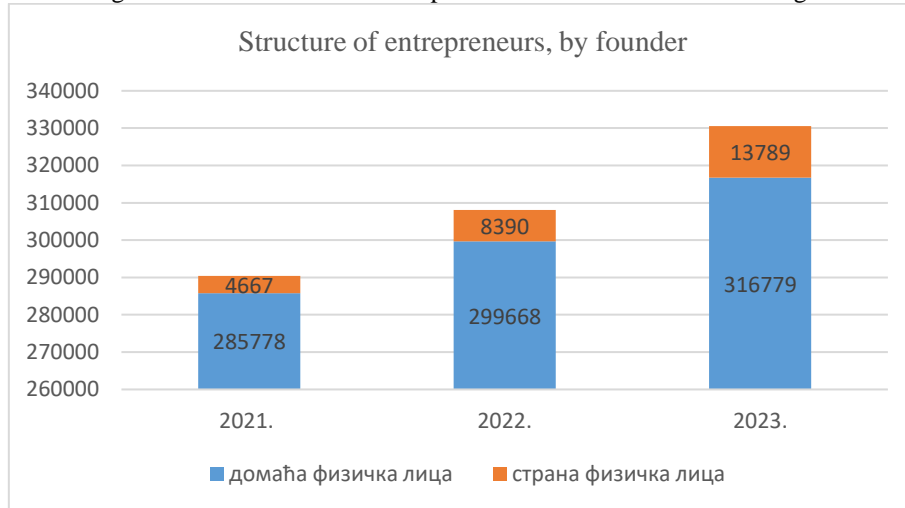


Chart: Entrepreneur structure, by founder

When it comes to the origin of capital, according to the data of the Serbian Business Registers Agency, it was determined that companies registered in Serbia conduct business mainly with the capital of domestic origin, and that the share of foreign capital in the observed period was no more than 17.79% (in 2023) and in business entities organized in the legal form of a limited liability company, with a share of more than 25%.

Table: Shares in capital of business entities – shares by foreign natural persons and legal entities

Status on 31.12. all but deleted (active, in liquidation, in bankruptcy, in forced liquidation)	2021						2022				2023					
	Total business entities	Business entities in which foreign legal entities or individuals have a share greater than 25%		Business entities in which foreign legal entities or natural persons have a share greater than 50%		Total business entities	Business entities in which foreign legal entities or individuals have a share greater than 25%		Business entities in which foreign legal entities or natural persons have a share greater than 50%		Total business entities	Business entities in which foreign legal entities or individuals have a share greater than 25%		Business entities in which foreign legal entities have a share greater than 50%		
		number	participation	number	participation		number	participation	Number	Participation		number	participation	number	participation	
DOO	125085	16361	13.08	13372	10.69	128058	18227	14.23	15026	11.73	129259	19111	17.79	15810	12.23	
Partnership	980	12	1.22	4	0.41	894	11	1.23	4	0.45	817	9	1.10	3	0.37	
Limited partnership	163	9	5.52	5	3.07	148	7	4.73	5	3.38	135	7	5.19	5	3.70	
Cooperative	3159	0	0	0	0	3173	0	0	0	0	3175	0	0	0	0	
Cooperative Union	32	0	0	0	0	32	0	0	0	0	32	0	0	0	0	
Branch of foreign company	752	752	100	752	100	799	765	100	765	100	855	855	100	855	100	
Representation of foreign company	1300	1300	100	1300	100	1300	1285	100	1285	100	1292	1292	100	1292	100	
Joint stock companies*	1071	136	12.70	122	11.39	984	129	13,11	117	11.89	901	120	13.32	111	12.32	
Public enterprises	575	0	0	0	0	569	0	0	0	0	561	0	0	0	0	
A socially-owned enterprise	185	0	0	0	0	167	0	0	0	0	149	0	0	0	0	
Business association	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	
TOTAL	133303	18570		15555		136125	20424		17202		137176	21394		18076		

*1. The above data shows the share of persons who independently own 25 or 50 and more than 25 or 50% of the issuer's share capital, in accordance with the Law on the Central Records of Beneficial Owners ("Official Gazette of RS", no. 41/2018 and 91/2019); 2. Data concerning the share of related parties in accordance with Article 62 of the Law on Companies are not provided, given that the Central Registry does not keep records of related parties

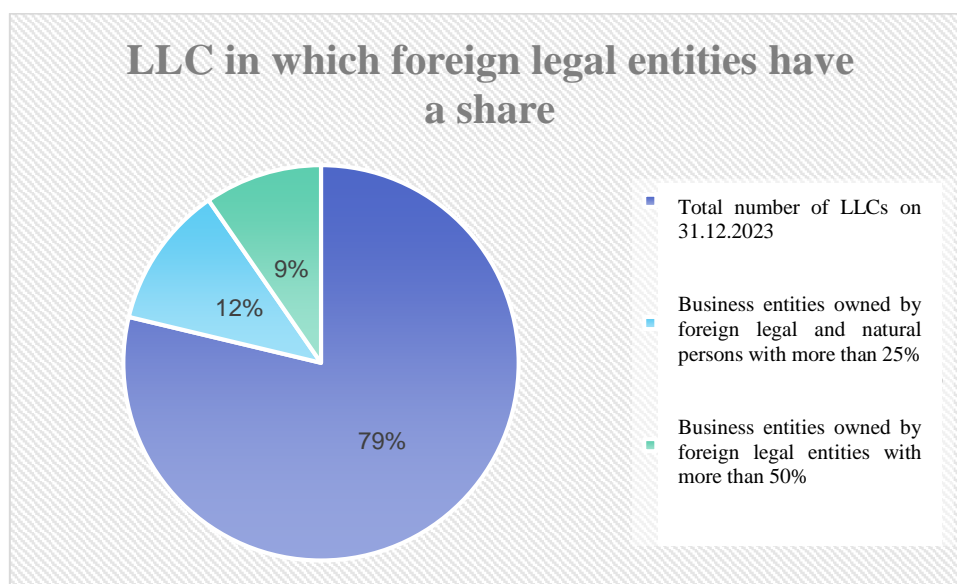


Chart: percentage of capital participation in limited liability companies - share of foreign legal entities

The data of the Central Securities Depository and Clearing House as of 31.12.2023 concerning the ownership structure of issuers' capital for active joint-stock companies in Serbia shows that the direct share capital of 25% and over 25%, (beneficial owners), are held by residents - domestic natural and legal persons – i.e. 74.36% of the capital, while non-residents, i.e. foreign legal and natural persons account for 13.32%.

The percentage of companies whose ownership structures do not include persons directly owning 25% and over 25% of the issuer's share capital is 14.10%, while the number of joint-stock companies whose ownership structure includes both residents and non-residents with a direct participation of 25% and over 25 % of share capital of the issuer is insignificant and amounts to only 1.78%.

List of countries of origin of non-resident owners (in terms of owning 25 and more than 25% of the issuer's share capital), i.e. foreign legal and natural persons: This table shows the countries of origin of the owners who independently own 25 and more than 25% of the share capital of the issuer, who are registered as non-residents, i.e. foreign legal and natural persons. The largest number of non-residents are from Slovenia, Cyprus, Austria, Italy and The Netherlands.

Table: List of countries of origin of owners of 25 and more than 25% of the issuer's share capital.

INTERNATIONAL COUNTRY DESIGNATION	COUNTRY	NUMBER OF OWNERS
RS	Republic of Serbia *	28
SI	SLOVENIA	13
CY	CYPRUS	11
AT	AUSTRIA	8
IT	ITALY	7
NL	NETHERLANDS	7
HR	CROATIA	5
DE	GERMANY	5
GR	GREECE	4
RU	RUSSIAN FEDERATION	4
BG	BULGARIA	3

*Note: The overview contains data on the number of foreign investors according to data on the country of origin administered by members of the Central Registry. The shown investors with the Republic of Serbia and Yugoslavia as the country of origin have their place of residence/headquarters in foreign countries.

The data of the Central Registry as of 31.12.2023 on the ownership structure of issuers' capital for active joint-stock companies in Serbia shows that the direct participation in the share capital with 50% and over 50% is held by residents - domestic individuals and legal entities – i.e. 58.93%, while non-residents, i.e. foreign legal and natural persons account for 12.32%.

The percentage of companies whose ownership structure does not feature persons directly participating with 50 and over 50% in the issuer's share capital is 28.86%, i.e. a total of 260 companies, which includes almost a third of active joint stock companies.

Table: List of countries of origin of the majority owners (owning 50% of the issuer's share capital or more) of non-residents, i.e. foreign legal and natural persons

INTERNATIONAL COUNTRY DESIGNATION	COUNTRY	NUMBER OF OWNERS
RS	Republic of Serbia *	20
SI	SLOVENIA	12
CY	CYPRUS	10
AT	AUSTRIA	7
IT	ITALY	7
NL	NETHERLANDS	7
HR	CROATIA	5
DE	GERMANY	4
GR	GREECE	4
RU	RUSSIAN FEDERATION	4
BG	BULGARIA	3
*Note: The overview contains data on the number of foreign investors according to data on the country of origin administered by members of the Central Registry. The presented investors with the country of origin of the Republic of Serbia and Yugoslavia have their place of residence/headquarters in foreign countries.		

Based on the given description of the country of origin of the owners who independently own 50 and more than 50% of the share capital of the issuer and are registered as non-residents, i.e. foreign legal and natural persons, it follows that the largest number of non-residents are from Slovenia and Cyprus, followed in equal numbers by those from Austria, Italy and The Netherlands.

From all the data presented so far, it can be concluded that two countries are leading as countries of origin of share capital: Slovenia and Cyprus. If we compare the percentage of share capital, the order changes only in the third position – occupied by Austria where the share of capital is 25 and over 25% is looked at, or the third position is shared by Austria, The Netherlands and Italy where the share of capital is 50 and over 50% is looked at. If changes at the level of single-digit numbers could at all be called a trend, we could draw a conclusion, by monitoring this data year on year, that the number of non-residents from Croatia decreased by 2 compared to 2022, i.e. by 3 compared to 2021. Although the number of non-residents from Slovenia decreased by 2 every year in the observed period, they are still the most represented in the structure of share capital when looking at the share of capital of 25 and over 25% and when looking at the share of capital of 50 and over 50%.

Summary:	
<p>Branches and representative offices of foreign companies make up less than 2% of all registered business entities. Their presence in Serbia has been mostly stable in the last 5 years and serves to facilitate real economic ties, and most of these companies are from the USA and the countries of the region (Bosnia and Herzegovina, Montenegro, Croatia, Slovenia and North Macedonia), and a few from offshore territories (Cyprus and UK). In the last few years, there has been a steady growth of foreign ownership in Serbian business entities, which is accompanied by a marked increase in direct foreign investments. It concerns 12.25% of companies, primarily in the form of limited liability company (LLC).</p> <p>Most of the business entities in Serbia are financed from domestic capital, but foreign capital, especially from Slovenia, Cyprus and Austria - accounts for 17.79% of ownership in DOO. A similar trend is shown by joint stock companies with 13.32% of the capital of foreign entities. The number of foreign natural persons operating in Serbia as entrepreneurs is insignificant compared to the total number of entrepreneurs (about 4%), but it is constantly increasing.</p> <p>In general, Serbia shows a growing trend of foreign participation in domestic business, in various forms, but it is still a small part compared to fully domestic business entities and entrepreneurs.</p>	
Impact on risk:	
<p>Presence of offshore companies: A certain (small) number of companies and representative offices are connected to offshore financial centers.</p>	0 neutral impact on ML/TF
<p>Small share of foreign ownership: foreign ownership or participation still represents a small part of business in Serbia.</p>	-2 partial probability decrease for ML/TF
<p>Stable trends in ownership: The majority of foreign-owned companies/business entities have been registered for several years, which indicates a degree of stability in ownership schemes, especially for business entities from Slovenia, Austria and Germany.</p>	0 neutral impact on ML/TF

3.3. Records of Beneficial Owners

One of the primary reasons criminals establish and use companies is to conceal control over assets. Identifying the beneficial owner is crucial for identifying the proceeds from criminal activity.

In accordance with FATF recommendations 24 and 25, which set out the criteria that the state should comply with in order to achieve full transparency when it comes to beneficial ownership of both business entities, as well as endowments, foundations, trusts and other entities under foreign law, the AML/CFT Law defined the concept of beneficial owner and laid down the obligation for obliged entities to identify and verify the identity of the beneficial owner. The AML/CFT Law defines the beneficial owner as *a natural person who directly or indirectly owns or controls the client, where the client can also be a natural person*. A client, in the sense of this law, is a natural person, entrepreneur, legal person, person under foreign law and person under civil law who carries out a transaction or establishes a business relationship with the obliged entity.

Serbia applies a *multi-pronged approach* in identifying BOs which is in accordance with international standards. Obligated entities under the AML/CFT Law are required to identify the beneficial owner of the client¹⁹⁰, and legal entities are obliged to record the data in the

¹⁹⁰According to Article 3, paragraph 1, points 10, 11 and 12) of the AML/CFT Law, the beneficial owner of the client is a natural person who directly or indirectly owns or controls the client; the client from this point includes a natural person. The BO of a company, i.e. another legal entity is: a natural person, who directly or indirectly owns 25% or more of the business share, shares, voting rights or other rights, on the basis of which he participates

Central Records in accordance with the Law on Central Records of Beneficial Owners.¹⁹¹ Sanctions are foreseen for failure to submit data and for submission of inaccurate data, and authorities which file reports (complaints) specified.

The Law on Central Records of Beneficial Owners, which is harmonized with EU Directive 2015/849¹⁹², governs the obligation to identify the BO of a registered entity and record it in a single database on BOs of legal entities and other entities registered in the appropriate registers, i.e. in the Central Records of Beneficial Owners (CRBO).

CRBO is a publicly available database that can be accessed by any interested person, including obliged entities, and can be searched through the website of the Serbian Business Registers Agency, and authorities can access it through the web service.¹⁹³ All data in the CRBO, as well as the history of changes, are delivered in a machine-readable format to government authorities that access the web service. Upon request by authorities, SBRA provides all the information it keeps in the Central Records of Beneficial Owners, as soon as possible. Also, in order to provide transparent data on the beneficial owners and facilitate business operations for business entities, the Serbian Business Registers Agency has enabled the issuance of extracts and certificates from the CRBO in the form of an electronic document or in paper form. Also, from May 2023, SBRA established a new web portal for data delivery, the purpose of which is to provide the public sector with easier and simpler access to registered data from the electronic registers and records of the Agency, which is available to state authorities and which enables advanced searches of related parties and beneficial owners.

Registration of the beneficial owner is mandatory for all: 1) companies, except for public joint stock companies;¹⁹⁴ 2) cooperatives; 3) branches of foreign companies; 4) business associations and associations, except for political parties, trade unions, sports organizations and associations, churches and religious communities; 5) foundations and endowments; 6) institutions; 7) representative offices of foreign companies, associations, foundations and endowments.

In accordance with the provisions of the Law on Central Records of Beneficial Owners, public joint-stock companies, political parties, trade unions, sports organizations and sports associations, churches and religious communities are exempted from the obligation to record the beneficial owner.

Every Registered entity has the obligation to record the beneficial owner through a registered compliance officer and is responsible for the accuracy of the data entered, for recording the data within the prescribed period, as well as for keeping appropriate, accurate and up-to-date data and documents on the basis of which the beneficial owner was registered.

Individual obliged entities who, as gatekeepers of the system, have a very important role in establishing companies or performing tasks related to the registration of business entities

in the control of the legal entity, i.e. participates in the capital of the legal entity with a 25% or more share, that is, a natural person who directly or indirectly has prevailing influence on business management and decision-making; a natural person, who indirectly provides or provides funds to a company and, on that basis, has the right to significantly influence the decision-making of the management body of the company when deciding on financing and operations. The BO of the trust is the founder, trustee, protector, beneficiary if designated, as well as the person who has a dominant position in the management of the trust; the provision of this point applies analogously to the BO of a person under foreign law. The Republic of Serbia is not a signatory to the Hague Convention on Trusts, and accordingly does not have a Law on Trusts.

¹⁹¹Official Gazette of the RS, no. 41/2018, 91/2019, 105/2021 and 17/2023.

¹⁹²Available at: [EUR-Lex - 32015L0849 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/eli/dir/2015/849/oj)

¹⁹³ All the above data are publicly available through the website of the Business Registers Agency 24/7 to all persons without proving a legal interest. In addition to unlimited inquiries via the website, competent authorities can also access the database of the Central Registry via the web service.

¹⁹⁴ When it comes to public joint-stock companies, as in most countries, they are also exempt in Serbia from the obligation to record the BO, in accordance with FATF Recommendation 10 (Interpretative Note to Recommendation 10, Part C) and Article 3.6. AMLD Directive

and the start of business activities of business entities as they ensure transparency of ownership of business entities and legal entities in general and ensure that the beneficial ownership is verified or identified from multiple sources.

Notaries public are obliged entities under the AML/CFT Law when they prepare or confirm (solemnize) documents related to the establishment/accession to the company and other status changes of a company or a person under foreign law¹⁹⁵, and are obliged to identify the beneficial owner of the client by obtaining information about the name and surname, date and place of birth and residence or place of residence of the beneficial owner of the client for which he is performing the service, as well as the client's statement that he acts on his own behalf.¹⁹⁶ In addition to notaries public, lawyers, banks, accountants and auditors also play a very important role. The role of public notaries and lawyers as gatekeepers has been further strengthened by the introduction of mandatory electronic registration of companies - in the case of the establishment of a company by a foreign legal entity or the accession of a foreign legal entity to an already registered company, an extract from the foreign register as proof of the identity of the foreign legal entity as and other supporting documentation must be digitized (converted and written in electronic form) by a public notary or lawyer.

As on 31.12.2023, the beneficial owners of more than 90.50% of all business entities which are required to register their BOs are registered in the CRBO. Limited liability companies have the highest percentage of registered BOs, i.e. 94.74%, and representative offices of foreign companies have the smallest share, i.e. 30.63%.

Table: Overview of CRBO obliged entities and obliged entities who fulfilled the obligation to register the beneficial owner as of 31.12.2023; * business entities whose 15-day deadline has not expired are also included

Overview of CRBO obliged entities and obliged entities who fulfilled the obligation to register as on 31.12.2023.					
Name	Registered entities	Recorded BOs	Number of subjects who did not register BOs*	Initiated proceedings for violations of Law on CRBO	% of recorded beneficial owners
Partnership	811	751	60	/	92.60%
Limited partnership	134	121	13	/	90.30%
Limited liability company	127.902	121.175	6.727	834	94.74%
Joint stock company	404	367	37	2	90.84%
Cooperative	3.130	2,230	900	28	71.25%
Branch of a foreign company	855	633	222	6	74.04%
Business association	84	67	17	/	79.76%
Association	37,364	30,125	7,239	750	80.63%
Endowment	140	134	6	/	95.71%
Foundation	919	755	164	91	82.15%
Representation of a foreign company	1,293	396	897	1	30.63%
Representation of a foreign association	85	54	31	/	63.53%
Representation of a foreign foundation	25	20	5	/	80.00%
Representation of a foreign endowment	2	2	0	/	100.00%
Institution	1,712	1.423	289	92	83.12%
In total	174860	158253	16607	1804	90.50%

¹⁹⁵Article 4, paragraph 3, AML/CFT Law

¹⁹⁶Article 57, paragraph 5, AML/CFT Law

In the case of limited liability companies, as the most represented form of Registered Entity, a trend of increasing up-to-dateness of the records of beneficial owners has been observed. Thus, in the observed period, on 01.01.2021 the rate of population was 88.48% and on 31.12.2023 it was 94.74%.



Chart: trend of increase in the number of LLCs that have fulfilled their obligation to record relative to those that have not

In the observed period, the percentage of completion when it comes to representative offices of foreign companies was very low - only 30.63%. This can be explained by the fact that the law governing the legal status of representative offices of foreign companies does not prescribe any other way to strike off representative offices of foreign companies from the register maintained by the SBRA, except by an application to be filed by the legal representative based on the founder's decision, which is often absent because, for example, the foreign company was in the meantime stricken off from the foreign registry or is simply no longer interested in having its representative office in Serbia.

The registration authority also submits requests to initiate misdemeanor proceedings against the newly established registered entities for failure to record BO data within the prescribed period of 15 days from the day of establishment.

In the observed period, the Serbian Business Registers Agency filed a total of 6,622 misdemeanor reports against companies that failed to register the beneficial owners within 15 days from the day of establishment.

Due to non-compliance with the provisions of this law the misdemeanor courts, in the reporting period, issued 8,035 judgments in which legal entities that failed to register the beneficial owners were fined from 50,000 dinars to 500,000 dinars and reprimanded¹⁹⁷, while at the same time the responsible persons in these legal entities were fined in the range from 5,000 dinars to 80,000 dinars and a warning.

Table: Decisions of misdemeanor courts on misdemeanor charges filed against business entities due to failure to register BO

Decisions of misdemeanor courts on misdemeanor reports filed by SBRA due to failure to register BO in the period 2021-2023

¹⁹⁷Note that a number of misdemeanor proceedings ended in 2023 based on the requests submitted by the SBRA in 2022, as well as some proceedings that were initiated based on the requests submitted by the SBRA in 2023 to be completed in 2024. While a number of judgments passed refer to applications submitted before 2021.

year	The number of filed requests for initiation of misdemeanor proceedings	Convictions of natural persons		Convictions of legal entities	
		monetary	warning	monetary	Warning
2021	2822	227	308	135	395
2022	2121	575	1310	379	1481
2023	1679	494	1273	353	1042
Total	6622	1296	2891	867	2918
Total judgments 2021-2023		8035			

The Law on CRBO¹⁹⁸ also prescribes a criminal offense which sanctions the concealment of the beneficial owner of a registered entity by not entering data in the CRBO or by entering untrue data or by changing or deleting true data about the beneficial owner. This criminal offense carries a penalty of three months to five years in prison. In the reporting period no criminal charges were filed, because no cases with the elements of this criminal offense were identified.

Summary:	
Serbia has implemented a robust system for identifying beneficial owners, in accordance with FATF standards, through its Law on CRBO and the establishment of the Central Records of Beneficial Owners (CRBO). Serbia maintains and publishes the Central Register of imposed measures, which consolidates data on business entities, their owners, directors and members of the supervisory board, who have been punished for criminal acts, economic crimes or misdemeanors, i.e. who have been administratively sanctioned. Access to the records is provided to all interested subjects, who can review it before establishing a business relationship and familiarize themselves with the business profile of a potential business partner.	
The number of business entities that properly fulfill their obligations to register beneficial owners is increasing year by year. On 31.12.2023, over 90.5% of entities fulfilled the obligation to register the beneficial owner. LLCs showed the highest compliance rate (94.74%), while foreign representative offices and branches lag behind (30.63%). Enforcement measures, including fines and legal actions, have been effective in increasing compliance, with over 8,000 fines issued between 2021 and 2023 for non-compliance.	
CRBO significantly reduced ML/TF risks by increasing ownership transparency. However, challenges remain with lower compliance among certain entity types.	
Impact on risk:	
Centralized Records of Beneficial Ownership (CRBO): CRBO provides transparent access to beneficial ownership data, including to the public	-2 partial probability decrease for ML/TF
Public access to the Central Register of Provisional Measures : This register provides transparency of data on sanctioned subjects, which enables interested parties to check the legality of business relations and transactions, which also affects the reduction of the risk of ML/TF.	-2 partial probability decrease for ML/TF
Mandatory disclosure for legal entities: Legal entities in Serbia are required to disclose beneficial owners	-2 partial probability decrease for ML/TF
Sanctions for non-compliance: Administrative and criminal-law sanctions for failure to register or update beneficial ownership are widely enforced	-2 partial probability decrease for ML/TF
Low compliance among foreign representative offices: foreign representative offices show lower compliance rates	+1 small probability increase for ML/TF

¹⁹⁸ Article 13 of the Law on Central Records of the Beneficial Owner (Official Gazette of the RS No. 41/18, 91/19, 105/21, 17/23) "Whoever, with the intention of concealing the beneficial owner of the Registered Entity, does not enter data on the beneficial owner of the Registered Entity in the Central Records, or enters untrue information about the beneficial owner of the Registered entity as true, or changes or deletes true information about the beneficial owner of the Registered Subject, shall be punished by imprisonment from three months to five years.

Under-registration by non-profit organizations: Close to 20% of foundations and associations still need to register a beneficial owner.	+1 small probability increase for ML/TF
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3.3.1. The structure of beneficial owners of business entities

The structure of beneficial owners is dominated by domestic natural persons who are registered in 87.84 % of registered legal entities. Foreign natural persons are registered as beneficial owners of 22,719 registered entities.

The structure of beneficial owners of registered legal entities by country shows that about 90% of them are from Serbia, and that the remaining countries are always represented by less than 1%.

The total number of beneficial owners registered in the CRBO is 186,905. Of that number, over 72% was registered under OSV 1 - a natural person, who is directly or indirectly the owner of 25% or more of shares, shares, voting rights or other rights, on the basis of which he participates in the management of the Registered Entity, i.e. participates in the capital of the Registered entity with a 25% share or more. On this basis, 116,064 domestic natural persons were registered as beneficial owners.

The second largest grounds present among domestic natural persons is OSV 5 - natural person who is registered for the representation of cooperatives, associations, foundations, endowments and institutions, based on which 34,525 persons were registered and under OSV 2 - natural person who indirectly or directly has a predominant influence on the conduct of business and decision-making - 5,886 persons. The OSV 6 and OSV 7 grounds concern situations where it was not possible to identify the beneficial owner, i.e. a natural person who was registered for representation or the person who was registered as a member of the governing body of that entity was recorded as beneficial owner of the Registered Entity, and there were 2,980 such persons.

The most common grounds for registering foreign natural persons as beneficial owners is OSV 1, i.e. 19,547 persons were registered on that basis. Next in terms of representation is OSV 2 1144 and OSV 3 943.

Only 293 persons were recorded based on OSV 6 and OSV 7. When comparing the data from the previous risk assessment, when it was noticeable that the legal representatives of foreign legal entities were recorded as beneficial owners of almost half of these entities, with the CRBO 2021-2023 data, we note that the number of persons under this ground is 15 (fifteen) times lower.

Summary:	
The majority of beneficial owners in Serbia are domestic natural persons, who make up 87.84% of registered legal entities, and foreign natural persons are registered as owners for a total of 22,719 legal entities. About 90% of beneficial owners are from Serbia, while the share of other countries is less than 1% each. As of 2023, 186,905 beneficial owners were recorded in the Central Records, of which over 72% were classified as owners/holders of 25% or more of the company's shares or voting rights. Riskier ownership categories have been significantly reduced.	
Impact on risk:	
Dominance of domestic ownership: Most beneficial owners are citizens of Serbia, which increases local oversight and reduces the likelihood of complex ownership schemes.	-2 partial probability decrease for ML/TF
Reduction of risky ownership: A significant decline in high-risk types of ownership (OSV 6 and OSV 7) minimizes avenues for concealment of ownership.	-1 small probability decrease for ML/TF

3.3.2. Supervision over the implementation of BO provisions and imposed sanctions

Supervision over the implementation of the Law on Prevention of Money Laundering and Financing of Terrorism by obliged entities is carried out by supervisory authorities, which, as part of their competence, also supervise the application of the provisions concerning identification and verification of identity of the beneficial owner, both the obliged entity's BO and BOs of clients establishing business relationship with the obliged entity.

In this regard, if the supervisory authority, in the course of supervision, finds irregularities or illegality also in connection with the implementation of the provisions on BO identification and verification, it is obliged to require that the irregularities and deficiencies be remedied within the deadline that it will set, submit a request to the competent authority to initiate the appropriate procedure and take other measures and actions for which the supervisor is authorized by law.

The supervisors are obliged to immediately inform the APML, in writing, on the measures taken during the supervision, on the irregularities and illegalities found, as well as on other significant facts related to the supervision, especially if they find facts that are or could be related to money laundering or financing of terrorism.

Irregularities found concerning BO identification: the supervised entity failed to identify the BO of clients which are legal entities, thereby violating Article 25 paragraph 1 of the AML/CFT Law (economic offense from Article 117, paragraph 1, Item 1, and paragraph 2 of the AML/CFT Law); and the controlled entity failed to identify the BO of clients which are legal entities in the manner laid down in Article 25 of the AML/CFT Law (Article 118, paragraph 1, item 22, and paragraph 2, of the AML/CFT Law).

Year	Irregularity from Article 117, paragraph 1, item 1 of the AML/CFT Law	Irregularity from Article 118, paragraph 1, item 22, AML/CFT Law	Total
2021	5	18	23
2022	3	24	27
2023	7	23	30
Total	15	65	80

Table: BO irregularities found in APML supervisory examinations of companies

Fines in dinars imposed in court decisions for irregularities found in the identification of the BO of the client¹⁹⁹ amount to RSD 840,356.00 for 7 business entities.

Table: BO irregularities found by NBS supervision

Obliged entity	Number of cases in which an irregularity was found under Article 25 of the AML/CFT Law	Legal form
Bank	3 cases domestic legal entity 2 cases foreign legal entity	DOO
Financial leasing provider	1 case	DOO
Insurance companies	5 cases	DOO

Table: BO irregularities found in the supervision by Securities Commission

BO irregularities found	Form of organization of clients	Irregularities found	Pronounced measures/sanction for the established irregularity
1 investment company - capital market	1 jsc	Deficiencies in the obliged entity's documentation	1 Written warning

¹⁹⁹ The analysis was done on the basis of judgments share with APML in the reference period

3 audit companies - non-financial	9 LLCs 1 public enterprise	(identity document of the beneficial owner, entry of date, time and person who carried out the identification, extract from the competent register, orderliness of the documentation confirming the actions and measures implemented)	1 Decision and application for economic offense 2 Written warnings 1 Judgment due to failure to implement the AML/CFT Law (identification of the client, legal representative and beneficial owner) - fine 90,000.00 dinars for the obliged entity, 18,000.00 dinars for the responsible person)
4 in total	9 LLCs 1 jsc 1 public enterprise		1 Decision and economic offense report 3 Written warnings 1 Judgment

On the other hand, in 2021, the disciplinary procedure ended and a measure was imposed, i.e. a decision was made declaring a notary public responsible because the onsite supervision, which was carried out in 2020, found that the notary failed to implement the AML/CFT regulations and measures, including CDD, i.e. failed to identify the beneficial owner of the client, which is a legal entity or a person under foreign law, by inspecting the BO records or in any other way set out in the law.

This specific case involved failure of the obliged entity under AML/CFT Law to comply with law and procedures.

In 2021, the notary public was found responsible by the decision of the Disciplinary Council of the Public Notary Chamber, and was fined in the amount of one average salary of a judge of the basic court, i.e. in the amount of about 113,000.00 dinars.

Table: Irregularities found with real estate brokers supervised by the Ministry of Internal and Foreign Trade relative to the total number of performed BO inspections of real estate sector, in aggregate

Year	2021		2022		2023	
	Offsite	Onsite	Offsite	Onsite	Offsite	Onsite
Type of supervision						
Number of supervisions	746	/	899	/	874	/
Total supervisions	746		899		874	
Measures, total	/		/		/	

Summary:	
Supervisory authorities, including APML, conduct regular inspections of obliged entities, and any non-compliance, including failure to update their records, has resulted in sanctions, including fines and court proceedings. From 2021 to 2023, multiple inspections found violations related to keeping accurate and timely records of beneficial owners, particularly among accounting firms and factoring companies, as well as entities under the supervision of the Securities Commission. These offenses are dealt with through warnings, fines and legal action, with the aim of enforcing stronger compliance. Cases of discrepancies were identified in the information about the beneficial owners presented by their clients and the information contained in the register of beneficial owners, in which case the legal entities were faced with measures.	
Impact on risk:	
Regular supervision: Ongoing inspections by supervisory authorities ensure that obliged entities comply with regulations on the identification of beneficial owners.	-2 partial probability decrease for ML/TF

Enforcement of sentences: The deterring effects of criminal sanctions. Insufficient efficiency in conducting the procedure. Mild sanctioning policy.	0 neutral impact for ML/TF
Identification of discrepancies: Supervisory authorities, and obliged entities where they find discrepancy of BO data with the CRBO data, file ML SARs	+1 small probability increase for ML/TF

3.3.4. International exchange of data on beneficial owners - FIU

The number of requests from foreign counterparts related to data on the beneficial owner is small, and the reason is that Serbia has a publicly available Central Records of beneficial.

Foreign counterparts requested BO information on legal entities from the APML in 15 cases. Most often, data is requested from neighboring countries or Europe, namely: Montenegro, North Macedonia, Slovenia, Romania, Slovakia, Germany, Estonia, Czech Republic or Latvia.

This data were requested because legal entities transferred funds to the accounts of other persons or legal entities from their countries transferred funds to the bank accounts of legal entities in Serbia. Also, foreign counterparts requested BO data of legal entities in cases where a non-resident legal entity had an account in Serbia and transferred funds to that country.

On the other hand, APML filed 164 requests to foreign FIUs for BO data of legal entities.

Summary:	
The number of foreign requests for BO data from Serbia is low due to the public availability of the Central Records of BOs. Foreign FIUs requested information on BO from the Serbian FIU in 15 cases, mainly the FIUs of neighboring or European countries such as Montenegro, North Macedonia, Slovenia and Germany. These requests mainly related to financial transactions of Serbian legal entities. In contrast, the FIU of Serbia submitted 164 requests to foreign partners to obtain information on BO for their investigations.	
Impact on risk:	
BO information is publicly available: Easy access by foreign partners to the Central BO Records in Serbia	-2 partial probability decrease for ML/TF
International cooperation: Regular proactive exchange of data with foreign FIUs, including outgoing requests	-2 partial probability decrease for ML/TF

3.4. Trusts, legal arrangements and complex ownership structures

International practice suggests that trusts are used at the international level to enable high-level money laundering by concealing the beneficial owner, make it difficult for the obliged entity to know the client, and for authorities to conduct investigations. Criminals use trusts as part of complex disguising operations aimed at concealing the beneficial owner and owner of dubious assets through ownership and management structures of legal entities and legal arrangements, often registered in multiple jurisdictions.

The Law on the Prevention of Money Laundering and Financing of Terrorism also includes, among the definitions relevant for the application of this law, persons under foreign law, which are a legal form of organization aimed at managing and handling property, that does

not exist in domestic legislation, such as trusts, institutions, fiduciaries, fidocomis etc. However, only the elements of the trust are specified in more detail by this law.²⁰⁰

Data on the beneficial owners of trusts are recorded in CRBO. The beneficial owner of the trust is registered either as a founder or as a trustee, i.e. protector or beneficiary or as a natural person who has a dominant position in the management of the trust. In relation to 1,317 legal entities in whose founding structure a trust appears, this data was recorded under OSV 4²⁰¹, for 221 registered entities. By analyzing the registered name of the trust, we found that there were at most 20 trusts, and in 130 business entities that had a trust in their ownership structure, the trust was registered in Cyprus. There are a total of 46 domestic natural persons appearing related to a trust, but none of them will be in the role of trustee of the trust.²⁰² Due to the complex ownership structure, all these business entities are, in accordance with the AML/CFT Law, viewed as high-risk business entities for ML.

Also, according to AML/CFT Law, legal entities whose founders or owners are legal or natural persons related to offshore jurisdictions and who often have a complex ownership structure are also classified as having a high risk of money laundering and are subject to increased supervision.

As on 31.12.2023, the total number of resident legal entities who are bank clients featuring an offshore entity and who have active bank accounts is 2,177, as follows: the number of non-resident legal entities from offshore countries is 385, the number of domestic legal entities that have an offshore entity in the ownership structure is 1,575, while the number of foreign legal entities which have an offshore entity in the ownership structure amounts to 217. Based on data from the banking sector, we also established the total number of resident legal entities that have in their structure non-residents from high risk countries, i.e. that have a trust or an offshore legal entity in the ownership structure, and their numbers are shown in the following table.

Table: overview of bank clients who are resident legal entities that have non-residents – trust in their corporate structure

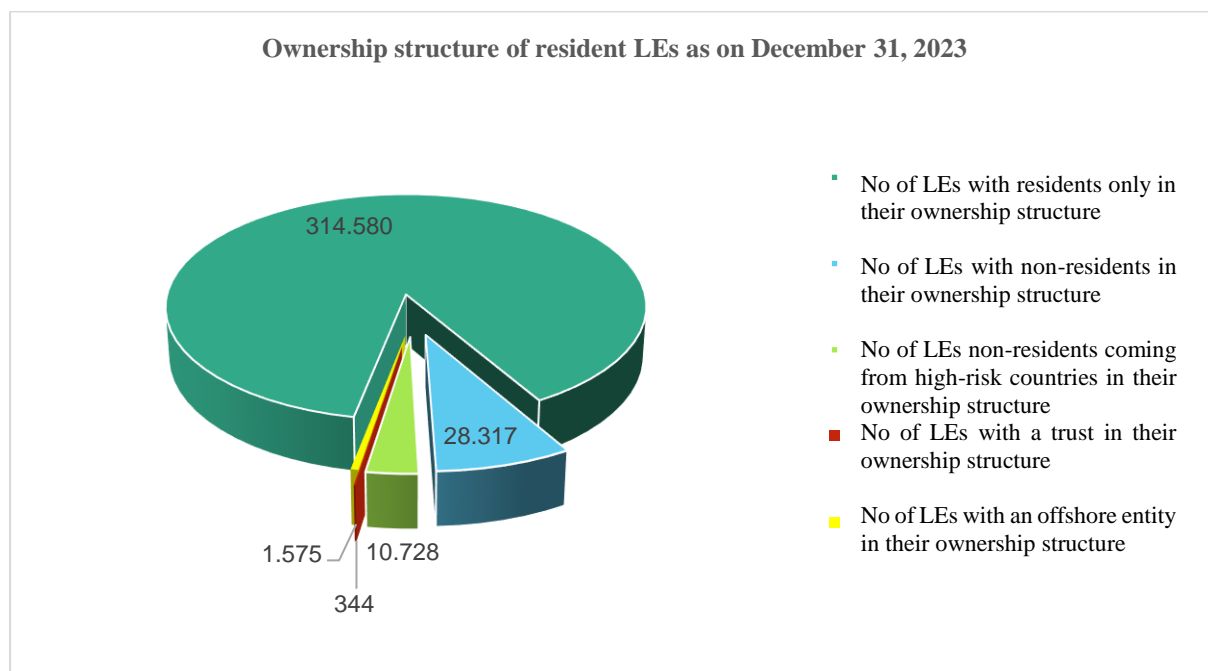
Resident legal entities - December 31, 2023	
The total number of resident legal entities that have only residents in their ownership structure as on December 31, 2023.	314.580

²⁰⁰In this regard, it is stated that a trust is a person under foreign law that is established by one person, the founder (settlor, trustor) during his lifetime or after his death, and which entrusts the property for the disposal and management to the trustee for the benefit of the beneficiary or for some specially designated purpose and so that: the property is not part of the property of the founder of the trust; the trustee holds, uses and disposes of the property for the benefit of the beneficiary or the founder, in accordance with the terms of the trust; with a trust agreement, the performance of certain tasks can also be entrusted to the trust protector, whose basic role is to ensure that the assets of the trust are handled and managed so that the goals of establishing the trust are fully achieved; the user is a natural person or a group of persons in whose interest person under foreign law is established or operates, regardless of whether that person or group of persons is identified or identifiable.

²⁰¹ Based on Article 3 paragraph 1 point 3) of the Law on CRBO, which stipulates that the BO is (1) a natural person, who directly or indirectly holds 25% or more of shares, shares, voting rights or other rights, on the basis of which he participates in management of the Registered Entity, i.e. participates in the capital of the Registered Entity with 25% or more shares; (2) a natural person who directly or indirectly has a predominant influence on business management and decision-making; (3) a natural person, who indirectly provides or provides funds to the Registered Entity and, on that basis, significantly influences the decision-making of the management body of the Registered Entity when deciding on financing and operations; (4) a natural person who is the founder, trustee, protector, beneficiary if designated, as well as a person who has a dominant position in the management of the trust, i.e. in another person under foreign law; (5) a natural person who is registered for the representation of cooperatives, associations, foundations, endowments and institutions, if the person authorized for representation has not registered another natural person as the BO.

²⁰² Based on data from the National Bank of Serbia for 2023 trusts appear 303 times in the ownership structure of legal entities of residents, and 62 times in the case of non-residents.

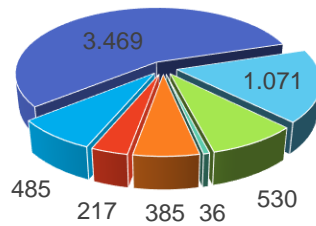
The total number of resident legal entities that have non-residents in their ownership structure	28,317
The total number of resident legal entities that have non-residents from high risk countries in their ownership structure	10,728
The total number of resident legal entities that have a trust in the ownership structure	344
The total number of resident legal entities that have an offshore legal entity in their ownership structure	1,575



Non-resident legal entities - December 31, 2023		
1	Total number of non-resident legal entities, including:	3,469
2	Total number of non-resident legal entities from high-risk countries	1,071
3	Total number of non-resident legal entities whose ownership structure includes persons from high-risk countries	530
4	Total number of non-resident legal entities that have a trust in the ownership structure	36
5	Total number of non-resident legal entities that are offshore legal entities	385
6	Total number of non-resident legal entities that have an offshore legal entity in their ownership structure	217
7	Total number of non-resident legal entities that have residents in their ownership structure	485

Table: Overview of bank clients - non-resident legal entities with assessment of the degree of risk of the non-resident's country of origin

Ownership structure of non-resident LEs as on December 31, 2023



- Укупан број нерезидената правних лица
- Број нерезидената ПЛ који су из земаља са процењеним високим нивоом ризика
- Број нерезидената ПЛ који у власничкој структури имају лица из земаља са процењеним високим нивоом ризика
- Број нерезидената ПЛ који у власничкој структури имају траст
- Број нерезидената ПЛ који су оф-шор правна лица
- Број нерезидената ПЛ који у власничкој структури имају оф-шор ПЛ

No obliged entity has a trust as a client, although they appear in the client's ownership structure.

Due to the potential risk of money laundering that may arise from the organizational form, clients with a trust in their founding structure are assigned a higher risk and the activities of these clients are under enhanced monitoring by the obliged entity.

Conclusion:	
Trusts cannot be established under Serbian law, but trusts created under foreign legislation are recognized in the Law on Prevention of Money Laundering and Financing of Terrorism. About 300 Serbian legal entities have ownership ties with trusts. Trusts and offshore entities are classified as high risk for money laundering and are subject to increased supervision. Up to December 31, 2023, no obliged entity had trusts as direct clients, although they appeared in the client's ownership structures. These relationships are closely monitored, especially as part of supervisory examinations.	
In order to mitigate the risks associated with trusts, the NRA suggests that:	
- A special list of trusts operating through resident and non-resident legal entities in Serbia be maintained (which will be supplemented by information from banks and the register of business entities) and made available to competent authorities.	
- APML to supplement the list of trusts that may operate as direct clients of the obliged entity.	
Impact on risk:	
Lack of trusts as direct clients of the obliged entity: the materiality of the direct presence of the trust is absent	-3 significant decrease in probability for ML/TF
Indirect presence of trusts: the materiality of indirect presence is minimal	-2 partial probability decrease for ML/TF
NBS market monitoring: list kept of trusts in ownership structures of legal entities (resident and non-resident)	-1 small decrease in probability for ML/TF

3.4.1. Presence of trusts in the ownership structure of the beneficial owners

When registering the beneficial owner of a legal entity which has a trust in its ownership structure, it is necessary to register the founder, trustee, protector, beneficiary, as well as the natural person who has a dominant position in the management of the trust in the CRBO. A total of 1069 persons were registered under OSV 4²⁰³ code for 221 Registered Entity. 130 companies have a Cypriot trust in their ownership structure. According to the registered name of the trust, it can be concluded that there are no more than 20 trusts. Domestic natural persons appear 299 times in one of the roles in a trust (one person may have several roles), but the total number boils down to 46 domestic citizens and none of them have the role of trustee of the trust, which means the number of domestic citizens in any of the roles in a trust is drastically lower compared to the data used for the previous risk assessment.

Table: Overview of recorded beneficial owners of a legal entity that has a trust in its ownership structure by age, source SBRA.

Grounds for recording the beneficial owner	2021			2022			2023		
	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign
A natural person who is the settlor of the trust	157	67	90	216	71	145	228	71	157
A natural person who is a trustee in a trust	88	2	86	98	1	97	103	0	103
A natural person who is the protector in the trust	55	46	9	55	49	6	55	49	6
A natural person who is a beneficiary in the trust	480	90	390	503	72	431	583	169	414
A natural person who has a dominant position in the management of the trust	68	10	58	86	10	76	100	10	90
TOTAL	848	215	633	958	203	755	1069	299	770

As for the country of origin of the natural persons who have a role in the trust for **the Natural Person - trust settlor** in the observed period mostly came from Germany, Austria, and Cyprus.

²⁰³ Based on Article 3 paragraph 1 point 3) of the Law on CRBO, which stipulates that the BO is (1) a natural person, who directly or indirectly holds 25% or more of shares, shares, voting rights or other rights, on the basis of which he participates in management of the Registered Entity, i.e. participates in the capital of the Registered Entity with 25% or more shares; (2) a natural person who directly or indirectly has a predominant influence on business management and decision-making; (3) a natural person, who indirectly provides or provides funds to the Registered Entity and, on that basis, significantly influences the decision-making of the management body of the Registered Entity when deciding on financing and operations; (4) a natural person who is the founder, trustee, protector, beneficiary if designated, as well as a person who has a dominant position in the management of the trust, i.e. in another person under foreign law; (5) a natural person who is registered for the representation of cooperatives, associations, foundations, endowments and institutions, if the person authorized for representation has not registered another natural person as the BO.

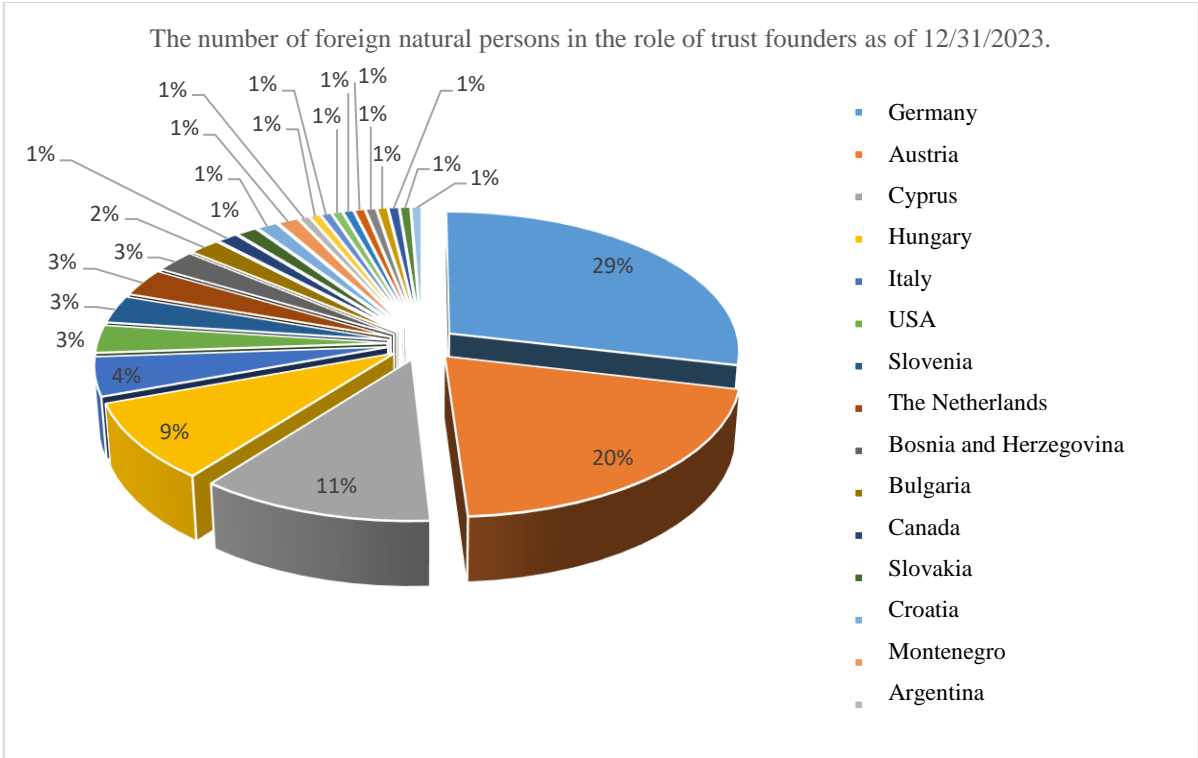


Chart: Number of foreign natural persons in the role of trust settlor as of 31.12.2023

An analysis of data on trusts in the ownership structure of business entities has showed that, the ownership structure of an obliged entity under the AML/CFT Law – a postal operator, includes a trust, the founders of which are two individuals who are Serbian citizens. The same individuals are also registered as the beneficial owners of the trust, while in addition to the founders, two more Serbian citizens are registered as beneficiaries of the trust, whereas the trustee is a citizen of Cyprus.

The largest number of trustees are citizens of Cyprus - 49.51%, Germany - 13.59%, Hungary 6.80%, Austria 6.80%, United Kingdom 3.88%, UAE and Croatia 2.91%, Australia, Poland, the Czech Republic and Switzerland. 1.94%, while BiH, Guernsey, Ireland, Luxembourg, USA and Slovakia account for 0.97%, respectively, i.e. one natural person from each of those countries is registered as a trust trustee.

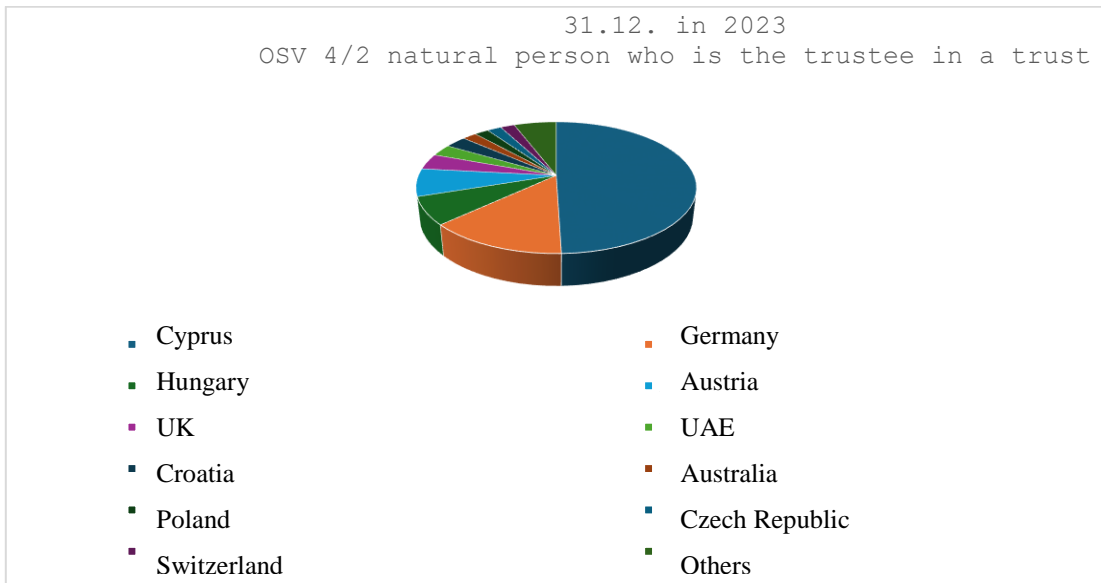


Chart: number of foreign natural persons in the role of trust trustee

Summary:	
There is a slight upward trend in the presence of trusts in the ownership structures of legal entities, although the total number is still negligible compared to the number of legal entities in Serbia as a whole. Germany, Cyprus, Austria and Hungary dominate as jurisdictions of choice for trusts that reflect, for the most part, a regional business focus of legal arrangements. Trusts are predominantly used by non-residents (especially as trustees and beneficiaries), with the exception of the role of protector. No other forms of legal arrangements other than trust have been identified in Serbia.	
Impact on risk:	
Regional links of legal arrangements: markets are generally limited to regional or nearby jurisdictions	-1 slight probability decrease for ML/TF
A smaller upward trend in the presence of trusts in legal entities: an increase recorded in the last 3 years	+1 small probability increase for ML/TF
Use by non-residents: trusts are predominantly used by non-residents	+2 partial increase for ML/TF

3.4.2. Data on the number of trusts in the founding structure of companies as clients of obliged entities under the AML/CFT Law

No obliged entity under the AML/CFT Law has a trust as a client.

No **bank** has a trust as a client. Trusts appeared in the ownership structure of clients - legal entities 369 times in 2023. By far the most common, with over 36%, are trusts from Cyprus (in 135 cases).

Table: Overview of the number of bank clients that have a trust in the ownership structure

Number of bank clients that have a trust in their ownership structure	
Total number of clients	369
The country where the trust is registered	Number of clients
Cyprus	135
USA	26
Liechtenstein	16
United Kingdom	16
Jersey	8
Guernsey	8
Ireland	6
Australia	5
Czech Republic	5
Switzerland, Netherlands, Cayman Islands, Malta, Israel	4
Isle of Man	3
Seychelles, Luxembourg Germany and the British Virgin Islands	2
Bermuda, New Zealand, Saint Vincent and the Grenadines, Austria, Italy, India, Swaziland, Philippines, Mauritius, Bulgaria and UAE	1

The only exception is one bank which has one trust as a client. The bank account of this trust, on which there were no significant transactions, was blocked because the trust did not submit the necessary documentation.

A total of 194 legal entities of bank clients in the ownership structure have trusts, namely 96 trusts, among which are the so-called *Declaration of Trust* or *Trust Deed*:

One trust appears in 57 domestic legal entities and 3 foreign legal entities. The beneficial owner of this trust, as well as the trustee and the beneficiary of the trust are

completely transparent and no suspicious activity related to the business operations of business entities in which the trust appears in the ownership structure has been reported.

More generally, these business entities are classified as high risk by the obliged entities, so their operations are under the special attention of all supervisory authorities.

An analysis of the trusts that appear in the founding structures of business entities, has found that one trust appears in the ownership structure of 7 domestic legal entities.

When it comes to non-residents, 45 of them have a trust in the ownership structure, and most often these non-residents' registered activity is rental and management of real estate.

If the number of legal entities with a trust in the ownership structure is brought in relation to the number of clients at banks, which is greater than ten million, then the conclusion is reached that the number of trusts is extremely small and almost negligible, but all clients with a trust in the ownership structure are closely monitored by the obliged entities.

No **Financial Leasing Provider** has a trust as a client, but trust appeared in the ownership structure of clients – legal entities 39 times in 2023. By far the most common, as with banks, are trusts from Cyprus with almost 50% (in 30 cases).

Table: Overview of the number of financial leasing providers that have a trust in their ownership structure

Number of clients of financial leasing providers who have a trust in the ownership structure	
The total number of clients who have a trust in the ownership structure	(39)
The country where the trust is registered	Number of clients
Cyprus	30
Liechtenstein	5
Luxembourg	3
France, Malta, United Kingdom, Turkey	1

Insurance companies do not have a trusts as clients, but they are present in the ownership structure of their clients – legal entities. More specifically, 5 trusts were present, with two insurance companies, which provide collective insurance services for employees to those legal entities (residents).

Voluntary pension fund management companies do not have any registered trusts as clients, but trusts appear in the ownership structure of their clients - legal entities in four cases. In three cases, it is a trust from Cyprus, and in one from Canada.

No **payment institution** or **e-money institution** has a trust as a client, but they appeared in the founding structure of clients - legal entities twice in 2023. One trust is registered in Germany and the other in Luxembourg.

According to the data of the **market inspectorate**, real estate sale and lease brokers have found trust in the founding structure of one client – resident with whom they established and successfully finalized a business relationship, and in the founding structure of two non-resident legal entities from North Macedonia with whom a business relationship was only established.

Summary:
Trusts are not direct clients of banks or other obliged entities, and the only bank account for a trust was inactive and subsequently liquidated. At the same time, obliged entity successfully identify the presence of trusts in the ownership structures of their clients. The small number of such clients enables the obliged entity and supervisory authorities to constantly monitor their business activities. In 2023, 369 bank clients having a trust in the ownership structure were found, and most of them were registered in Cyprus. Similarly, 38 financial leasing and 5 insurance company clients reported trusts in their ownership structure, the trusts being mostly registered in Cyprus. All entities that have a trust in their ownership structure are considered high-risk and are subject to increased supervision by the obliged entity and supervisory authorities.

This data suggests that the material presence of trusts in Serbia is negligible and that it is closely monitored at several levels of the AML/CFT system, which significantly reduces the risk of money laundering and terrorist financing.	
Impact on risk:	
Careful monitoring by the obliged entity and supervisory authorities: All entities with a trust in the ownership structure are under increased supervision and categorized as high-risk, which ensures that their activities are carefully monitored by financial institutions and supervisory authorities.	-2 partial probability decrease for ML/TF
Inactive trust account: The only bank account of a trust was inactive and subsequently liquidated.	-1 small probability decrease for ML/TF
Full transparency in most cases: In most trusts, beneficial owners, trustees and beneficiaries are fully transparent, which reduces the likelihood of illegal financial activities in those cases.	-2 partial probability decrease for ML/TF

3.4.3. Number of trusts and other legal arrangements in SARs

In the period 01.01.2021 – 31.12.2023, trusts and other legal arrangements were not identified as direct participants in transactions that were characterized as suspicious by the obliged entity. Also, no SARs were filed by obliged entities involving a trust in the founding structure.

In one SAR, a trust was identified in the founding structure of a company registered abroad, but only after international cooperation and information exchange. Further checks did not reveal any elements of a criminal offense.

An analysis of ML cases did not find trusts as a form of organization in business entities' founding structure.

Therefore, trusts can be considered not risky legal forms for money laundering in Serbia.

An analysis of the characteristics and structure of other legal and organizational forms of business entities, and in particular the fact that they do not appear in ML investigations, nor were they the subject of any SARs filed by obliged entities, and that supervisory examinations of obliged entities found no omissions in the SARs, suggests that the risk of misuse of the mentioned business entities for money laundering is negligible.

4. THREAT ANALYSIS

4.1. Analysis of the activities of foreign legal entities from high-risk jurisdictions - FATF list

Regarding the presence of foreign legal entities from high-risk jurisdictions (FATF list)²⁰⁴ and those under increased monitoring, the data of the Serbian Business Registers Agency's Register of Business Entities shows that the majority of business entities whose founders are citizens of or legal entities from high-risk jurisdictions or jurisdictions subject to increased monitoring, originate from Croatia, whose citizens (natural persons) are most represented as founders of business entities in Serbia. The number of legal entities from Croatia that appear in the ownership structure of the company founders is twice as small as the number of natural persons. It is important to note that in 2021-2023 the citizens of Croatia were always in the top ten countries, if citizenship of the share owners is looked at, but a slight decrease in the number of natural persons was noticeable, as well as a simultaneous increase in the number of legal entities from this country as share owners.

When looking at the data for other jurisdictions, a similar conclusion can be drawn with respect to share owners coming from Bulgaria, whose legal entities have a certain number of subsidiary companies registered in Serbia.

In any case, the total number of companies that have foreign legal entities in their structure in relation to the total number of companies increased from 3.91% in 2021 to 4.19% in 2023, but this was not because of citizens of these two most represented jurisdictions. Two citizens from high-risk jurisdictions were also registered as legal representatives of foreign company representative offices, including one natural person from Iran and one from North Korea.

Table: Number of active entities as of 31.12.2023 whose registered owners or founders include a person from a high-risk jurisdiction or a jurisdiction under increased monitoring, without data for joint stock companies because the data on the owners of shares is kept by Central Securities Depository and Clearing House.

Country	Number of entities (partnership, limited partnership, llc, cooperative)	Number of representative offices of foreign companies	Number of branches of foreign companies
Croatia	343	69	43
Bulgaria	178	37	37
Monaco	2	1	0
Nigeria	1	0	0
South Africa	2	0	1
Philippines	0	0	1
Venezuela	0	0	1
Vietnam	0	0	0
Yemen	0	0	0
Kenya	0	0	0
Small	0	0	0
Tanzania	0	0	0

²⁰⁴ <https://www.fatf-gafi.org/en/publications/high-risk-and-other-monitored-jurisdictions/documents/call-for-action-june-2021.html>
<https://www.fatf-gafi.org/en/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2021.html>

Burkina Faso	0	0	0
Cameroon	0	0	0
Republic of the Congo	0	0	0
Syria	0	0	0
Senegal	0	0	0
Haiti	0	0	0
Mozambique	0	0	0
Namibia	0	0	0
South Sudan	0	0	0
Iran	0	1	0
Democratic People's Republic of Korea	0	1	0
Myanmar	0	0	0
High risk jurisdictions			
Jurisdictions under increased monitoring			

The data on the registered main activity of the most represented jurisdictions under increased monitoring, was analyzed separately in addition to the data on the founders.²⁰⁵ According to the data available, six (6) companies whose members or founders are from Croatia were registered for the following business activity: 53.20 - postal and courier activities. The main registered activity 68.10 - acquisition and sale of own real estate is registered for 13 companies whose members include a person from Croatia (6) or Bulgaria (7). Four business entities registered for the activity 68.32 Real estate management for a fee in the ownership structure have citizens of Croatia (3) and Bulgaria (1). Seven business entities were registered for the performance of activities 92.00 Gambling and betting, that have Croatian (4) and Bulgarian (3) citizens in their ownership structure.

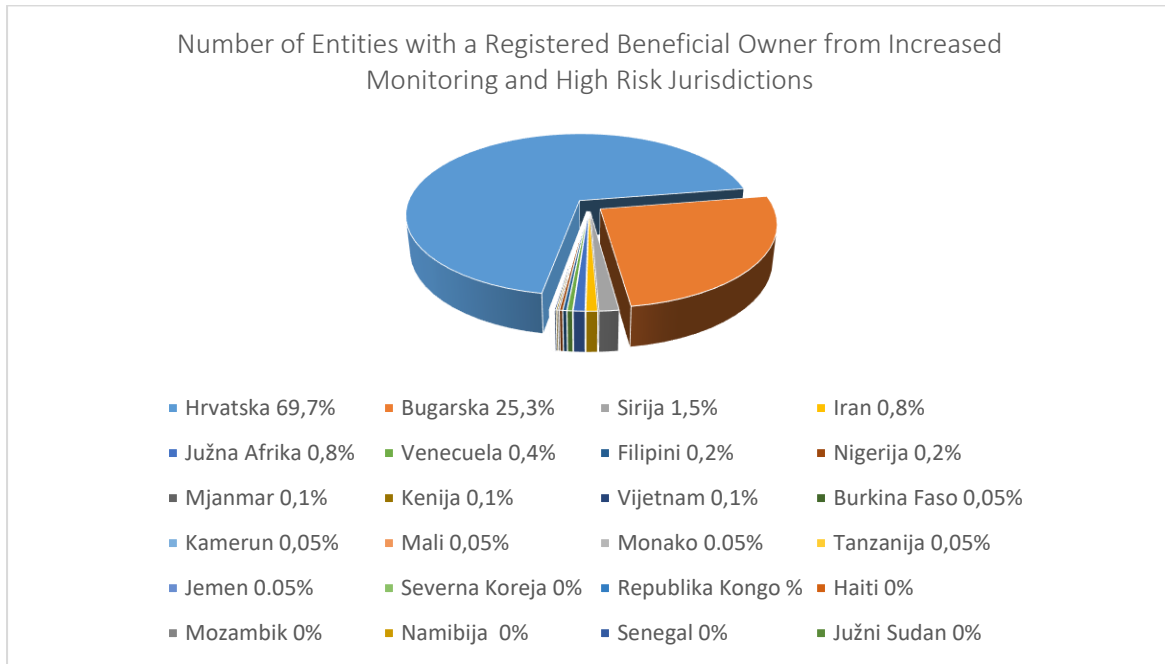
If we look at the most represented activity 53.20 - postal and courier activities, only three companies from Croatia showed in their financial reports that they operated with a profit. These companies are classified as small (2) or micro (2), while two did not submit the most recent reports for the previous business year.

The data of the Central Securities Depository and Clearing House, as on December 31, 2023, concerning non-resident foreign legal or natural persons whose country of origin is a jurisdiction listed on the increased monitoring list appear as shareholders who independently own 25 and more than 25% of the issuer's share capital, shows shareholders from Croatia (5) and Bulgaria (3). Likewise, concerning shareholders who independently own 50 and more than 50% of the issuer's share capital, we again see the same countries and same numbers, i.e. Croatia (5) and Bulgaria (3).

According to the data in the Central Records of Beneficial Owners, the most represented are again citizens of Croatia and Bulgaria, who are registered as the beneficial owners of companies and other legal entities that are required to be registered.

²⁰⁵ The data from the business entity register concerning the following registered activities were analyzed: 32.12 Manufacturing of jewelry and related items, 64.92 Other lending services, 66.12 Brokerage with securities and stock exchange goods, 68.10 Purchase and sale of own real estate, 68.32 Management of real estate for a fee, 92.00 Gambling and betting and postal and courier activities, activities 53.10 and 53.20.

Chart: Number of Entities with a Recorded Beneficial Owner from Increased Monitoring and High Risk Jurisdictions



Summary:	
Analysis of foreign legal entities from high-risk jurisdictions, from the FATF list, reveals that only a few entities connected to such jurisdictions, mostly from countries in the region, such as Croatia and Bulgaria, are registered in Serbia. These links mainly represent unavoidable cross-border business links between countries and do not indicate an increased macro risk.	
Impact on risk:	
FATF-listed jurisdictions: links with bordering Croatia and Bulgaria predominate and represent natural economic links rather than high-risk activity	0 neutral impact on ML/TF

4.2. Analysis of the risky company forms in money laundering cases

Analyzing the involvement and links of business entities with money laundering is essential from the point of view of ML threats given that huge amounts of money are obtained through money laundering, which can result in disruptions in the economic activities of business entities.

Relative to the previous Risk Assessment, there have been no significant changes in the trends and methods of ML through business entities. The most common ML method takes place through fictitious transactions, i.e. launderer companies, which use fictitious accounts and other invalid documentation which most often shows certain transactions as having been carried out, although in fact they had not. Then they report income that was actually not generated, pay proper taxes, thus in fact laundering the dirty money by placing it in into the public sector of the country. Entire business structures are established for ML purposes. They are under the control of one or more related persons, i.e. members of organized criminal groups, aiming to inject dirty money into the financial system and use multiple related financial transactions based on fictitious documents, and the banking system to cover up the money trails and its true origin. An analysis of ML cases, both those which are final and those at the stage of investigation and indictment at the Public Prosecutor's Office for Organized Crime, shows that dirty money is most often integrated into legal flows through the operations of business entities

through fictitious payments for goods and services, company liquidity loans, and investing in legitimate business operations.

4.2.1. Analysis of data on the companies and entrepreneurs involved in ML cases

An analysis of ML cases in which the final judgments were passed, has shown that business entities too are often involved in the money laundering chain. The involved legal entities are entities through whose accounts the dirty money has been transferred. No criminal proceedings have been conducted against the involved legal entities, because they are business entities with no business income or operational profit, and the business performance boils down to the amount of commission or fees for the services of transferring or withdrawing money from their business entity's bank account. The largest number of these business entities are without any assets, they perform their business operations within a limited period of time, they are most often under liquidation or bankruptcy, and against their responsible persons or representatives, i.e. owners, criminal proceedings are being conducted because they have ceded their powers of control or management of such businesses to other persons.

More specifically, according to the data from these cases, *130 business entities and legal entities were involved in the money laundering process, 68 of which were companies (67 - LLCs and 1 limited partnership), 49 entrepreneurs, 4 cooperatives and 4 associations. Out of these 130 business entities, 3 are non-residents - foreign legal entities in the form of a limited liability company, in which the founder is a domestic natural person – the defendants in the case.*

From the total number of convicted persons - 132, (8- acquittals) only 41 defendants had no links to the business entities in any legal form of organization.

Table: Forms of organization of business entities involved in money laundering schemes

Business entities Legal form	Registered in Serbia	founders		Amount of founding capital	
		residents	non- residents	From 100 to 10,000 RSD	Over 10,000 RSD
LLCs	68	65	3	39	14
Entrepreneurs	52	52	-	-	-
Cooperatives	4	3	-	-	-
Associations	4	4	-	-	--
Partnerships	1	2	-	-	1
TOTAL	130	127	3		

Out of 68 companies, 65 are domestic, three are foreign companies registered in EU countries (Slovakia and United Kingdom) whose founder is in the majority of cases a domestic natural person, the defendant in the money laundering case. With respect to legal form of domestic business entities, 67 were a limited liability company and 1 a partnership. According to SBRA data, in most cases these limited liability companies are registered as single-member companies with 100% participation in the founding capital, whose amount is mostly at the minimum level. Three companies have multiple members, one of which is two-member (one natural person and one legal entity), one three-member (three natural persons) and one company with 20 members, of which the majority-owner is a legal entity that is also involved in money laundering. In one of the companies, the registered member and beneficial owner is a natural person who was listed in the register of business entities as the owner of shares in 60 other companies in the form of a limited liability company, which have in the meantime been stricken off due to non-submission of financial reports. This natural person was banned from acquiring shares due to organized participation in tax evasion. A member of a company that

was involved in the process of money laundering in 2022 and 2023 is a person who, on the date of this analysis, was connected to 8 other companies.

One company was registered in the form of a partnership with two members - resident natural persons, in the field of textile production, classified into micro companies and is in bankruptcy.

Case study: Partnership

Judgment of the Higher Court in Belgrade, Special Department for Organized Crime SPK-Po1 no. 74/2021 of 03.11.2021 and the judgment of the Higher Court in Belgrade, Special Department for Organized Crime SPK-Po1 no. 75/2021 of 03.11.2021

Perpetrator of the crime: Natural persons - 2, domestic citizens - 2.

The criminal offense committed: *in the capacity of co-founder - partner and responsible person of the company "Kolubarski kroj od" from Vreoci, prepared business documents with untrue content, paid the total amount of 8,830,560 dinars to the bank accounts of companies under the control of OCG, after which the members of the OCG further layered the payments by transferring the funds to the bank accounts of various natural persons who, after withdrawing the funds in cash handed it to the members of the OCG, and then the OCG members, after retaining a fee of no less than 3.5%, handed the cash directly to P. Slobodan and P. Dušana in the amount of 38,755,561.86 dinars, which they kept as property with the knowledge that the property originated from the criminal activities of an OCG.*

In the cases of money laundering, legal entities in the form of cooperatives and associations were also identified, namely 4 cooperatives and 4 associations, of which 2 were sports associations related to automobile sports. An analysis of the data in the register has shown that the same natural person accused of money laundering appears in different roles in different entities (association representative and cooperative member).

Table: Overview of legal entities involved in cases which ended in final court judgments by founder, status, amount of founding capital and number of employees

Involved legal entities in final court judgments																
Status and amount of capital	Number	Resident founder	Non-resident founder	Foreign legal entity	Active	Compulsory liquidation	Bankruptcy	Stricken off	Amount of founding capital			Number of employees				
									From 100 - 10,000		From 10,000- Over 100,000	No employees	Up to 5	Up to 50	Over 50	
									Until 2000	Over 2000						
LLC	68	65	2	3	41	1	6	27	33	6	4	10	45	5	3	1
Partnership	1	2					1							1		

Most of these business entities - LLCs, were in the status of an active company at the time of this analysis, 41 of them, while 23 were stricken off in the process of forced liquidation, and 6 were in bankruptcy.

In relation to the business entities stricken off from the register, seven of them were stricken off in the compulsory liquidation procedure due to failure to submit financial reports within the prescribed period, and they were therefore also reported for committing economic offenses. Four were stricken off following the end of bankruptcy proceedings, and five more are in bankruptcy and one is in compulsory liquidation proceedings. In addition to the failure

to submit financial reports, a frequent reason for compulsory liquidation proceedings is the situation in which companies are left without a legal representative for more than three months.

Of the active business entities at the time of this analysis, 8 businesses have had their business account blocked for a period longer than a year, and were subject to active measures of temporary restriction of personal rights - tax control and debt under enforced collection of over RSD 500,000.00, and in some cases over RSD 170,000,000.00.

Only one LLC is subject to audit, and 19 have an external accountant. In several cases, the same person was an accountant for several involved companies, and that accountant was also involved in money laundering in the capacity of entrepreneur.

In the period 2021 - 2023, only 17 limited liability companies reported business income in their financial statements ranging from 8,000.00 dinars and going up to over 400,000,000.00 dinars, while only two companies have stated loss in the financial statements they filed.

Data on registered activity is essential for assessing the sector's representation in ML cases and their exposure. It is based on these data that we concluded that money is most often laundered through layering in the trade sector, which at the same time was mostly used by OCGs to carry out fictitious transactions.

Table: Overview of the registered main activity of the companies involved in the final ML court judgments

Overview of the registered activities of the involved legal entities		
Registered activity (area)	Name of registered activity	Number of companies
Wholesale trade	Non-specialized	24
	Fruits and vegetables	2
	Waste and leftovers	1
	drink	1
Retail trade		3
Trade in cars and light motorcycles		7
TRADE SECTOR, TOTAL		38
Construction	Construction of residential and non-residential buildings	4
	Preparatory construction sites	3
	Other final works	1
	Construction of roads and highways	1
CONSTRUCTION SECTOR, TOTAL		9
Service activities	Restaurants, road transport, cleaning of buildings	7
Consulting and administrative office services		2
Information service activities		2
Accounting and bookkeeping		1

From the point of view of registered activity, the largest number of companies involved is registered for trade - 38, while 9 are registered in the field of construction. The remaining companies are registered for various service activities, different production from plastic packaging, textile products to construction carpentry, and one for accounting and bookkeeping. In addition to the registered main activity, all companies can engage in all other activities that set out in the founding act of the company, and their number is not limited, on condition they are not illegal activities or those subject to special legal requirements. In the previous risk assessment, the largest number of involved business entities had registered economic activity in the field of construction.

According to the data of the SBRA, these businesses and entities are classified by size and are mostly classified as micro (28) and small (6), while the rest are not classified by size. In terms of the number of employees, it was mostly about companies without employees, and the largest number of employees was recorded at one company, 76.

Table. Classification of the involved business entities by size - active at the time of the analysis

Size →	MICRO	SMALL	MEDIUM	LARGE	Unclassified
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Form of organization ↓					
LLCs*	28	6	-	-	31
Cooperatives	4				
Associations	4				
Partnerships	1	-	-	-	-

Also, for all active entities on the day of the analysis, the beneficial owner was registered based on OSV 1²⁰⁶ and that same person who is also registered in the status register as the owner of the share. In the two involved legal entities, a person who was registered as an entrepreneur in the observed period appears as a member and beneficial owner.

All business entities operated in the domestic jurisdiction, mostly registered with headquarters in Belgrade, Novi Sad and Niš, economic centers where the economic activity is most concentrated and where largest number of registered business entities are located.

An analysis of data in the Register of Building Permits for the involved business entities identified two business entities, one of which is a legal entity that is registered as an investor in 3 cases at this Register, and one legal entity that is the majority owner of an involved company which is recorded in the Register of Building Permits as an investor in 14 ongoing Register cases with 28 approved requests, i.e. building permits were issued to it as the investor and 3 as the financing party. In this specific case, we talk about a company with 2 employees whose main registered activity is retail trade.

Example 1.

A company in the form of a LLC with one founder, who is a natural person convicted in an ML case, classified as small company, with a registered capital of over RSD 200,000, having two employees and registered main activity of retail trade in metal goods, paints and glass in specialized shops, whose legal representative is the second defendant in the ML case, appears in the register of building permits for a total of 3 permits as a financier, 14 as investor, for locations outside the headquarters of the company – for constructing commercial or residential buildings. The company is not subject to audit and has an external accountant. Total revenues of the company, which was still active at the time of the analysis, as on December 31, 2023. amount to RSD 85,813,000.

Example 2.

Convicted person AA, is the owner of the entrepreneur's business BB - entrepreneur AA, whose business activity is other installation works in construction, and at the same time the only member with a 100% share and BO registered with CRBO under OSV 1A, a company with the same name BB, in the legal form of LLC, whose founding capital is over RSD 300,000, without employees, is not subject to an audit, whose registered legal representative is natural person CC, who is also the external accountant of this company. The business income of this LLC, which was active at the time of the analysis, as on 31.12.2023, amounts to RSD 11,000, and is classified as micro company, with a net profit of RSD 1,231. The company appears in the Register of Building Permits in only one case, as a contractor.

Entrepreneur's business BB - entrepreneur AA, was registered in the register of construction permits as an investor in 14 ongoing cases and 28 positively resolved claims whereby building permits were issued, of which he was registered as a financier in 3. The sole proprietorship operates with a net profit stated in the financial statements of over 46,000,000 RSD.

If we look at the structure of the business entities, as well as the way they are established and perform their activities, from the point of view of money laundering, it can be **concluded that small businesses, and especially limited liability companies, are the target and most vulnerable category of business entities.**

*Based on the data from the adjudicated cases, it can be concluded that **the company most often involved in the process of money laundering is a single-member limited liability***

²⁰⁶ Based on Article 3, paragraph 1, point 3) of the Law on CRBO, which stipulates that the real owner is (1) a natural person, who directly or indirectly holds 25% or more of shares, shares, voting rights or other rights, on the basis of which he participates in the management of the Registered Entity, i.e. participates in the capital of the Registered Entity with 25% or more shares;

company, whose registered member and recorded beneficial owner is a domestic citizen, whose registered share capital is most often above the legal minimum, i.e. greater than RSD 1,000.00, and whose registered business activity involves the trade sector. It is a company, which is classified as micro or small, which is not subject to audit, has no employees and which in the submitted financial reports shows that it operates without losses.

Table: Model of the most represented legal form and the business status of the involved business entity in final ML cases - Status data 1

Legal form	Number of members	Member type	Citizenship of the member	Registered beneficial owner	Basis for recording the beneficial owner	Citizenship of the BO
LLC	1	natural person	Serbia	yes	OSV 1	Serbia

Table: Model of the most represented legal form and business status of the involved business entity in final ML cases - Status data 2

Registered share capital	The most prevalent main activity	Territory of business	Size	Subject to audit
>1,000.00	Wholesale and retail trade	Serbia	Micro	no

In the final court decisions, 52 entrepreneurs, domestic citizens, were also involved. Eight of the convicted entrepreneurs used, as owners of sole proprietorships, this form of organization on several occasions, by re-registering after being stricken off from the register, mainly for the same or similar sectors and for similar business activities for which they had previously been registered. Three entrepreneurs simultaneously played a role in the companies involved in the money laundering process, in the capacity of founders (members) or legal representatives.

At the time of the analysis of this data, the largest number of entrepreneurs was stricken off from the register, while 2 of the active entrepreneurs have their business account blocked for more than 400 days. Nine of the active entrepreneurs who were classified as micro (8) and small (1), who also had the obligation to submit financial reports, showed therein a profit with income ranging from over RSD 700,000 to over RSD 60,000,000. The largest number of active entrepreneurs had no other employees, except one who had 17 employees.

Table: Overview of entrepreneurs involved in ML schemes

Business entities Legal form	Registered in Serbia	founders		size			Stricken off
		residents	non-residents	micro	small	unclassified	
Entrepreneurs	52	50	2	9	1	9	30

Four entrepreneurs had external accountants, but none of them submitted an SAR, in the capacity of obliged entity under the AML/CFT Law.

Eight entrepreneurs from the total number were registered for accounting, bookkeeping and auditing jobs; tax consultancy, or as accounting agencies and were actively involved in the money laundering process. According to the data from the case, it was these persons who designed the money laundering scheme and used other business entities in this scheme for whom they kept their business books.

In the final court decisions, three persons who performed the duties of accountant, all three being entrepreneurs, were convicted.

Case study:

The accountant, the owner of the accounting agency, gave advice on the establishment of companies and, in agreement with other defendants, founded companies using her professional capacities for establishing companies and managing their financial affairs. She gave advice for the establishment of these companies and created untrue documentation that was used and recorded in the business operations of the companies and on the basis of which tax returns were submitted. **False tax returns:** False documentation was used, including fictitious invoices for alleged sales of goods that did not exist in reality. With these documents, false tax returns for VAT refunds were made. **Withdrawal and transfer of money:** After the VAT refund was approved on the basis of false returns, the money was withdrawn and transferred to the account of the accounting agency. These funds were then used for personal needs or were transferred to the agency's account under the pretext of alleged bookkeeping services. **Products used:** In this case, bookkeeping services were formally used to conceal the true nature of the transactions. In reality, this service served as a cover to conceal ill-gotten gains. **Total amount of laundered money:** The total amount of money laundered in this case is 139,650 euros.

It is interesting that two natural persons who were registered several times as entrepreneurs - bookkeeping/accounting agencies, often used a similar name in their registered business name. Both entrepreneurs were connected to other legal entities, i.e. a cooperative that was also involved in money laundering.

Table: Registered activities of entrepreneurs involved in ML cases

Areas of registered activity of entrepreneurs	
Construction	27
Accounting, bookkeeping and audit work: tax consulting	8
Hospitality	5
Production of plastics	1
Consulting activities	3
Animal breeding	2
Office-administrative and auxiliary jobs	1
Construction carpentry production	1
Transportation of passengers	1

Joint-stock companies, as a legal form, were not targeted by money launderers in the observed period because the conditions for their establishment are more strictly prescribed, they are structurally more complex, and require a larger number of persons and capital.

The number of joint-stock companies is decreasing year by year, and in the observed period, no joint-stock company appeared in ML cases. The conclusion is that they are at a low level of threat, i.e. risk, bearing in mind the fact that data on shareholders is completely transparent and that there is almost no possibility of concealing the beneficial ownership.

In the cases of money laundering, 4 associations appear as entities involved in money laundering, but their level of threat is rated as medium. Namely, associations as a legal form appear only in two situations, in order to withdraw funds from the business accounts, in one case from the association's bank account, and in other cases, associations were used as part of a scheme to withdraw funds from the accounts of other business entities..

Case study 1 – Depletion of Association’s bank accounts

Suspect Ž.M. is the de facto owner and authorized person for the accounts of the Automobile Sports Club " AA" and the Automobile Sports Association "A A1" Zaječar, transferred money from the bank accounts of these associations, based on the fictitious invoices made out by a large number of sole proprietorships provided to him by suspect J.V. (accountant), in the total amount of 3,960,000.00 dinars to their business accounts, after which suspect J.V. arranged for the funds to be withdrawn and returned to suspect Ž.M.

Case study 2 – Use of Association to issue fictitious invoices

Suspect Z.M. made the account of his association "BB" available to another suspect, M. S., who paid the amount of 125,000.00 dinars from the bank account of his company LLC "DD" without a legal basis to the account of the aforementioned association, from whose account Z. M. withdrew the money and returned to suspect J. V., and she then returned it to Z.M., as the originator, based on fictitious accounts.

Both Associations were used to extract funds from legal cash flows and enabled the payers to reduce their income, i.e. increase their expenses, and avoid paying company income taxes in the amount of the tax liability.

In the first study, the Association transferred money based on fictitious invoices made out by sole proprietorships.

In second study, the Association was misused to make out its own fictitious invoices, based on which money was extracted, i.e. its criminal origin disguised.

In both cases, the accountant was actively involved in the money laundering process.

Case study 3 – Tax officer and an association’s legal representative

Suspect F.K. was the legal representative of Association "O" and at the same time a tax officer of the Tax Administration in the Department for Tax Accounting in N. Using his position as a tax officer, he made fraudulent (untrue) Tax Administration decisions, approving the refund of more or incorrectly paid amounts of Republic administrative fees, based on of which the alleged refund of the fees was made to the account of Association "O" in the total amount of 82,361,894.23 dinars. *After the transfer of this money to the bank account of the Association, he withdrew the money and used it for his own needs.*

The account of the association was used to obtain illegal proceeds for a natural person.

The business structures of 4 cooperatives were used in an almost identical way, and their level of threat was assessed as medium.

Based on the data presented so far, in addition to the limited liability company, the most represented legal form among the involved business entities is the entrepreneur.

The reasons for the susceptibility and use of these business entities in the process of money laundering are: extremely simple form of establishment and registration, as well as the amount of capital, more flexible business conditions in the application of bookkeeping and accounting regulations, the possibility to increase the net profit without a lot of paperwork and decisions with lower tax rates on profit or income from independent activity and, and as a legal form is more acceptable and accessible to a wider circle of natural persons. Based on collected and analyzed data in money laundering cases, entrepreneurs most often appear as participants in fictitious transfers of funds from limited liability companies as originators in the sense of avoiding or reducing tax obligations and greater opportunities to withdraw funds from the account, without taxation.

Summary:

The analysis of participation of companies in money laundering cases highlights that business entities, especially small companies, play a central role in laundering illegal funds. The most common method of money laundering is through fictitious transactions, whereby false invoices and documents are used to simulate business activities that actually did not occur. These entities are often controlled by organized crime groups and are used to transfer and integrate dirty money into the legitimate financial system. The analysis of 140 cases of money laundering reveals that 130 business entities were involved in the money laundering process, and most of them are limited liability companies (LLCs), along with entrepreneurs and cooperatives. Most of these companies *are registered for activity in the trade sector, classified as micro or small, not subject to audit, without employees and whose submitted financial reports show that they operate without losses.* LLCs are also commonly used for tax avoidance and funds withdrawal purposes. Joint-stock companies are generally not abused, due to the more complex regulatory framework and monitoring mechanisms, while associations and individual entrepreneurs show a certain level of exposure to threats.

These trends generally prove that money launderers in Serbia tend to use simplified schemes involving smaller entities such as LLCs and entrepreneurs (sole proprietorships), which have minimal regulatory requirements, lower controls and flexible accounting practices, allowing them to easily conduct fictitious transactions. These companies often lack significant capital and often operate for a limited time, after which they cease to exist or are liquidated.

An exception is the emerging trend of professional accountants setting up and running money laundering operations, as identified in a number of cases.

Impact on risk:

Use of "shell" companies: Companies (predominantly in the form of LLCs) without real business operations are often used for money laundering through fictitious transactions.	+3 significant increase in probability for ML/TF
Involvement of organized crime: The use of multiple related entities under the control of organized crime groups increases the risk of laundering large sums of money through complex financial transactions.	+3 significant increase in probability for ML/TF
Fictitious business transactions: Creating fake invoices and fake business relationships to justify cash flows without real economic activity is common tactics used to launder money.	+3 significant increase in probability for ML/TF
Lower threat to joint stock companies: criminals generally avoid JSC due to the more complex regulatory framework	-1 small probability decrease for ML/TF
Certain association exposure: used primarily in the later stages of the money laundering scheme, e.g. for withdrawing funds	+1 small probability increase for ML/TF
Certain exposure of individual entrepreneurs: used as a link with other entities in the money laundering chain	+2 partial probability increase for ML/TF
Increasing sophistication of money laundering cases involving professional accountants	+3 significant increase in probability for ML/TF

4.2.2. Analysis of involvement of business entities in organized crime cases

In order to understand the involvement of legal entities - business entities in money laundering by organized criminal groups, the cases of investigations and indictments of the Public Prosecutor's Office for Organized Crime were analyzed, i.e. cases involving legal entities; data of the Serbian Business Registers Agency on the status and the business profile of these business entities, the Tax Administration data on the tax status of the companies involved, data of the Administration for the Prevention of Money Laundering on the SARs filed, as well as data from other state institutions.

A total of 64 business entities were involved in the investigation and indictment cases, 56 of which were in the form of limited liability companies, 6 entrepreneurs, one partnership and 2 registered agricultural holdings whose founders were domestic natural persons.

In the period 2021 - 2023, a total of 10 investigative procedures were initiated against 55 natural persons for committing the criminal offense of money laundering, and 7 indictments were filed against a total of 36 persons.

The analysis of the subjects of the investigations revealed 16 business entities who were involved in the process of money laundering, namely: 15 in the form of LLC, 1 in the form of entrepreneur and 2 registered agricultural holdings. 15 domestic business entities (all of them) are registered as single-member companies, the founder of which is a domestic natural person, the defendant, which also applies to 1 entrepreneur.

Therefore, the largest number of involved legal entities has a simple ownership structure, except in two cases, where one company had a legal entity as a member, i.e. another limited liability company, and in another case a foreign company appeared in the ownership structure.

Table: Business entities involved in the cases of organized crime money laundering investigation

Legal form	Registered in Serbia	founders		Amount of founding capital	
		residents	non-residents	From 100 to 10,000 RSD	Over 10,000 RSD
LLCs	15	15	-	8	7
Entrepreneurs	1	1	-	-	-
Registered agricultural holdings	2	2	-	-	-

According to the data of the registration authority, the involved business entities are connected with 18 other companies in which they appear as a member or legal representative. All associated companies are also registered as limited liability companies.

At the time of this risk assessment, most of the involved companies were active (10), while 5 were stricken off from the register after the forced liquidation procedure. More than half of those included had no employees (8), while the rest employed from 2 to over 400 employees.

As for the size of these business entities, according to the SBRA data, they are classified as micro (2), small (2), medium (3) and large (1), while the rest are not classified by size.

Table: Business entities involved in money laundering investigations, classified by size

Size →						
Form of organization ↓	MICRO	SMALL	MEDIUM	LARGE	Unclassified	Stricken off
LLCs*	2	2	3	1	2	5
Entrepreneurs	1	-	-	-	-	-

In the observed period, 6 companies were subject to audit, and 5 had an external accountant, and in the financial reports, 6 companies showed a profit with an operating income of at least RSD 3,000,000.00 and up to over RSD 12,000,000.00 million.

For example, one of the involved companies with a registered activity - trade in flowers and seedlings, in the last financial reports showed a profit of over 90,000,000.00 dinars, and an income of over a billion dinars with 84 employees. It is a company registered in the form - LLC, whose founder is a domestic natural person, with a registered founding capital of over 20,000,000 rsd, and which is connected to three other business entities in the same form of organization, two of which are active and one in liquidation. This company has a branched network of foreign suppliers, which the members of the organized criminal group recognized, so the delivery vehicles of this company were used for the illegal transfer of foreign currency, made from drug trade in the countries of the European Union.

In the case of 8 business entities, the registered capital was at the level of the legal minimum of 100 dinars (6), or 1,000.00 dinars (2).

All active companies registered the beneficial owner based on OSV 1²⁰⁷, i.e. a domestic natural person who is also registered in the status register as a direct or indirect shareholder.

The analysis of the data on the registered predominant activity of these business entities shows that no activity is significantly represented in relation to others, but the data worth noting is that 7 related business entities are registered for the construction of residential and non-

²⁰⁷ Based on Article 3, paragraph 1, point 3) of the Law on CRBO, which stipulates that the BO is (1) a natural person, who directly or indirectly holds 25% or more of the share (stake), shares, voting rights or other rights, on the basis of which he participates in the control of the Registered Entity, i.e. participates in the capital of the Registered Entity with 25% or more shares (stake).

residential buildings. When this is analyzed from the point of view of the sector in which the laundered money was most invested in these cases, i.e. the real estate sector, it is clear that organized criminal groups most often try to conceal illegal proceeds through the business operations of business entities.

Table: Overview of the registered main activity of the involved business entities and related legal entities

Registered main activity	Involved companies	Related companies
Construction of residential and non-residential buildings	1	7
Production of other food products		1
Mortar production		1
Consulting activities related to business and other management		1
Maintenance and repair of motor vehicles	1	
Brokerage deals with securities and stock exchange goods	1	
Non-specialized wholesale trade	2	
Wholesale of flowers and seedlings	1	
Regular building cleaning services	1	
Private security activity	2	
Facility maintenance services	1	1
Security system services		1
Non-specialized wholesale trade	1	1
Production of other products from wood, cork, straw and wicker	1	
Non-specialized wholesale trade	1	
Private security activity	1	
Cultivation of grain (except rice), legumes and oilseeds	1	2

The data related to the links between business entities involved in the organized crime cases with the real estate sector were also considered. We found that these are active companies, mainly recorded in the Register of Building Permits in different roles, in no more than four files, except for one company which was recorded, as on the date of this analysis, in the role of investor in 5 construction files, as a financier in 2 and as a contractor in 118 files.

The involved company whose main registered activity is the construction of residential and non-residential buildings is registered in the Register of Building Permits as an investor in 5 construction files, as a financier in 3 and as a contractor in one (1) case.

The defendant, the owner of a company registered for the construction of residential and non-residential buildings, in order to obtain a public procurement for the construction of the building, gave a bribe in the amount of 154,000 euros, i.e. one residential unit, to a civil servant - assistant minister. After receiving the money, the civil servant made the alleged purchase of an apartment through another involved legal entity, and the criminal origin of the money was concealed with the help of a bank employee, a relative of the civil servant who, without his presence, made payments of the converted amount of the received bribes to his father's account and transferred the money for the purpose of paying the alleged purchase price. The business entity from which the apartment was purchased is a related legal entity to the bribe giver.

Defendants - natural persons in investigation cases, 25 of them, appear as founders, legal representatives and members of a total of 47 business entities. The largest number of these business entities was registered in the form of a limited liability company 33, while 11 were registered in the form of entrepreneur, 2 in the form of housing cooperative and one legal entity was in the form of an association. LLCs are most often registered for wholesale trade, development of construction projects, consulting services, bookkeeping and accounting services, rental and leasing of cars and light engines, performance of non-specific construction

works. Out of 33 LLCs, 14 of them were stricken off from the register, 1 is in compulsory liquidation and 2 in voluntary liquidation, and the remaining 16 are in an active status. The defendants in the ML cases were also owners of 11 sole proprietorships, 7 of which were stricken off from the register. The registered activities of one of the sole proprietorships are bookkeeping and accounting services and audit services, but also represented are retail trade, consulting and information services. In addition to companies, one natural person - the defendant - is also connected with one foundation.

An examination of the defendants' details in the money laundering cases and their connection with business entities has showed that all the companies were single-member companies in which the defendant was the only member, and most of them are classified as micro and small companies. In their financial statements that mainly stated they operated without profit, with revenues up to over 100 million dinars. The registered share capital was in all cases above the legal minimum of 100.00 dinars.

In the period 2021 – 2023, the Public Prosecutor's Office for Organized Crime filed 9 indictments against a total of 125 natural persons, 60 of which were charged with ML. An analysis of the business entities' form in the indictments of the Public Prosecutor's Office for Organized Crime has shown that the following were involved in the ML scheme: 41 LLCs, one partnership, whose members-partners were two domestic natural persons – ML defendants, as well as 5 entrepreneurs, domestic natural persons. The analysis also showed that 24 legal entities had the characteristics of phantoms and 22 legal entities had the characteristics of launderers.

Looking at the LLC ownership structure, we notice that these are mostly single-member companies where, in the majority of cases, a domestic natural person is the only member or founder. In one company, the founder/member was a domestic legal entity.

Table: Business entities involved in organized crime money laundering indictments

Legal form	Registered in Serbia	founders		Amount of founding capital	
		residents	non-residents	From 100 to 10,000 RSD	Over 10,000 RSD
LLCs	41	41	-	22	19
Entrepreneurs	5	5	-	-	-
Partnerships	1	2			

Most of the companies have been stricken off from the register in the meantime, and at the time of the analysis, 14 of them were active. The largest number were stricken off after the compulsory liquidation procedure was carried out.

The active companies are classified by size into micro (2), small (2) and medium (3), while the rest are unclassified. Since the classification is made according to the results in the financial statements for the previous year, it is assumed that the unclassified companies had not submitted their financial statements in the current year, which can be one of the grounds for liquidation of the company. A misdemeanor report was filed against three companies due to violations of the Law on Central Records of Beneficial Owners.

Table: Involved business entities in indictments in organized crime cases

Size → Form of organization ↓	MICRO	SMALL	MEDIUM	LARGE	Unclassified	Stricken off
LLCs*	2	2	3		7	17
Entrepreneurs	5	-	-	-	-	-

The involved companies most often have no employees; however, in 12 companies, the number of registered employees ranged from 2 to 80 people, with 3 companies having more than 200 employees.

A total of 15 business entities have or used to have a registered founding capital in the amount of the legal minimum, i.e. RSD 100. In 4 companies the registered capital is 1,000 RSD, in 3 the registered capital is 10,000 RSD, while in others it ranged from 50,000 to over 20,000,000 RSD, with the largest registered founding capital being over RSD 500,000,000.00 in one of the companies.

From 2021 to 2023, the public Prosecutor's Office for Organized Crime filed 9 indictments against a total of 125 natural persons, 60 of whom were charged with ML. An analysis of the organizational forms of business entities involved in indictments by the PPOOC shows that the company with the largest registered capital is an active LLC, whose founder is one natural person and one legal entity, registered for - building maintenance services, classified as medium in size, with operating income of RSD 1,273,049,000, net profit of 78,728 RSD and a total capital of 928,467 RSD. The company is subject to auditing and has an external accountant, also an independent company organized in the legal form of an LLC. The involved company is related to 8 other companies in which it is the only member and which are classified as micro, with a founding capital of 1000 dinars. Of the related companies, 3 have been stricken off, and five are active, and all five are without a single employee; 4 generate business income and operate with a profit, while one reports a minimal loss.

Interestingly, the defendant - a natural person who, at the time the criminal proceedings were initiated, was the founder of this Belgrade-based company, and who actually controlled the operations of three other companies, was a co-organizer of an OCG, which had the aim of using untrue (fraudulent) business documentation to "deplete the funds" from the bank accounts of these business entities, so that the defendant could handle them freely. To achieve OCG aims, the second co-organizer makes available to the organized group his Mladenovac-based LLC, which does not have any genuine business, and at the same time recruits, as OCG members, four more natural persons, owners of companies from Novi Sad, to participate in the chain of transactions. In addition to these companies, the members of the OCG established two more companies and, together with other OCG members, hired the owners of registered agricultural holdings who, following the financial transactions between the business entities controlled by OCG, withdrew funds from of their own of registered agricultural farms within the permitted daily withdrawal limits. The withdrawn cash was finally returned to the co-organizer of the Belgrade-based company through OCG members.

In this way, the money in the amount of 80,448,196.00 RSD (670,401 euros), which was transferred from the bank accounts of companies from Belgrade and distributed through the chain of companies from Mladenovac and Novi Sad to agricultural farms, was withdrawn in cash and handed in cash to the Belgrade-based OCG organizer, less a fee.

The predicate criminal activity is tax crimes, because using untrue (fictitious) invoices for procurement of goods and services that did not take place the Belgrade-based company's operating income was understated, which had the effect of reducing or avoiding tax obligations both for companies as well as for accused OCG organizer - as natural person.

The involved companies, 26 of them, were characterized as launderers and 22 as phantoms. These companies – as legal entities were not subject to criminal proceedings because they are micro companies without any assets, with minimal founding capital, without any real business operations, i.e. they are shell companies.

When it comes to the Belgrade-based companies, which are actually controlled by the OCG organizer, criminal charges for tax crimes were filed against this person by the Tax Police, to the competent prosecutor's offices.

The registered main activities of the Belgrade companies of the scheme organizer are trade, production and consulting services, private security and regular cleaning of buildings, while the registered activities of the companies used in the scheme for the layering of funds are, in addition to the above, non-specialized wholesale trade in beverages, production of other products from wood, straw and cork, cultivation of grain, legumes and oilseeds, etc.

The initial information in this case was provided by the Administration for the Prevention of Money Laundering in a dissemination.

Cash flows were monitored and analyzed by the PPOC financial forensic.

The financial statements of the active business entities show operating profits in the range from RSD 28,000 to over 98,000,000 RSD, with business income ranging from 500,000 to over two billion dinars.

All involved business entities registered their beneficial owner under OSV 1, i.e. a natural person who is also a member of the company, and for a partnership both members of the company were registered as beneficial owners.

Regarding the registered predominant activity, most of the business entities in the form of an LLC were registered for wholesale trade at the time of the commission of the crime (26), of which the largest number were stricken off from the register (22) at the time of the analysis. Other registered main activities vary, and none is predominant. It is interesting that 6 related business entities have engineering activities and technical consulting as their main registered activity. The only partnership has a registered activity of mediation in the sale of textiles, clothing, footwear and leather, and it is currently in bankruptcy.

Description of activity	involved business entities	related business entities
Non-specialized wholesale trade	26	1
Other specific construction works not mentioned	1	
Facility maintenance services	1	1
Consulting activities related to business and other management		2
Engineering activities and technical consulting		6
Regular building cleaning services		1
Private security activity	2	1
Security system services		1
Collection of hazardous waste	1	
Other unmentioned social protection without accommodation	1	
Examination of the terrain by drilling and probing	1	1
Construction of roads and highways	1	
Production of lime and gypsum		1
Production of other products from wood, cork, straw and wicker	1	
Road freight transport	1	
Reuse of sorted materials	1	
Production of paints, varnishes and similar coatings, graphic paints and putties	1	
Dismantling wrecks	1	
Cultivation of grain (except rice), legumes and oilseeds	2	
Distribution of gaseous fuels by pipeline	1	
Renting and leasing of other machines, equipment and material goods	2	
Other business support service activities	1	
Wholesale of flowers and seedlings	1	
Construction of residential and non-residential buildings	1	1

Table: overview of the registered predominant activity of the business entities involved in the indictments - organized crime

An analysis of data in the Register of Building Permits has identified the involved business entities, namely one company appears as an investor in 5 construction files, as a financier in 3 and as a contractor in 1 file. It is interesting that one company, whose registered main activity is the construction of roads and highways, was recorded as contractor in 221 construction permit files. Also, one company appears in the role of contractor in 4 files.

By looking at the involved companies and their roles in other companies, i.e. their connections, we have found 5 companies as being linked to a total of 14 other companies - LLCs. Nine related companies were linked to one involved company in which he was the only member and founder, while the rest are linked to 4 other companies. In addition to companies, there were also 6 entrepreneurs and one cooperative associated with the involved business entities. Also, the entrepreneur who participates in the money laundering chain is connected to an LLC of which he is a member. Related legal entities are usually micro business entities,

which have stated operational profit in their financial statements, with revenues over 5 million dinars, and have a registered founding capital which is around the legal minimum, usually in the amount of 1,000 RSD.

As for the accused natural persons, 55 of them were found to be connected with business entities, as they appear in the capacity of founder, member or legal representative of a total of 87 business entities, of which 57 are in the form of LLCs, 20 in the form of entrepreneur, 3 in the form of a partnership, 3 citizens' associations, 2 housing cooperatives, 1 joint-stock company, 1 sports association, and 2 registered agricultural holdings.

In organized crime cases, in the period 2021 - 2023, a total of 40 orders were passed prohibiting the disposal of property against 29 legal entities - LLCs, i.e. of movable property (cars) and dozens of immovable properties (land, residential buildings, office buildings, garages), which have been valued at over two million euros. Namely, for many of the immovable properties the prohibitions are related to the data entered in public registers, which do not include data on the value of buildings or land, but are specified by address, number, area, cadastral municipality, plot number, or in the case of movable property - brand, model, type of vehicle, year of production, or registration number. Six luxury vehicles were seized from an LLC.

The most commonly incorporated form is a single-member LLC, whose registered member and registered beneficial owner is usually a domestic citizen, with the registered share capital most often above the legal minimum and more than RSD 1,000.00 and the most often registered predominant business activity being in the trade sector. It is a company whose seat is in the territory of the City of Belgrade, classified as micro company, and is usually not subject to audit. These business entities that are still active state in in their financial statements that they operate without losses, and mostly have a registered founding capital of up to RSD 10,000; however, almost the same number of business entities have founding capital of over RSD 10,000 and in a few cases over RSD 500,000. When looking at the data from the ML cases these companies were involved in, we conclude that there are two categories of involved companies: companies that actually operate and companies that are legally established but do not have any real operations. Companies that actually operate, in order to reduce tax obligations, use the business structures under the control of OCGs, in order to deplete cash from the bank accounts of business entities. Businesses that were founded by OCGs, "provide the service" of issuing false invoices, according to which payments are made for goods or services that were not actually procured or performed, and as professional money launderers, through a series of financial transactions between "their own" businesses, enable the payers of funds to eventually handle the cash in an unhindered manner, which would otherwise constitute the company's income that would have been taxed. The involved companies that do not perform any business activity were founded with the sole purpose of enabling their founders, i.e. members of an OCG, to acquire proceeds in the amount of the agreed fee, usually not less than 10% of the amount of the money paid based on fictitious accounts. Most often, these companies are the so-called phantoms or launderers, i.e. shell companies, with minimal founding capital and no assets or employees, which only operate for a specific period of time after which they are terminated – stricken off from the register (most of these companies had already been stricken off from the register at the time of this analysis). Most often, the accounts of these companies were used for a large number of money transfers based on fictitious legal transactions, in order to "swirl" the money through the banking sector and thus create the appearance of legitimate income.

In just one case of the Public Prosecutor's Office for Organized Crime, the ML scheme included more than 15 business entities from all over Serbia, mostly LLCs and 5 sole proprietorships,

whose bank accounts were controlled by one natural person - the organizer of the criminal group - through electronic banking and whose "services" he used.

Of the total number of business entities that were involved in money laundering in the cases of the Public Prosecutor's Office for Organized Crime in the observed period, more than half have the characteristics of launderers or phantoms and are essentially a so-called shell company. These business entities do not have any employees, their founders are persons of vulnerable social status who agree to register business entities in their name with minimal financial compensation. A review of the money laundering cases has confirmed that at least 25 business entities involved in money laundering were under the control of OCGs, while their "services" of issuing fictitious invoices were used by at least as many business entities with actual business operations (31). This method of operation took place in the domestic jurisdiction only, whereby banking sector was used for domestic payment transactions, most often through e-banking applications. All involved legal entities were registered in Serbia, they have a simple ownership structure, i.e. they are one-member companies.

Table: business entities involved in organized crime money laundering cases.

Business entities Legal form	Registered in Serbia	founders		Amount of founding capital	
		residents	non- residents	From 100 to 10,000 RSD	Over 10,000 RSD
LLCs	56	56		30	26
Entrepreneurs	6	6		/	/
Partnerships	1	2	0	0	1
Registered agricultural holdings	2	2			

Table: business entities involved in money laundering cases classified by size

Size →						Stricken off from the Registry
Form of organization ↓	MICRO	SMALL	MEDIUM	LARGE	unclassified	
LLCs*	7	9	8	1	31	22
Entrepreneurs	2	0	0	0	0	0
Partnerships	1					0

The model of the involved business entities does not deviate from the model that appears in the final court decisions.

Summary:

In organized crime cases, the general characteristics of abuse of legal entities are similar to the above described factors. An analysis of ML through organized crime reveals two distinct categories of companies: those that are genuinely operating and those that are legally established but do not perform any genuine business activity. Companies operating legitimately often use the business structures controlled by OCGs to siphon cash from their accounts, thereby minimizing tax liabilities.

In contrast, entities established by criminal organizations serve as professional money launderers, issuing false invoices for non-existent goods or services. These companies facilitate a series of transactions within an organized network, allowing money launderers to move money across different accounts and ultimately, make the cash available to criminal actors without detection. These entities do not employ staff, and their founders are often socially disadvantaged individuals who register companies in exchange for a small financial fee.

More sophisticated cases reveal complex networks of interconnected businesses, often involving foreign entities, used to move money across borders and conceal its origin.

The real estate sector is increasingly viewed as a target for money laundering, whereby illegal funds are invested in the construction and sale of real estate, thereby enabling the integration of dirty money into legal economic flows.	
Impact on risk:	
Facilitating tax evasion: organized crime provides services to companies with real (actual) trade to avoid taxes	+3 significant increase in probability for ML/TF
Concealment of ownership through phantom companies: LLC companies founded with the help of socially disadvantaged individuals (straw men)	+3 significant increase in probability for ML/TF
Interconnected entities: Significant cases involving complex networks of interconnected enterprises, often involving foreign entities, are used to move money across borders and obscure its origins.	+1 small probability increase for ML/TF
Integration of money in the real estate sector: construction companies and companies for the development of construction projects have been identified as entities linked to OCGs, in order to integrate dirty money into legal flows	+3 significant increase in probability for ML/TF

4.2. 3. Registered agricultural holdings in ML cases

An analysis of specific cases in which defendants were prosecuted for the ML offence has found that the perpetrators of this criminal offense appear in a large number of persons (entities) who hold **registered agricultural holdings (24)** and as individuals who have special-purpose bank accounts.

They most often appear as defendants as part of OCGs and organized groups involved in "professional laundering", and their role in the commission of the ML offence is to withdraw money that was paid into the accounts of agricultural farms and then hand the cash to the organizer or to the persons who hired them at the organizer's order. Therefore, they make transfers and conversions of money, i.e. they constitute the final step in the layering of dirty money. It was noticed that the employees of commercial banks insufficiently check the documentation that these persons attach when withdrawing the cash, and most often the documentation has nothing to do with agricultural activity, so it is evident that "professional launderers" too recognized this circumstance as a convenience.

Namely, according to the Rulebook on registration in the register of agricultural holdings and renewal of registration²⁰⁸ and on the conditions for the passive status of an agricultural holding, the agricultural holding must be registered electronically within the E-agrar platform, and in the course of registration it must submit proof that it has a dedicated bank account to which the funds generated by loans, premiums, recourse and subsidy will be transferred. The fact that this is a dedicated account – meaning it is intended for a specific type of transaction – already indicates that the account opened in this way can and must only be used for the needs of the agricultural economy. Although the purpose of this account is clear, it is most often misused to receive payments of money, which do not have the payment grounds that matches the purpose for which the account was opened.

Table: Total number of registered agricultural holdings

Registered agricultural holdings	
year	Number

²⁰⁸ Rulebook on registration in the register of agricultural holdings, data changes and renewal of registration, electronic processing, as well as on conditions for the passive status of agricultural holdings (Official Gazette of RS, 25/23, 110/2023, 3/2024)

2021	445.421
2022	467.278
2023	473.617

It is in the cases which ended in final judgments in the period 2021 - 2023 that the owners of agricultural holdings appear as perpetrators of the ML crime as part of organized groups. The activities of owners of registered agricultural holdings, aimed at money laundering, were identified in 1 case of money laundering involving organized criminal groups.

Case study:

In one case, money in the amount of 24,706,403.02 dinars was paid into the accounts of several agricultural farms. The money was then completely withdrawn from the bank accounts and returned to the originators. Owners of the farms used false documents, i.e. payment orders fraudulently showing that they allegedly sold fruit to receive payments to their accounts, and then they would withdraw the funds and returned it to the originator or intermediaries. In this case, the scheme organizers used the owners of agricultural farms who, according to a prior agreement, handed over to the defendants blank signed purchase lists, in which the defendants entered false information, i.e. overstated quantities of goods they were buying from the specific producer, and based on that documentation, they made payments to the bank accounts of agricultural farms with increased value, which the owners of the farms would then withdraw from the account, keeping a part of it for themselves (the amount of the value of the goods actually sold, i.e. the amount of the fee for the service rendered), and the rest of the money would be returned to the defendants.

In all the cases with final convictions, that involved persons facilitating ML using fraudulent financial transactions through fictitious purchase lists which were made available to the group's organizers, special-purpose (dedicated) bank accounts were misused in different ways. This indicates the need for increased future control of these entities, because they represent a risk form from the point of view of ML threat.

Also, the data of the Administration for Agrarian Payments, which since March 2023 maintains the Register of Agricultural Farms as a single, centralized electronic database, using the eAgrar software solution, shows that there are 26 active registered agricultural farms (holdings). All these farms were founded in the period 2008 – 2018. This supports the assumption that they were not registered only for the purpose of committing criminal acts, but in order to engage in actual agricultural activities, although the area of arable land for which a farm is registered is relatively small (5.9 ha on average) with a total of slightly over 150 hectares for all registered farms. Although the number of these business entities appearing in ML cases is slightly lower compared to the previous risk assessment, registered farms have been assessed, as in the previous NRA, to pose a higher ML threat given their role in the ML process, as forms of entity through which funds is most easily and often drained in cash, and given the deficiencies when it comes to controlling the flows of money.

At the same time, the data of the Administration for Agrarian Payments, which exclusively handles agricultural subsidies and keeps records of all debts to farmers and payout of subsidies to farms, suggests that a large number of the farms benefited from Government subsidies, i.e. from national aid measures for agricultural producers. This data is worrying, because it suggests that funds from the State Budget are allocated to persons who commit the ML crime and who enable other business entities to withdraw cash from their accounts, for further use, and to avoid paying taxes.

Table: Number of registered agricultural holdings involved in money laundering cases

Registered agricultural farms involved in ML cases			
Year	Number	Amount of subsidies used	Reported arable area (total)
2021	12	1,313,641.89	64.1331 ha

2022	3	84.309.00	11.4061 ha
2023	11		79.8152 ha
In total	26		155.3544 ha

Taking into account the number of farm owners who were involved in money laundering, the fact that they laundered money for organized criminal groups, and even by being their members, and the growing trend of the number of farm owners involved in these illegal activities, the conclusion is that this is a business structure which will pose an increased level of ML threat in the coming period.

Summary:	
Registered agricultural farms are increasingly being used in money laundering schemes, especially by organized crime groups. The owners of these farms open special purpose bank accounts for agricultural transactions, but they are often misused to withdraw illegal funds, which are then returned to criminal organizers. This puts the farms in the final stage of the money laundering process, where dirty money is turned into cash. From 2021 to 2023, 26 such cases were identified, and banks fail to properly verify transactions. Although the number of cases is relatively small, the ease with which cash is withdrawn and weak oversight make agricultural farms an increasing risk for money laundering.	
Impact on risk:	
Ease of account opening: Agricultural farms can open special purpose accounts for subsidies, which are often misused for non-agricultural transactions, making them vulnerable to money laundering.	+1 small probability increase for ML/TF
Failures in oversight: Commercial banks failed to verify documentation related to agricultural transactions, allowing easy withdrawal of illicit funds.	+2 partial probability increase for ML/TF
Cash transactions: The process often involves cash withdrawals, making it difficult to trace the flow of illicit money.	+2 partial probability increase for ML/TF
Involvement in organized crime: Some of these farms are directly involved / recruited by organized crime groups, who use them to launder large sums of money.	+3 significant increase in probability for ML/TF
Increased monitoring: Growing awareness of this risk and the involvement of government authorities such as the Agricultural Payments Authority may lead to increased control and preventive measures in the future.	-3 significant decrease in probability for ML/TF

4.2.4. Analysis of data on initiated criminal proceedings against legal entities

In the Serbian setting, bringing charges against legal entities, which are mainly fictitious companies, would not be effective considering that these entities often have no real assets, business or employees. “Shell” companies are usually established with minimal capital and exist solely to facilitate illegal activities such as money laundering. Once they have served their purpose, they are quickly liquidated or dissolved, making it difficult to recover funds or enforce legal penalties. In addition, the individuals controlling these entities can easily establish new ones under different names, continuing their business with little interruption. This creates a cycle in which a legal action against the companies themselves has limited impact, while the actual perpetrators behind the entities remain largely unaccountable.

However, when companies own real assets, especially in cases of fund integration, prosecutors bring money laundering charges (indictments) against them.

In the reporting period, indictments were brought against 2 legal entities and both are in the form of LLC. These cases too suggest that companies are most often used to conduct money

transfers through their accounts, which hide the trace and origin of the money, in order to create the appearance of legality.

Case study 1 (treska):

Accused S.S., moved without authorization into an apartment in Belgrade in No 5 Hilendarska St., whose owner was company "A" from North Macedonia. Based on a forged sales contract dated August 28, 2008, which was allegedly concluded between the company "A" from North Macedonia and the company "B", of which S.S. was the owner and director, he acquired the apartment for the benefit of company "B", based on a judgment of the Commercial Court in Belgrade. After registering the property rights on the said apartment, he, as the responsible person of company "B", sold the apartment to witness I.M. for the amount of 170,000.00 euros in the dinar equivalent of 18,853,507.90 dinars. After the witness I.M. paid that amount of money, he made fictitious loan agreements and based on such agreements he transferred part of the money, i.e. 92,980.00 euros in the dinar equivalent of RSD 10,546,697.20 - to the bank account of company "B", thus acquiring money for this company in the above amount even though he knew that it represented the proceeds of a criminal offense Forgery of a document from Art. 355 para 1 CC and the criminal act Unlawful Occupation of Premises from Art. 219 para 1 CC.

Case Study 2 (Institute of geodesy and civil engineering)

Accused S.S. moved into a 390 m²-warehouse in Niš, 42 Bovanska St., whose owner was company "A" from Croatia. On the basis of a forged sales contract dated 25/12/1992, which was allegedly concluded between company "AB" and company "B", of which he was the owner and the director, he acquired the warehouse, based on the judgment of the Basic Court in Niš, for the benefit of company "B". After that he registered the property as non-monetary capital of company "V", in which he was actually the responsible person, and then rented out this warehouse thus acquiring benefit for this company, i.e.: warehouse area of 390 m² in Nis, money in the total amount of 1,633,805.76 dinars as rent, while knowing at the time of receipt that the aforementioned warehouse space and the money represented income generated by criminal activity - the criminal offense of Forgery of a document from Art. 355 CC and the criminal offense Unlawful Occupation of Premises from Art. 219 para 1 CC

Data related to organized criminal groups were also specifically analyzed, suggesting that a many business entities in the form of LLC were involved in the ML process. Most often, the bank accounts of these companies were used to conduct a large number of money transfers based on fictitious legal transactions, in order to "swirl" the money through the banking sector and thus create the appearance of legitimate income.

In early 2024, Public Prosecutor's Office for Organized Crime initiated an investigation against 7 natural persons and one legal person. All suspected persons (both individuals and legal entities) were charged with the crime of money laundering under Article 245 of the CC. The legal entity is based in Serbia, and it is an LLC whose registered activity is the construction of residential and non-residential buildings.

The initial information about the criminal offense was obtained through international cooperation. The total value of the property that was the subject of money laundering amounts to EUR 3,113,659.00, of which EUR 872,592.00 was laundered through the defendant legal entity. The property that is the subject of money laundering originated from the Kingdom of Denmark, and was laundered in Serbia. Dirty money was invested in the construction and real estate sectors. In the specific case, there was intensive international cooperation with the Kingdom of Denmark, where the criminal activity was carried out and which generated proceeds that were invested in Serbia in the construction of a hotel complex on the Tara Mountain. In the course of the investigation, plea agreements were concluded with three suspects – natural persons, and based on one the agreements a final conviction was passed. In relation to the other suspects, the investigation is ongoing.

Case study:

Members of an OCG, which was involved, in the Kingdom of Denmark, in the illegal trade in narcotic drugs and the illegal trade in weapons and ammunition on the territory of the European Union countries, sent the money obtained through the commission of these criminal acts to Serbia through the accused AA and often through driver of travel agency "TT" from Denmark. Defendant AA invested the money in the real estate sector, i.e. in the

construction of commercial and residential buildings in the Belgrade area and apartments on the Tara and Kopaonik mountains. The sister of suspect AA founded the company "F.A." d.o.o. in 2015 as a single member company where it had a 100% share ownership, while the suspect AA had the capacity of the responsible person in this company as director and legal representative. Both defendants paid in the proceeds of OCG criminal activity as company founder's loan into the account of this company and then proceeded to the development of property in Serbia.

Company "F.A." d.o.o. was directly used to invest the proceeds in the construction sector.

In the course of investigation, defendant AA entered into a guilty plea agreement with the Public Prosecutor's Office for Organized Crime pleading guilty for the criminal offense of Association for the purpose of committing criminal offenses under Art. 346 of the CC and Money laundering from Art. 245 of the CC, which the court accepted, while the investigation in relation to the other suspects and the legal entity "F.A." doo is ongoing.

Defendant AA was sentenced to a prison term of two years and three months, a fine of 250,000.00 dinars was imposed on him, as well as confiscation of the money he had illegally invested in Serbia in the amount of 205,323.00 euros. This conviction also confiscated from the legal entity "F.A." d.o.o. one of the apartments built by this company, because it was built using proceeds from crime.

Summary:

Criminal prosecution of legal entities for money laundering is often unsuccessful, especially when it comes to fictitious companies that usually have no real assets or operations and disappear from the business map soon after facilitating illegal activities. These companies are registered with minimal capital and their business activity is not real, but is aimed at concealing the origin of funds, which makes it difficult to recover money or hold individuals accountable.

However, in cases where companies have significant assets, particularly in the real estate and construction sectors, they have been subject to criminal proceedings.

International cooperation is essential in monitoring and prosecuting cross-border money laundering cases involving organized crime.

Impact on risk:

Existence of international cooperation on cross-border money laundering cases involving legal entities	+1 slight probability increase for ML/TF
Criminal prosecution of subjects with significant assets	+2 partial probability increase for ML/TF
The focus of judicial authorities is on business entities in sectors with a high level of risk, such as real estate	+1 slight probability increase for ML/TF

4.2.5. Analysis of data from the Tax Administration on business entities and responsible persons of business entities involved in money laundering

The data of the Tax Administration was also specifically analyzed in relation to the criminal offense of tax evasion, as it is a criminal offense assessed as high level of threat for ML, and which is most often associated with companies. Also, the importance of this criminal offense for this analysis stems from the finding that business entities and their business structures are often used by OCGs with the aim of concealing traces and flows of dirty money.

An analysis of Tax Administration data on the number of criminal charges (criminal complaints/reports) filed for tax crimes against individuals and legal entities involved in the ML process, as found in final court decisions, suggests that the largest number of tax-related criminal complaints relate to individuals who appear as responsible persons in business entities, in the form of LLC, which were used to conceal the criminal origin of the money.

A total of 65 criminal complaints were filed against individuals convicted of money laundering in final convictions from 2021 to 2023. The criminal complaints filed also cover, in addition to the reporting period, the period before 2021. Data on the criminal complaints cover a longer period than the reporting period in order to assess the frequency of tax crimes and to assess the business purpose and goals of business entities in which these natural persons appear as responsible persons. The analysis of the criminal reports filed revealed that in the majority of cases, it is natural persons who are reoffenders in tax crimes, in the capacity of persons who

are responsible for business operations (director, legal representative or person who actually manages the business) of a business entity, most often established in the form of an LLC, and only in a few cases they are entrepreneurs. The total tax liability found as due on all tax grounds (VAT, profit tax, tax on other incomes) related to tax crimes identified in all the criminal reports filed amounts to 17,164,844.29 euros. The turnover that was included in these criminal complaints amounts to over eight and a half billion dinars, or 71,583,918.26 euros.

The criminal complaints for tax crimes involve responsible persons for 18 business entities involved in money laundering cases. Criminal complaints for tax crimes, looking at the total number of involved business entities (78), were filed only against responsible persons in business entities which are highly likely to pay the tax debt. Criminal charges for tax crimes were not filed against legal entities or business entities because the analysis of their business and tax status suggested that it was not realistic that the tax would be collected. The largest number of these business entities are not liquid, they have no assets or business income, they have no employees, they were founded with a minimal amount of founding capital, and the founders do not have any assets from which tax debt collection would be possible.

An look at the economic potential of these companies suggests that most of the involved business entities are small businesses that operate in a fixed period of time, long enough to make a certain turnover, usually according to what was agreed in advance, i.e. as long as it has conducted the fictitious turnover, because it is not followed by the movement of goods or service, as found by tax audits. These are business entities that generate large turnovers in a very short period of time, they do not keep the money in the bank account for a long time, and then just stop working and their business and accounting documentation becomes unavailable for tax controls and business checks.

An analysis of the data on the filed criminal reports has shown that 7 natural persons frequently appear as perpetrators of tax crimes in the capacity of responsible persons, since a total of 40 criminal reports were filed against these persons until 2023, and for some, even more, ranging from 4 to 12 criminal reports.

Case study – 12 criminal reports

Natural person M.T. against whom 12 criminal charges for tax crimes were filed since 2020, is related to 4 business entities, namely: 3 LLCs and 1 sole proprietorship. At the time of the analysis, all the business entities were stricken off from the register. All the companies were registered as single-member companies where the suspect is also the legal representative of the company, they have no employees nor assets. Of the 12 sub-categories of criminal charges, 6 are also charges for the ML criminal offense. The total damage to the budget as a result of the offences in these criminal charges amounts to EUR 1,507,924.60 (RSD 180,950,951.80).

According to the analyzes of the Tax Administration, the owners of shares (ownership interest) of a large number of these registered business entities are persons without legal capacity, socially vulnerable categories of people (homeless, vice-prone individuals living on the margins of society), who are ready to sign fictitious documents or to cede control of the company to persons who pay them for it.

Two natural persons were characterized as launderers, while 7 companies were characterized as "launderers" and 2 business entities as "phantoms".

Case study – Phantom

The company is organized as a single-member company, in which a person accused for money laundering appears as a 100% owner. The company was founded with a founding capital of RSD 2,500, without employees and with a registered activity - engineering activities and technical consulting. The company has the tax status – stricken off from the register. This company, i.e. its founder, is a person who owns several business entities registered in his name, but no documentation is available for any of these business entities - POTAPAC (mainly a person from the social margins, socially endangered who agrees to take over companies that are registered in his name,

without the intention of doing any business, usually without company documentation, which makes it unavailable for tax controls).

Case study - Launderer

Companies are established as single-member companies with a founding capital of RSD 1,500, without assets or employees. According to SBRA data, the company often changes its founders. The registered predominant activity is wholesale trade and its role in the ML process is to issue fictitious invoices for other companies and, after payment is made, to facilitate further transfer of the money to individuals who can withdraw cash from the account, which is ultimately returned to the original payer.

The data related to the business entities involved in the cases of investigation for organized crime were analyzed in particular. The analysis has found that out of the total number of natural persons involved (55), 26 of them (47.27%) appear as perpetrators of tax crimes in the capacity of responsible person in 18 LLCs.

Fictitious turnover in the amount of over seven hundred thousand euros (73,665,938 dinars) was carried out through these companies. Since this turnover is not real and was not accompanied by real turnover of goods and services, tax obligations in the amount of over one hundred thousand euros (15,392,166, 00 dinars) were avoided.

The predicate criminal offense for ML the 34 accused individuals in organized crime cases were involved in is tax-related crime, with 79 criminal reports being filed against these individuals. The total amount of turnover involved in these criminal reports is over fifteen million euros (15,372,949.71 euros (1,844,753,966.00 RSD)). The value of evaded or avoided tax liabilities in all forms of taxation (VAT, profit tax, tax on other incomes) amounts to over twenty-two million euros (22,431,215.58 euros (2,691,745,870 RSD)).

Value added tax is the most represented tax form in the criminal reports.

Table: Structure of tax forms included in criminal charges against responsible persons - defendants in organized crime cases, in Euro

Year	Number of criminal reports	Total damage involved in the criminal reports	VAT	Income tax	Income tax and contributions	Annual personal income tax	Other tax forms
2021	6	1,248,769.47	18,784.55	17,997.05	183,591.63	0.00	0.00
2022	8	1,181,574.78	195,687.05	46,531.02	0.00	0.00	29,774.82
2023	65	20,001,205.50	2,199,649.29	651,597.88	680,384.29	852,283.24	778,435.40
TOTAL	79	22,430,382.26	2,413,287.47	716,126.82	863,975.09	852,283.24	808,051.89

No criminal charges have been filed against legal entities - taxpayers, for tax crimes, because they are business entities that are insolvent, without assets or any income from which tax debt due could be collected.

Most of the business entities against whose responsible persons two or more criminal charges were filed (in one case 28), were shut down, i.e. they stopped working in 71.22% of cases, while 10 have the status of company with suspended TIN. The largest number of criminal reports, 83.95%, were filed before 2021, and only 16.04% in the period 2021-2023. Individual defendants (as responsible persons in business entities) (17 in total), against whom multiple criminal reports have been filed, are multiple reoffenders of tax crimes as responsible persons in various business entities that were successively established.

The data of the Tax Administration on business entities involved in money laundering cases, shows that 22 companies in the form of LLC, 1 partnership, and 3 citizens' associations were active in the entire observed period, that TINs were suspended for 9 taxpayers, while 7 companies were closed or terminated as of 31.12.2023, while 20 companies as taxpayers were in tax debt of more than 1,000,000.00 dinars, all tax grounds included.

During the observed period, 6 business entities in the form of entrepreneur were active throughout the period, while 7 entrepreneurs stopped working, i.e. shut down their business. During the observed period, there were no entrepreneurs whose TIN was suspended.

It was determined that none of the 6 business entities in the form of entrepreneur had any tax debt as on 31.12.2023.

The analysis of the turnover generated by these business entities, during the observed period, indicates that according to the submitted VAT returns, the largest number of these entities generated an annual turnover of over 20,000,000.00 dinars, with the largest volume taking place on the domestic market.

Table: Trade volume of companies in dinars, by year, reported in value added tax returns

COMPANIES									
Volume of trade	2021			2022			2023		
	Number of taxpayers	International trade according to Article 24 of the VAT Law	Import of goods	Number of taxpayers	International trade according to Article 24 of the VAT Law	Import of goods	Number of taxpayers	International trade according to Article 24 of the VAT Law	Import of goods
Up to 5,000,000.00	0	0	0	2	0	0	1	0	0
5,000,000.00 to 20,000,000.00	1	0	0	3	0	0	0	0	0
Over 20,000,000.00	4	3	2	2	13	2	3	1	1

Table: Trade volume of entrepreneurs by year in dinars, expressed in value added tax returns

ENTREPRENEURS									
Volume of trade	2021			2022			2023		
	Number of taxpayers	International trade according to Article 24 of the VAT Law	Import of goods	Number of taxpayers	International trade according to Article 24 of the VAT Law	Import of goods	Number of taxpayers	International trade according to Article 24 of the VAT Law	Import of goods
Up to 5,000,000.00	1	0	0	0	0	0	0	0	0
5,000,000.00 to 20,000,000.00	0	0	0	0	0	0	0	0	0

Over 20,000,000.00	1	0	0	0	0	0	1	1	0
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The analysis of this data has confirmed the finding that the largest number of business entities involved in ML, as identified in ML cases, are actually in the category of small and micro businesses in the form of LLC, registered with the sole aim of making, within a short period of time, their business structures available to those wanting to conceal the traces of dirty money. The business structures of these companies are small, mostly reduced to the smallest possible number of employees, quite often with a limited volume of trade which is nothing but the movement of dirty money. Based on the data on tax liabilities, one gets the impression that such companies, being aware of their fixed term, most often decide to remain tax debtors regardless of their regular tax reporting, or filing of tax returns. Their founding capital is usually at a level below 10,000 dinars, i.e. closer to the minimum founding capital prescribed by law, they rarely own significant assets, and after the termination of activities, there are neither funds nor assets from which to collect tax debt.

Considering the tax and business status of these business entities, the period of operation, the number of employees, business income, it can be concluded that they were not established for the purpose of regular business aimed at obtaining profit in accordance with legal regulations, but to avoid paying taxes to the detriment of RS budget by performing irregular business, avoiding compliance with regulations, by performing illegal activities that generate proceeds.

The most dominant modality of predicate tax crime involves the issuance of false invoices and other documentation (shipping notes, purchase lists, etc.) by risky business entities - so-called "Phantom" or "Launderer" companies, which by simulating a business relationship, provide a gateway for regular business entities to avoid tax obligations in large amounts, payments are made without a legal basis, the funds are transferred to their business accounts and then withdrawn in cash. When it comes to types of tax, it is mainly the payment of VAT that is avoided in this way, through the unjustified use of the withholding tax from false "phantom" and "launderer" accounts, profit tax (unfounded increase in costs through the use of fraudulent accounts) and personal income tax and contributions (withdrawal of cash via "phantoms" and "launderers", without taxation).

The cases where business structures of business entities were used by organized criminal groups mainly involved professional laundromats.

Case study

Accused A.A. who is also a member of an OCG was labelled, according to the data of the Tax Administration, as a 'launderer', namely this person until 2023 had been subject, as a responsible person in 13 business entities, 12 of which are in the form of an LLC and one entrepreneurial shop, of a total of 28 criminal reports for tax crimes. The form of tax involved in these criminal reports is VAT and other forms of tax. Namely, these criminal reports cover a turnover in the total amount of 3,888,204.18 euros (466,584,501.93 RSD) which was shown in the invoices of these business entities, for which the payment of 834,662.87 euro (RSD 100,159,545.46) in VAT was avoided, and EUR 684,096 (RSD 82,091,590.67) in other tax forms (types). At the time of the analysis of the tax status, all 13 business entities were closed and stricken off from the register of business entities.

Concerning the criminal offense he is charged with in the indictment, this accused is the person who actually manages the LLC - "L.F.", which was founded as a single-member company with minimal founding capital, in the name of a third party, "G.V.", whose beneficial owner was never registered. This company and its responsible person were subject to a misdemeanor procedure under the Law on Central Registration of the Beneficial Owner, due to non-registration of beneficial owner. The main registered activity of this company is the wholesale trade of fruits and vegetables, and the sector where dirty money was invested was the real estate sector, specifically the purchase of an apartment. This company is one of the companies operating under the control of an OCG and has been characterized as a "phantom" by the Tax Administration.

Through the company "L.F." doo (LLC), turnover in the value of over 350,000.00 euros was fictitiously carried out, based on fictitious transfers, which were not accompanied by real turnover of invoiced goods and services.

The OCG, which consisted of the organizer and eight members, founded new business entities or took over already registered ones (8- doo [LLCs] and 4 entrepreneurial shops) with the aim of receiving payments from a large number of companies under the guise of a business relationship, and then moved money using the "e-banking" from the account of the company under its control to their personal accounts and the bank accounts of natural persons on which the members of this group were authorized signatories, so they withdrew money from those accounts, kept a fee for the OCG that was actually proceeds the organizer and one OCG member used to buy apartments, and then handed the money in cash to the payers for further unhampered use, who avoided paying taxes in this way. There were 8 LLCs under the control of the OCG.

All the companies were registered in the RS, with a minimum founding capital, all are single-member companies, where the founder is a natural person who is hired by a member of the group to register the company in his own name for monetary compensation - a front person.

The data on the total number of criminal reports filed by the tax police in the reporting period were specially considered. Thus, largest number of reports were filed for criminal offenses of tax evasion and tax fraud related to VAT, which is the most vulnerable form (type) of tax in addition to corporate income tax. The amount of tax evaded, as captured in the criminal reports filed, grows from year to year, especially in cases of complex tax crimes with an organized crime element.

The number of VAT payers is growing year by year, and it is most pronounced among companies organized as LLCs having a turnover of more than 20 million dinars, mostly in domestic trade. The number of natural persons (registered agricultural holdings in the VAT system, or natural persons – investors) also records an increase from year to year, for turnover of less than 5 million dinars, and the share of these entities in the foreign trade is almost negligible.

Table: Turnover volume of companies, in dinars, by year, as reported in VAT returns

Type of taxpayer	Volume of trade	Number of taxpayers, trade from VAT returns			Number of taxpayers, export			Number of taxpayers, import		
		2021	2022	2023	2021	2022	2023	2021	2022	2023
Natural person	Less than 5 million	5 224	5 589	6 010	63	82	34	89	55	78
	Between 5 and 20 million	6 618	6 969	7 203	180	224	142	149	146	98
	More than 20 million	2 885	3 671	3 468	135	171	135	209	276	289
Total natural persons										
Legal entity	Less than 5 million	50 654	48 074	44 253	7 248	6 527	5 957	6 515	5 659	5 168
	Between 5 and 20 million	53 613	53 192	51 507	13 913	13 328	12 963	10 615	9 696	9 494
	More than 20 million	96 364	105 866	106 772	44 154	47 545	47 937	42 697	44 549	44 761
Total legal entities										
Entrepreneur	Less than 5 million	32 032	31 173	27 560	3 357	3 127	3 046	1 248	987	913
	Between 5 and 20 million	46 421	47 291	46 541	6 170	7 227	7 236	3 044	2 877	3 026
	More than 20 million	33 222	39 499	41 437	5 952	7 174	7 399	4 607	5 188	5 676
Total entrepreneurs										

Although the number of business entities, looked at by legal form of organization, for which tax evasion criminal charges have been filed, is proportional to the total number of registered business entities, it is evident from the data on the involvement of LLCs in the laundering processes, especially for layering and concealment of money trails through a large number of financial transactions usually through fictitious legal affairs, that there is an extremely high degree of related threat for money laundering. When it comes the use of

business structures of business entities by OCGs, these are mainly professional laundromats. In particular, it must be borne in mind that, in addition to tax crimes, there are also criminal offenses that belong to the category of *criminal offenses against the economy* (abuse of position of the responsible person, fraud in business operations, abuse of position in relation with public procurement, etc.) which actually endanger the legality of business operations and eventually distorts the security and the stability of the business environment.

Summary:	
Analysis of the data of the Tax Administration in Serbia shows that many business entities involved in money laundering are linked to tax evasion, which is the most common predicate crime for money laundering. A large number of these companies, usually small or micro, are founded with minimal capital, they are often so-called <i>shell</i> companies without real assets or operations that cease to operate after being misused, and disappear from the business map. Criminal reports (charges) for tax crimes are primarily filed against responsible individuals, and not against the companies themselves, as many of the companies are insolvent. The analysis has identified reoffenders operating multiple companies, some of which are linked to money laundering through tax crimes. The most common registered business activity for business entities that perform real activities, but use fictitious documentation to avoid their tax obligations, involves non-specialized wholesale trade in various goods, mainly through domestic payment transactions.	
Impact on risk:	
High volume of turnover in a short period of time: Businesses with unusually high turnover in a short time frame are often used to launder money through fraudulent transactions.	+1 small probability increase for ML/TF
Reoffenders that operate multiple companies: Individuals who are often involved in setting up multiple companies for tax evasion and money laundering create an environment where illegal activities are easily repeated across entities.	+2 partial probability increase for ML/TF
Filing criminal reports (charges) against responsible individuals: Identifying individuals behind illegal operations reduces the one-time use of business entities for money laundering	-2 partial probability decrease for ML/TF

4.2.6. Phantoms and launderers

In the observed period, the Tax Police has identified, on the basis of a risk assessment, based on their work and performed controls, 881 business entities which, based on pre-established criteria, it characterized as "phantom" or "launderer" companies. The criteria by which a so-called *phantom* company is identified are actually the data on the "identity card" of the business entity, so a typical phantom company conceals its headquarters, address, responsible persons, representatives, it conceals its business data, i.e. it does not have business documentation or the documentation is not available to the responsible persons, they fail to submit tax returns or they submit them without any data or with incomplete data, there is no information on the person who keeps the business books, the company is used for prohibited purposes - breach of legal personality. The criteria for identifying the so-called "launderer" companies: most of the generated trade is simulated, authorized persons are without experience in running a business, most often with modest education, company is established for a financial compensation, companies are without significant assets, equipment or business premises, the payment of public revenues is in significant disproportion to the generated turnover, disproportionately large turnover of goods and services (by type and quantity) in relation to the available business and personnel resources.

The main illegal activity of these business entities is the creation of fictitious documentation (invoices, receipts, etc.) and making it available to regular (legitimate) business entities, who use the fictitious documentation to simulate legal transactions in order to avoid

paying taxes. In this way, the payment of VAT is most often avoided, and that is through the unjustified use of previous tax from fake "phantom" and "launderer" accounts, profit tax (unreasonable increase in costs through the use of fake accounts) and personal income tax and contributions (extraction/depletion of cash via 'phantoms' and 'launderers' without taxation), thus becoming the main generators of gray economy.

Table: Overview of the total number of identified "phantoms" and "launderers"

Year	2021	2022	2023	Total
Number of phantoms/launderers	320	283	278	881

These entities are usually identified in the course of supervision and checks of business operations of business entities in relation to criminal offences such as: tax evasion, smuggling, illegal trade, unauthorized engagement in a business activity, illegal sale of excise goods, Abuse of position of the responsible person and abuse of an official position.²⁰⁹

Indicators of the Tax Police for tax controls and checks of "Phantoms" and "Launderers" - red flags	
Failure to submit tax returns	Registered at the address of a number of already identified phantoms or launderers
Non-payment of VAT and other public revenues	Dealing with phantoms or launderers as suppliers
Failure to submit VAT returns even though it is registered in the VAT system, or is submitted with a small tax liability for payment	A large amount of cash withdrawn from current accounts in a short period of operation
Payment of a disproportionately small amount of VAT and other public revenues in relation to the realized turnover shown in VAT returns	Newly registered company with a small founding role and significant turnover
Frequent changes of owner or seat	The founder or responsible person appears in a large number of business entities
The business entity has no employees	

Practice has shown that these business entities work for a relatively short period of time - a few months, that they report through their VAT tax returns large amounts of incoming and outgoing turnover, that they have almost no obligation to pay VAT and that immediately after an attempt to control (examine) them (the entities that qualify as "phantoms") they lose their TINs (they are suspended), because they are not found at the address of the registered seat, their business or accounting documentation is not available, and responsible persons (directors, legal representatives, persons authorized to manage the business) are not available.

In accordance with the Decision on the conditions for opening foreign currency accounts of residents, and RSD and foreign currency accounts of non-residents, the bank closes the foreign currency account of a resident - legal entity, entrepreneur, or branch of a foreign legal entity when it ceases to exist as a legal entity, based on law or other regulation, due to bankruptcy or liquidation or due to status changes, while for a non-resident legal entity, the non-resident account is closed when the entity ceases to exist as a legal entity according to the

²⁰⁹ The criminal offense of Tax Evasion from Article 225 of the Criminal Code ("Official Gazette of RS" No. 85/2005, 88/2005, 107/2005, 72/2009, 111/2009, 121/2012, 104/2013, 108/2014, 94/2016 and 35/2019), the criminal offense Smuggling from Article 236 of the Criminal Code, the criminal offense Illegal trade from Article 235 of the Criminal Code, the criminal offense Unauthorized engagement in a certain activity from Article 353 of the Criminal Code, the criminal offense of abuse of the position of a responsible person from Article 227 of the Criminal Code of the Code, a criminal act Abuse of official position from Article 359 of the Criminal Code, criminal offense Illegal sale of excise goods from Article 176 of the Law on Tax Procedure and Tax Administration ("Official Gazette of RS" No. 80/2002, 84/2002, ...144/2020).

applicable law, and after the non-resident, i.e. the authorized person, files a notification to the bank.

Inactive business entities

According to the Law on Accounting, a legal entity or entrepreneur, who had no business events in the reporting year, or reported no data on assets and liabilities in their business books for that year, is obliged to submit a declaration of inactivity by a certain date of the current year. For entrepreneurs, there is an option to declare being "dormant" (mirovanje, inactivity), while for legal entities such a status does not exist in the law. In extremely rare cases a company can submit a declaration of inactivity, and only if two conditions are cumulatively met, i.e. that it has had no business events and that it has no data in its business books about assets and liabilities. In practice, it is extremely difficult for a company to have no business events or data on assets and liabilities throughout the year. Any bank statement with an account maintenance fee can be considered a business event, which makes filing a declaration of inactivity for the following year impossible.

Therefore, while this is an exception for LLCs, it can be common for entrepreneurs, and this must be considered in the light of the data in the Register of Financial Statements concerning the filing of declarations of inactivity. Namely, the largest number of these statements involve entrepreneurs.

Table: Data on the number of business entities that submitted a declaration of inactivity in one year and a regular financial statements in the following year

The number of activated business entities by year relative to the previous year's inactivity	
The number of taxpayers who submitted a declaration of inactivity for 2020 and a regular annual financial statements for 2021	3.109
The number of taxpayers who submitted a declaration of inactivity for 2021 and a regular annual financial statements for 2022	3.157
The number of taxpayers who submitted a declaration of inactivity for 2022 and a regular annual financial statements for the year 2023	3.155
Total:	15.148

Companies that have suspended the voluntary liquidation procedure

According to the data of the Serbian Business Registers Agency, the number of business entities conducting the voluntary liquidation procedure increased by about 1,500 entities in the observed period, while the number of suspended liquidation procedures is very low and in a downward trend, i.e. less than 1% of business entities continue to operate after the initiated voluntary liquidation procedure.

Table: Number of closed and reactivated companies

	2021	2022	2023
Total number of entities in the voluntary liquidation procedure	40.061	41.756	43.219
The total number of entities where the liquidation procedure has been suspended	72	68	58

The Law on Tax Procedure and Tax Administration (ZPPPA)²¹⁰ sets out the conditions under which a taxpayer's tax identification number will be suspended. The most common

²¹⁰ The Tax Administration will temporarily suspend the TIN in accordance with Article 26 of the Law on Tax Procedure and Tax Administration in the following cases: 1) a legal entity whose founder – legal entity, sole trader or individual - has public revenue arrears in connection with performance of business activity and/or if the TIN

reason for the temporary suspension of the TIN is the failure to find the business entity at the address of the headquarters (seat) or the failure to provide documentation at the request of the Tax Administration, or the existence of a tax debt of the founder or entrepreneur, or the TIN was suspended for the related legal entity. In the observed period (2021 to 2023), the TIN was suspended for 92,926 companies, which on an annual basis represents about 5% of the total number of these taxpayers in each of the observed years.

Table: Overview of the number of legal entities whose TIN was suspended, by year

Overview suspended TINs			
Year	2021	2022	2023
Number of companies	29,650	31,425	31,851
	5.01%	5.10%	4.95%

A business entity whose TIN is suspended cannot perform business activity. The suspended TIN will be returned after the deficiencies that were the reason for the TIN suspension are remedied.

In the period 2021-2023, the tax police sector filed a total of 41 criminal reports to the competent Basic Public Prosecutor's Offices for the criminal offense of Endangering tax collection and tax control from Art. 175. ZPPPA and Prevention of tax control Art. 237. CC.

Table: overview of the total number of submitted criminal reports

Year	2021	2022	2023
175 ZPPPA ²¹¹	13	11	14
237 CC	2	1	-
TOTAL	15	12	14

Case study - Business entities under the control of OCG and tax evasion

Members of an OCG founded 14 business entities in the form LLC, 7 of which were registered in Serbia and 7 abroad - in three EU countries. In each of these 7 companies, the founding capital was at the minimum, that is, it ranged from 100 to 1000 dinars. The formal founders of these companies, immediately after registration, handed over all business documentation and authorizations for handling the company's funds in bank accounts to the members of the OCG. All 7 companies based in Serbia had registered activities for the trade of cars and light motorcycles. The longest period in which 2 companies operated was 2 years, while the others operated for a period shorter than one year. All seven companies were founded with the sole purpose of using their business structure, i.e. their business name, for the creation and use of documents with untrue content, namely invoices and delivery notes, which would misrepresent the trade in used motor vehicles between companies from the territory of Serbia and 7 companies registered abroad, also under the control of the OCG. The value of the used motor vehicles underinvoiced during the import from the foreign companies, and false origin of passenger vehicles

of the legal entity or sole trader has been suspended in keeping with this Law. Furthermore, a TIN may not be assigned to a legal entity whose founder – legal entity, sole trader or individual is at the same time a founder of an entity whose TIN has been suspended, in keeping with this Law; 2) a legal entity whose founder is an individual who is concurrently a founder of another business entity with unsettled liabilities related to public revenues in connection with performance of business activity; 3) a legal entity established by a status change involving spinoff combined with establishment, or mixed spinoff in keeping with the law governing companies, or status change of special forms of organization if the legal entity, as well as the fund which is the subject-matter of the division has unsettled liabilities related to public revenues or if its TIN has been suspended in keeping with this Law; 4) a sole trader with public revenue arrears, incurred in relation to conducting business activity in other business entities in which it is concurrently a founder with more than 5% ownership interest, or if its TIN was temporarily suspended in line with this law; 5) if the taxpayer fails to report all subsequent changes of data in the registration application, or fails to file the documentation and provide information requested by the Tax Administration within 5 days of the date of the change of data, or the date of receipt of the request for documentation and information

²¹¹ ZPPPA - Law on Tax Procedure and Tax Administration

was registered in false "EUR-1" forms, so such reduced invoices were used to make payments from the accounts of companies in Serbia to bank accounts of the foreign companies which were under the control of OCG. The fraudulent documentation (invoices, delivery notes, EUR-1, Swift) would then be handed over to the responsible persons of the companies that carry out customs clearance, i.e. to the forwarders who filed this documentation to the customs authorities in the import procedure. The fraudulent documentation reduced the base for customs clearance thus reducing the amount of the customs duty and VAT paid in the import procedure. This conduct of the OCG facilitated, for 4 forwarding companies, the evasion of import duties in the amount of 2,100,744,887 dinars (17,506,207.39 euros).

The members of this OCG made and handed over to the forwarders at least 39,078 sets of documentation with untrue content for the same number of used motor vehicles, in which exactly seven business entities under the control of OCG were mentioned as alleged foreign suppliers.

All companies registered abroad were also established in the form of a LLC.

Companies under the control of the OCG conducted their business for an average period of up to one year, so that when the OCG's goals were achieved, these companies would terminate their business.

The banking sector was used for money transfers, i.e. cross-border payments.

All the activities took place in the car trade sector and the purpose of establishing business entities was to enable interested parties to reduce the customs duty and tax base when importing used cars.

The investigation in this case is still ongoing.

Summary:	
In the observed period, the Tax Police identified 881 business entities as "phantoms" or "launderers" based on pre-established criteria. Phantoms usually conceal business information, avoid tax returns and lack proper documentation or transparency. Professional laundromats (launderers) are companies that simulate trade through fictitious transactions to facilitate tax evasion. These business structures are used to create false documentation such as invoices, often helping regular businesses to avoid taxes, especially VAT. These entities are short-lived and usually shut down after completing their illegal objectives. In response, the Tax Identification Number (TIN) was suspended for numerous companies, and criminal charges (reports) were filed against several responsible persons.	
Impact on risk:	
TIN suspension: Temporary suspension of tax identification numbers helps to curb the activities of phantoms and launderers by preventing them from continuing to operate.	-1 slight probability decrease for ML/TF
Interagency cooperation: Coordination between the Tax Police, the Serbian Business Registers Agency and other institutions helps in identifying and taking measures against phantoms and launderers in the early stages of their work.	-2 partial probability decrease for ML/TF

4.2.7. Analysis of the obliged entities' data related to assessments of client (companies) risk levels

The analysis of the obliged entity data on the assessment of the degree of risk for certain legal forms of business entities has found that the largest number of business entities with a high level of ML risk actually includes the business entities in the form of LLC, belonging to the category of micro and small entities, which confirms the findings and conclusions of the analysis of money laundering cases.

Obliged entities under the AML/CFT Law→	Banks	Providers of financial leasing	Accountants	* Auditors	Factoring company	Public notaries
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Categorization of the level of risk as of 31.12.↓	2021	2022	2023	2023	2023	2023
Total number of parties of legal entities↓	369,128	17,847	17,491	5,561	528	26,124
• limited liability companies (LLC)	238,296	17,209	8,448	4,212	409	25,330
Low risk	64,772	6,566	7,811	3,410	390	23,267
Medium risk	153,687	9,384	567	587	4	1,706
High risk	19,837	1,259	70	214	15	357
• joint stock companies (JSC)	3,990	163	217	445	68	794
Low risk	1,337	61	209	370	66	768
Medium risk	2,229	84	7	41	1	26
High risk	424	18	1	33	1	0
• other legal forms (limited partnership, partnership)	1,681	180	38	321	3	-
Low risk	352	142	35	259	2	-
Medium risk	1,261	35	3	40	1	-
High risk	68	3	0	23	0	-
• others (associations, endowments, foundations, sports associations, etc.)	125,161	295	1,953	583	4	-
Low risk	22,851	72	1,887	548	4	-
Medium risk	96,651	197	53	11	-	-
High risk	5,659	26	13	24	-	-
natural persons performing activities (entrepreneurs)	428,637	5,231	6,835	**	44	1,550
Low risk	161,556	2,395	6,644	**	44	1,333
Medium risk	254,104	2,691	179	**	-	127
High risk	12,968	145	12	**	-	90

Table: Categorization of the risk of obliged entity clients for business entities by form of organization as of December 31, 2023

** are not subject to audit

LLCs account for the largest share in the total number of clients, in all obliged entities under the AML/CFT Law, namely in banks 73.53%, in providers of financial leasing -96.54%, in accountants - 88.79%, in auditors - 80.48%, factoring companies -87.56%, and most them are in the category of medium and high risk, namely 72.81% in banks.

Of all the clients, LLCs were classified by banks as high risk, including somewhat less than 7% in 2021, 8.8% in 2022, and 8.3% in 2023.

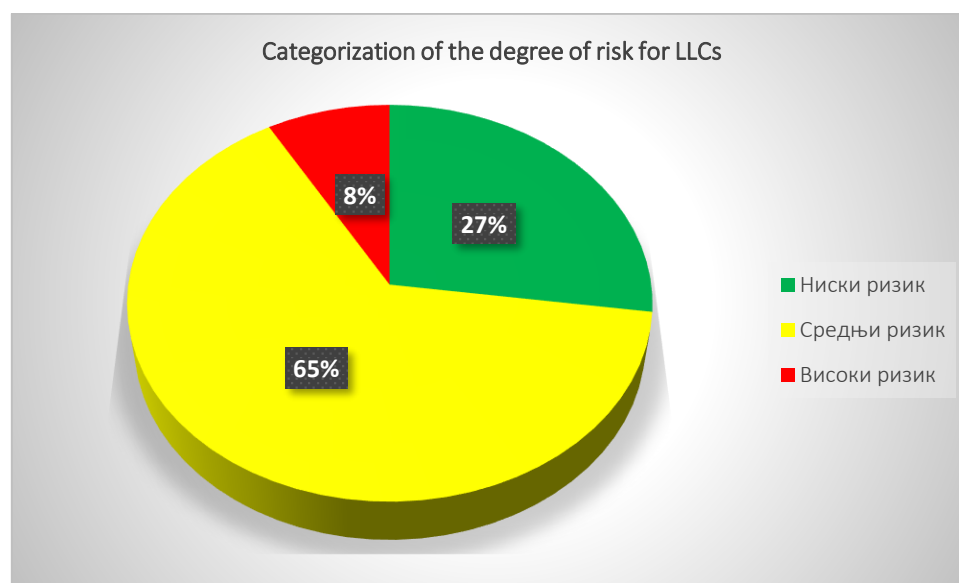


Chart: Categorization of the degree of risk for LLCs as bank clients in 2023.

Resident legal entities		2021	2022	2023
1	The total number of residents of legal entities on 31.12., of which:	373,659	374,213	369,218
1.1	• the number of legal entities organized as limited liability companies (LLC), of which:	245,883	244,449	238,296
1.1.1	classified in the low risk category	73,486	65,513	64,772
1.1.2	classified in the category of medium risk	155,236	157,439	153,687
1.1.3	classified in the high risk category	17,161	21,497	19,837
	% classified in the high risk category	6.98%	8.79%	8.32%
1.2	• number of legal entities organized as joint stock companies (JSC), of which:	5,288	4,725	3,990
1.2.1	classified in the low risk category	1,798	1,463	1,337
1.2.2	classified in the category of medium risk	2,959	2,742	2,229
1.2.3	classified in the high risk category	530	518	424
	% classified as high risk	10.02%	10.96%	10.62%
1.3	• number of legal entities organized in other legal forms (limited partnership, partnership)	2,766	2,186	1,681
1.3.1	classified in the low risk category	746	413	352
1.3.2	classified in the category of medium risk	1,853	1,681	1,261
1.3.3	classified in the high risk category	167	92	68
	% classified as high risk	6.4%	4.21%	4.05%
1.4	• others (associations, endowments, foundations, sports associations, etc.), of which:	119,722	122,853	125,161
1.4.1	classified in the low risk category	24,798	24,179	22,851
1.4.2	classified in the category of medium risk	88,843	90,081	96,651
1.4.3	classified in the high risk category	6,081	8,593	5,659
	% classified in the high risk category	5.08%	6.99%	4.52%

Table: Overview of the total number of bank clients by legal form of organization and degree of risk.

The data for the banking sector were analyzed in particular, as the largest and most frequently misused sector by the defendants, also bearing in mind how business entities are involved in ML, and that most of the SARs involving new natural and legal persons who had not been the subject of prior SARs was reported from this sector, namely 2,768 SARs involving natural persons and legal entities, 1,484 of which involve new business entities.

Most of the high-risk clients – legal entities (resident clients **of obliged entities**) are classified as high risk due to the high risk of the business activity they engage in, such as: wholesale trade in waste and scraps, non-specialized wholesale trade; intermediation in the sale of various products, trade in cars and light motor vehicles, construction of residential and non-residential buildings, rental of own or leased real estate, activity of sports clubs, consulting activities.

These are the most frequently registered activities that are also characteristic of the companies involved in ML cases, and if we take into account the fact that most of the obliged entities' clients in the form of an LLC are in a higher risk level, then this additionally confirms the conclusion that these companies, which generate a high turnover and having a minimal foundign capital, are exposed to the highest degree of threat for money laundering.

In addition to clients with a complex founding structure, usually featuring offshore companies or officials in the founding structure, the usual other schemes that are monitored more closely often include clients making frequent transfers of funds between business entities, and then withdrawing funds from entrepreneurs' (sole trader) bank accounts, for re-export operations, conducting significant cash payments described as founder's loans for company liquidity, frequent transactions in bank accounts in significant amounts described as provision of services, etc.

Chart: Overview of the basis for classifying resident clients classified as high risk according to the Guidelines and risk assessments

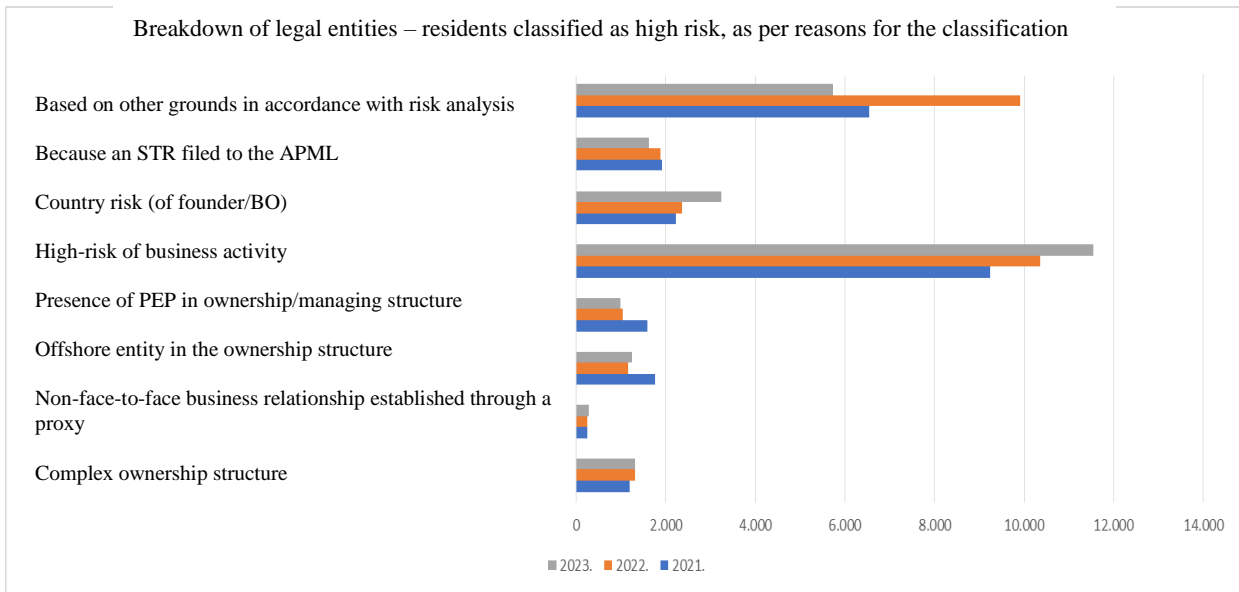
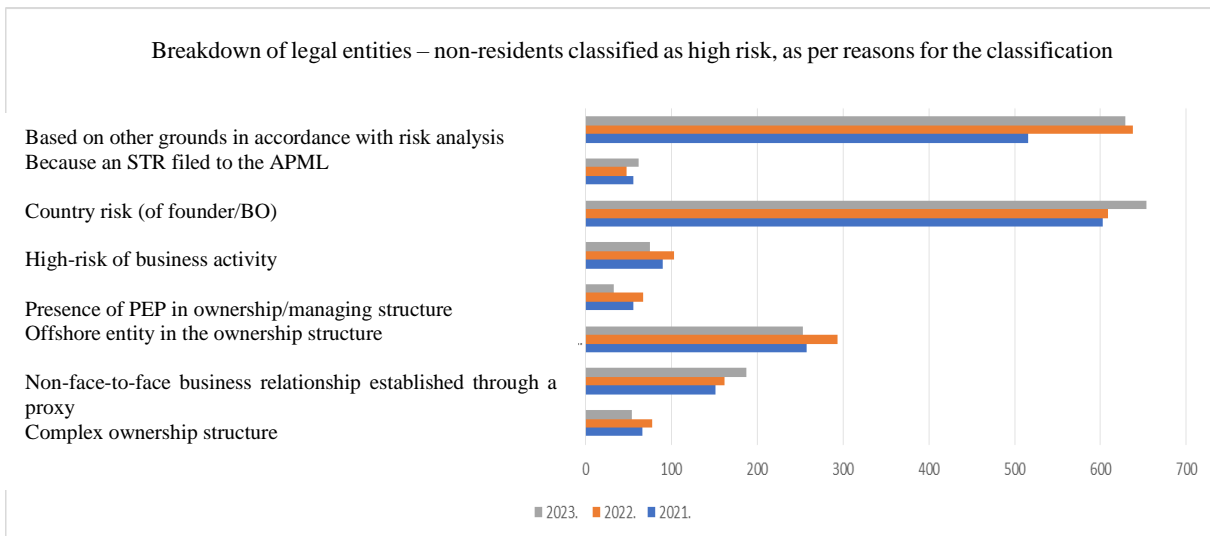


Chart: Overview of the basis for classifying non-resident clients in the high risk category according to the Guidelines and risk assessments



Conclusion:

The analysis of obliged entities' data on the risk levels of business entities as obliged entities' clients confirms that limited liability companies (LLCs), especially micro and small entities, face the greatest risk from potential money launderers. The largest number of banking sector SARs involve the above high-risk business activities, often operating in sectors such as wholesale, real estate, construction and vehicle sales. Of all types of legal entities classified as high-risk by the obliged entities - LLCs include about 8%, JSC about 10%, other forms (limited partnerships, partnerships) about 4% and entrepreneurs about 3%.

Impact on risk:

The number of business entities organized in the form of LLC, entrepreneurs and non-profit organizations classified as high-risk is significant.

+2 partial probability increase for ML/TF

Permanent monitoring by obliged entities of risky business entities and identification of red flags	-2 partial probability decrease for ML/TF
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4.2. 8. Analysis of MLA requests

In order to analyze the legal form of companies involved in money laundering, found in MLA requests concerning the criminal offense of money laundering in the period 2021 - 2023, it was necessary to obtain as precise and complete data as possible, because the required data for this type of analysis is not recorded separately by the Ministry of Justice, and this was done by inspecting each individual MLA case. Thus, first we identified cases for each year, and analyzed each case individually and overall. For the reporting period, the Ministry of Justice identified a total of 253 MLA cases related to the criminal offense of money laundering (2021-61; 2022-94 and 2023-98). A significant number of cases are incoming letters rogatory 176 (2021-44; 2022-60 and 2023-72).

In the observed period, a total of 16 letters rogatory were sent in relation to the criminal offense of money laundering, involving a total of 38 legal entities or business entities.

In the period January 1, 2021 - December 31, 2023, a total of 16 MLA requests were sent in relation to the criminal offense of money laundering involving legal entities, including 23 legal entities, 5 of which are domestic LLCs and 23 foreign business entities also in the form of LLC, with one MLA request involving to a related foreign legal entity with a domestic LLC. The value of the property is not indicated in all the letters rogatory, so a review of the letters rogatory where the value is stated, shows a total of EUR 13,431,577.55 and USD 9,000,000. The highest value of the property is stated in the MLA request sent to the Republic of Cyprus which involves the amount of EUR 9,418,307.00 (RSD 1,130,196,840.00) and to the United States of America which involves the property value of USD 9,000,000.

One MLA request involved a related foreign legal entity with a domestic LLC.

In the same period, 38 MLA requests were received, involving 29 domestic business entities in the form of an LLC and 28 foreign legal entities in the same form, while the value of the property that was the subject of ML in the MLA requests, to the extent that it was indicated therein, was EUR 296,828,307.36 and GBP 100,000.

The highest value of the property was indicated in the MLA request from the Republic of Kazakhstan, namely EUR 168,259,983.27, due to the criminal acts of association for the purpose of committing criminal acts, money laundering, tax evasion, unauthorized organization of games of chance.

Number of outgoing MLA requests, by country		Number of incoming MLA requests	
Federal Republic of Germany	2	Federal Republic of Germany	4
Swiss Confederation	2	Republic of Poland	5
Kingdom of Sweden	1	Republic of Austria	1
Montenegro	3	Republic of North Macedonia	2
Cyprus	2	Bosnia and Herzegovina	5
Luxembourg	1	Luxembourg	1
United States of America	1	Hungary	3
Republic of Austria	1	Montenegro	1
Bulgaria	1	Switzerland	1
United Kingdom	1	Czech Republic	2
Ireland	1	Republic of Moldova	1
		Republic of Latvia	3
		Romania	1
		Russian Federation	1
		Italy	2

		Spain	2
		Bulgaria	1
		Liechtenstein	1
		Kazakhstan	1
TOTAL	16	TOTAL	38

Table: Overview of received (incoming) and sent (outgoing) MLA requests according to Ministry of Justice data involving legal entities

Mutual legal assistance 2021-2023						
year	Incoming MLA	Property value in euros	Outgoing MLA	Property value in EUR	Number of involved business entities (LLCs)	
					domestic	foreign
2021	17	1,029,161.21	7	51,166,249.72	29	14
2022	6	281,353.89 **	6	12,402,416.34*	8	3
2023	17	245,380,703.75	3	***	16	14
Total	40	246,691,218.85	16	63,568,666.06	53	31

* USD 9,000,000 should be added to the amount shown in the table

** 100,000 GBP should be added to the amount shown in the table

*** Many letters rogatory do not refer to the value of the property;

4.2.9. Analysis of MLA requests - organized crime

MLA cases handled by the Public Prosecutor's Office for Organized Crime were looked at separately, i.e. 14 cases, which involve legal entities involved in the ML process.

A direct inspection of these cases, has found that the MLA requests involved 22 business entities, in the form LLC, 7 of which were based in a foreign jurisdiction, while the rest were based in Serbia. MLA involved requests to check business operations, bank accounts and purpose of transactions carried out by business entities.

The total value of the property found to be the subject of ML in MLA requests is EUR 12,196,400.13 and USD 57,225, and one letter rogatory requested a check regarding a purchase of gold worth EUR 12,000,000.

In 2021, the PPOOC was part of a joint investigation team with Spain, where the predicate crime was unauthorized production and circulation of narcotic drugs, and in 2022, a parallel investigation was also conducted with Spain, which resulted in the initiation of proceedings for the ML offense, with the prior criminal activity being also related to drug trafficking.

4.2.10. International police cooperation

Data on international police cooperation in relation to the criminal offense of money laundering testifies to intensive cooperation with counterparts of several European countries and especially neighboring countries, as well as international police organizations. In the period 2021 - 2023, the national unit of EUROPOL Serbia received 1294 requests for information through the SIENA channel and sent 459 requests related to the criminal offense of money laundering, while the Directorate for International Operational Police Cooperation at the INTERPOL Department created 225 cases, the subject of which was the exchange of information related to the criminal offense of money laundering. Intensive police cooperation and data exchange took place in the most direct way through liaison officers and through information exchange and operational meetings. In this way, a total of 49 information was exchanged and 47 operational meetings were held.

The Service for Combating Organised Crime – Financial Investigation Unit (JFI), in the period 2021 - 2023, had intensive international cooperation with counterparts, performing

checks through the CARIN Network; SIENA network (SIENA - Secure Information Exchange Network Application) - ARO, Interpol, liaison officers of foreign embassies in Serbia.

Table: Number of requests for international cooperation received by the Financial Investigation Unit (JFI) of the Ministry of Interior from 2021 to 2023

Requests for exchange of information received by JFI				
Year	CARIN	SIENA (ARO)	INTERPOL	Liaison Officers
2021	24	21	7	4
2022	7	20	4	2
2023	36	11	25	3
Total	67	52	36	9

Table: The number of requests for international cooperation sent by the Financial Investigation Unit of the Ministry of Interior from 2021 to 2023

Requests for information sent by JFI		
Year	CARIN	INTERPOL
2021	10	10
2022	14	8
2023	9	11
Total	33	29

The data related to the police cooperation of the Service for the Fight against Organized Crime - Department for the Suppression of Organized Financial Crime was considered specifically, considering that in the reporting period, a large number of money transfers between business entities of several countries were observed as being suspicious, with often amount to several millions and even tens of millions of effective foreign currency either as individual or multiple structured transactions. From the point of view of the form of organization of business entities involved in money laundering, the largest volume (number) of exchanged information in the observed period 2021 - 2023 was generated in 117 received requests from foreign police services, mostly from neighboring countries and European countries, involving 209 business entities registered in Serbia, 197 of which are LLCs and 12 entrepreneurs.

Table: Overview of requests received and information exchanged in police cooperation from 2021 to 2023, by the form of organization of business entities suspected of money laundering

Year	2021			2022			2023		
	Number of requests	LLC	Entrepreneur	Number of requests	LLC	Entrepreneur	Number of requests	LLC	Entrepreneur
in total	54	89	5	38	67	3	25	41	4

In the same period (2021-2023), following up on APML disseminations to the Service for the Combating Organized Crime engaged in pre-investigation proceedings against 3 resident companies suspected of being misused in an international chain of monetary transactions with the aim of concealing the origin and traces money. Thus, the Service sent through Europol requests for checking the validity of these transfers and legal entities involved in the chain of transfers, involving dozens of business entities and legal entities of foreign jurisdictions headquartered in several European countries.

Case study - KOO ALBORG

The "ALBORG" operation was opened based on an MLA request by the Kingdom of Denmark, which was submitted to the Public Prosecutor's Office for Organized Crime in the case No MP 139/22. In the course of the operation, i.e. preliminary investigation, representatives of PPOC and Serbian Ministry of Interior held several face-to-face meetings with the police and prosecutors of the Kingdom of Denmark. The operation was started on the basis of intelligence that an OCG in the territory of the Kingdom of Denmark was involved in the smuggling and trafficking of drugs and weapons, and thus part of the proceeds from crime was transported through the Danish trucking company Top Tourist ApS, CVR nr. (Danish TIN) 14375902 with registered office in Hillerod, the Kingdom of Denmark transported to Serbia, through couriers who picked up the money and handed it to the OCG members. During the operation, it was established that part of the proceeds was paid by the OCG members to the bank accounts of company "F.A. doo Belgrade" through the founder's liquidity loans, and then the placed money would be further invested in the construction of a residential and business building in Belgrade. The members of the OCG placed the other part of the funds into their current accounts and the accounts of related parties in cash and used it to purchase real estate in Nis, on the Kopaonik Mt. and for the construction of a hotel on the Tara Mt.

4.2.11. Analysis of mutual legal assistance requests - Tax Administration

The Tax Administration and the Tax Police Sector cooperate with foreign tax administrations on the basis of ratified Double Taxation Avoidance Agreements, through the competent institutions, i.e. Ministry of Finance, as well as on the basis of a special Memorandum of Understanding in the field of information cooperation, concluded with the Financial Police of the Republic of Italy (March 8, 2012). The international cooperation requests mainly involve the checks that should be made in order to prove the grounded suspicion on the tax evasion crime, or checks of potentially simulated legal transactions and suspicious financial transactions.

From 01.01.2021 to December 31, 2023, the Tax Police Sector, in accordance with the above, **sent a total of 50 mutual legal assistance requests** to foreign Tax Administrations. In 2021 -13 requests, in 2022 -6 requests and in 2023 -31 requests.

Table: Overview of outgoing requests for tax information exchange with foreign counterparts by year and country

Country	Requests 2021	Requests 2022	Requests 2023	TOTAL
B and H	1		2	3
Italy	2		2	4
Montenegro	3			3
Croatia	1	1	10	12
Macedonia	1		2	3
Lithuania	1			1
Slovenia	1	1	3	5
Hungary	1	1		2
The Netherlands	1	1	2	4
V. Britain	1			1
Switzerland		1	1	2
Slovakia		1	5	6
China			1	1
Cyprus			1	1
Austria			1	1
San Marino			1	1
TOTAL	13	6	31	50

In the same period of time, the Tax Police Department **received 11 request** for information (in 2021 (5), 2022 (3) and 2023 (3) requests). Requests for information were received from: Italy 1 request, The Netherlands 2 requests, Slovenia 1 request and 1 request each from Australia, Poland, United Kingdom, Belgium and the Federation of BiH). The requests of foreign counterparts are followed up on by the Tax Administration, Tax Police

Sector, according to priority and on the basis of the complexity of the request (checking of a large number of business entities or several persons), and answered within 2 to 12 months.

The **subject-matter** of the international cooperation requests sent by the Tax Police Sector to foreign tax services, i.e. the exchange of information regarding business entities or natural persons, includes verification of the business relationship of domestic business entities or natural persons with business entities or natural persons abroad. The subject of checks are most often the validity and legal basis of monetary transactions that were made with persons from abroad and whether trade in services (given that services are particularly specific in terms of proving a real business relationship) or goods actually occurred, or whether contracts and invoices for services rendered were used for the actual trade in goods or only for the purpose of fraudulent cross-border transfers of funds and depleting the funds from the business accounts of business entities, thereby underreporting their business profits.

Requests sent abroad and received from abroad also require information on the tax status of the business entity, what kind of taxpayer it is, who are the founders, related persons, whether it is a regular business entity or one which is characterized as "risky", i.e. established for the purpose of avoiding tax, who provided the service or carried out the sale of goods, how the service was provided or the sale of goods was carried out, what is the evidence of the services provided, where the goods that were sold were acquired, etc. The outgoing and incoming requests include details regarding the specific business relationship (account number, transaction amount, contract, delivery note, etc.), i.e. they request that everything that creates doubts with respect to the regularity of the business relationship be checked, and that must be checked for the purpose of collecting evidence of a possible tax crime under the remit of responsibility of the Tax Police Sector.

Example 1 - Gathering evidence for a tax crime

In the case involving a resident company "O. C. I " d.o.o. (LLC) in the process of tax audits, it was established that this company had a business relationship with company "F... " d.o.o., which was found to keep extracts of business foreign currency invoices about transfers to foreign suppliers, as well as copies of invoices of foreign suppliers based on which the transfers were made (trade in used passenger vehicles in total value of over 150 million dinars, whereas company " F " d.o.o. transferred over 12 million euros to the same foreign suppliers. For the above reasons, and given that company F d.o.o. had a business relationship with 8 companies from the Slovak Republic, a request for legal assistance was sent in order to check the circumstances of the business relations of these business entities with foreign companies.

Example 2 – Collected evidence for the initiation of criminal proceedings

Based on the information exchanged with the tax authorities of The Netherlands, Switzerland, Slovakia and Hungary, regarding the operations of the domestic company "D.Mobile" d.o.o. involving the import of used cars, and business relations with business entities from the above countries, information was obtained that resulted in the filing of a criminal complaint against the responsible person of the domestic business entity " M " d.o.o., for a tax crime, which found the damage to the budget of the Republic of Serbia in the amount of EUR 1,866,721.80.

Summary:

In the period 2021 - 2023, the Ministry of Justice of Serbia handled numerous mutual legal assistance requests involving legal entities, especially limited liability companies (LLCs). Out of a total of 253 cases, 38 incoming requests involved domestic and foreign LLCs, and assets worth €296.8 million and £100,000. The largest amount of seized assets is linked to Kazakhstan (€168.2 million), which involved crimes such as tax evasion and illegal gambling. The outgoing requests involved 23 domestic and foreign LLCs, with assets in the total amount of 13.4 million euros and 9 million dollars. The Public Prosecutor's Office for Organized Crime also dealt with LLCs in 14 cases involving 22 business entities, where 12.2 million euros and 57,225 dollars of assets were under investigation, and one case involving 12 million euros in gold. In addition, Serbia cooperated with Spain on joint investigations targeting LLCs involved in drug trafficking and money laundering. Regarding international police cooperation, most of the 209 business entities flagged for suspicious activities were LLCs. The Financial Investigation Unit and the police force regularly exchanged information about LLCs, and through Europol and Interpol they handled numerous cases of money transfers involving these entities.

The Tax Police Sector was also involved, sending 50 requests and receiving 11 related to LLCs suspected of tax evasion and money laundering, which led to significant financial losses for the Serbian government budget. Legal entities, especially LLCs, remain the focus of these international efforts to detect and prosecute ML activities.

Impact on risk:

Effective international exchange of information about legal entities through all cooperation channels	-2 partial probability decrease for ML/TF
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5. ANALYSIS OF SUSPICIOUS ACTIVITY REPORTS

In the period 2021 - 2023, obliged entities filed SARs to the Administration for the Prevention of Money Laundering, involving a total of 2,947 companies. An analysis of the number of reports reveals that the largest number of SARs came from the banking sector, namely 79.16% (34.27% in the previous period). Also, when looking at the reported value in these reports, the share of the banking sector is the largest and is 40.49%.

The total value of SARs involving business entities amounts to 1,154,202,635 euros. According to the analyzed data, the total number of legal entities that were the subject of SARs amounted to 2,951, 2,335 of which were reported in the banking sector SARs. From the point of view of legal form, a total of 2,057 LLCs were reported in the SARs (1,551 of which were reported in bank SARs), 25 of them involved JCSs, while 865 SARs involved entrepreneurs. Other SARs involve associations (4).

When looking at individual obliged entities, the largest number of SARs after the banking sector was filed by public notaries involving a total of 320 business entities. 299 of these SARs involve LLCs, which in relation to the total number of SARs filed for this legal form represents 14.53%. Out of the total number of reports filed by the banks, 8 reports were filed due to discrepancies with the BO data in the Central Records of Beneficial Owners. Accountants submitted 11 reports, or 0.53%, and auditors only 3 SARs. Furthermore, looking at the number of SARs vis-à-vis legal forms, entrepreneurs stand out, as commercial banks filed 762 (88.09%), notaries public 19 (2.20%), accountants 27 (3.12%) and auditors 47 (5.43%) SARs involving them.

Table: Overview of the number of SARs from obliged entities from 2021 to 2023

Obliged entity	Entrepreneur	LLC	JSC	Association	TOTAL:
Banks	762	1.551	20	2	2,335
Payment institutions	0	80	0	0	80
Authorized currency exchange operators	0	0	0	0	0
Insurance companies	3	77	0	0	80
Leasing company	1	26	0	0	27
Public notaries	19	299	2	0	320
Lawyers	5	2	1	0	8
Factoring company	0	2	0	0	2
Casinos	0	0	0	0	0
Organizers of online of games of chance	0	1	0	1	2
Real estate brokers	0	0	0	0	0
Postal operators	1	1	0	0	2
Accountants	27	11	0	0	38
Auditors	47	4	2	1	54
Broker-dealer companies	0	2	0	0	2
VASPs	0	1	0	0	1
TOTAL:	865	2,057	25	4	2,951

In this regard, the collected and analyzed data indicate that in the same period the total number of SARs involving **resident legal entities** was 2,808, while the number involving **non-resident legal entities** was 141.

Table: number of companies in SARs in the period from 2021 to 2023

Obliged entity	Residents	Non-residents	Total
Banks	2.216	117	2.333
Payment institutions	80	0	80
Authorized currency exchange operators	0	0	0
Insurance companies	80	0	80

Leasing company	25	2	27
Public notaries	305	15	320
Lawyers	8	0	8
Factoring company	2	0	2
Casinos	0	0	0
Online organizers of games of chance	2	0	2
Real estate brokers	0	0	0
Postal operators	2	0	2
Accountants	38	0	38
Auditors	48	6	54
Broker-dealer companies	2	0	2
Digital assets	0	1	1
TOTAL	2,808	141	2,949

Suspicious activity reporting by supervisors

In the reference period, one company (JSC) reported a suspicious transaction, and the reason was that this company doubted the identity of the BO of the legal representative.

In the reference period, the APML's Department for Analytics and Prevention of Financing of Terrorism received two reports from the APML's Section of Supervision in relation to the suspicious activities found in the supervision procedure. The basis for the referral in both cases was the complex ownership structure of the supervised entity. Those were companies organized in the form of an LLC.

The Securities Commission too found in one onsite inspection a discrepancy between the data on BOs registered in the Central Records of BOs and BO data determined by the obliged entity based on the available documentation and information about the client. The Securities Commission informed the APML and the Business Registers Agency.

Example:

An auditing company's client – an LLC, engaged in wholesale trade of sugar, chocolate and sweets, with 110 employees, and total income (according to the available data for the period 01.01.-31.12.2022) of RSD 6,733,742 thousand, was stricken off from the register in early 2024 due to a status change resulting from the merger with another company.

The obliged entity - the auditing company, based on the available documentation and available information about the client (that is, about who are the persons who directly or indirectly have a predominant influence on the conduct of business and decision-making) identified its client's BO. By tracing the history of data changes in the Central Records of Beneficial Owners, it was found that the data on the above client's BO were subsequently changed (and that those persons who were identified as BOs by the obliged entity were registered).

An analysis of APML data on the exchanged information on suspicious transactions with foreign FIUs found that a total of 723 reports were exchanged with foreign FIUs, of which 379 outgoing and 344 incoming. Based on these data, transfers to foreign countries were found to be rather suspicious, as well as transfers from abroad to domestic business entities, because the information included both resident and non-resident legal entities, and the reports very often involved several legal entities. An analysis of the outgoing and incoming requests involving legal entities, i.e. 501 requests, has found that all the exchanged information involved LLCs, i.e. total of 615 legal entities.

Table: Overview of information exchanged between APML and foreign FIUs, by total number and number involving legal entities

Information exchange requests	2021	2022	2023	2021-2023
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	in total	Legal entities	in total	Legal entities	in total	Legal entities	In total	Legal entities
Sent to foreign FIUs (outgoing)	175	107	106	81	98	75	379	263
Received from foreign FIUs (incoming)	142	97	88	59	114	82	344	238

The subject-matter of the exchanged information, when it comes to business entities, were mainly money transfers involving re-export of goods, import of goods, including the import of used cars, but also transactions described as consulting and computer services. Most of the exchanged information, as far as legal entities are concerned, involved LLCs.

Case study

The APML received an SAR from the obliged entity - auditor indicating that during the audit of the financial statements of company "A doo" they identified two accounts of the supplier "B doo" related to the provided IT services, for which they could not find the invoices, that those services were further invoiced to the end users, and are not for the client's needs, which was the reason for suspicion that they were fictitious transactions. The legal entity "A doo" presented invoices whose descriptions did not correspond to the description of the services listed on the supplier's invoice as outgoing invoices. These were invoices in the amounts of EUR 600,000.00 and EUR 700,000.00. In other words, it seems that both invoices referred to the same project, and the legal entity "A doo" did not present that it had any contract for such a large project, nor invoices on which the service descriptions would match the service descriptions on the supplier's invoices.

The company "B doo", which was listed as a supplier, was already the subject of APML's scrutiny before the described SAR, because of multiple SARs from several commercial banks. Based on the latter SARs the APML had already obtained and analyzed documentation from other commercial banks and due to suspicious activity observed on the accounts of the legal entity "B doo", i.e. suspicions on simulated legal transactions, aiming to deplete funds from the account of the above legal entities, as well as suspicions that the funds withdrawn from the account of the legal entity were further used for, among other things, the purchase of virtual assets, all available information, including the above, was disseminated to the public prosecutor's office through several letters.

5.1. Analysis of SARs for legal entities involved in ML cases

After the checks of the business entities involved in money laundering judgments for the period 2021 - 2023, it was determined that 38% of business entities (4 entrepreneurs and 34 LLCs) were subject of SARs, while in indictments, that percentage is 67.31% (4 entrepreneurs and 31 LLCs).

Year	2021	2022	2023	Total
Number of business entities involved in judgments	22	24	54	100
Number of business entities from judgments in SARs	6	9	23	38
Number of business entities involved in the indictments	2	14	36	52
Number of business entities involved in the indictment in SARs	0	9	26	35

Most of the SARs were filed from the banking sector, and this can be explained by the fact that banks are still one of the most used channels for the integration of proceeds, while one SAR was filed each from a notary public, a VASP and leasing company.

It is necessary to highlight that the link with some of the involved business entities was established through analysis of SARs related to natural persons who were convicted of or currently prosecuted for money laundering. This especially applies to SARs, which identified the natural persons who received funds from the accounts of the involved business entities, that

is, persons who are authorized to dispose of funds on the accounts of the involved business entities and who made cash withdrawals in significant amounts from these accounts.

As the most common SAR examples involving business entities registered in the form of LLC and entrepreneurs identified in judgments and indictments are simulated legal transactions in which the following activities were identified:

Suspicious activities in which significant funds were withdrawn from the bank accounts of legal entities (LLCs) in cash, using the payment basis code 166 - material costs, with documentation consisting of purchase notes, which indicate that the transaction involved the purchase of agricultural products, but which were suspected to be fraudulent.

Payment transactions from the bank accounts of legal entities (LLCs) to the accounts of several agricultural farms based on the purchase of agricultural products, which were suspected to be simulated, after which these funds were immediately withdrawn from the farms' bank accounts.

Payment transactions from the bank accounts of legal entities (LLCs) to several bank accounts of sole proprietorships, based on the trade of goods and services, which were suspected to be simulated, after which these funds were immediately withdrawn from the account of the entrepreneur.

Inflows of funds in significant amounts to the accounts of several natural persons from the same originators, i.e. companies (LLCs), based on the trade of goods and services, but which were suspected to be simulated, after which these funds were immediately withdrawn in cash from the accounts of natural persons. In some SARs, the natural persons in question were directly related to the company (the payer), being their founders, while most of the other persons appeared to have no direct links with the payers.

Inflows of funds in significant amounts to the bank account of the sole proprietorship from several companies, based on the trade of goods and services, which was suspected to be simulated, after which they were further transferred to the bank accounts of related natural persons, who withdraw the funds in cash.

Inflows of funds in significant amounts to the bank accounts of several sole proprietorships, originated by several different companies (LLCs) based on construction works performed, which were suspected to be simulated. After the inflow, the funds were withdrawn from the entrepreneur's account in cash, and what especially caused suspicion was the fact that the sole proprietorships concerned were stricken off from the register shortly after the work was done.

5.2. ML *modi operandi* identified in SAR analysis

An analysis of SARs in the period 2021-2023 has revealed a trend of growth in the value of SARs involving cash transaction reporting. The aforementioned phenomenon can be explained by the increasing number of cash transactions in connection with the purchase and sale of used cars (daily receipts deposit) with business entities registered in the form of LLC and the purchase of secondary raw materials, where it is mostly people registered as entrepreneurs, to whom payments are made by LLCs on the basis of simulated legal transactions. More specifically, we observed transactions related to the purchase and sale of secondary raw materials which are characterized by draining of bank accounts of mainly the companies registered as LLCs, through entrepreneurs and natural persons. This suggests tax is being evaded, and this remained dominant in the SARs analyzed, as is the high risk level of the above business activity.²¹² Also, an increased number of bonus payment transactions was

²¹² Based on the observed patterns in the reported suspicious activities, the APML Analytics Department prepared a strategic analysis.

observed at LLCs in extremely high amounts, the ultimate goal of which is to reduce income tax by using/abusing existing legal provisions in this area.

An increase in SARs related to the import of used cars has been observed. These are payment transactions in high amounts by a large number of domestic business entities registered exclusively in the form of LLC, on the grounds of purchase of used motor vehicles. Payments were made to legal entities which, based on the responses received from foreign FIUs, were later found to be established mainly by citizens of Serbia, that they do not conduct business in the abovementioned countries, but that, after the transfers from Serbia, the funds are transferred further to Western European countries where the vehicles imported to Serbia were purchased.

The data found so far indicate that there is an organized group of persons in Serbia that controls a large number of companies (LLCs) registered in Serbia and in several other countries, which are used for the import of used motor vehicles. There is a suspicion that the persons concerned may have devised a scheme whose goal is to reduce the value of the vehicle in order to ultimately avoid paying the corresponding tax obligations. This is both by foreign legal entities and domestic entities, under the control of an organized group of persons, and which provide fake data in the business documentation they prepare. Additional suspicion is caused by the fact that the concerned Serbian legal entities deposit high cash amounts as daily receipts, which are suspected partly to be proceeds from drugs trade.

Also, an analysis of the SARs filed by obliged entities has found that there was a suspicion of false data being presented in VAT returns based on the purchase of goods from LLCs, which served as a basis for unfounded VAT refunds, which damaged the budget of the Republic of Serbia.

Also, SARs involving business entities, whose accounts, as the analysis showed, were used as "current accounts", primarily with the aim of unjustified extraction of money from company bank accounts, and with the intention of concealing the origin and flow of illicit proceeds, also retained a significant place. In a certain number of cases, the founders or beneficial owners of these legal entities that operate in this way are foreign citizens. It was the analysis of the banking documentation of such legal entities and financial transactions that showed that although the legal entities are registered as residents, they do not actually have real operations in Serbia. Turnover on the RSD accounts of the aforementioned legal entities showed that the analyzed transactions were not consistent with the registered activity. This is because these business entities most often perform frequent activities with foreign companies. The basis of these transactions is largely "re-export".

Summary:	
Between 2021 and 2023, 2,947 companies were reported for suspicious activity, and 79.16% of the SARs came from the banking sector. Limited liability companies (d.o.o., LLCs) were the most reported, with 2,057 reports, followed by entrepreneurs with 865 reports. The total value of suspicious transactions involving legal entities reached over 1.15 billion euros. Non-resident entities were implicated in 141 reports, with the majority involving resident entities. Auditors, notaries public and accountants contributed significantly to the reporting of suspicious activity, along with banks. In addition, the APML exchanged 723 reports with foreign counterparts, including legal entities primarily involved in money transfers for goods such as used cars and secondary raw materials, raising concerns about tax evasion and potential money laundering schemes.	
Impact on risk:	
Increase in high-value cash transactions: Especially in the used car and secondary raw materials sectors, where transactions often involve simulated legal activities, masking illicit funds.	+2 partial probability increase for ML/TF
Organized groups controlling multiple companies: These groups use a network of companies to avoid taxes and launder money, creating complex schemes that are difficult to trace.	+2 partial probability increase for ML/TF

Cross-border transactions: Transactions with foreign entities, especially those founded by Serbian citizens or that have no real operations abroad, complicate the detection and control of illicit flows.	+2 partial probability increase for ML/TF
False information in VAT returns: False VAT claims based on the purchase of goods from LLCs lead to unjustified VAT refunds, harming government revenues.	+2 partial probability increase for ML/TF
Use of <i>transit</i> accounts: Accounts of legal entities are misused to transfer and withdraw funds without legitimate business, obscuring the source and purpose of the money.	+1 small probability increase for ML/TF
Regular reporting by financial institutions: Banks, auditors, notaries and accountants actively report suspicious transactions, improving the detection of illegal activities.	-2 partial probability decrease for ML/TF
International cooperation: Strong cooperation with foreign FIUs through regular information exchange has improved cross-border detection of ML, especially in high-risk sectors.	-2 partial probability decrease for ML/TF
Increased scrutiny of high-risk sectors: Specific industries, such as used car sales and raw materials markets, are under closer scrutiny due to the high risk of ML.	-2 partial probability decrease for ML/TF
Improved monitoring of non-resident entities: Focusing on non-resident companies involved in suspicious transactions helps authorities track cross-border cash flows and potential tax evasion schemes.	-2 partial probability decrease for ML/TF

6. CONCLUSION

FRAMEWORK AND VULNERABILITY ANALYSIS

The legal framework in Serbia, especially the Law on Companies, regulates the establishment, management and liquidation of business entities, including entrepreneurs. The 2021 amendments introduced stricter requirements for registering business addresses to combat "phantom companies" operating with fictitious addresses. This law clarifies the types of permitted business structures and sets out penalties, including joint and several liability for the controlling shareholder during forced liquidation, in order to prevent abuse of business entities. These risk mitigation measures were introduced based on the 2021 NRA findings.

The Law on Companies provides for various forms of legal organization of business entities, including entrepreneurs, partnerships, limited liability companies, joint stock companies, etc. In addition, organizations such as cooperatives, associations, foundations and endowments, defined by special laws, acquire legal personality through registration. All business entities are obliged to open a bank account and perform transactions through it.

The Serbian Business Registers Agency (APR) manages 23 centralized electronic registers, ensuring a uniform practice of registration throughout Serbia. The registration process is transparent, public and compliant with EU directives, allowing public access to registered data and documents. However, registration is based on the principle of formality, where the registrar does not check the accuracy or legality of the submitted data.

The Law on the Registration Procedure lays down criminal sanctions for filing false data or forged documents in the registration procedure, punishable by a prison sentence of three months to five years. In addition, there are administrative sanctions, including fines, for late

submission or updating of registered information. Changes in legal or formal ownership must be registered immediately, and both new and former owners are responsible for ensuring that registration is updated in a timely manner. In the observed period, the Serbian Business Registers Agency filed 47 criminal charges in the cases where it identified that false information or forged documents were filed during the registration process.

The Law on Companies lays down general conditions for the establishment of business entities, which apply to all types of companies. These conditions include the submission of articles of incorporation, articles of association and contracts relating to the company. The founding act is either a decision, in case of a single founder, or a contract if there are several founders. There are no restrictions as to the roles a founder can have in the company; founders may also serve as responsible persons, such as directors, or participate in the management structure, including serving as president or board members.

ANALYSIS OF MATERIALITY

According to the SBRA data, the most registered business entities in Serbia are LLCs, joint stock companies and partnerships. The total number of registered business entities increased from 133,417 in 2021 to 137,253 in 2023. LLCs are the most dominant form of organization, accounting for more than 95% of all entities, while the number of partnerships and joint-stock companies showed a slight decline during the observed period. Entrepreneurs (self-employed) have seen significant growth, especially after 2020, with an increase from 290,445 in 2021 to 330,567 in 2023. The annual growth rate of entrepreneurs reached 7.31% in 2023, indicating a continued expansion trend. Over 95% of the total number of registered business entities are classified as micro and small enterprises, with LLCs being the most preferred form. In 2023, 93,517 micro enterprises were registered, which is 84.5% of the total number. While micro-enterprises dominate in numbers, large enterprises generate the most revenue, although they account for only 598 of the total number of entities. In 2023, there was a slight drop in the registration of new LLCs due to the introduction of mandatory electronic registration in May 2023. The process is more complex, requiring notary or legal assistance in certain cases, and has forced some individuals to choose the simpler and entrepreneur registration process, especially in the second half in 2023.

Companies with a complex ownership structure (at least one layer of ownership consists of legal entities) often operate in sectors such as wholesale trade, consulting and IT. These sectors are often involved in cross-border activities, and a number of companies are owned by foreign entities. For example, 1,174 of them are involved in non-specialized wholesale trade, and 1,033 work in consulting services.

Audit obligations apply to all joint-stock companies, public companies, as well as large and medium-sized companies and companies with a total business income of more than 4.4 million euros, which reduces the risk of ML/TF considering the status of auditors as obliged entities. Compliance with the audit obligation is strictly monitored by the SBRA, non-compliant entities are regularly identified, reported and sanctions are applied. Every year, the Serbian authorities wipe out thousands of companies through forced liquidation and apply tens of thousands of bans on the disposal of funds, suspension of TIN or tax controls.

Branches and representative offices of foreign companies make up less than 2% of all registered business entities. Their presence in Serbia has been mostly stable in the last 5 years, used to facilitate real economic ties, with the majority from the USA and the countries of the region (Bosnia and Herzegovina, Montenegro, Croatia, Slovenia and North Macedonia), and a few from offshore territories (Cyprus and UK).

In recent years, foreign ownership in Serbian business entities has been steadily increasing and has reached 12.25% of companies, primarily in the form of LLCs. Most

companies in Serbia are still financed with domestic capital, with foreign capital - especially from Slovenia, Cyprus and Austria – accounting for 17.79% of ownership in LLCs. Joint stock companies have shown a similar trend with 13.32% of foreign capital. The number of foreign natural persons who operated as entrepreneurs in Serbia is insignificant compared to the total number of entrepreneurs (about 4%), but it is constantly increasing.

In general, Serbia shows a growing trend of foreign participation in domestic business, in various forms, although it still constitutes a small part compared to entirely domestic subjects and entrepreneurs.

Serbia has implemented a strong system for identification of beneficial owners, in accordance with FATF standards, through its Law on CRBO and the establishment of the Central Records of Beneficial Owners (CRBO). Serbia maintains and publishes the Central Register of imposed measures, which consolidates data on business entities, their owners, directors and members of the supervisory board, who have been punished for criminal acts, economic violations, or misdemeanors. Obligated entities check these registers before establishing a business relationship.

The number of business entities that fulfill the obligations of registering beneficial owners is increasing year by year. On 31.12.2023, over 90.5% of entities fulfilled the obligation to register the beneficial owner. LLCs showed the highest compliance rate (94.74%), while foreign representative offices and branches lag behind (30.63%). Sanctions for failing to comply with the obligation to record beneficial ownership information, including fines and criminal-law measures had an effect on an increased compliance, with over 8,000 fines imposed between 2021 and 2023 for non-compliance.

CRBO significantly reduced ML/TF risks by increasing ownership transparency. However, challenges remain with lower compliance rates among certain entity types.

The majority of beneficial owners in Serbia are domestic natural persons, who make up 87.84% of all registered legal entities, while foreign natural persons make up 22,719 legal entities. About 90% of beneficial owners are from Serbia, while other countries contribute less than 1% each. As of 2023, 186,905 beneficial owners were recorded in the Central Records, of which over 72% were classified as holding 25% or more of the company's shares or voting rights. Riskier ownership categories have significantly reduced in number.

Supervisory authorities, including the APML, conduct regular inspections of obliged entities, and any non-compliance, including failure to update their records, has resulted in sanctions, including fines and court proceedings. From 2021 to 2023, multiple inspections found violations related to keeping accurate and timely records of beneficial owners, particularly among accounting firms and factoring companies, as well as entities under the supervision of the Securities Commission. These offenses are dealt with through warnings, fines and legal action, with the aim of enforcing stronger compliance. Cases of discrepancies between the information on the beneficial owners presented by their clients and the information contained in the records of beneficial owners were identified, in which case the legal entities were faced with sanctions.

The number of foreign requests for BO data from Serbia is low due to the public availability of the Central Records of BOs. Foreign FIUs requested information on BO from the Serbian FIU in 15 cases, primarily from neighboring or European countries such as Montenegro, North Macedonia, Slovenia and Germany. These requests mainly related to financial transactions of Serbian legal entities. In contrast, the FIU of Serbia submitted 164 requests to foreign partners to obtain information on BO for their investigations.

Trusts cannot be established under Serbian law, but trusts created under foreign legislation are recognized in the Law on Prevention of Money Laundering and Financing of Terrorism. About 300 Serbian legal entities have ownership ties with trusts. Trusts and offshore entities are classified as high risk for money laundering and are subject to enhanced monitoring.

Until December 31, 2023, no obliged entity had any trusts as direct client, although they appeared in the ownership structures of clients. These relationships are closely monitored, especially as part of supervisory examinations.

In order to mitigate the risks associated with trusts, the NRA suggests that:

- To maintain a special list of trusts that operate through resident and non-resident legal entities in Serbia (which will be supplemented by information from banks and the register of business entities) and to make it available to competent authorities.
- APML to supplement the list of trusts that may operate as direct clients of the obliged entity.

Trusts are not direct clients of banks or other obliged entities, and the only trust account found in a bank was inactive and subsequently terminated. At the same time, obligors successfully identify the presence of trusts in the ownership structures of their clients. A small number of such clients allows the obliged entities and supervisors to constantly monitor business activities. In 2023, 369 bank clients were found to have trust in their ownership structure, and most of these funds were registered in Cyprus. Similarly, 38 financial leasing clients and 5 insurance companies reported trusts in their client ownership structure, also with Cypriot trusts being the most common. All entities that have trust in their ownership structure are considered high-risk and are subject to increased monitoring by the obliged entity and supervisory authorities.

These data indicate that the material presence of trust in Serbia is negligible and that it is closely monitored at several levels of the AML/CFT system, which significantly reduces the risk of money laundering and terrorist financing.

The trusts do not appear in money laundering investigations, nor were they the subject of SARs by obliged entities, in the course of supervision of obliged entities, no failures were observed in reports, all of which indicates that the risk of misuse of the mentioned business entities for money laundering is negligible.

THREAT ANALYSIS

An analysis of foreign legal entities from high-risk jurisdictions, listed by the FATF, reveals that only a few entities associated with such jurisdictions, mostly from countries in the region, such as Croatia and Bulgaria, were registered in Serbia. These links generally represent unavoidable cross-border business links between countries and do not, with the exception of certain specific cases, indicate increased macro risk.

An analysis of the involvement of companies in ML cases highlights that business entities, especially small companies, play a central role in the laundering of proceeds. The most common ML method is through fictitious transactions, where false invoices and documents are used to simulate business activities that did not actually occur. These entities are often controlled by OCGs and are used to transfer and integrate dirty money into the legitimate financial system. An analysis of 140 money laundering cases reveals that 130 companies were involved, most of which were LLCs, along with entrepreneurs and cooperatives. Most of these companies have a *registered business in the trade sector, they are classified as micro or small, which are not subject to audit, have no employees, and their financial statements show that they operate without loss*. LLCs are also often used for tax avoidance and draining of funds. Joint-stock companies are generally not abused, due to the more complex regulatory framework and monitoring mechanisms, while associations and individual entrepreneurs show a certain level of exposure to threats.

These trends generally prove that money launderers in Serbia tend to use simplified schemes involving smaller entities such as LLCs and sole proprietorships, which have minimal regulatory requirements, lower controls and flexible accounting practices, allowing them to easily conduct fictitious transactions. These companies often lack significant capital and often operate for a limited time, after which they cease to exist or are liquidated.

An exception is the emerging trend of professional accountants setting up and running money laundering operations, as identified in a number of cases.

For cases of organized crime, the general characteristics of misuse of legal entities are similar to the above factors. An analysis of organized crime ML cases reveals two distinct categories of companies: those that are genuinely operating and those that are legally established but do not perform any real economic activity. Companies operating legitimately often use business structures controlled by OCGs to siphon off cash from their accounts, thereby minimizing tax liabilities.

In contrast, entities established by criminal organizations serve as professional money launderers, issuing false invoices for non-existent goods or services. These companies facilitate a series of transactions within an organized network, allowing money launderers to move money across different accounts and ultimately, make the cash available to criminal actors without detection. These entities do not employ staff, and their founders are often socially disadvantaged individuals who register companies in exchange for a small financial fee.

More sophisticated cases reveal complex networks of interconnected businesses, often involving foreign entities, used to move money across borders and conceal its origin.

Registered agricultural holdings are increasingly being used in ML schemes, especially by OCGs. The owners of these farms open special purpose bank accounts for agricultural transactions, but they are often misused to receive illicit funds, which are then withdrawn and returned to criminal organizers. This puts the farms in the final stage of the money laundering process, where dirty money is turned into cash. From 2021 to 2023, 26 such cases were identified, and banks often fail to properly verify such transactions. Although the number of cases is relatively small, the ease with which cash is withdrawn make agricultural holdings an increasing risk for money laundering.

Criminal prosecution of legal entities for money laundering is often unsuccessful, especially when it comes to fictitious companies that usually have no real assets or operations and disappear from the business map soon after facilitating illegal activities. These companies are registered with minimal capital and their business activity is not real, but is aimed at concealing the origin of funds, which makes it difficult to recover the money or hold individuals accountable.

However, in cases where companies have significant assets, particularly in the real estate and construction sectors, criminal proceedings have been initiated against them.

International cooperation is essential in monitoring and prosecuting cross-border money laundering cases involving organized crime.

An analysis of the data of the Serbian Tax Administration shows that many business entities involved in money laundering are connected to tax evasion, which is the most common predicate crime for money laundering. A large number of these companies, usually small or micro, are founded with minimal capital, they are often *shell* companies without real assets or operations that cease to operate after use and disappear from the business map. Criminal charges for tax crimes are primarily filed against responsible individuals, and not against the companies themselves, as many companies are insolvent. The analysis identified re-offenders operating multiple companies, some of which are linked to money laundering through tax crimes.

The most common registered business activity for business entities that perform real activities and use fictitious documentation to avoid tax obligations involves non-specialized wholesale trade in various goods, mainly in domestic payment transactions.

During the observed period, the Tax Police based on pre-established criteria identified 881 business entities as "phantoms" or "launderers". Phantoms usually conceal business information, avoid tax returns and lack proper documentation or transparency. Professional launderers/laundromats are companies that simulate trade activities through fictitious transactions to facilitate tax evasion. These business structures are used to create false documentation such as invoices, often helping regular businesses to avoid taxes, especially VAT. These entities are short-lived and usually shut down after completing their illegal objectives. In response, the Tax Identification Number (TIN) was suspended for numerous companies, and criminal charges were filed against several responsible persons.

The analysis of obliged entities' data on the risk levels of business entities the obliged entities engage with confirms that limited liability companies (LLCs), especially micro and small entities, face the greatest risk from potential money launderers. The banking sector reported the largest number of suspicious transactions associated with these high-risk businesses, often operating in sectors such as wholesale, real estate, construction and vehicle sales. Of all types of legal entities classified as high-risk by the obliged entities – LLCs (DOO) accounts for about 8%, AD about 10%, other forms (limited partnerships, partnerships) about 4% and entrepreneurs about 3%.

In the period 2021 - 2023, the Serbian Ministry of Justice processed numerous mutual legal assistance requests in relation to legal entities, especially limited liability companies (LLCs). Out of a total of 253 cases, 38 incoming MLA requests were related to domestic and foreign LLCs, involving assets worth €296.8 million and £100,000. The largest amount of seized assets is linked to Kazakhstan (€168.2 million), and this was in relation to crimes such as tax evasion and illegal gambling. The outgoing requests involved 23 domestic and foreign LLCs, with assets in the total amount of 13.4 million euros and 9 million dollars. The Public Prosecutor's Office for Organized Crime also dealt with LLCs in 14 cases involving 22 business entities, where 12.2 million euros and 57,225 dollars of assets were under investigation, and one case involving 12 million euros in gold. In addition, Serbia cooperated with Spain in joint investigations targeting LLCs involved in drug trafficking and money laundering. Regarding

international police cooperation, most of the 209 business entities flagged for suspicious activities were LLCs. The Financial Investigation Unit (APML) and the police force regularly exchanged information about LLC, and through Europol and Interpol they processed numerous cases of money transfers involving these entities. The Tax Police Sector was also involved, which sent 50 requests and received 11 related to LLCs suspected of tax evasion and money laundering, which led to significant financial losses for the Serbian government budget. Legal entities, especially LLCs, remain the focus of these international efforts to detect and prosecute money laundering activities.

From 2021 to 2023, 2,947 companies were reported for suspicious transactions, and 79.16% of the reports came from the banking sector. Limited liability companies (d.o.o.) were the most reported, with 2,057 reports, followed by entrepreneurs with 865 reports. The total value of suspicious transactions involving legal entities reached over 1.15 billion euros. Non-resident entities were implicated in 141 reports, with the majority involving resident entities. Auditors, notaries and accountants contributed significantly to the reporting of suspicious activities, along with banks. In addition, the APML exchanged 723 reports with foreign counterparts, including on legal entities primarily involved in money transfers for goods such as used cars and secondary raw materials, raising concerns about tax evasion and potential money laundering schemes.

Looking at the total data on business entities in finally adjudicated cases that were involved or used in the process of money laundering in the observed period, we come to the data and conclusions that with respect to the legal form of organization of business entities, limited liability companies (67 in total) are the most common, followed by entrepreneurs (49 in total), and agricultural holdings (26 in total), partnerships (1), cooperatives (4) and associations (4).

In cases of investigations and indictments of organized criminal groups, the largest number of involved business entities are limited liability companies (56), followed by entrepreneurs (6), partnerships (1) and registered agricultural holdings (2).

During the observed period, the Tax Police, on the basis of the performed risk assessment as well as on the basis of their work and performed controls, identified 881 business entities which, based on the pre-established criteria, it characterized as "phantom" or "launderer" companies.

From the cases of indictments by the Public Prosecutor's Office for Organized Crime, it was concluded that 24 legal entities with the characteristics of phantoms and 22 legal entities with the characteristics of launderers were involved in the money laundering chain.

By far the greatest degree of threat based on the analysis of money laundering cases is represented by companies in legal form of limited liability company (LLC).

This legal form is most often used in the process of money laundering by organized criminal groups.

Limited liability companies are most often misused also to hide beneficial ownership. The banking sector was most commonly used to conceal the origin of money, for multiple monetary transactions in the domestic payment system. The cash flows of a limited liability company are most often misused through:

- using false documentation to perform transactions
- withdrawing cash in order to reduce the tax base
- laundering dirty money by withdrawing the funds after moving them through the financial sector using another business entity - an "intermediary" (most often an entrepreneur) or a registered agricultural household.

(Mis)used limited liability companies, in the majority of cases, were micro business entities, without employees, with a minimal founding capital and minimal business income,

which boils down actually to the amount of the "commission" (fee) for the invoice issuing services they rendered. The users of such "services" are most commonly business entities that are engaged in legitimate business whose aim is avoid paying tax. Frequent cash transactions constitute the main risk indicator.

Cases of bookkeepers or accountants participating in designing these schemes are not rare, which indicates their complicity in criminal activities.

In order to reduce the number of such cases and remove companies from the business environment, it is necessary, in addition to the existing mechanisms of control and supervision, to consider the possibility of predicting ways to identify the addresses of the headquarters (registered offices) in the course of the registration of business entities where a large number of companies already have their registered headquarters and in which the same person appears as the owner of the share (ownership interest) or the responsible person, in order to impose the existing control or supervision measures on such entities, already at that moment. In this way, the cooperation between the registration authority and the business compliance control authority for business entities would contribute to greater efficiency and effectiveness of the system.

Based on the analysis of all data, especially data on the involvement of legal entities in the process of money laundering identified in final court judgments and OCG cases at the stage of investigation and indictment, it was assessed that:

- **limited liability companies and entrepreneurs are forms of business entities with a high level of threat for money laundering,**
- **associations and cooperatives pose medium threat level and**
- **other forms are at a low threat level.**

Registered agricultural farms should be monitored with due attention given that their presence in ML schemes was still identified. Given that the real-estate sector has been assessed as high risk for ML, natural persons - investors represent not only a growing threat for ML but also an emerging threat that requires priority measures.

The highest degree of risk in limited liability companies is posed by single-member companies founded by domestic citizens, with minimal founding capital, no employees or with a small number of employees and minor income, which are not subject to auditing.

The analysis of money laundering cases did not find any trusts in the founding structure of any business entity. Trusts are not risky legal forms for money laundering in Serbia.

ASSESSMENT OF THE RISK OF TERRORISM FINANCING

INTRODUCTION

Serbia strongly condemns terrorism in all its forms, regardless of circumstances, actors, location, time or method of execution. At the same time, Serbia rejects the association of terrorism with any particular religious, ethnic or other group.

Recognizing the transnational nature of terrorism, Serbia advocates close cooperation with regional and global actors in order to provide timely and comprehensive responses through various forms of bilateral and multilateral cooperation. Serbia actively participates in activities carried out through the United Nations (UN) and other international and intergovernmental organizations. As a candidate for membership in the European Union (EU), Serbia also fully contributes to EU policies in the fight against terrorism, adhering to internationally accepted principles and standards.

From the perspective of terrorism financing threats in Serbia, assessing internal and external risks is of the greatest importance. This is particularly significant given that terrorist financing may involve disproportionately small financial resources compared to the harm it may cause, either through the commission of a terrorist act or through other activities carried out by terrorists and their supporters.

In the context of contemporary global terrorism, Serbia remains committed to decisively confronting the challenges, risks and threats posed by religiously motivated extremism/terrorism and other forms of violent extremism and radicalism, ranging from the local to regional to the global level.

In recent years, the increasing use of the Internet for various purposes, especially among younger generations, has increased the challenge of religious radicalization. This phenomenon mostly happens outside both official and unofficial religious institutions in Serbia. In this sense, younger generations of radical and militant extremists have gained increasing security relevance. There has been an increase in the acceptance of radical religious views by individuals, most often psychologically vulnerable individuals who are more susceptible to religious indoctrination. This includes the acceptance of religious terrorist ideologies similar to the "Islamic State".

Several factors, among which the most significant being the migrant crisis, the impact of the COVID-19 pandemic, the armed conflict in Ukraine and the conflict between Israel and the militant organization Hamas, played a significant role in the rise of extremism in Serbia. In recent years, these events have shaped the social and political environment, contributing to conditions that encourage radicalization and extremist behavior.

In Serbia, extremist activities that have the potential to escalate into terrorism mainly include ethno-separatist extremism, religious extremism and illegal migration. Ethno-separatist and religious extremist movements have shown the ability to threaten national and regional security. Although ideological extremism, often led by far-left or far-right groups, has not yet posed a significant threat in Serbia or the wider region, the risk remains, especially in the context of the impact of global trends.

The presence of these factors affects the vulnerability of Serbia from the point of view of extremism, especially where they have the potential to turn into terrorism.

Risk assessment process

For the purposes of assessing the risk of terrorist financing, in particular focusing on the misuse of legitimate financial institutions and individuals, the following data was taken into account:

A. National threats: Risks posed by terrorist activities.

B. Sector-Specific Vulnerabilities: Vulnerabilities in various sectors, which could be exploited for terrorist financing.

The conclusions about the threats of terrorist financing in Serbia were drawn from the analysis of **Serbia's capacity to prevent and fight against terrorist financing**, as well as its overall ability to deal with and mitigate the risks of terrorist financing.

Methodology used for assessing the risk

As in the previous two national assessments of the risk of terrorist financing, Serbia used the **World Bank** methodology also for the period 2021-2023, yet taking into account the unique Serbian circumstances, its geographical location, as well as the professional experience and knowledge of the members of the Working Group. This included:

- Verification of the conclusions from the previous risk assessment.
- Examining changes and developments that have occurred since the last assessment.
- Review of analyzes that were part of prior strategic documents.

In addition to the methodological elements included in the World Bank's methodology, this report concludes each segment of the analysis with an assessment of the key findings against a scale of probabilistic impact, i.e. the degree to which the identified factor (e.g. a specific threat scenario or element of vulnerability) has an impact on the probability of FT in Serbia. For this purpose, the following scale is used:

Table 1. Probability impact scale

Rating of individual factors		For mean (average) summary calculations
5	Very high probability of FT	Between 4 and 5
4	High probability of FT	Between 3 and 4
3	Medium probability of FT	Between 2 and 3
2	Low probability of FT	Between 1 and 2
1	Very low probability of FT	Between 0 and 1

Scores for each identified factor are assigned based on the expert consensus of the NRA working group, after reviewing the qualitative rationale and all quantitative data underlying the specific factor.

Composition of the working group

The working group for assessing the risk of terrorist financing was made up of representatives of the following institutions: Ministry of Finance (including APML, Customs Administration and Tax Administration), Ministry of Defense, Ministry of Internal Affairs, Ministry of Foreign Affairs, Supreme Public Prosecutor's Office, Public Prosecutor's Office for Organized Crime, Security - information agency, Office of the Council for National Security and Protection of Secret Information, National Bank of Serbia, Securities Commission, Serbian Business Registers Agency, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Culture, Ministry of Mining and Energy, etc.

In addition to the representatives of state institutions, representatives of relevant associations - the Serbian Chamber of Commerce and Industry and Industry and the National Association of Travel Agencies - JUTA, as well as obliged entities under AML/CFT Law, participated in the analysis of the TF risk.

MAIN CONCLUSIONS

The legal and institutional framework in Serbia for the fight against terrorism and its financing is aligned with international standards. The key regulations are the Criminal Code, Criminal Procedure Code, Law on the Organization and Jurisdiction of State Bodies in the Fight against Organized Crime, Terrorism and Corruption, Law on Prevention of Money Laundering and the Financing of Terrorism, Law on the Freezing of Assets With the Aim of Preventing Terrorism and WMD Proliferation, and the Law on International Restrictive Measures. The regulatory environment was consistent during the reporting period, enabling the systematic implementation of measures aimed at combating terrorist financing and increasing operational efficiency. National strategies complement the legal framework, with key documents such as the National Security Strategy, Strategy for the Prevention and Fight against Terrorism and the Strategy for the Fight against Money Laundering and Terrorist Financing, the Strategy for Integrated Border Management (2022-2027).

The results of the implementation of the national strategy include improved data sharing on terrorist financing, with increased coordination between operational bodies, periodic reviews of human, technological and financial resources and ongoing investigations supported by interagency cooperation. Training programs are regularly conducted for law enforcement, financial intelligence units and customs officials to improve their ability to detect and manage terrorist-related financial crime. Capacity-building efforts were directed at all relevant authorities to facilitate the identification and response to terrorism and FT-related risks.

For non-profit organizations (NPOs), regulatory oversight has been enhanced with updated monitoring and inspection criteria and procedures, supporting risk matrices and revised inspector training methodologies. Regular capacity assessments ensure that the competent supervisory authorities have adequate resources. Cooperation with the non-profit sector focuses on promoting transparency and self-regulation, while awareness-raising initiatives and workshops have strengthened financial practices in the sector.

Data analysis indicates that the territory of Serbia and its financial system were not systematically used for terrorism financing. However, data from pre-investigation procedures, intelligence data and international cooperation have revealed isolated, individual cases in which small amounts of money were used. According to the same data, there was a suspicion that the funds were transferred by alternative means (cash couriers, "hawala", etc.) and through payment institutions and e-money institutions from abroad. The funds transferred in this way come from the personal income of relatives and friends, and one should bear in mind that the recent terrorist activities have been financed with small amounts of money from personal sources.

Monitoring informal systems ("hawala", "cash couriers" and others), as well as financial transactions and payment institutions mitigates the risk of using these systems for FT.

The Security Intelligence Agency (BIA) in Serbia actively collects intelligence on activities that could be related to the financing of religious extremism and terrorism. In cooperation with the Administration for the Prevention of Money Laundering (APML), the BIA has identified suspicious financial activities of both individuals and organizations. The APML, through cooperation with various entities such as payment institutions and banks, received suspicious activity reports (SARs) related to the financing of terrorism. Although many of the reports involved individuals linked to foreign terrorist fighters, there was no clear evidence linking these SARs to organized crime or terrorist financing. The number of SARs from banks is decreasing, while their quality and relevance are improving. In addition, proactive domestic and international cooperation has mitigated the risk of terrorist financing.

In the period 2021 – 2023, no terrorist acts were committed on the territory of Serbia and no activities of organized terrorist groups were registered. However, self-radicalized

individuals have been identified as supporters of ideologies such as ISIS and Al-Qaeda, who mostly operate on the Internet.

On the territory of Serbia, no armed conflicts, large-scale provocations, or significant security problems have been recorded with any ethnic community. Ethno-separatist extremism, primarily driven by Albanian nationalist aspirations, represents a constant threat to the territorial integrity of Serbia. Activities related to separatism still exist in the AP KiM and other parts of southern Serbia, with efforts to separate parts of Serbia and include them in the so-called "Greater Albania" which remains a source of regional instability.

Religious extremism in Serbia is primarily driven by individuals and small groups who have embraced extreme Islamism, targeting vulnerable individuals such as the young, uneducated and economically disadvantaged, often operating outside official religious communities and establishing connections abroad.

These sectors have been identified as having a moderate potential for terrorist financing due to business vulnerabilities or insufficient regulatory oversight.

- Payment institutions: Vulnerable due to a lack of continuous customer relationships and limited access to customer identification data.
- Currency exchange operators: Participation in the gold trade, i.e. jewelry, in a quantity that deviates from the usual sales by individuals.
- Freelancers and the IT sector: Potential use of technological expertise to create or support online content that promotes terrorism.

1. LEGAL AND INSTITUTIONAL FRAMEWORK

1.1. Legislative framework

Serbia has made significant efforts to align its domestic laws with international standards in order to more effectively fight terrorism and terrorist financing. The basic laws governing the prevention and fight against the financing of terrorism in Serbia are:

- Criminal Code
- Criminal Procedure Code
- Law on the Organization of Jurisdiction of State Bodies in the Suppression of Organized Crime, Terrorism and Corruption
- Law on Prevention of Money Laundering and the Financing of Terrorism
- Law on Freezing of Assets With the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction
- Law on International Restrictive Measures

In the reporting period, Serbian CFT legislative framework was largely stable, which enabled the consistent implementation of measures by all stakeholders and led to their increased efficiency and effectiveness.

1.2. Implementation of national strategies

In addition to the legal framework, national strategic documents play a key role in preventing and combating the financing of terrorism. The most important of these documents include:

- Strategy for Preventing and Fighting Terrorism (currently being updated).
- Strategy against Money Laundering and Terrorist Financing (updates are ongoing).
- A joint action plan for the Western Balkans in the fight against terrorism, which focuses on regional cooperation.
- Strategy for Integrated Border Management (2022-2027) and the related Action Plan.
- National Security Strategy

Efforts are underway to fully implement **the Strategy against Money Laundering and Terrorist Financing (2020-2024)** with the accompanying **Action Plan**. Compared to previous risk assessments, the CFT system in Serbia has improved through the implementation of most of the activities listed in the strategy. Key achievements include:

- **Improved data exchange:** The exchange of information on TF has improved within the existing coordination structures among the operational authorities responsible for the fight against terrorism. Operational bodies meet frequently, especially the Task Force, to share data and intelligence.
- **Capacity assessments:** Periodic analyzes of the human, technological and financial resources of authorities responsible for the fight against terrorism and the financing of terrorism contribute to the monitoring and improvement of capacities as needed.
- **Research in progress:** Systematic investigation of TF cases is carried out continuously, supported by the exchange of reports from the Administration for the Prevention of Money Laundering (APML) with other state authorities. Cooperation with relevant international entities on TF issues is also ongoing.
- **Training programs:** Continuous trainings are held to improve the quality of Suspicious Activity Reports (SARs) and improve their use in TF prosecutions. This area requires further improvement.

- **Training of law enforcement authorities:** Ongoing training intended for the organizational units of the Ministry of Internal Affairs: Financial Investigations Unit (JFI) and Border Police Directorate (UGP), as well as customs officers with a focus on identifying TF activities. Further training improvements are needed.
- **Best practice training:** Continuous trainings for the police, prosecutors and courts are held in accordance with the best practices of European and American prosecutors, which have been valuable and require further development.

1.3. Modern technologies

Serbia is engaged in monitoring all methods of monetary transactions, including the use of modern technologies from the aspect of virtual assets and third-country money transfer institutions. The said activity was implemented by the adoption of the ML/TF Risk Assessment for the digital asset sector.

1.4. Non-Profit Organizations (NPOs)

The expert team for the analysis of regulations related to the registration and operation of NPOs has completed its task, proposing measures to improve the regulatory framework. The key recommendations are:

- **Supervision of non-profit organizations:** Continuous supervision of non-profit organizations has been improved with updated criteria and procedures for selecting entities to be supervised using **a risk matrix** and updated methodologies for inspectors. Inspectors undergo regular training to recognize TF risks in the sector.
- **Capacity building:** An analysis of the capacities of the bodies responsible for overseeing NPOs concluded that their capacities are adequate for this work.
- **Cooperation with the NPO sector:** Cooperation with the NPO sector is strengthened through initiatives that promote transparency, accountability and self-regulation. This has been achieved through training programs and sharing of best practices for TF risk mitigation.
- **Workshops and awareness programs:** The Association of Serbian Banks organized several workshops with the aim of raising awareness in the NPO sector about permitted financial practices. Ongoing work by umbrella organizations on self-regulatory documents related to FT risk mitigation continues.
- **Promotion of the APML application:** The APML application for searching designated persons is actively promoted through various training programs.

1.5. Targeted financial sanctions

The Law on Freezing of Assets with the Aim of Preventing Terrorism and the Proliferation of Weapons of Mass Destruction requires from all individuals and business entities to check whether their potential partners are designated persons before establishing business relationships. If they are found to have been designated, the assets must be immediately frozen and the APML must be notified.

1.6. Supervision of obliged entities

Supervision of the financial and DNFBP sectors is carried out in accordance with the risk-based approach pursuant to the Law on Prevention of Money Laundering and the Financing of Terrorism. Supervisory authorities ensure compliance with laws, by-laws and

guidelines that govern the prevention of money laundering and terrorist financing. Supervisors must have:

- Clear understanding of ML and TF risks in Serbia.
- Direct and indirect access to all relevant information on domestic and international risks related to clients and services provided by obliged entities.

Supervisory authorities periodically review the assessed risks and adjust the scope of supervision accordingly. In cases where obligors undergo significant structural changes, risk assessments are updated.

1.7. Institutional capacities

Serbia's resources for the fight against terrorism are concentrated in specialized units within:

- Ministry of Internal Affairs (Service for Combating Terrorism)
- Ministry of Defense (VOA, VBA)
- Security and Information Agency (BIA)
- Administration for the Prevention of Money Laundering (APML)

Criminal prosecution is the exclusive responsibility of the Public Prosecutor's Office for Organized Crime.

Personnel capacities in specialized units are periodically analyzed and adjusted according to needs. Investments are ongoing in the capacities of personnel responsible for the fight against terrorism, which includes permanent investment in the technology they use.

1.8. Interagency coordination and working groups

Interagency coordination is made possible through operational and strategic groups:

- At the operational level, **the Operational Working Group** consists of: the Public Prosecutor's Office for Organized Crime, Security and Information Agency and the Ministry of Internal Affairs' Service for Combating Terrorism. This group meets at least once a week to exchange information and coordinate actions.
- At the strategic level, **the National Coordinating Body for the Prevention and Combating Terrorism** includes representatives of various ministries and agencies.
- **Coordination Body for the Prevention of Money Laundering and Terrorist Financing** oversees broader efforts in these areas.

For the purpose of mitigating the risk in relation to the abuse of migratory channels, a Permanent Task Force for the Fight against Human Smuggling (SUG) was formed. It became operational in 2017 and after its transformation in 2019, it changed its name to Task Force. The Task Force consists of the Public Prosecutor's Office for Organized Crime and organizational units of the Ministry of Internal Affairs (Criminal Investigations Police Directorate – Service for Combating Organized Crime (SBPOK) and Financial Investigations Unit, Border Police Directorate and Technology Directorate).

2. DOMESTIC AND INTERNATIONAL COOPERATION

2.1. Domestic cooperation

In Serbia, various working groups and teams have been formed for the prevention and fight against terrorism, which includes the prevention and fight against the financing of terrorism. The Public Prosecutor's Office for Organized Crime, Security and Information Agency (BIA), Ministry of Internal Affairs Service for Combating Terrorism and the APML are involved in monitoring financial transactions that could be linked to terrorism. In the period 2021-2023, 473 entities (individuals and legal entities) were checked for potential links to terrorist financing, and the APML conducted thousands of checks on financial flows. Cooperation between national security bodies is crucial, including monitoring suspicious transactions involving radicalized individuals, foreign terrorist fighters, illegal migration, as well as illegal arms trafficking. Despite these efforts, concrete cases of terrorist financing have not been identified, but monitoring remains continuous and systematic.

In this regard, from the point of view of the existence of TF indications, the security services of Serbia checked financial transactions during the observed period, as shown below:

Table 2. Checks of financial transactions by Serbian security services through APML

Year	Service for Combating Terrorism	Security Information Agency	Public Prosecutor's Office for Organized Crime
	Number of entities	Number of entities	Number of entities
2021	183	19	/
2022	203	12	/
2023	48	7	1
In total	434	38	1

Bearing in mind that international terrorism is a global threat, the exchange of information between the security and police services (MUP, BIA, VOA, VBA) as well as between the above services and the Administration for the Prevention of Money Laundering is one of the areas of cooperation. Obtaining and exchanging information includes:

- verification of intelligence related to the financing of individuals and/or groups of supporters of radical Islamist ideologies in Serbia and abroad;
- checking the flow of money involving illegal arms trade,
- verification of data related to participation of fighters in foreign battlefields contrary to the Criminal Code of Serbia,
- verification of data on illegal financing of the activities of returnees from foreign battlefields,
- checking the movements of money involving the financing of irregular migration and
- verification of data on the involvement of irregular migrants in terrorist activities.

2.2. International cooperation

The Republic of Serbia actively and effectively participates in international cooperation related to criminal prosecution, pre-investigation procedures and the exchange of intelligence with international partners.

In the period 2021-2023, Serbia cooperated with several international partners, exchanging mutual legal assistance requests. This included activities such as requests for extradition, interrogation of suspects and monitoring of financial transactions. Although in several cases no direct TF has been found, Serbia continues to implement the above activities, especially with regard to cross-border threats that include terrorist financing through digital platforms and money transfers. Cooperation with Interpol, Europol and foreign financial intelligence units is essential for monitoring and investigating terrorism-related activities. In this sense, the competent authorities of the Republic of Serbia are engaging in requests and information exchange in order to strengthen efforts in the fight against terrorism, with a focus on preventing the abuse of financial systems for terrorism.

The information exchanged through international cooperation in the reference period concerning the criminal offense of terrorism and other related criminal offenses, can be summarized as follows: a total of 17 letters rogatory or mutual legal assistance requests, so called incoming requests, were sent to the competent authorities of the Republic of Serbia by foreign judicial authorities, of which 10 requests were fully granted, 4 requests were rejected, 2 requests were partially granted, while the processing of 1 request was postponed.

Regarding the outgoing MLA requests, there were a total of 14 of them in the reference period, 7 of which were fully granted, 2 are still pending, 2 requests were partially granted, and 2 requests were not granted at all.

The types of MLA provided included requests for extradition, requests for transfer of persons, interrogation of suspects, examination of witnesses, taking statements from citizens, submission of evidentiary material, obtaining documents, exchange of information, implementation of special evidentiary actions (SITs), secret monitoring and recording, and secret surveillance of communications.

In the mentioned reporting period, there were a total of 4 procedures for extradition of persons from Serbia, involving the criminal offenses in question, none of which were granted. In three cases, the prerequisites for extradition were not met, because there was no evidence of reasonable suspicion that the said persons had committed any criminal acts, while in one case, temporary detention was ordered for the purpose of extradition, but the said person was never deprived of his liberty. Three MLA requests were from the Republic of Turkey, one from the Kyrgyz Republic, and one from the USA.

A request for the transfer of a Serbian citizen pursuant to a BiH's letter rogatory was rejected because the Serbian Ministry of Justice provided a negative opinion given that his extradition would affect security in Serbia.

The international operational cooperation of the Service for Combating Terrorism with Interpol and Europol in the observed period took place both directly and through the Directorate for International Operational Police Cooperation and through the interior ministry's Liaison Officer at Europol. Information and documents were mutually exchanged in the field of prevention and fight against terrorism and terrorism financing, activities of persons, groups and organizations of security interest.

In the same interval, police officers of the Service for Combating Terrorism followed up on 20 requests from foreign police authorities through the Directorate for International Operational Police Cooperation (UMOPS), which involved checks of hundreds of entities that might have been in any way be related to TF. A quantitative and qualitative data analysis covering 2021-2023 has revealed a trend of a decreasing number of requests for international operational police cooperation, as a result of the above reasons.

Table 3. Requests for follow-up received through the Department for International Operational Police Cooperation

Year	Number of requests received
2021	9
2022	6
2023	5
Total:	20

Thus in the period 2021-2023, a total of 1,743 messages were exchanged through the Europol's Secure Information Exchange Network Application in the area of combating terrorism (CT SIENA), i.e. 1,405 incoming messages and 338 outgoing inquiries, of which 20 messages were related to TF. Compared to the previous period, there is a noticeable increase in the number of inquiries related to terrorism, and a decrease in the number of inquiries regarding the TF.

In addition to the above, effective international cooperation for BIA and VOA is an indispensable and necessary prerequisite for a successful fight against global terrorism and its accompanying manifestations, which in their scope and manner of manifestation go beyond national and regional barriers. BIA and VOA, based on their bilateral agreements with international partners concerning the exchange of secret data, exchange intelligence and information for the fight against terrorism on a global and regional levels. Through the work coordinated by the National Coordinating Body for the Prevention and Fight against Terrorism, information is disseminated and verified.

3. ANALYSIS OF THE ACTIVE THREAT FROM TERRORISM

3.1. Manifestations of terrorist activities (self-radicalized individuals and misuse of social networks)

No organized activity was observed in the territory of Serbia, by terrorist organizations or individuals who use the territory of the Republic of Serbia to plan or prepare a terrorist act outside the territory of the Republic of Serbia.

A. *Absence of terrorist acts:*

From 2021 to 2023, no terrorist acts were committed on the territory of Serbia. Therefore, there were no deaths as a result of terrorism.

B. *Activities of self-radicalized individuals:*

Although no activities of organized terrorist groups or networks were detected, several self-radicalized individuals, supporters of terrorist ideologies such as ISIS and Al-Qaeda were identified. These individuals performed their activities primarily on the Internet and in direct contact with like-minded people.

C. *Investigations and legal proceedings*

In the first half of 2022 and in 2023, two investigations were conducted against individuals for public incitement to terrorist acts (Article 391a of the Criminal Code). These individuals used social media platforms and multimedia sharing sites to operate multiple accounts and post content glorifying terrorist organizations, including ISIS and "Al Qaeda" and their affiliates. They glorified terrorist attacks, called for violence, murder and suicide attacks, and promoted armed struggle and the violent establishment of Sharia law.

During the investigation, the movements, communications and connections of the suspects were checked. Domestic and international cooperation was used to advance these efforts. Financial transactions were also checked, but there was no evidence to indicate their involvement in a wider terrorist network or external financing. Individuals were self-radicalized, financing their activities from their own personal income.

Two persons were sentenced to prison, one for three years and six months, and the other for three years. These actions prevented the continuation of their online activities that encouraged the commission of terrorist acts. Competent state authorities continue to monitor such and similar behaviors in order to prevent various forms of radicalization.

D. *Terrorist attack of June 2024*

In June 2024, a Serbian citizen (a convert to Islam and a follower of radical Islamist ideology), using a hand crossbow and a knife, attacked and seriously injured a police officer of the Ministry of Internal Affairs of Serbia, who was on official duty providing immediate security for the Embassy of the State of Israel, who responded to the attack with an official pistol thereby killing the attacker.

An investigation is still being carried out in relation to this terrorist act, and for the moment it has been established that this self-radicalized individual also supported the activities of the terrorist organization ISIS, which has led to separate investigations against a total of

three persons, who used social networks and communication platforms to share content that promotes action of the above terrorist organization, and also justified this terrorist act.

E. A terrorist act related to ethnic extremism:

Another incident occurred in July 2024, when a suspect fatally shot a border police officer in the municipality of Loznica and seriously wounded another police officer. The suspect was later killed in an armed confrontation with the police. The investigation into this incident is ongoing.

Summary:	
In the period from 2021 to 2023, no terrorist acts were committed on the territory of Serbia and no activities of organized terrorist groups were registered. However, self-radicalized individuals have been identified as supporters of ideologies such as ISIS and Al-Qaeda, who mostly operate on the Internet. The investigations led to the arrest and sentencing of two people for promoting terrorism via the Internet. In June 2024, a terrorist attack by a self-radicalized Serbian citizen-convert targeted a police officer who was engaged in security for the Israeli embassy, further highlighting the growing threat from radicalized individuals. Also, the manifestation of the radicalization of individuals involving ethnic extremism resulted in a terrorist attack on police officers in July 2024. Despite the stable security situation, these incidents highlight the growing risk posed by self-radicalized individuals and extremist movements.	
Factors that increase the risk of TF:	
Self-radicalized individuals: The activities of these individuals online could attract external funding for their activities.	4
Recent terrorist and extremist acts: Recent attacks in 2024 may inspire further radicalization and attract external financial support.	4
Use of the Internet and Social Media: Online platforms facilitate access to extremist content and potential funding networks.	3
Factors that reduce the risk of TF:	
Active investigations and arrests: Ongoing investigations and arrests of individuals involved in extremist activities limit their ability to raise or transfer funds.	
Activities of competent authorities in the fight against terrorism: Measures authorities, including international cooperation, help monitor and disrupt potential funding	
Self-funded individuals: The risk of organized financing of terrorists from abroad is limited, only self-financing of radicalized individuals in Serbia was found.	

Rating: 3.67 - High TF probability

3.2. Ethno-separatist extremism

Separatist aspirations of certain nationalist structures constitute a permanent direct threat to the territorial integrity of the Republic of Serbia and a source of constant security

threats. In this regard, no armed conflicts, large-scale provocations or significant security problems have been registered in Serbia to date with any ethnic community other than members of the Albanian ethnic community. In the reference period and within other ethnic communities, activities of groups and individual political leaders that can be linked to ethno-separatist extremism have been observed (e.g. revision of historical events, questioning international agreements, etc.).

The separatist claims by the Albanians in the territory of the Autonomous Province of Kosovo and Metohija, which culminated in the illegal unilateral declaration of independence of *Kosovo*, represents a direct threat to the territorial integrity of the Republic of Serbia as well as a long-term factor of instability for the wider region. Namely, the separatist ideology of Albanian nationalists, also manifests itself in the territory of the Republic of North Macedonia, in addition to part of the territory of Serbia, all with the aim of creating the so-called “Greater Albania”.

In addition to pronounced ethno-separatism in the AP of Kosovo and Metohija, these tendencies are also present in those municipalities in the south of the central Serbia that are predominantly inhabited by Albanians. These ethno-separatist activities are mainly manifested through periodic initiatives by Albanian political parties targeting the international factor (governmental and non-governmental sector), in which the alleged vulnerability of the Albanian population is emphasized. Representatives of Albanian political parties, through meetings with representatives of the authorities of so-called *Kosovo*, advocate for the separation of an area of the south of the central Serbia and its inclusion in the territory of the Autonomous Province of Kosovo and Metohija.

Considering the above threats, Serbia took a number of measures and actions in the south of central Serbia with the aim of calming inter-ethnic tensions through the integration of representatives of the Albanian national minority into political, economic and social flows at the level of the Republic and the local level. The measures include support for the financing and implementation of infrastructure projects and economic development and improvement in primary and secondary education and the creation of opportunities to open higher education institutions, as well as financial support to civil society organizations with an emphasis on projects and programs for young people.

In addition, there are continuous efforts of the competent authorities to maintain a stable security situation and the safety of the population.

Summary:	
On the territory of the Republic of Serbia, to date, there have been no armed conflicts, large-scale provocations, or significant security problems with any ethnic community, other than the members of the Albanian ethnic community. Ethno-separatist extremism, primarily driven by Albanian nationalist aspirations, represents a constant threat to the territorial integrity of Serbia. Activities related to separatism continue to exist in AP KiM and other parts of southern Serbia, with efforts to separate parts of Serbia and include them in the so-called "Greater Albania" which remains a source of regional instability.	
Factors that increase the risk of TF:	
Ethno-separatist movements: Separatist aspirations may attract financial support from sympathizers or extremist networks abroad.	3
Regional instability: Ongoing tensions in AP KiM and the involvement of external actors can facilitate the financing of terrorism.	3
Cross-border ethnic ties:	3

The presence of similar movements in neighboring countries, such as North Macedonia, could create regional financial networks.	
Alleged narratives of marginalization: Claims of vulnerability among the Albanian population in other parts of Serbia could be used to raise funds from international actors or extremist supporters.	2
Factors that reduce the risk of TF:	
Government measures: Governmental measures to integrate representatives of the Albanian national minority into political, economic and social flows at the national and local level	

Score: 2.75 - Medium TF probability

3.3. Religious extremism

In addition, various forms of religious extremism manifest themselves in the territory of the Republic of Serbia. However, when it comes to the number of violent incidents and participation in terrorist activities, so far only individuals and smaller groups that propagate and accept extreme Islamism have stood out. The leaders of these activities tend to act outside of official religious communities and establish links with like-minded people abroad.

Although the process of radicalization is individual in nature, there are particularly vulnerable categories of individuals and communities in Serbia when it comes to extreme Islam.

Young, uneducated and poor individuals, who grew up in a post-conflict society with strong narratives about historical injustices, "exceptionalism" or "persecution" of their people, ethnic or religious groups, are the categories of the population that are the most vulnerable in the process of radicalization that can lead to violent extremism and terrorism. Among these individuals, religious converts can be singled out, who often accept violence as a basic method of action out of a desire to confirm and strengthen their newly acquired religious identity and sense of belonging.

The present problem also has a gender dimension, and thus it can be concluded that uneducated and financially dependent women are also more susceptible to manipulation by extremists, based on which they can be radicalized more rapidly and easily.

It is important to bear in mind the increasingly frequent occurrence of persons with registered psychiatric illnesses who are only superficially familiar (most often via the Internet) with some extremist or terrorist ideology that can color their behavior, especially verbally, and which can create the impression that it is ideology, not psychopathology, that is a key factor in their incident-prone (violent) behavior.

In addition to individuals, there are also certain religious and minority communities that are particularly desirable recruitment bases for extremists. By promising them equality and respect, combined with a lucrative interest (money in the form of so-called humanitarian aid, donations, etc.), extremists can recruit a relatively significant number of members of these communities, and even entire families. Official representatives of religious communities make significant efforts to prevent radicalization and the spread of extreme views related to religious interpretations.

Summary:

Religious extremism in Serbia is primarily driven by individuals and small groups who embrace extreme Islamism, targeting vulnerable individuals such as the young, uneducated and economically disadvantaged, often operating outside of official religious communities and establishing connections abroad.	
Factors that increase the risk of TF:	
Vulnerable populations: Extremist groups target vulnerable, uneducated and poor individuals, who can be manipulated into supporting or facilitating the financing of terrorism, either knowingly or unknowingly.	3
Religious converts: Converts, in their quest for identity affirmation, may be more susceptible to recruitment by extremist groups that rely on donations and financial contributions to support terrorist activities.	3
International connections: Extremist networks with connections abroad can obtain external funding and facilitate cross-border terrorist financing, particularly through unregulated channels such as informal money transfers.	3
Humanitarian aid and donations: Extremists can use charitable donations and humanitarian aid in religious and minority communities as a front to divert funds to terrorist activities.	2
Factors that reduce the risk of TF:	
Activities of competent authorities in the fight against terrorism: Measures by competent authorities, including the monitoring of informal religious and socially vulnerable groups, help monitor and disrupt potential terrorist financing	
Supervision of non-profit organizations: Conducting oversight of NPOs, which is detailed in the NRA from the abuse of the NPO sector for TF	
International cooperation: Timely and continuous information sharing between judicial, police and intelligence authorities	
Religious communities: Activities of representatives of religious communities to reduce the spread of radical attitudes	

Rating: 2.75 - Medium TF probability

3.4. Migratory movements and TF risks

Armed conflicts in the Middle East and North Africa have resulted in constant migration movements towards Western Europe, and the Balkans, including Serbia, which serve as a key transit route. The long-standing phenomenon of mass illegal migration is closely related to international terrorist structures that have used mass displacement to infiltrate operatives among refugees and migrants, as well as to smuggle weapons and narcotics. In the period 2021 - 2023, no significant deviations were recorded in the number of migrants in Serbia. However, with the stabilization of the COVID-19 situation and the opening of borders, illegal smuggling

groups, mostly organized along ethnic lines (Afghans, Syrians, Moroccans, etc.), have reactivated.

The Serbian authorities proactively responded to these challenges. Until September 5, 2024, the Task Force (Udarana grupa - UG) prosecuted 41 organized criminal groups (OCG), involving 333 defendants, mostly citizens of Serbia with the participation of citizens of the migrants' countries of origin, and sometimes transit countries. These OCGs are responsible for smuggling or attempting to smuggle 4,685 individuals across the borders of Serbia into EU countries. For 260 people, the criminal proceedings ended with confessions, which led to sentences totaling 529 years and 8 months in prison. In addition, illegal proceeds in the amount of 406,790 euros, 1,354,642.36 dinars and 2,500 dollars were confiscated, as well as confiscation of 53 motor vehicles and numerous communication devices used in criminal activities.

Migrants most often entered Serbia from North Macedonia and Bulgaria, while exits usually took place through Hungary, Croatia, Bosnia and Herzegovina and, increasingly, Romania due to difficulties in crossing into Hungary due to the border fence erected in 2015. Smuggling methods included forging documents, hiding in trucks, crossing rivers in boats, and even digging tunnels under the security fence along the Hungarian border.

The scope and success in terms of preventing illegal border crossings is illustrated by the number of prevented attempts to cross the border illegally limits, by age:

2021	2022	2023
27,413	60,100	43,474

Serbia is actively monitoring and prosecuting smuggling groups, investigating potential links between migrant smuggling and terrorist financing, particularly in relation to funds paid by migrants to criminal groups for transit to Western Europe. However, no direct evidence of terrorist financing was found and operational data was shared with international partners for further investigation.

Challenges in addressing these issues include the lack of translators for the languages of the migrants, difficulties in cooperation with countries of origin, and insufficient resources of the Serbian justice system.

Summary:	
Armed conflicts in the Middle East and North Africa have led to migration flows through Serbia, a key transit route. From 2021 to 2023, smuggling groups became active again, leading to the prosecution of 41 organized crime groups for the smuggling of 4,685 people. Migrants mainly entered from the Republic of North Macedonia and Bulgaria, exiting towards Hungary, Croatia and BiH using methods such as forging documents and crossing the river. Despite challenges such as limited resources and cooperation with countries of origin of migrants, Serbia actively pursues smuggling groups, although no direct links to terrorist financing have been found.	
Factors that increase the risk of TF:	
Migratory movements: The constant flow of migrants, especially from conflict zones, increases the risk that terrorists will use migration routes to carry out criminal activities such as human trafficking and migrant smuggling to finance terrorist organizations.	1

Involvement of organized crime: The existence of organized crime groups involved in migrant smuggling increases the risk that these networks could be used for TF.	4
Lack of cooperation with countries of origin: Difficulties in identifying migrants and cooperating with countries of origin make it difficult to track potential terrorist links and ensure proper vetting, increasing the risk of terrorist financing.	3
Economic vulnerability of migrants: Migrants, especially those from conflict areas, are often economically vulnerable, which can make them more susceptible to exploitation by criminal groups or terrorist organizations for financial gain.	2
Factors that reduce the risk of TF:	
Proactive Law Enforcement: Proactive actions by Serbian authorities, such as prosecuting organized crime groups and monitoring migrant flows, reduce the risk of terrorism by disrupting smuggling networks and ensuring better surveillance of migration channels.	
Confiscation of ill-gotten gains: Confiscation of significant assets from criminal groups involved in smuggling activities reduces the financial resources available to these groups, indirectly limiting their ability to support the financing of terrorism.	
Effective Prosecution and Punishment: Successful prosecution of OCG and significant prison sentences imposed act as a deterrent to other groups who may consider engaging in TF or related activities.	
Strengthened border security measures: Strengthening border control and monitoring the movement of migrants, including the use of protective fencing and other security measures, helps Serbia prevent the unauthorized entry of individuals linked to TF. Serbia's cooperation with international border and security partners ensures the prevention of illegal migration.	

Rating: 2.5 - Medium TF probability

3.5. Ideological extremism in Serbia

Ideological extremism is manifested in Serbia through the activities of members of extreme right-wing and left-wing movements, organizations and groups. The activities of the above-mentioned categories are mainly reduced to the propagation of their beliefs, attempts at public promotion and the exertion of significant socio-political influence. In line with global trends, the number of supporters of extreme right-wing and left-wing movements and organizations is increasing in Serbia, which is expressed primarily online, without a significant formal increase in membership.

Right-wing extremist propaganda is largely directed against the rights of various minority communities, as well as against migrants, whom they accuse of increasing crime rates and the feeling of insecurity in certain local communities.

Also, the activities of right-wing extremists are directed against social groups, such as the LGBT community, due to disagreement with their views on various social issues.

The connection between football hooligan and extreme right-wing structures in Serbia is sporadic, and they currently do not have the capacity to undertake acts of violence in order to achieve their proclaimed, or real, goals, which do not necessarily coincide with these groups.

Extremism based on left-wing ideology, primarily on the ideas of Marxism and anarchism, has a minor presence in Serbia. Given the small number of members and limited logistical and organizational capacities, so far they have not appeared as actors in a significant number of violent incidents on the territory of Serbia.

The point that connects the extreme right and the left in Serbia is the attempt for both to benefit from global problems (economy, energy, health, environment, the Covid pandemic, etc.), in order to strengthen their organizational structures and achieve greater influence on the social and political scene of Serbia. In this regard, they also share an intense anti-globalist attitude and narrative that sometimes, especially in the case of the right, includes hate speech.

By monitoring the activities of extreme right-wing and left-wing movements, organizations and groups, it was determined that it is a phenomenon of limited scope, which does not have a significant impact on radicalization in this regard, nor the capacity to connect with ideological movements outside the territory of the Republic of Serbia.

Summary: Ideological extremism in Serbia is primarily seen in the activities of right-wing and left-wing movements, focused on spreading beliefs and trying to gain socio-political influence. Right-wing extremism targets minorities and migrants, while left-wing extremism remains smaller. Both sides use global crises to strengthen their presence, mostly through online platforms. However, the limited membership, logistical capacity and weak external ties of these groups reduce the overall risk of significant radicalization or terrorist activities.	
Factors that increase the risk of TF:	
Growing extremist online presence and propaganda: The increasing use of online platforms by right-wing and left-wing groups for propaganda allows them to recruit supporters and potentially raise funds through various channels, including <i>crowdfunding</i> , to finance extremist activities.	1
Activities of extremists: Expressing views on various social issues for the purpose of self-promotion and fundraising	1
Exploitation of global issues: Both right-wing and left-wing groups use economic, political and health crises (e.g. the COVID-19 pandemic) to gather supporters and strengthen their influence, which could be used to increase funding for extremist activities.	1
Factors that reduce the risk of TF:	
Limited membership and logistical capacity: Extremist groups in Serbia have a small number of members and face logistical challenges, which reduces their ability to organize large or well-funded activities.	
Weak external ideological links: There is little evidence of significant links between Serbian extremist groups and international networks, limiting their access to external funding or terrorist support.	
Sporadic football hooligan links: Sporadic links between football hooligans and extremist groups are not strong enough to support consistent or large-scale violent or terrorist activities.	

Rating: 1.67 - Low TF probability

3.6. The impact of foreign armed conflicts on Serbia

The overall security situation on the global and regional, and national levels, was significantly affected by the outbreak of armed conflicts between Israel and the militant organization "Hamas", after the terrorist attack carried out in Israel in October 2023. The escalation of the conflict caused a negative reaction of the local Muslim population in Serbia, both from moderate and/or radical factors. Under such circumstances, certain militantly

oriented individuals have uttered threatening comments towards the entire Jewish community, which in a certain way announced the possibility of a certain "retaliation" against the members of the that community, which was recognized as a potentially significant generator of the increase in threats from militant activity in our country. The aforementioned terrorist attack in Belgrade in June 2024 should be viewed in this context. This terrorist act confirmed the intelligence held by the competent authorities that it occurred as a result of the activities of a self-radicalized individual without contact or the presence of a terrorist organization, with independent, minimal financing.

In addition to the above, since the beginning of the armed conflict between the Russian Federation and Ukraine, there has been a noticeable increase in the number of citizens of these countries who have registered their residence in Serbia, in accordance with the relevant Serbian legislation. In this context, not a single case of their connection with the terrorist activities of groups and/or individuals on the territory of Serbia, their country of origin, or any other country has been identified so far.

However, since October 2014 (since the adoption of the amendments to the Criminal Code of Serbia which criminalize the acts from Article 386a and Article 386b) until January 2023, 37 individuals were convicted for the criminal offense "Participation in war or armed conflict in a foreign country" for going to the "Ukrainian battlefield". In addition, two persons were prosecuted for committing the criminal offense under the article "Organizing participation in a war or armed conflict in a foreign country". One was convicted, while the other proceedings ended with an acquittal. Also, an investigation is being conducted against 9 persons. The conducted investigations have found that all of the above persons left the territory of Serbia of their own free will, individually and using their own resources.

It is also important to point out that in the observed period, and especially after the beginning of the armed conflict between Russia and Ukraine in February 2022, a large number of preliminary investigations have been conducted to date in relation to hundreds of electronic messages sent from various accounts on social networks, in which unidentified persons threatened to commit a criminal act of terrorism, referred to in Article 391 of the CC.

The threats involved allegations that explosive devices were placed on Air Serbia flights, in several shopping malls, educational institutions, student dormitories in Belgrade and other facilities in Serbia, as well as in several public buildings, institutions and schools, and they also threatened with the murder of representatives of the highest state bodies of the Republic Serbia.

Further checks have revealed that the activities described above had the intention of destabilizing the normal flow of social and economic activities in Serbia. However, it was determined that in most cases the threats were sent from abroad using VPN servers that serve to anonymize communication, while in Serbia, their senders were mostly identified as minors, whose motive was entertainment, or mentally unstable persons. At the same time, after the checks, the persons who were identified as the senders of the mentioned threats from abroad could not be linked to any terrorist organization, nor to the financing of terrorism.

Constant counter-sabotage and preventive inspections, evacuation of potentially vulnerable persons, as well as intensive work on the identification of the persons who sent the threats, constitute a security and political pressure on Serbia, which decreased after the successful identification of the locations from which the threats were sent, as well as the identification of the senders from Serbia.

Summary:

The outbreak of conflict between Israel and Hamas, as well as between Russia and Ukraine, has affected Serbia's national security. These conflicts fueled radical and polarizing sentiments, especially among militantly inclined individuals in Serbia, and served as motivation for individual and self-initiated departures to conflict zones.	
Factors that increase the risk of TF:	
Radicalized individuals linked to foreign conflicts: Self-radicalized individuals inspired by foreign conflicts self-finance travel to conflict zones	2
Bomb threats, online or by phone: Numerous cases aimed at political and social destabilization	1
Factors that reduce the risk of TF:	
Measures against participation in foreign conflicts: Measures that Serbia has effectively taken and which have led to convictions	
Measures of state authorities: Effective measures taken to find perpetrators of threats aimed at political and social destabilization	

Rating: 1.5 - Low probability of TF

3.7. Foreign terrorist fighters

Despite the significant time distance in relation to the armed conflicts in Syria, that is, the time of departures of foreign terrorist fighters to the conflict zones, **jihadists-returnees from the battlefield still represent a category of exceptional security importance.**

According to operational data, a total of 49 citizens of Serbia has travelled to Syria and Iraq since the beginning of the armed conflicts, in order to join some of the terrorist organizations active in the territory of these countries, and most often the so-called Islamic State. Of this number, there are still 27 Serbian citizens on the territory of the mentioned countries, 12 people died, and 10 adults left the territory of Syria/Iraq, among which 4 adult men returned to Serbia. A total of 11 adults, citizens of Serbia, as well as 21 minors, are located in some of the camps on the territory of Syria and Iraq (prisoner or refugee camps).

In this regard, past experience has clearly shown that, from a security point of view, returnees, even though they are "former combatants", still represent a threat, bearing in mind that a significant number of them have undergone certain combat training in conflict zones, (in)directly participated in the battles on the ground, which exposed them to additional radicalization.

In addition, the experience of numerous world services, including domestic ones, showed in the observed period that returnee women must not be treated exclusively as "victims" of their spouses and/or other family members, but rather that they may play an increasingly pronounced role in the processes of religious radicalization, an covert communications (passing messages) between radical Islamists, since religious extremists assume that the competent authorities will be more lenient toward or that they will rather underestimate the danger that women pose, compared to men.

Although the process of repatriation of foreign fighters and their families from Kurdish camps in the north of Syria continued after the lifting of the restrictions on movement due to the COVID-19 epidemic, Serbia has not yet repatriated the remaining citizens from the aforementioned camps. Namely, the Government of Serbia adopted an Action Plan regarding the repatriation of citizens of Serbia who took part in the battlefields in the Middle East.

It is also important to point out that two returnees from the Syrian battlefield in the observed period had served their prison sentences for several years, and released. In that period, these persons did not show any intention to commit new criminal acts related to terrorism, but tried to adapt to the new circumstances in the local environment, while (re)activating contacts with certain groups of religious extremists.

Summary:	
Foreign terrorist fighters, especially jihadist returnees, continue to pose a significant security threat to Serbia despite the time that has passed since the conflicts in Syria and Iraq. A total of 49 citizens of Serbia joined terrorist organizations in these areas, of which 27 are still present in Syria/Iraq, 12 were killed, and 4 returned to Serbia. Returnees are considered dangerous because of their combat training and exposure to radical ideologies. Female returnees, previously seen as victims, are now known for their role in religious radicalization and messaging among extremists. Not all citizens from the conflict zones have returned to Serbia.	
Factors that increase the risk of TF:	
Experience of returnees: Individuals with military training acquired in terrorist operations may use these skills to organize or financially support terrorist activities, potentially channeling funds to extremist networks.	2
Reactivating extremist networks: Returnees who reconnect with extremist groups can facilitate the transfer of funds, resources and logistical support, thereby increasing the likelihood of TF activity.	1
Underestimated role of women and children returnees: Women and children who stayed in territories with an active terrorist threat, and were possibly involved in communication, logistics and combat operations, may more easily avoid detection and thus facilitate the movement of funds and resources for terrorist purposes.	2
Factors that reduce the risk of TF:	
Repatriation Action Plan: Serbia's efforts to manage and track returnees through structured repatriation reduces the risk of undetected TF activities by closely monitoring potential threats.	
No immediate signs of re-engagement: Monitoring shows no immediate signs of ex-combatants re-engaging in terrorist activities indicating a reduced likelihood of their involvement in FT, although this requires constant vigilance.	

Rating: 1.67 - Low TF probability

3.8. Exposure to threats from neighboring countries

Despite these indicators, since the outbreak of the conflict in Syria and Iraq, more than 1,100 people from the Western Balkans stayed in the area affected by the war, and the return of these people and their reconnection with the leaders of radical Islamists in the region poses an additional security risk for Serbia in particular when taking into account the existence of family and friendly ties with our citizens. Mitigating the risk is possible by continuously strengthening and improving the cooperation between the state authorities competent for the fight against terrorism in the region.

The threats associated with the activities of local/regional groups of radical Islamists are also reflected in the monitoring of suspicious transactions. In this regard, in the period

2021-2023, two suspicious financial transactions from Bosnia and Herzegovina and one from Montenegro to radicalized individuals in Serbia were spotted. Most of the outgoing suspicious transactions from Serbia were sent by radicalized individuals also to Bosnia and Herzegovina and Montenegro (two each), while in one transaction funds were sent to Croatia. All suspicious transactions were made through payment institutions.

However, the possibility of that cash was transported across the state border cannot be ruled out, especially by relatives and friends, who are numerous.

The increased level of threat was further contributed to by the release from prison in 2021 of one of the most significant radical ideologues of "jihadism", who continued to give religious lectures after his release from prison. Namely, this person was found guilty of recruiting people to participate in conflicts in the Middle East.

The level of threat in the region was also contributed to by the return to Bosnia and Herzegovina in 2023 of the founder and ideological leader of the former Wahhabi masjid from an EU country, where he had served a multi-year prison sentence for committing a terrorism-related crime (recruitment of foreign terrorist fighters for fighting on battlefields in Syria/Iraq in "Islamic state" units), after which he was permanently expelled. This has led to positive reactions from his followers in Serbia as well, who made comments about potential unification and prevention of further divisions among the members of the so-called Takfir groups, which are largely based on personal reasons.

Militant Islamists of Albanian nationality originating from the Republic of North Macedonia with strong regional ties in the Balkans constitute a risky category. This is evidenced, among other things, by the numerous arrests of radical Islamists of Albanian origin (mainly from Kosovo and Metohija) in several European countries in recent years, such as Austria, Germany, Belgium, Switzerland and Italy.

Summary:	
Conflicts in Syria and Iraq have led to more than 1,100 individuals from the Western Balkans traveling to conflict zones, and their potential return poses an additional security risk for Serbia. Regional cooperation is key to mitigating these risks. The analysis of suspicious transactions has revealed connections between radicalized individuals in Serbia and like-minded people in the region. The prominent radical figures who have served their prison terms, and the continued influence of militant Islamists of Albanian nationality with strong regional ties further exacerbate these threats.	
Factors that increase the risk of TF:	
Return of foreign fighters: The return of radicalized individuals from conflict zones to the countries of the region increases the risk of financing or carrying out terrorist activities.	2
Cash couriers: Cash transfers across national borders	3
Cross-border financial transactions: Analysis of suspicious transactions with neighboring countries indicates possible regional linking of like-minded people.	2
Influence of radical leaders: Radicalized individuals after serving prison terms in the region continue to inspire jihadist ideologies, potentially fueling support and funding for terrorist causes.	2
Factors that reduce the risk of TF:	
Regional cooperation in the fight against terrorism: Strengthening cooperation between regional authorities helps to monitor and disrupt potential terrorist financing activities.	

Monitoring of suspicious money flows: Improved financial supervision by the APML and the Customs Administration reduces the risk of undetected terrorist financing through cross-border transactions.

Score: 2.25 - Medium TF probability

TERRORIST THREAT MATRIX

Bearing in mind the above, what follows is a matrix with a threat analysis, where the return of foreign terrorist fighters poses the greatest threat from the point of view of the country, while ideological extremism carries the lowest level of threat.

Table 4. Matrix of terrorist threats

Threat	Likelihood of terrorist financing				
	Very high	High	Medium	Small	Very small
Manifested terrorist activities (self-radicalized individuals and misuse of social networks)		3.67			
Ethnically motivated terrorism			2.75		
Religious extremism			2.75		
Migratory movements			2.5		
Ideological extremism					1
The impact of foreign armed conflicts on Serbia				1.5	
FTFs				1.67	
Exposure to threats from neighboring countries			2.25		

4. THE TERRORISM FINANCING THREAT

According to the Global Terrorism Index (GTI), the countries of the region are at very low risk, and therefore the level of financial needs and financial needs associated with an active terrorist threat in neighboring jurisdictions according to the GTI index is very low, as confirmed by the following data:

Table 5. Countries according to GTI

COUNTRIES WITH AN ACTIVE TERRORIST THREAT								
COUNTRY	2021		COUNTRY	2022		COUNTRY	2023	
	Index	163		Index	163		Index	163
Afghanistan	8,818	1	Afghanistan	8,459	1	Burkina Faso*	8,571	1
Iraq	8,103	2	Burkina Faso*	8,161	2	Israel	8,143	2
Somalia	7,996	3	Somalia	8,047	3	small*	7,998	3
Burkina Faso*	7,833	4	small*	7,983	4	Pakistan	7,916	4

Nigeria*	7,813	5	Syria*	7,771	5	Syria*	7,890	5
Syria*	7,807	6	Iraq	7,682	6	Afghanistan	7,825	6
small*	7,699	7	Pakistan	7,610	7	Somalia	7,814	7
Niger	7,340	8	Nigeria*	7,580	8	Nigeria*	7,575	8
Pakistan	7,321	9	Myanmar*	7,568	9	Myanmar*	7,536	9
Myanmar*	6,971	10	Niger	7,053	10	Niger	7,274	10
Israel	3,626	35	Israel	4,400	26	Iraq	7,078	11
REPUBLIC OF SERBIA AND COUNTRIES WITH WHICH IT BORDERS								
Serbia	0.000	/	Serbia	0.000	/	Serbia	0.000	/
Bosnia and Herzegovina	0.000	/	Bosnia and Herzegovina	0.000	/	Bosnia and Herzegovina	0.000	/
Montenegro	0.000	/	Montenegro	0.000	/	Montenegro	0.000	/
Croatia*	0.000	/	Croatia*	0.000	/	Croatia*	0.000	/
Bulgaria*	0.000	/	Bulgaria*	0.000	/	Bulgaria*	0.000	/
Hungary	0.000	/	Hungary	0.000	/	Hungary	0.000	/
Albania	0.000	/	Albania	0.000	/	Albania	0.000	/
North Macedonia	0.030	95	North Macedonia	0.000	/	North Macedonia	0.000	/
Romania	0.310	82	Romania	0.167	86	Romania	0.000	/

* Countries under increased FATF supervision

In this sense, the analysis of transactions between Serbia and high-ranking countries according to GTI, FATF and the countries with which Serbia borders, found that they represent a negligible share in GNI and GDP, regardless of whether they are inflows or outflows.

Table 6. Financial data of NBS/National Statistical Office (GNI and GDP in 000 dinars) for countries with GTI index:

Year	Inflows from donations, grants, subsidies, etc.	Gross national income (GNI)	Gross domestic product (GDP)	Share in total inflows (%)	
				GNI	GDP
2021	21,968,274.78	6,028,298,800	6,271,987,600	0.00036	0.00035
2022	9,294,835.68	6,746,257,700	7,097,629,200	0.00014	0.00013
2023	3,591,105.88	/	8,150,486,500	/	0.00004
Year	Outflows from donations, grants, subsidies, etc.	Gross national income (GNI)	Gross domestic product (GDP)	Share of total outflows (%)	
				GNI	GDP
2021	9,996,511.39	6,028,298,800	6,271,987,600	0.00017	0.00016
2022	7,745,501.55	6,746,257,700	7,097,629,200	0.00011	0.00011
2023	128,466,545.27	/	8,150,486,500	/	0.00158

Table 7. Financial data (GNI and GDP in 000 dinars) for the countries with which Serbia borders:

Year	Inflows from donations, grants, subsidies, etc.	Gross national income (GNI)	Gross domestic product (GDP)	Share in total inflows (%)	
				GNI	GDP
2021	11,569,812,902.82	6,028,298,800	6,271,987,600	0.19193	0.18447
2022	10,738,479,011.63	6,746,257,700	7,097,629,200	0.15918	0.15130
2023	13,598,105,885.71	/	8,150,486,500	/	0.16684
Year	Outflows from donations, grants, subsidies, etc.	Gross national income (GNI)	Gross domestic product (GDP)	Share of total outflows (%)	
				GNI	GDP
2021	6,501,254,595.20	6,028,298,800	6,271,987,600	0.10758	0.10366
2022	5,679,398,745.49	6,746,257,700	7,097,629,200	0.08149	0.08002
2023	4,543,510,638.09	/	8,150,486,500	/	0.05575

Table 8. The 10 most important countries to which remittances were **sent through payment institutions in Euro** (Data source: Payment institutions' reports on rapid money transfers).

Country	Value		
	2021	2022	2023
Germany	33,086,844.44	40,944,747.30	46,835,620.86
Bosnia and Herzegovina	5,603,754.22	5,081,196.67	4,890,409.16
Montenegro	5,494,362.09	4,731,053.84	4,910,542.29
Turkey	4,706,871.11	7,837,677.51	7,700,337.58
Austria	3,792,479.35	3,574,575.06	3,345,129.14
Croatia	3,872,328.52	3,006,534.57	2,948,244.97
USA	3,221,000.23	2,868,128.20	3,576,634.89
Switzerland	2,647,811.14	2,101,524.25	2,123,214.10
Greece	1,648,307.00	2,222,726.43	2,721,903.31
France	2,291,353.98	2,582,332.25	2,445,045.64

Table 9. The 10 most important countries from which remittances were **received through payment institutions in euros** (Source of data: Payment institutions' reports on rapid money transfers).

Country	Value		
	2021	2022	2023
Germany	288,294,123.18	306,537,064.90	331,617,516.56
Austria	99,448,485.54	101,342,261.98	107,534,377.61

USA	89,652,420.14	108,228,476.92	107,443,865.92
France	43,604,012.55	63,080,548.54	39,921,497.66
Switzerland	40,985,085.08	42,408,058.28	46,121,827.12
Sweden	23,382,967.90	23,613,832.67	24,548,486.98
Russian Federation	12,094,079.51	22,990,441.63	52,473,060.00
Canada	20,886,417.95	22,914,595.08	21,575,312.60
Italy	19,421,965.39	22,153,644.27	19,422,255.44
Australia	13,763,074.23	13,293,243.41	12,173,076.41

The above data corresponds to the activity of the Serbian diaspora, which is mainly located in these countries. Among the countries that appear most frequently, there are no countries with an active terrorist threat, yet one country - the Republic of Croatia - is on the list of jurisdictions under increased monitoring (the so-called FATF gray list).

The Republic of Serbia, according to the "Global Financial Center" index, (hereinafter GFC) **is not ranked as an international or regional financial center**, which is detailed in the Proliferation Financing Risk Assessment. According to the latest GFC report from September 2023, no Serbian town was covered in the research for the purposes of creating the GFC, so data for the City of Belgrade or any other town are not available.²¹³

Also, Serbia is not among the countries with a significant level of transshipment, and **business entities, private and state-owned, do not trade in strategic goods and/or services²¹⁴ with areas with an active terrorist threat.**

4.1. APML information

The AML/CFT Law also requires certain entities (obliged entities) to report to the APML about activities that potentially related to terrorism financing. The APML, in accordance with the AML/CFT Law, also exchanges information with the competent state authorities dealing with the fight against terrorism.

In 2017, in cooperation with the Service for Combating Terrorism the Serbian MOI, the APML sent a request to obliged entities for data concerning persons who were assumed to have joined terrorists in Syria, as well as about certain persons on the territory of Serbia that were believed to be linked with FTFs fighting on the IS side, and the related SARs constitute the largest share of all the reported TF-related SARs by all classes of obliged entities.

SARs involving TF suspicion, or more specifically, a link with persons who participated in the war in Syria on the side of the IS terrorist organization, are related to resident natural persons only.

SARs no longer involve migrant-related transactions. Therefore, the earlier practice of disseminating all payment institutions' SARs to the security services has been suspended, but these reports are analyzed on a case-by-case basis and, if the analysis indicates suspicion, they are forwarded to the competent authorities. That the impact of the migrant crisis on the TF risk has declined to a significant extent is also indicated by the conclusions of the Task Force for Combating Smuggling of Persons, which determined that proactive action and cooperation did

²¹³ The National Statistical Office does not calculate this index, nor do national statistical institutions for other countries. Available at:

https://www.longfinance.net/media/documents/GFCI_34_Report_2022.09.28_v1.0.pdf

²¹⁴ Analyzed in more detail in the Proliferation Financing Risk Assessment

not result in any information sufficient for criminal prosecution for the crime of terrorism and other related crimes, and especially terrorism financing.

All TF-related SAR are forwarded to Service for Combating Terrorism and/or BIA as soon as possible.

Table 10. - Number of TF-related SARs

	2021	2022	2023
Payment institutions	18	33	29
Banks	5	1	1
Organizers of special games of chance in casinos	1	/	/
Total	24	34	30

In the observed period, the SARs filed by payment institutions and banks, mainly (over 50%) related to persons linked to FTFs in. Also, more than three quarters of SARs involved persons who have already been subjects of APML analysis.

Table 11. Number of TF-related SARs filed by payment institutions, by year:

Year	SAR number	Total number of persons from SAR (non-residents)	Total number of persons from SAR (non-residents)	Countries from which funds are sent	Number of persons from SAR in Republic of Serbia	Total number of incoming transactions reported in SARs (residents)	Total value of incoming transactions reported in SARs by country in EUR (residents)	Number of persons from SAR in Serbia (non-residents)	Total number of receipt transactions reported in SAR	Total value of receipt transactions reported in SAR by country in EUR (non-residents)	Countries to which funds are sent	Number of persons from SAR in Serbia (residents)	Total number of outgoing transactions reported in SAR (residents)	Total value of outgoing transactions reported in SAR by country in EUR (residents)	Number of persons from SAR in Serbia (non-residents)	Total number of outgoing transactions reported in SAR (non-residents)	Total value of outgoing transactions reported in SAR by country in EUR (non-residents)			
2021	18	31	1 Afghanistan 1 Turkey	UAE	/	/	/	1	1	200	Morocco	1	2	1,870						
				Austria	1	4	3,000	/	/	/	Saudi Arabia	2	7	6,750						
				Canada	1	1	130	/	/	/	Turkey	2	3	3,150						
				Switzerland	1	1	180	/	/	/										
				Germany	2	2	3,000	/	/	/										
				Italy	1	1	350	1	1	100										
				Serbia (AP KiM)	1	1	145													
				The Netherlands	1	10	4,735	1	1	200										
				Turkey	/	/	/	2	12	12,400										
2022	33	49	1 Turkey	Austria	6	14	4,919	1	1	300	Austria	2	3	320	/	/	/			
				Bosnia and Herzegovina	1	1	300	/	/	/	Bosnia and Herzegovina	1	5	570	/	/	/	/		
				Belgium	1	2	350	/	/	/	Bangladesh	2	1	8,455	/	/	/	/		
				Bulgaria	1	1	500	/	/	/	Bahrain	1	1	200	/	/	/	/		
				Canada	1	2	2,100	/	/	/	Germany	4	9	4,900	/	/	/	/		
				Switzerland	1	1	300	/	/	/	Egypt	1	2	245	/	/	/	/		
				Germany	9	38	12,980	1	7	5,420	Croatia	1	1	115	/	/	/	/		

				France	1	1	800	/	/	/	Iraq	1	1	420	/	/	/
				Italy	2	8	550	/	/	/	Italy	2	2	605	/	/	/
				Kyrgyzstan	1	1	380	/	/	/	Indonesia	1	1	39	/	/	/
				The Netherlands	1	1	200	1	1	120	Lebanon	1	1	135	/	/	/
				Poland	1	2	170	/	/	/	Montenegro	1	4	530	/	/	/
				Sweden	2	2	1,050	/	/	/	Saudi Arabia	2	11	4,020	/	/	/
				Slovenia	2	4	260	/	/	/	Syria	1	1	110	/	/	/
				Turkey	1	2	750	/	/	/	Turkey	3	6	1,170	/	/	/
				Serbia (without AP KiM)	6	9	2,255	/	/	/	Uganda	2	5	5,450	/	/	/
				Serbia (AP KiM)	7	8	5,472	/	/	/	Serbia (AP KiM)	2	7	3,851	/	/	/
											Serbia (without AP KiM)	6	10	4,877	/	/	/
				UAE	/	/	/	1	4	9,500	Bosnia and Herzegovina	1	1	50	/	/	/
				Austria	3	4	1,140	/	/	/	Belarus	/	/	/	1	1	310
				Bosnia and Herzegovina	3	3	1,535	/	/	/	Germany	1	1	212	2	5	7,654
				Switzerland	5	8	810	/	/	/	Indonesia	/	/	/	3	10	1,100
				Czech Republic	1	1	80	/	/	/	Morocco	1	7	490	/	/	/
				Germany	11	25	9,100	1	1	600	Montenegro	1	1	144	2	2	911
				Finland	1	1	700	/	/	/	Nigeria	8	12	14,580	/	/	/
				France	1	2	175	/	/	/	Palestine	1	1	500	/	/	/
				Iraq	2	5	6,552	1	1	560	Serbia	3	3	395	/	/	/
				Luxembourg	1	1	500	/	/	/	Syria	1	4	225	/	/	/
				Montenegro	1	1	120	/	/	/	Tunisia	1	2	170	3	4	863
				The Netherlands	1	1	280	/	/	/	Turkey	2	4	1,010	1	18	13,697
2023	29	29	5 Libya 2 Syria 1 Turkey														

				Norway	1	1	450	/	/	/	Uzbekistan	1	1	1,040	/	/	/
				Saudi Arabia	/	/	/	2	8	7,375	Yemen	1	5	500	/	/	/
				Sudan	/	/	/	1	1	1,500							
				Sweden	2	4	1,200	/	/	/							
				Turkey	/	/	/	2	3	1,000							
				USA	3	4	2,110	/	/	/							

In 2021, payment institutions filed 18 SARs involving 31 natural persons, 2 of whom were non-residents from Afghanistan and Turkey. Residents received funds mainly from The Netherlands and Austria, and significant funds were also received from Germany. The largest and most frequent transfers were sent by resident persons to Saudi Arabia. Non-residents received funds mainly from Turkey, while no outgoing transactions were recorded.

In 2022, payment institutions reported 33 SARs involving 49 natural persons, only one of which was a non-resident, from Turkey. Recorded inflows of funds were most frequent and arrived mostly from Germany, and significant inflows were also made from the territory of AP Kosovo and Metohija. Most of the remittances were made to Saudi Arabia and Germany, while most of the funds were sent to Bangladesh.

In 2023, payment institutions reported 29 SARs involving 29 natural persons, eight of whom are non-residents from Libya, Syria and Turkey. Residents most frequently and mostly received funds from Germany and Iraq, while outgoing transactions were most frequent and largest in amount to Nigeria. Non-residents received the most funds from the UAE and Saudi Arabia, while the most frequent outflows were to Turkey.

Based on the feedback that the APML received from the competent authorities, there was no information that subjects of **the SARs filed by payment institutions** were linked with the terrorism financing.

Example of a payment institution's SAR

In 2022, a designated individual ("Person A"), previously convicted for terrorism-related crimes in relation to his participation in ISIL activities in Syria as an FTF and who completed his prison sentence in 2021, attempted to make a rapid money transfer from Serbia to an individual in Indonesia ("Person B"). Person A attempted to make a transaction through a payment institution that provides foreign exchange remittance services without opening an account, which declined to execute the transaction. The following day, from the same location, another individual ("Person B") managed to make a transfer of funds to Indonesia, to Person B, in a similar amount, which raised suspicions that Person B had made the transaction on behalf of Person A; the obliged entity reported the situation as suspicious.

Person C is not a designated person and, with the exception of the above, the analysis did not find any connection between Person C and any designated persons. The APML sent a request for information to FIU Indonesia regarding Person B, but apart from the information that Person B also received funds from other countries, no other information was provided.

The APML also shared the above information with other competent state authorities, including the public prosecutor's office, and further checks have not found the suspicious funds were used for terrorist-related activities.

Although the number of **TF-related SARs filed by banks** is decreasing, compared to the previous NRA, there are improving in quality and lead to analyses that are further disseminated to the competent authorities. In the previous period, the SARs were related to persons for whom the banks had already received requests from the competent authorities, while in the last two years, SARs involve persons who had not previously been subjects of APML's checks. Also, the SARs are related to typical banking products - payment transactions, and not to products offered by the bank as an agent of payment institutions or legal entities dealing with rapid money transfers, as had previously been the case. In addition to the geographic risk, the descriptions of the suspicion also include references to client risks, as well as suspicious activity that indicates potential TF.

The focus of SARs filed by banks has shifted from the international aspect to domestic persons and activities in Serbia.

In 2021, an individual from country A (“Person 1”) attempted to make a money transfer from a personal account in Country A to the bank account of an individual in Serbia (“Person 2”). The transaction was suspended by the correspondent bank due to suspicions of Person 1’s connection to the terrorist attack in Country A in 2020. The value of the transaction (EUR 92.00) was also indicative, i.e. making the transfer through a bank had no logic given that the bank fee (20%) is higher than if the funds had been sent via a rapid money transfer. Immediately before attempting to perform this transaction, Person 2 performed indicative activities on the bank account. Namely, Person 2 has a Serbian ID card with a registered address in the Autonomous Province of Kosovo and Metohija. Person 2’s bank account was opened in the Raška region of Serbia, and a few days before the above-mentioned transaction attempt, Person 2’s account was credited with EUR 10.00 from Country A by a third party. After the credit, Person 2 repeatedly checked the account balance at ATMs located in the Autonomous Province of Kosovo and Metohija.

The APML shared the information with the competent anti-terrorism authorities in Serbia, as well as to its counterpart in Country A, which replied that Person 1 was not connected to the terrorist attack that occurred in that country in 2020.

When filing an SAR, obliged entities usually use one of the following two indicators:

- the person is linked to terrorism according to media reports and
- transactions for which the obliged entity staff, based on their experience, assess as not being consistent with the usual activities of the client.

Since the adoption of the list of indicators for payment institutions and e-money institutions by the NBS in April 2023, the most frequently used indicator has been the following: "payment service has a global reach".

Given that the largest number of SARs is related to persons who were already the subject of the work of APML, that is, for which APML already sent requests to obliged entities, and that almost all transactions refer to rapid money transfer services, the use of the above two indicators is not uncommon.

A detailed APML analysis, which includes the SAR and the requests by other competent authorities and foreign counterparts, did not find a link with organized criminal groups.

In the analyzed period, the APML sent a total of 2,318 requests to banks and 1,708 requests to payment institutions through which it checked whether persons who are potentially involved in the TF participate in formal financial flows.

The APML shared most of its analysis products with the Service for Combating Terrorism and Extremism of the Ministry of Interior and the Security and Information Agency. They mainly involved requests to check the links of persons who, based on the indicators, the obliged entity believed had potential links with TF. There have also been cases of foreign FIU requests for background checks.

The number of analysis products submitted by the APML regarding CTRs and SARs that could be suspected of TF is presented in the following table.

Table 12. Number of analysis products shared by APML

Year	Anti-Terrorism Service	Security Information Agency	Public prosecutor for organized crime
2021	35	19	/
2022	33	4	1
2023	27	12	1
In total	95	35	2

Sources of APML data can also be foreign counterpart requests and correspondence. APML, in accordance with the AML/CFT Law, also exchanges information with the competent domestic authorities dealing with the fight against terrorism.

Table 13. Number of TF-related disseminations exchanged between APML and foreign FIUs

Year	APML requests	APML spontaneous information	Requests received by APML	Spontaneous information received by APML	Total number per year
2021	2	/	8	1	11
2022	1	/	3	/	4
2023	/	/	3	/	3
In total	3	0	13	1	18

The APML requests to foreign counterparts in 2021, involved checking of the information in the SARs, i.e. of links of foreign suspicious persons to terrorism. In their answers, counterparts in Austria and Turkey stated that the persons from the APML requests were not linked to terrorism. The only request in 2022 was about a quick money transfer of a person suspected of being associated to a Serbian designated person to Indonesia; additional checks did not find that the funds were used to finance terrorism.

The requests of foreign counterparts mostly involved checks of persons - counterparts in quick money transfers, as well as "phishing" requests from FIU Syria, i.e. requests regarding illegal financial institutions that were not connected to Serbia. All requests were related to religiously motivated terrorism and most of them involved natural persons; one request involved an NPO associated with Hamas.

It is important to note that up to 2019 the APML regularly received relevant spontaneous information from foreign counterparts, especially on suspicious activities from payment institutions. The received information mainly related to migrants who passed through Serbia on their way to Western Europe. However, since 2020, the APML has not received such reports, which suggests a reduction of general perception of migrant crisis as a threat.

4.2. Analysis of data from pre-investigation proceedings and intelligence

Within its competences, the Security-Information Agency (BIA) was continuously engaged in reviewing activities of security interest that could be indicative from the aspect of

financing religious extremism and terrorism, whether they are natural (both domestic and foreign) and/or legal entities.

In the observed period, BIA, in cooperation with the APML, collected a certain set of data on suspicious financial activities of certain persons and organizations of security interest, which, from a qualitative perspective, were assessed as useful for further operational engagement. In this regard, at the mutual initiative, checks were carried out of suspicious transactions of natural and legal entities that were linked to individuals whose actions are indicative of Islamic radicalism, and potentially international terrorism.

The data collected by the Serbian authorities, which are responsible for the detection and prevention of activities linked to the financing of terrorism, indicate that the territory of Serbia was not used for the raising of funds intended for TF, nor as a transit country through which funds intended for terrorism can be transferred for the above aim. In addition to the above, it was established that the funds transferred (to and from Serbia) come from own sources (earnings, pensions, remittances from abroad, donations, social benefits and others). The above is confirmed by the amounts which, in 90% of cases, reached a value of less than EUR 1,000, and most often around EUR 50.

From the point of view of timely identification and prevention of TF, the most risky incriminated activities occur when using the products of the financial sector and the service sector as means of financing terrorism, regardless of whether the services are provided with consideration or are designed to be provided free of charge. Also, the mentioned sectors are very often misused in such a way that, according to the existing legal regulations, the service providers in those sectors are not harmed, and they usually cannot even guess in what ways their services can be misused by users for the purpose of financing terrorism.

During the pre-investigation procedures, all suspects were also checked from the point of view of potential use of alternative banking and money transfer systems - the so-called hawala. In the observed period, there were no identified cases that an alternative money transfer system was used to finance terrorism.

Also, there were no recorded TF cases using virtual assets, or by VASPs. Also, there were no VA seizures, nor virtual currency transactions temporarily suspended.

During the supervision procedures in the reporting period, no cases of suspicious TF activities were identified.

From 2021 to 2023, the APML was notified five cases of freezing of designated persons' assets. The APML submitted five reports to the Minister of Finance (one report in 2021 and four in 2022) on freezing of assets of designated persons by obliged entities. The persons concerned were previously convicted FTFs who were serving prison sentences. Based on the above APML reports, the Minister of Finance issued five asset freezing decisions.

Following up on designated persons' initiatives, the competent courts passed decisions exempting certain assets from freezing for basic living expenses. In the analyzed period, five of these decisions were adopted (two in 2022 and three in 2023).

4.3. Geographic analysis of the movement of funds

Based on data from pre-investigation procedures and intelligence in this area, there were indications that legal and natural persons mostly use international payment institutions, which operate through money transfer agents, for moving money in and out of Serbia, or cash couriers. Also, an analysis of the financial transactions of the checked persons has shown the routes of the moved funds.

Table 14. Checked legal and natural persons

Year	Natural persons		Legal entities	
	Domestic persons	Foreign citizens	Registered in Serbia	Registered abroad
2021	81	96	16	4
2022	75	221	10	4
2023	34	59	2	1
In total	190	376	28	9

Table 1 5. Direction of movement of funds

Direction of movement of funds from Serbia			The direction of movement of funds to Serbia		
2021	2022	2023	2021	2022	2023
Turkey	BiH	Turkey	Austria	Slovakia	Germany
BiH	Turkey	Iraq	Switzerland	Austria	Italy
Afghanistan	Egypt	Syria	Germany	Slovenia	BiH
Anguilla	Lebanon		France	USA	Indonesia
Uganda	Jordan		Italy	Sweden	Belarus
Egypt	Pakistan		V. Britain	Germany	Germany
	Syria		Luxembourg	Switzerland	Montenegro
			Saudi Arabia	Montenegro	France
			Croatia	V. Britain	Malta
			Montenegro	Croatia	Tunisia
				France	Syria
				Belgium	Denmark
				The Netherlands	Belgium
				Canada	The Netherlands
				Denmark	Switzerland
				Malta	United Emirates
				Hungary	
				United Emirates	
				China	
				Kyrgyzstan	
				Tunisia	

The analysis also showed that over 90% of transactions were made using payment institution services, and that the transferred funds came from relatives and friends.

An analysis of the movement of funds from Serbia found that in the majority of cases, these transfers were from persons employed in Serbia to relatives in the countries of their origin

(Turkey, Bosnia and Herzegovina), and from migrants who have a regulated stay in Serbia (from Afghanistan, Iraq, Syria, Pakistan).

When it comes to the movement of funds to Serbia, most of the funds is sent from the countries where the Serbian diaspora is the most numerous.

There were no indications of terrorist financing.

4.4. Analysis of Customs Administration data on cash and precious metals

In the period 2021 - 2023, a total of 5,156 transportations of payment instruments totaling EUR 522,981,517.35 were declared (at entry and exit). According to the records of the Customs Administration, from 2021 to 2023, there were 565 cases of temporarily retained payment instruments totaling EUR 27,315,600.54.

Looking at the number of travelers from each individual country, the most funds were detained from Serbian citizens, followed by the citizens of Turkey and Germany, and largest number of cases of detention of payment instruments occurred at the entry to Serbia from Hungary and Croatia, i.e. at the exit to Bulgaria, which suggests these are persons who are transiting through Serbia in the north-south direction, which was also detected in the previous NRA. In addition, 60.73 kilograms of gold and 1,064 pieces of gold jewelry were detained from 111 persons of different nationalities, most of whom are citizens of Bulgaria and Turkey.

It is important to note that none of the mentioned cases was related to TF.

4.5. Analysis of international cooperation data

In the reporting period, there were a total of 4 incoming requests that also related to the criminal offense of TF, and in two of these requests, except for mentioning this criminal offense, no additional information was provided to follow-up on.

In the observed period, Serbia received requests from the competent authorities of foreign countries, through MLA, in two cases involving external TF-related threat.

In one case, it was stated that there is a suspicion that 3 foreign citizens originating from the Western Balkans, sent funds to Syria through the PayPal platform, from June 2021 to September 2022, by themselves and through third parties totaling about EUR 8,500.00, to a person who had fought on the side of the terrorist organization "Islamic State" since 2014. These persons communicated through the Telegram platform, while the person who was in Syria also used a Facebook account, through which he shared posts on religious topics and requests for donations for help, as well as an overview of the donations paid.

By order of the competent prosecutor's office, comprehensive checks were carried out, which included, among other things: the state and movement of funds in RSD and foreign currency accounts in commercial banks in Serbia and transactions through money transfer agents in the name of the above persons, as well as on the bank accounts of legal entities in Serbia which they were authorized to use, as well as the legal basis on which the money transfers were made. No data of facts were found that indicated the TF criminal offense.

In another case, a foreign country requested the extradition of its national and the possible freezing of his assets, because these persons and those related with him were engaged in the transfer of funds for TF purposes, by paying certain amounts to members of the "Islamic state" terrorist camps in Syria under the guise of humanitarian help.

The request for extradition was rejected because the data check did not establish that this person or persons related to him were the subject of interest of the Serbian security authorities, nor that he owned property or bank accounts in Serbia. Also, this person did not participate in the

transfer of funds using RSD or foreign currency bank accounts in Serbia or through money transfer agents, including using the accounts of legal entities in Serbia.

Summary:

The Security Intelligence Agency (BIA) in Serbia actively collects intelligence on activities that could be related to the financing of religious extremism and terrorism. In cooperation with the Administration for the Prevention of Money Laundering (APML), the BIA has identified suspicious financial activities of both individuals and organizations. The APML, through cooperation with various entities such as payment institutions and banks, received reports of suspicious activities related to the financing of terrorism. Although many of the reports involved individuals linked to foreign terrorist fighters, there was no clear evidence linking these reports to organized crime or terrorist financing. The number of suspicious activity reports from banks is decreasing, while their quality and relevance are improving. In addition, proactive domestic and international cooperation mitigated the risk of terrorist financing.

Data analysis indicates that the territory of Serbia and its financial system were not systematically used for financing terrorism. However, data from pre-investigation procedures, intelligence data and international cooperation indicate isolated, individual cases in which small amounts of money were used. According to the same data, there was a suspicion that the funds were transferred by alternative means (cash couriers, "hawala", etc.) and through payment institutions and e-money institutions from abroad. The funds transferred in this way come from the personal income of relatives and friends, and recent terrorist activities have been financed with small amounts of money from personal sources.

Monitoring informal systems ("hawala", "cash couriers" and others), as well as financial transactions and payment institutions mitigates the risk of using these systems for TF.

TF factors:

Alternative funds transfer systems: The "hawala" system may be used in individual cases for the transfer of smaller amounts of funds.	1
Cash couriers: Cash couriers may be used in individual cases to transfer smaller amounts of funds.	1
Payment institutions: Payment institutions, due to their availability, may be used for the systematic transfer of smaller amounts of funds.	3
Transfers to high-risk countries - Periodic movement of persons and funds to/from countries with an active terrorist threat.	1
E-money institutions from abroad: Difficulty identifying counterparts in transactions and global availability.	2

5. SECTORAL TF VULNERABILITY

The sectoral analysis indicates that not all sectors have the same degree of vulnerability, but the products of the following sectors are the most susceptible to abuse for TF.

The assessment of sectoral vulnerability has been looked at from two angles:

- Based on the adjudicated cases of terrorism and related crimes in Serbia and international experiences and practices concerning terrorist financing (described in the 2018 and 2021 National TF Risk Assessments and the 2019 TF Typologies document and 2023 Modalities and trends of financing terrorism;
- Vulnerability assessment of all sectors described in the 2024 National Risk Assessment;

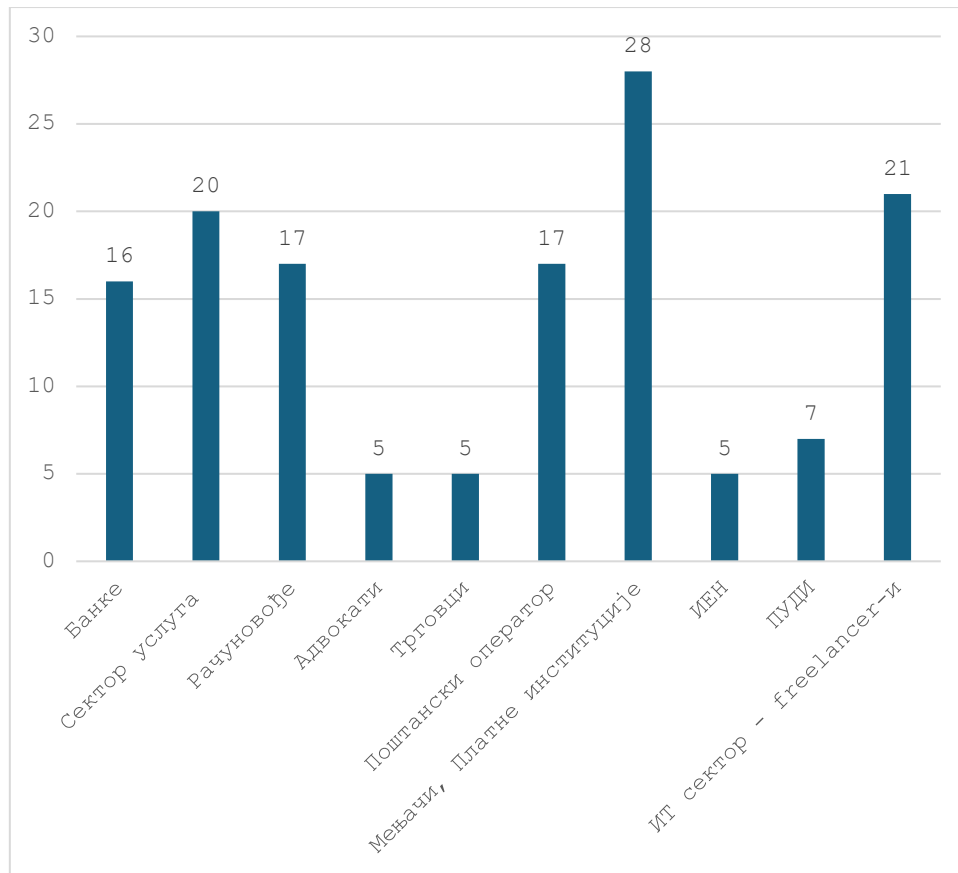
Thus, the following criteria were established:

- Criminal activities
- Monetary donations
- Sale of movable and immovable property
- Abuse of social benefits
- Abuse of NPOs
- Abuse of digital trading platforms
- Abuse of short-term accommodation and food services
- Abuse of another person
- Abuse of the passenger transport service provider
- Abuse of financial and DNFBP sector products (mobile banking, cash loans, remittances, etc.)

The ratings are on 0 – 5 scale and the following results were obtained based on the created matrix.

Table 16. Assessment criteria

Individual assessment of activities specifically used for TF:	Overall assessment of sectoral vulnerability:
0 – not endangered;	0 -10 – low
1 – very low risk;	11 -20 – low to medium
2 – low to medium risk;	21 -30 – medium
3 – medium risk;	31 -40 – medium to high
4 – medium to high risk	41 -50 - high
5 – high risk	



- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Banks • Services sector • Accountants • Lawyers | <ul style="list-style-type: none"> • Traders • Postal operator • Exchange offices, payment institutions | <ul style="list-style-type: none"> • E-money institutions • VASPs • IT sector, freelancers |
|--|--|---|

Chart 1. Service providers susceptibility to abuse

The analysis found that, from the angle of TF abuse no sectors were identified as **high** or **medium to high** risk. In the category of **medium** risk, there are exchange offices, payment institutions and the IT sector - freelancers. In the **low to medium** risk category, are service providers in the tourism and hospitality sector, accountants, postal operators and banks. All other sectors are at **low** risk, but some of them are more susceptible to abuse for terrorist financing purposes.

5.1. Medium risk sectors

5.1.1 Payment institutions

Payment institutions are susceptible to TF abuse because they do not establish a continuous business relationship with the users of their services. Also, payment institutions cannot verify the accuracy of the beneficiary details on the payment order relative to the account number, which allows greater misuse of payment orders. This risk can be mitigated by alerting payment institutions, and other payment service providers, whenever the personal names of transfer beneficiaries do not match the account number on the payment order.

5.1.2 Authorized currency exchange offices and public postal operator

Authorized currency exchange offices and the public postal operator are vulnerable to terrorist financing misuse, especially when they act as sub-agents for payment institutions, making their risk profile similar to that of payment institutions.

Payment institutions, exchange offices and public postal operator should pay attention in cases where they:

- perform money transfer and exchange services in the value of less than 1,000 euros;
- trade in gold, i.e. jewelry, in a quantity that deviates from the usual sales by individuals.

The quality of SARs is still improving. This sector still conducts more detailed analyzes before filing an SAR to the APML. Internet searches, analysis of publicly available information and use of commercial databases are evident in the payment institutions' SARs. This led to a greater number of SARs in which the links with tax evasion or drug trafficking crimes is clearly visible.

The fact that payment institutions that engage in money transfer services do not have direct access to identification data about persons, foreign counterparts in transactions still remains a problem. The above data can only be obtained at the request of the obliged entity to the money transfer company whose agents they are, but the collection of data may require additional time. In case identification data for a person abroad is requested from a money transfer company with which the payment institution has an agency contract, the requested data is obtained only if the person can be linked to the business operations of that payment institution, and not if the company has it in the system. Namely, a money transfer company can record the fact that a person made a transaction through one agent, but if another agent (who does not have a business relationship with the requested person) requests the data, they will not receive it.

In addition to the above, when it comes to sending money through postal orders in domestic and international postal traffic, the risk is reflected in the impossibility of completing the identification of the recipient of funds.

It would be expedient for the payment institution to record the pattern of behavior of the designated person (the country to which the designated person tried to send or receive funds from, the person - the counterparty in the transaction and other characteristics of the transaction) in order to identify and prevent possible abuse of third parties by the designated persons for executing a transaction.

5.1.3 Freelancers in the IT sector

Professionals in the IT sector, especially freelancers, may be misused to create and administer Internet content suitable for recruiting, inciting and financing terrorist activities. This sector is not obliged under the AML/CFT legislation, and is subject to control periodically and exclusively by the Tax Administration from the tax evasion angle.

5.2. Low to medium risk sectors

5.2.1 Service providers in the tourism and hospitality sector

Unlike the previous NRAs, the present NRA analyses the tourism services sector for potential TF misuse. Potential threats include:

- Lack of data on the value and method of payment for accommodation services.
- Payment methods for tourist trips (cash, account transfers, card payments, cryptocurrencies).
- Travelers who purchased but did not use tourist trips and did not request a refund.

The tourism inspection sector supervises entities such as travel agencies, car rental services, tour guides, accommodation facilities (categorized and uncategorized), food and beverage facilities, entities in nautical and hunting tourism and service providers on ski slopes.

The analysis of the private sector identified the need for a separate analysis of the tourism services sector, focusing on compliance with the AML/CFT legislation, and licensing of tour operators so as to integrate such licenses into a single system of records.

5.2.2 Postal operators

Postal operators can be abused by sending prohibited goods in closed parcels. All domestic and incoming international mail items are received sealed, and although the sending of money and parts of weapons or ammunition is prohibited, it may be the contents of a registered mail item with indicated value. To mitigate the risks, it is necessary to:

- Improve systems for checking the content of parcels.
- Conducting frequent training of the obliged entities on the importance of preventing and fighting terrorism and its financing.
- Provide identification of the parcel recipients.

Vulnerabilities include:

- Cash transactions in the course the delivery of cash items.
- Absence of video surveillance during the delivery of field purchase shipments.
- Phenomenon of non-compliance with legal obligations concerning the identification of recipients and senders of valuable items.

5.2.3 Accountants

Accountants may be abused by legal entities that hire them to record transactions based on fictitious or false documentation. Attention should be paid in cases when:

- Clients are non-profit organizations that spend funds contrary to their statutory objectives.
- There is diversion of funds from legitimate business activities.
- Transactions involve persons from high-risk areas without economic justification.

These measures also apply to **tax advisors**.

5.2.4 Notaries

Public notaries should pay attention when certifying contracts or performing services in the planning or execution of transactions that may be associated with risks related to real estate sale and lease brokers. They should be careful in cases where:

- Transactions involve clients from high risk areas.
- There is a lack of clarity regarding the source of funds.
- Customers exhibit unusual urgency or conduct that is inconsistent with normal business practice.

5.2.5 Banking sector

Given that banking products are numerous and widespread, and the banking sector is a leader in the financial system, its susceptibility to terrorist financing abuse is significant. However, due to the strict procedures and measures in place for the detailed analysis of clients, their risk cannot be considered high. Banks should pay attention to:

- Registered transactions with countries with an active terrorist threat.
- Providing products and services to foreign nationals from high-risk areas who have temporary residence documents.
- Observation of frequent money transfer transactions in small amounts from different individuals abroad in the name of the same person.

- Incomplete details of transaction orders in favor of non-profit organizations or individuals associated with them.
- Clients exhibit unusual behavior during video identification or submit suspicious identification documents electronically.

Banks have noticed trends and products in the financial sector based on international practice, concerning the financing of terrorism, including misuse of digital assets, payment platforms, rapid money transfers, **crowdfunding** (still not regulated by law in Serbia), anonymous prepaid and gift cards, as well as the introduction of artificial intelligence which can be used for financial fraud.

5.2.6 Virtual Asset Service Providers

Although there were no identified cases in Serbia, international practice shows that terrorist organizations have financed themselves through virtual currency, making the sector vulnerable. Service providers should take note when:

- There is a suspicion that crypto-currencies are being used to pay for goods and services on the Darknet.
- The use of ransomware or extortion activities is suspected.
- Unauthorized access to customer wallets or account hacking reports.
- Transactions include anonymity-enhanced software (e.g. tumblers and mixers) or anonymity-enhanced cryptocurrencies (e.g. Monero).
- Transactions involve high risk areas.
- Services are provided to foreign citizens from risk areas with temporary residence documents.
- Incomplete transaction details benefit non-profit organizations or individuals associated with them.
- The funds are aimed at unregistered or unlicensed service providers in Serbia or abroad.

5.3. Other sectors

5.3.1 Lawyers

Lawyers should pay attention when:

- Certifying contracts or performing services in the planning or execution of transactions involving risks related to real estate brokers.
- Conducting transactions involving parties from high risk areas.
- Observation of clients behaving atypically (unusual urgency or behavior).

This also applies to **notaries**, as mentioned earlier.

5.3.2 Traders

Traders should pay attention when buying certain goods, such as:

- clothing and equipment for spending time in nature (blankets, sleeping bags, etc.);
- medical supplies (consumables and first aid supplies);
- medicines;
- specialized equipment for recording and reconnaissance;
- ballistics (uniforms, various holsters and others);
- hunting equipment (various blades, string weapons, thermal imaging cameras and others);
- specific technical goods (telephones and other equipment that can be used in specific conditions).

5.3.3 Real estate sale and lease brokers

While previous NRAs analyzed the TF risks in this sector, a comprehensive analysis has found that the risks are adequately monitored, placing the sector at a lower risk level. However, there are risks in relation with providers of short-term accommodation and catering services (hotels, hostels, motels, short-term home stays, etc.).

Real estate brokers should pay attention in cases where:

- A person sells multiple properties in a short period of time.
- A third party is authorized to sell or rent multiple properties.
- Real estate is sold below market value.
- Persons from high-risk areas with temporary residence documents purchase or approve the purchase of real estate.

A reported case involved a client who changed his name of Arabic origin to a Western European name, rapidly sold all his property in Serbia with the intention of moving abroad. He also had on him literature written in Arabic. This raised suspicions of potential terrorist financing, but no evidence was found. This case highlights the importance of training employees who have direct contact with customers to recognize suspicious behavior.

5.3.4 Organizers of special games of chance through means of electronic communication

Foreign FIUs provided information on suspicious activities related to the games of chance sector, in which Serbian citizens or residents participated as perpetrators of fraud, identity theft, unauthorized access to computers and registered accounts in casinos and betting shops.

Abuse of FinTech, e-money institutions, payment processors, banks and organizers of special games of chance is noticeable at the international level. Funds from criminal activities are quickly transferred across borders, using looser procedures - know your customer and the anonymity provided by certain platforms.

Service providers in the gaming sector should take note when:

- Providing online registration to foreign nationals or temporary residents who submit altered or falsified identification documents.
- Clients deposit game funds from unregistered accounts or profiles.
- Customers often exchange prepaid or gift cards or vouchers.
- Clients receive payments from multiple accounts or profiles that are not owned by them.
- Substantial funds are deposited and withdrawn after minimal gaming activity.
- Clients originate from areas with an active terrorist threat.

5.3.5 Financial leasing providers

Although no TF misuse has been recorded, attention should be focused on international experiences. Leasing firms should pay attention when:

- The subject of the lease is unjustified given the lessee's business activity.
- Agreements are made with start-up companies with little or no operational information.

5.3.6 Life insurance sector

No misuse has been reported, but insurance companies should align their operations with FATF guidelines. Increased risks are indicated when:

- Policy payments are made to third parties from areas with an active terrorist threat.
- Clients pay high insurance premiums disproportionate to their profiles.
- Insurance products enable early payment or reimbursement of funds.
- Funds are transferred to accounts abroad on the basis of donations or aid.

- Companies or intermediaries have limited physical contact with clients.
- Policies are sold through online applications and platforms.

5.3.7 Broker-dealer companies and investment fund management companies

These entities should comply with FATF guidelines to reduce terrorist financing risks.

They should pay attention when:

- Clients are foreign legal entities from areas with an active terrorist threat.
- Clients engage exclusively through attorneys when establishing business relationships.
- Clients show unusual interest in organizational and control systems.
- Shares are awarded as gifts with no clear personal or business ties.

5.3.8 Voluntary pension funds, accountants and factoring companies

Although no misuse has been reported, these sectors should remain vigilant. For example, voluntary pension funds should be careful when:

- the investment of contributions for the benefit of a member of a voluntary pension fund is performed by a legal entity which is known for not employing the fund members, as well as when none of the fund members appears in the ownership or management structure of the legal entity;
- an unemployed person wants to pay contributions in a one-off high amount and when the person is close to the age limit for withdrawing payments, also when a natural person declares that he allegedly lives and works in another country and that he will transfer funds from the fund to the same country where he allegedly has residence.

Factoring companies should be careful when:

- Foreign trading companies sell goods or services to offshore areas or countries that do not adhere to foreign trade standards.

5.3.9 Auditors

Auditors should pay attention when:

- Payments are made from loans of unknown origin.
- Funds are transferred to the accounts of entities without frequent business cooperation.

5.3.10 Non-Profit Organizations (NPOs)

International and domestic experience indicates that non-profit organizations can be misused for terrorist financing in the course of fundraising, transfer of funds and their end use. Risk mitigation measures include:

- Improvement of the existing mechanisms for controlling the work of NPOs, especially in the segment of controlling the implementation of statutory goals and spending funds in accordance with them;
- Improvement of donor control mechanisms and origin of donated funds;
- Improving cooperation between the non-profit sector and state institutions, especially with the aim of strengthening mutual trust and spreading awareness about possible abuses;
- Initiating and encouraging the non-profit sector to build its own capacities for recognizing and controlling the risks of terrorist financing (e.g. self-protection against abuse, improvement of financing transparency, etc.).

Special attention should be paid to non-profit organizations that raise funds through e-money institutions from third countries and in digital currencies. There have been cases where

personal email addresses were used to create NPO accounts with e-money institutions that do not ask questions about the rightful ownership and have no control over the electronic wallets.

5.3.11 Higher education institutions

Higher education institutions may be abused by foreign students, including individuals from countries with an active terrorist threat, who renew their enrollment for the academic year without the true intention of completing their studies. This allows them to extend their stay in Serbia, facilitating their movement outside the country's borders.

One way to mitigate this risk is for immigration policy to require foreign students to pass a certain number of exams in order to extend their stay.

Summary:

1. High risk sectors

There are no identified high-risk sectors for financing terrorism in Serbia.

2. Sectors of medium risk

These sectors have been identified as having a moderate potential for terrorist financing due to business vulnerabilities or insufficient regulatory oversight.

- **Payment institutions:** Susceptible due to lack of continuous customer relationships and limited access to the identification data of third parties – transaction participants.
- **Currency exchange operators:** Participation in the trade in gold, i.e. jewelry, in quantities that deviate from the usual sales by individuals.
- **Freelancers and the IT sector:** The potential use of technological expertise to create or support online content that promotes terrorism.

3. Low to medium risk sectors

These sectors have lower risk, but certain activities make them susceptible to TF abuse.

- **Tourism and hospitality:** Abuse through false or unused reservations and non-transparent payment methods for services.
- **Postal operators:** Risk of transporting prohibited items or cash transactions with limited identification of recipients.
- **Accountants and tax advisors:** Potential abuse through manipulation of financial records for fictitious or suspicious transactions.
- **Banking sector:** Potential abuse of cash loans and quick money transfers, especially by foreign nationals from high-risk areas.
- **Non-profit organizations:** Recognized vulnerability due to potential abuse in fundraising, fund transfers and spending in ways that are inconsistent with statutory objectives.

4. Others

Although these sectors are generally low risk, some are more prone to exploitation based on the nature of their services.

- **Virtual Asset Service Providers:** Although no cases of misuse have been reported in Serbia, global trends show vulnerability to the misuse of cryptocurrency for terrorism.
- **Lawyers:** Subject to certification of contracts for real estate and other high value transactions with potential terrorist connections.
- **Traders:** Can be used to purchase goods with possible terrorist use, such as survival equipment, medical supplies and specialized technical goods.
- **Real estate sale and lease brokers:** Potential abuse in the sale or lease of property by persons from high-risk areas.

- **Game of chance operators:** Potential abuse in online games of chance through anonymous accounts and quick money transfers, often linked to digital payment platforms.
- **Financial leasing service providers:** Can be used to finance questionable assets out of proportion to typical business activities.
- **Life insurance sector:** Risk of large premium payments being used to finance terrorism, especially when third parties are involved.
- **Broker-dealer companies:** Possible abuse in the handling of investments of foreign entities associated with high-risk areas.
- **Notaries:** The risk of facilitating real estate transactions and contracts related to dubious entities without sufficient due diligence.
- **Higher education institutions:** Abuse by foreign students to extend residence permits without legitimate educational engagement.

Factors that increase the risk of TF:

Lack of continuous relationships: Payment institutions and certain service providers such as notaries and real estate brokers do not maintain long-term relationships with clients.

Use of cash and gold trading: Currency exchange operators, postal operators, and traders are exposed to TF risks when using large amounts of cash or high value when trading gold without strict monitoring.

Limited access to customer data: Payment institutions and the IT sector often do not have access to comprehensive customer identification.

Digital transactions and cryptocurrencies: Global trends show increased use of cryptocurrency and digital platforms to transfer funds for TF, especially in VA and the banking sector.

Abuse of Nonprofit Organizations: Nonprofit organizations may be abused to collect, transfer, or spend funds, especially when involved in conflict zones or high-risk areas.

Factors that reduce the risk of TF:

Increased quality of SARs: Sectors such as payment institutions and banks have improved the quality of SARs, using detailed analysis and internet searches to provide better information to regulatory bodies.

Improved data sharing and collaboration: Collaboration between financial institutions, regulatory bodies and international partners ensures that intelligence on suspicious transactions is shared immediately, mitigating TF risks.

Sector oversight by regulatory bodies: Regulatory authorities and financial regulators ensure regular compliance checks in medium and low risk sectors, reducing the potential for exploitation.

Improved technology and security measures: Sectors such as VASP and banks use advanced technologies such as artificial intelligence to prevent financial fraud and monitor suspicious transactions to reduce the risk of TF.

6. SUPERVISION

During the onsite supervision of the exposure to the risk of money laundering of the obliged entities under the AML/CFT Law, the supervision includes as a general rule an assessment of the exposure to the TF risk.

In this sense, compared to the previous NRA, significant progress has been achieved in the banking sector, especially when it comes to the consideration of the Global Terrorism Index list when monitoring clients and transactions and assessing their risk.

With the exception of SARs filed by banks, payment institutions and operators of games of chance, other obliged entities have not found any misuse of their products and services.

SUMMARY FOR TF

The legal and institutional framework in Serbia for the fight against terrorism and its financing is aligned with international standards. The key regulations are the Criminal Code, Criminal Procedure Code, Law on the Organization and Jurisdiction of State Bodies in the Fight against Organized Crime, Terrorism and Corruption, Law on Prevention of Money Laundering and the Financing of Terrorism, Law on Freezing of Assets to Prevent Terrorism and the Law on International Restrictive Measures. The regulatory environment was consistent during the reporting period, enabling the systematic implementation of measures aimed at combating terrorist financing and increasing operational efficiency. National strategies complement the legal framework, with key documents such as the National Security Strategy, the Strategy for the Prevention and Fight against Terrorism, Strategy for the Prevention of Money Laundering and Terrorist Financing, and Strategy for Integrated Border Management (2022-2027).

The implementation of the national strategy has resulted in improved data sharing on terrorist financing, with increased coordination between operational bodies, periodic reviews of human, technological and financial resources and ongoing investigations supported by interagency cooperation. Training programs are regularly conducted for law enforcement, financial intelligence units and customs officials to improve their ability to detect and manage terrorist-related financial crime. Capacity-building efforts were directed at all relevant authorities to facilitate the identification and response to terrorism and TF-related risks.

For non-profit organizations (NPOs), regulatory oversight has been enhanced with updated monitoring and inspection criteria and procedures, supporting risk matrices and revised inspector training methodologies. Regular capacity assessments ensure that the competent supervisory authorities have adequate resources. Cooperation with the non-profit sector focuses on promoting transparency and self-regulation, while awareness-raising initiatives and workshops have strengthened financial practices in the sector.

Table 17. Analysis of the active terrorist threat

Threat	Likelihood of terrorist financing				
	Very high	High	Medium	Small	Very small
Manifested terrorist activities (self-radicalized individuals and misuse of social networks)		3.67			
Ethnically motivated terrorism			2.75		
Religious extremism			2.75		
Migratory movements			2.5		
Ideological extremism					1
The impact of foreign armed conflicts on Serbia				1.5	
FTFs				1.67	
Exposure to threats from neighboring countries			2.25		

THE THREAT FROM THE FINANCING OF TERRORISM

Rating: 1.67 - Low TF probability

Data analysis indicates that the territory of Serbia and its financial system were not systematically used for financing terrorism. However, data from pre-investigation procedures, intelligence data and international cooperation indicate isolated, individual cases in which small amounts of money were used. According to the same data, there was a suspicion that the funds were transferred by alternative means (cash couriers, "hawala", etc.) and through payment institutions and foreign e-money institutions. The funds transferred in this way come from the personal income of relatives and friends, and recent terrorist activities have been financed with small amounts of money from personal sources.

Monitoring informal systems ("hawala", "cash couriers" and others), as well as financial transactions and payment institutions mitigates the risk of using these systems for FT.

The Security Intelligence Agency (BIA) in Serbia actively collects intelligence on activities that could be related to the financing of religious extremism and terrorism. In cooperation with the Administration for the Prevention of Money Laundering (APML), the BIA has identified suspicious financial activities of both individuals and organizations. The APML, through cooperation with various entities such as payment institutions and banks, received reports of suspicious activities related to the financing of terrorism. Although many of the reports involved individuals linked to foreign terrorist fighters, there was no clear evidence linking these reports to organized crime or terrorist financing. The number of suspicious activity reports from banks is decreasing, while their quality and relevance are improving. In addition, proactive domestic and international cooperation mitigated the risk of terrorist financing.

FT factors:

Alternative funds transfer systems: The "hawala" system may be used in individual cases for the transfer of smaller amounts of funds.

Cash couriers: Cash couriers may be used in individual cases to transfer smaller amounts of funds.

Payment institutions: Payment institutions, due to their availability, may be used for the systematic transfer of smaller amounts of funds.

Transfers to high-risk countries - Periodic movement of persons and assets to/from countries with an active terrorist threat.

Foreign e-money institutions: Difficulty identifying participants in transactions and global availability.

SECTORAL TERRORIST FINANCING VULNERABILITY

1. High risk sectors

There are no identified high-risk sectors for financing terrorism in Serbia.

2. Sectors of medium risk

These sectors have been identified as having a moderate potential for terrorist financing due to business vulnerabilities or insufficient regulatory oversight.

- **Payment institutions:** Susceptible due to lack of continuous customer relationships and limited access to the identification data of third parties – transaction participants.
- **Currency exchange operators:** Participation in trader in gold, i.e. jewelry, in a quantity that deviates from the usual sales of individuals.
- **Freelancers and the IT sector:** The potential use of technological expertise to create or support online content that promotes terrorism.

3. Low to medium risk sectors

These sectors have lower risk, but certain activities make them susceptible to FT abuse.

- **Tourism and hospitality:** Abuse through false or unused bookings and non-transparent payment methods for services.
- **Postal operators:** Risk of transporting prohibited items or cash transactions with limited identification of recipients.
- **Accountants and tax advisors:** Potential abuse through manipulation of financial records for fictitious or suspicious transactions.
- **Banking sector:** Potential misuse of cash loans and quick money transfers, especially by foreign nationals from high-risk areas.
- **Non-profit organizations:** Recognized vulnerability due to potential misuse of fundraising, fund transfers and spending in ways that are inconsistent with statutory objectives.

4. Others

Although these sectors are generally low risk, some are more prone to exploitation based on the nature of their services.

- **Virtual Asset Service Providers:** Although no cases of misuse have been reported in Serbia, global trends show vulnerability to the misuse of cryptocurrency for terrorism.
- **Lawyers:** Subject to certification of contracts for real estate and other high value transactions with potential terrorist connections.
- **Traders:** Can be used to purchase goods with possible terrorist use, such as survival equipment, medical supplies and specialized technical goods.
- **Real estate sale and lease brokers:** Potential abuse in the sale or lease of property by persons from high-risk areas.
- **Game of chance operators:** Potential abuse in online games of chance through anonymous accounts and fast money transfers, often linked to digital payment platforms.
- **Financial leasing service providers:** Can be used to finance questionable assets out of proportion to typical business activities.
- **Life Insurance Sector:** Risk of large premium payments being used to finance terrorism, especially when third parties are involved.

<ul style="list-style-type: none"> • Broker-dealer companies: Possible abuse in the handling of investments by foreign entities associated with high-risk areas. • Notaries: The risk of facilitating real estate transactions and contracts related to dubious entities without sufficient due diligence. • Higher education institutions: Abuse by foreign students when extending residence permits without legitimate educational engagement.
Factors that increase the risk of TF:
Lack of continuous relationships: Payment institutions and certain service providers such as notaries and real estate brokers do not maintain long-term relationships with clients.
Use of cash and gold trading: Currency exchange operators, postal operators, and traders are exposed to TF risks when using large amounts of cash or high value when trading gold without strict monitoring.
Limited access to customer data: Payment institutions and the IT sector often do not have access to comprehensive customer identification.
Digital transactions and cryptocurrencies: Global trends show increased use of cryptocurrency and digital platforms to transfer funds for TF, especially in virtual assets and the banking sectors.
Abuse of Nonprofit Organizations: Nonprofit organizations can be abused to collect, transfer, or spend funds, especially when involved in conflict zones or high-risk areas.
Factors that reduce the risk of TF:
Increased quality of SARs: Sectors such as payment institutions and banks have improved the quality of SARs, using detailed analysis and internet searches to provide better information to regulatory bodies.
Improved data sharing and collaboration: Collaboration between financial institutions, regulatory bodies and international partners ensures that intelligence on suspicious transactions is shared immediately, mitigating TF risks.
Sector oversight by regulatory bodies: Regulatory authorities and financial regulators ensure regular compliance checks in medium and low risk sectors, reducing the potential for exploitation.
Improved technology and security measures: Sectors such as VASP and banks use advanced technologies such as artificial intelligence to prevent financial fraud and monitor suspicious transactions to reduce the risk of TF.

**ASSESSMENT OF THE RISK OF ABUSE OF THE NON-PROFIT
SECTOR FOR THE PURPOSE OF FINANCING TERRORISM**

INTRODUCTION

The basis for developing a risk assessment of the sector of non-profit organizations (hereinafter referred to as NPOs) from the point of view of financing terrorism is based on the 2023 document Modalities and trends of financing terrorism in Serbia, and 2019 Typologies of terrorism financing in Serbia, in which the experiences of the competent state authorities responsible for preventing and fighting terrorism, as well as the best practices of relevant international institutions, are summarized.

The methodological approach is aligned with the World Bank's methodology for the developing an NPO TF Risk Assessment, which was for some of the criteria adapted to the applicable Serbian law, and to the Procedures and criteria for the performance of joint supervision of non-profit organizations in Serbia.

It is important to note that the 2018 TF Risk Assessment identified shortcomings that could have contributed to greater susceptibility to TF abuse, especially of NPOs. The perceived shortcomings were addressed in the then and subsequent action plans for the implementation of the National AML/CFT Strategy, which laid down the activities to eliminate the identified shortcomings, as well as the competent state authorities responsible for their implementation.

In this regard, the NPO TF risk assessment which was carried out in 2021, showed that the measures and actions taken contributed to increasing awareness in the NPO sector, especially from the self-control angle.

In addition to relevant documents, the analysis of susceptibility of the NPO sector to the TF risk took into account the FATF methodology, publications and research as well as the list of countries that carry a certain degree of risk according to the FATF, including the following documents:

- 2018, 2021 and 2024 terrorist financing risk assessments;
- 2019 terrorist financing typologies document;
- 2023 modalities and trends of terrorism financing.

The process took into account the analyzes and experiences of state institutions' representatives, as well as the experiences of the private sector in order to get a realistic assessment of the situation and make objective final conclusions.

RESULTS OF THE ANALYSIS OF THE NON-PROFIT SECTOR

The NPO TF risk assessment covers the period 2021 - 2023 and should be interpreted in connection with the National TF Risk Assessment. The methodological approach is harmonized with the World Bank's methodology for assessing the risk of non-profit organizations and is adapted to the legal framework of Serbia and the existing mechanisms for monitoring NPOs. It also takes into account the progress made as a result of previous NPO assessments, including the sector 2021 assessment.

The legal framework that regulates the establishment and operation of NPOs in Serbia has remained generally stable in the last three years. All NPOs in Serbia fall under the supervision regime, without exception. It ensures transparency in their operations, including financial reporting and auditing requirements. The law defines non-profit organizations as associations, endowments and foundations established to achieve common or general goals without a profit motive. Religious organizations are not legally classified as non-profit organizations when they undertake activities solely related to worship, while any charitable or social activities they undertake must be conducted through a registered NPO. Professional

associations are considered low risk due to their clear objectives, professional promotion activities and transparent sources of funding.

Serbia applies a coordinated approach of several state authorities in the supervision of NPOs, with a specialized working group formed exclusively for the implementation of unified TF-related supervision of NPOs. This working group includes representatives of key government authorities such as the Tax Administration, Ministry of Internal Affairs and the APML among others. Supervision includes risk-based selection criteria, detailed inspection checklists and regular reporting to national coordinating bodies.

As of December 31, 2023, Serbia had 37,969 registered NPOs, including 36,883 associations and 1,086 foundations and endowments. Financial analysis of the NPO sector from 2021 to 2023 showed no significant changes in the inflow of funds, including those from high-risk countries, which indicates a stable financial environment. The sector's income is primarily generated from donations, grants and subsidies, maintaining the share of gross national income (GNI) and gross domestic product (GDP), as in the previous risk assessment. Employment in the sector is still low and amounts to 0.4% of the total number of employees in Serbia, while the share of income, donations and GDP is twice as high as the share of employees, which indicates that the sector is mainly financed by project financing. Risk categorization reveals that micro-entities dominate the sector, while NPOs in border areas and regions linked to the migrant crisis are increasingly present. Associations are often registered under broad or undefined objectives, increasing the risk of concealing their true activities. The banking sector classifies 20% of NPOs as high-risk, which indicates increased control in their relationships with NPOs.

Serbia is exposed to various TF threats due to its geopolitical position, internal challenges and external extremist influences. Ethno-separatist extremism, radical Islamist movements, migrant smuggling networks, regional instability, and foreign terrorist fighters present potential risks for abuse of the NPO sector. These threats can be manifested through NPOs that are deliberately created to finance terrorism, unknowingly exploited by extremists or diverting their funds to support terrorist activities, although no recent examples have been identified (the last case dates back to 2014 and was closed in 2019, as described in previous NRAs). Between 2021 and 2023, suspicions of potential abuse at 16 non-profit organizations were investigated, but no links to terrorist financing were found. The risk assessment framework in Serbia takes into account various risk factors, including geographic location, financial irregularities and structural issues within NPOs. Although not all non-profit organizations are equally vulnerable to TF, certain indicators, such as frequent changes in registration or location, indicate an increased risk for some organizations.

Serbia has policies in place to increase transparency and accountability in the management of the non-profit sector. Beneficial owner registration is steadily improving, increasing from 77.65% in 2021 to 82.85% in 2023. The majority of registered owners are domestic, with a slight increase in foreign and mixed ownership. This trend indicates better compliance with transparency regulations, reducing the likelihood of misuse for terrorist financing. The Serbian authorities promote the use of regulated financial channels, whereby cash transactions are used only in exceptional cases. Incoming financial flows mainly originate from European jurisdictions and North America, usually associated with bilateral and multilateral development projects, while outgoing flows are related to non-profit organizations mainly (from surrounding countries). Ongoing efforts, such as educational programs and good accounting practices, further support financial transparency in the nonprofit sector.

The Serbian Business Registers Agency is responsible for collecting, processing and publishing financial statements of NPOs, including associations, endowments and foundations. Non-profit organizations are required to submit annual financial statements, and if they fail to do so, they will be charged with an economic offense. From 2021 to 2023, a total of 9,343

motions for economic offenses were filed due to failure to submit financial statements. The legal framework mandates that NPOs keep accounting records, prepare financial statements and file tax returns. Fines for non-compliance range from 100,000 to 3,000,000 dinars for organizations and from 20,000 to 150,000 dinars for responsible persons.

Serbia has taken significant steps in raising awareness in the non-profit sector in order to mitigate the TF risk. Through cooperation with international and domestic partners, numerous trainings and workshops were organized to improve risk understanding and compliance with AML/CFT regulations.

Self-regulatory mechanisms in the non-profit sector of Serbia significantly reduce the risk of misuse for TF by promoting transparency, accountability and good financial management. Initiatives such as the Code of Ethics, regional standards for fundraising transparency and platforms such as *Neprofitna.rs* are established to ensure that non-profit organizations operate with integrity. In addition, comprehensive processes on crowdfunding platforms such as the *Donacije.rs* platform and re-approval procedures by intermediary organizations further mitigate the risk of financial abuse. These initiatives help build public confidence and reduce the need for government intervention in the nonprofit sector.

From 2021 to 2023, the competent authorities supervised 64 associations and 10 foundations, revealing several financial irregularities and violations, most often related to unauthorized cash withdrawals, expenses without proper documentation and activities that are not aligned with the organizations' statutory goals. Fines and warnings have been issued in some cases, while other cases are still pending. No direct cases related to terrorist financing were identified, but the irregularities highlighted certain shortcomings in the implementation of financial controls and management within NPOs. After the inspections of NPOs the reports were consolidated and sent to the National Coordinating Body for Combating Terrorism and the Coordinating Body for Prevention of Money Laundering and Terrorist Financing. This system ensures that all suspicions about the involvement in or abuse of NPOs for TF are shared with the competent authorities, with established mechanisms for continuous monitoring and international cooperation.

The working group carried out in Serbia a risk classification of NPOs by analyzing general and specific indicators related to potential misuse for TF. NPOs are categorized into six risk levels, ranging from no-risk to high-risk. The analysis showed that the majority of NPOs (81.2%) were not considered risky, only 0.58% were classified as high risk, and 3.23% as medium to high risk. Specific indicators, such as raising cash and connections with individuals from high-risk regions, as well as performing activities in the border area and districts where reception centers or asylum centers are located in Serbia, contributed to the classification of NPOs as higher risk.

General conclusion

Serbia's approach to the NPO sector seeks to establish a balance between transparent development of the sector with defined measures to prevent its misuse for TF. A comprehensive legal and institutional framework ensures comprehensive regulatory oversight, including strict registration, monitoring and mandatory financial reporting systems, for transparency and accountability. The transparency of NGOs has significantly improved, and supervision is being improved through the coordinated activities of competent state authorities and the monitoring of NPOs by financial institutions. Self-regulation, training and improved public confidence-building initiatives promote the sector's credibility. On the preventive side, proactive measures did not result in identified direct abuse of NPOs for TF between 2021 and 2023. However, potential risks from contextual threats such as religious extremism, links to high-risk individuals and weak financial controls of micro-legal entities highlight the need for constant

vigilance, especially in border and migration regions, to maintain the integrity and security of the sector.

The risks of TF represent **a low to moderate risk** for the development and continued functioning of the NPO sector in Serbia.

Terrorist financing risks in the NPO sector generally mirror TF risks for Serbia as a whole and can be classified as moderate.

1. LEGAL AND INSTITUTIONAL FRAMEWORK

The legal framework that regulates the establishment, work and operation of the NPO sector in Serbia has not changed in the previous 3 years. In this regard, the term "non-profit sector, i.e. non-profit organizations" in Serbia is laid down by law and refers to organizations based on the freedom of association of several natural or legal persons that are not established with the aim of making a profit, and have the status of a legal person (associations, endowments, foundations, funds), as well as any other form voluntary association for the purpose of achieving a common and/or general goal and interest that does not use assets or property to generate profit, i.e. for the benefit of the founders, members, employees or other persons associated with that association and whose work is not regulated by a special law. The definition is based on Article 55 of the Constitution of the RS and the following laws: Law on Associations ("Official Gazette of the RS", no. 51/2009 and 99/2011 - other laws and 48/2018 - other laws), Law on Endowments and Foundations ("Official Gazette of RS", No. 88/2010 and 99/2011 – other law and 44/2018 – other law), and the Law on Endowments, Foundations and Funds ("Official Gazette of SRS", No. 59/89).

Only the Constitutional Court can impose a ban on the operation of an association, and only in situations where the association's actions are aimed at the violent overthrow of the constitutional order, the violation of guaranteed human or minority rights, or the incitement of racial, national or religious hatred.

1.1. Competent authorities for NPO registration and supervision

The Serbian Business Registers Agency is responsible for the registration, recording, and strike off of non-profit organizations.

The following are responsible for the supervision of NPOs:

- The Coordination Commission for Inspection oversight of the Ministry of Public Administration and Local Self-Government is an interagency coordinating body whose task is to coordinate the work of inspection oversight and improve the efficiency of inspection oversight through the harmonization of inspection plans and training programs, improvement of the exchange of information and professional and ethical standards of the inspection profession, monitoring and evaluation inspection oversight and inspection oversight.
- In order to ensure coordination of inspection services in accordance with the initiative of the Ministry of Public Administration and Local Self-Government, the Coordination Commission for Inspection oversight established a Working Group for performing supervision of NPOs, which set out the Working Group mandate. Members of the working group achieve their goals through cooperation in aligning their inspection oversight plans, determining the working group's program, organizing and performing joint inspection oversight, cooperation in performing independent inspection oversight (information, data and experience exchange, pointing out examples of good practice and other forms mutual assistance), standardizing inspection practice, determining the need for training inspectors and undertaking other appropriate actions and measures to realize the goals.
- The Tax Administration, based on the Law on Accounting, performs supervision in terms of checking the accuracy business changes in business books and thus monitors the financial operations of NPOs in terms of tax policy.
- Inspection oversight over associations is carried out by the Ministry of Public Administration and Local Self-Government, through administrative inspectors. The

Administrative Inspectorate created a checklist for the supervision of associations, which contains all issues related to the work of associations, which stem from the Law on Associations (from entering the association in the register, to the spending funds in accordance with the goals set out in the association's statute). The checklist is publicly available in accordance with the Law on Inspection oversight.

- Supervision over the implementation of the Law on Endowments and Foundations is carried out by the Ministry responsible for culture. Amendments to the Law on Culture made it possible to carry out inspection oversight over the compliance with this law, whereby the tasks of inspection oversight, as entrusted tasks, will be carried out by the Autonomous Province of Vojvodina on its territory.
- Also, supervision over the intended use of funds allocated to NPOs from the budget of Serbia is carried out by the state authority that allocated the funds.

1.2. Key interagency mechanisms

Serbia applies a coordinated interagency approach in conducting effective supervision in relation to NPOs. The Coordinating Commission for Inspection oversight formed a Working Group that will deal with the comprehensive implementation of inspection oversight over NPOs exclusively in the area of AML/CFT.

The permanent members of the Working Group are representatives of the competent state bodies, namely: Tax Administration, Ministry of Public Administration and Local Self-Government - Administrative Inspectorate, APML, Ministry of Internal Affairs, Ministry of Human and Minority Rights and Social Dialogue, Ministry of Culture, Business Registers Agency.

1.3. Overview of NPO supervision (in general)

Supervision of the NPO sector is carried out in accordance with a set of methodological documents adopted to ensure transparency and compliance of the supervision process:

- Procedures and criteria - Risk matrix for performing unified supervision of non-profit organizations (updated as necessary),
- Methodology for the execution of onsite inspection over associations, which describes the procedure for conducting unified supervision.

The working group, applying the Procedures and criteria for conducting unified supervision of NPOs, regularly prepares multi-month plans for NPO supervision.

By applying the adopted criteria, the Working Group selects associations to be subject to joint (integrated) inspection oversight and submits a list of the selected NPOs to the Coordination Commission for Inspection Oversight, which, upon adoption of this list, notifies the Ministry of Public Administration, Ministry of Finance and Ministry of Culture so that they may designate inspectors who will perform the supervision.

Work reports on the Working Group are submitted to the Coordinating Commission for Inspection oversight and the National Coordinating Body for Preventing and Combating Terrorism.

1.4. Description of different types of NPOs

The establishment and activity of the Serbian NPO sector, consisting of associations, endowments and foundations, are regulated by a number of laws.

The Law on Associations stipulates that an association is a voluntary and non-governmental NPO based on the freedom of association of several natural or legal persons, established for the purpose of achieving and promoting a certain common or general goal and interest, which are not prohibited by the Constitution or the law.

The association is founded and organized freely and independently to achieve its goals. The objectives and activities of the Association must not be aimed at violently disrupting the constitutional order and territorial integrity of the Republic of Serbia, violating guaranteed human or minority rights, or inciting inequality, hatred and intolerance based on racial, national, religious or other affiliation or orientation, as well as gender, physical, psychological or other characteristics and abilities.

An association can be founded by at least three natural or legal persons with legal capacity. At the same time, minors over the age of 14 are allowed to be founders of associations with the certified written consent of their legal representatives.

The Law on Associations regulates in detail the way of acquiring property and carrying out the activities of the association, which achieves the goals established by its statute. Associations registered in the register can be beneficiaries of budget funds.

Also, associations are required to keep business books, prepare financial statements and be subject to audit of financial statements in accordance with accounting and auditing regulations. The company is responsible for all its assets.

This law also regulates the work of foreign associations, such as associations with headquarters in another country, established according to the regulations of that country for the purpose of achieving a common or general interest or goal, and whose activity is not aimed at making a profit, as well as international associations or other parties, i.e. international NGOs whose members have voluntarily joined together to achieve a common or general interest or goal that is not aimed at making a profit.

The establishment and legal status of endowments and foundations is regulated by the **Law on Endowments and Foundations**. An endowment, within the meaning of this law, is a legal entity without members to which the founder has assigned certain property (basic property) for the purpose of charitable achievement of a non-profit goal or private interest, i.e. a goal that is not prohibited by the Constitution or the law, as well as a foundation, which is also legally a person without members and basic assets established for the purpose charitable pursuit of a non-profit goal that is not prohibited by the Constitution or the law.

A foreign endowment and foundation is a legal entity without members based in another country, organized in accordance with the regulations of that country in order to achieve a generally useful goal, that is, an interest that is not prohibited by the Constitution and the law.

1.5. Analysis of the scope of the FATF NPO definition in Serbia

The FATF NPO definition suggests the following scope of organizations which should be included for the purpose of preventing TF: *a legal person or arrangement or organization primarily engaged in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or solidarity purposes, or for purposes other "good works"*.

Serbian legislation does not make exceptions with respect to types of NPOs which may be outside the regulatory framework, based on the type of activities they perform. This is due to the basic architecture of the legislative framework, which does not allow for variability in the interpretation of legal concepts, such as NPOs, which require strict legal definitions to ensure consistent legal application.

Churches and religious communities are not considered a risky part of the NPO sector, because their social and charitable activities are separated from their worship activities and liturgical activities. Churches and religious communities, as part of their social and charitable

activities, can establish appropriate institutions and organizations in accordance with the law, i.e. to establish associations, endowments or foundations. In this case, these entities, established for the implementation of social and charitable activities, belong to the sector of non-profit organizations and are subject to the same regulations and criteria as in other entities of the sector of non-profit organizations. There are 13 registered foundations in Serbia, the founder of which is a religious community.

Professional associations are not considered a risky part of the NPO sector, from the point of view of terrorist financing abuse. Namely, they have the same:

- clearly defined goals;
- in accordance with the defined goals, they undertake activities that, in most cases, promote the activities of their professions;
- transparent sources of income.

2. MATERIALITY

2.1. NPO inflows and outflows based on donations, gifts and assistance

The total financial inflows of NPOs, in the observed period, based on donations, gifts and aid from abroad, was EUR 467.9 million, and the outflows were EUR 29.3 million.

The largest NPO inflows were recorded from Hungary, i.e. 30.26% in the total inflow, the USA 15.54%, Belgium 13.79%, and Germany 11.80%. Of the countries with strategic AML/CFT deficiencies (the so-called FATF gray list), the largest inflow came from Croatia at 1.67% of the total inflow, followed by Bulgaria with 0.54% and Turkey with 0.24%.

The largest NPO outflows on the basis of donations, gifts and aid was realized in Bosnia and Herzegovina with 17.68% of the total outflows on this basis, followed by Montenegro with 10.95%, Greece with 10.74%, North Macedonia with 8, 57%, Albania with 6.41%. Of the countries with strategic AML/CFT deficiencies (the so-called FATF gray list), the largest outflows were made to Croatia at 5.3% of the total outflows on this basis, Turkey at 3.15% and Bulgaria at 2.10 %.

The largest number of incoming transactions on this basis was originated from the USA, Switzerland and Germany, and the largest number of outgoing transactions were sent to Bosnia and Herzegovina, Montenegro and North Macedonia.

The countries identified as having strategic deficiencies in their AML/CFT systems account for 2.49% in the total volume of NPO inflows from abroad based on donations, gifts and aid, for 10.58% in total outflows.

There were no NPO inflows or outflows based on donations, gifts and aid from/to the countries on so-called FATF blacklist (Iran, Democratic People's Republic of Korea and Myanmar).

In this regard, the analysis of transactions between Serbia and high-ranking countries nominated by the FATF, and with the countries with which Serbia borders, found that they do not represent a significant share in GNI and GNP, both for inflows and outflows.

An analysis of financial transactions of the NPO sector, as well as information obtained from supervisory inspections of this sector, showed that the largest inflow comes from the highly developed countries of the EU and the USA, as support for the operation of this sector, while the largest outflow from Serbia goes to the regional countries where Serbian diaspora lives.

However, taking into account the regional risks of terrorism and terrorist financing identified in the NRA FT, there is a certain risk of cross-border threats from NPO monetary transactions with countries in the region.

2.2. Financial indicators and number of employees

As on December 2023, 37,969 NPOs, i.e. 36,883 associations and 1,086 foundations and endowments, were registered in Serbia.

IN order to establish the size of the NPO sector in the period 2021 – 2023, total revenues from donations, grants, subsidies, etc., were taken into account as well as their share in the gross national income.

Table 1. Financial data in RSD thousands

Year	Total revenues of NPOs	Income from donations, grants, subsidies, etc.	Total expenditure	Gross national income (GNI)	Gross domestic product (GDP)	Share in the total income of the NPO (%)	
						GNI	GDP
2021	49,282,564	28,043,898	46,157,803	6,028,298,800	6,271,987,600	0.82	0.79
2022	55,864,632	32,300,053	53,270,713	6,746,257,700	7,097,629,200	0.83	0.79
2023	60,461,600	34,629,205	56,667,586	/	8,150,486,500	/	0.74

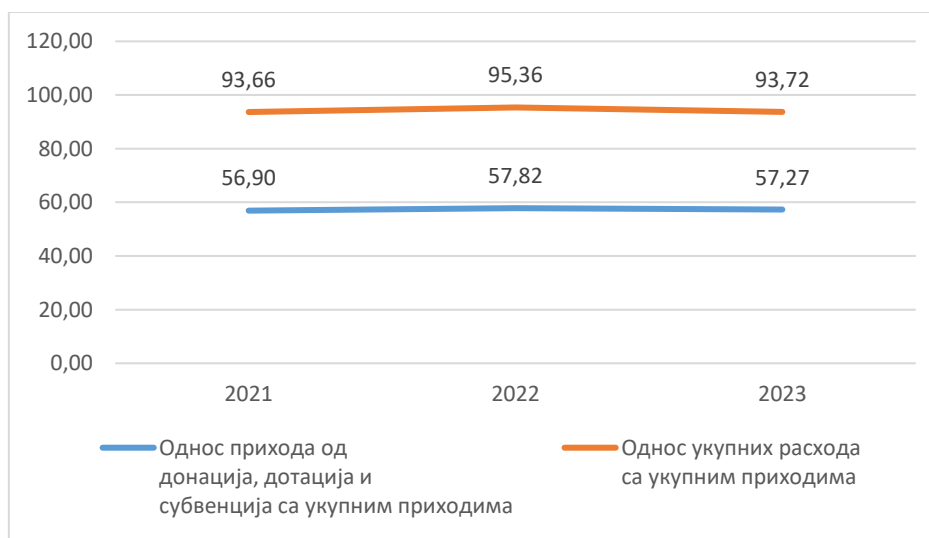


Figure 1. NPO - Share of income from donations, grants, subsidies and expenses in total income

Table 2. Total number of employed persons in Serbia:

Parameters	2021	2022	2023
Total employees	2,273,591	2,310,035	2,360,588
NPO employees	8,841	8,980	8,918
Employees in NPOs relative to total employees (%)	0.39	0.39	0.38

An analysis of the number of employees in the NPO sector, suggests that the share of employees in this sector has not changed compared to the estimate for 2021 and stands at about 0.4% relative to the total number of employees in Serbia. Also, the share of income, donations and grants in GDP is twice as high as the number of employees, which implies that the non-profit sector is mostly financed by project financing.

2.3. Overview of data by size and legal form

The size of the sector of NPOs in Serbia was also looked at in relation to the classification of this sector (be it a domestic or foreign NPO) by the criteria from Article 6 of the Law on Accounting, which classifies managers and entrepreneurs into micro, small, medium and large legal entities, depending on the average number of employees and business income in the business year and the value of total assets showed in the balance sheet of the regular annual financial statements.

Micro-legal entities are those legal entities and entrepreneurs that do not exceed the limit values of two of the following criteria on the balance sheet date:

- 1) average number of employees - ten;
- 2) operating income of 700,000 euros in dinar equivalent;
- 3) the value of total assets on the balance sheet date of 350,000 euros in RSD equivalent.

Small legal entities are those legal entities and entrepreneurs who, on the balance sheet date, exceed the limit values of two criteria from paragraph 2 of this article, but do not exceed the limit values of two of the following criteria:

- 1) average number of employees - 50;
- 2) income from business in the amount of 8,000,000 euros in the equivalent of dinars;
- 3) the value of total assets on the balance sheet date of 4,000,000 euros in dinar equivalent.

Legal entities and entrepreneurs are classified as legal entities and entrepreneurs who, on the balance sheet date, exceed the limit values of two criteria from paragraph 3 of this article, but do not exceed the limit values of two of the following criteria:

- 1) average number of employees 250;
- 2) operating income of 40,000,000 euros in dinar equivalent;
- 3) the value of total assets on the balance sheet date of 20,000,000 euros in dinar equivalent.

Large legal entities are legal entities and entrepreneurs who, on the balance sheet date, exceed the limit values of the two criteria from paragraph 4 of this article.

Table 3. Size and legal form of NPO for the period 2021-2023

Year	2021			
Form of organization	Micro	Small	Medium	Large
Associations	28,965	39	5	0
Foundations and endowments	843	23	2	0
In total	29,808	62	7	0
Year	2022			
Form of organization	Micro	Small	Medium	Large
Associations	29,539	44	4	0
Foundations and endowments	885	25	2	0
Total	30,424	69	6	0
Year	2023			
Form of organization	Micro	Small	Medium	Large
Associations	29,400	49	5	0
Foundations and endowments	891	25	2	0
Total	30.291	74	7	0

2.4. Geographic distribution

The number of registered associations in Belgrade and other parts of Serbia is not proportional. Namely, 31.48% of the total number of associations are registered in Belgrade,

12.83% in Južna Bačka District, while the remaining 55.69% are almost evenly distributed at less than 5% per region relative to the total number of associations.

The total number of endowments and foundations makes up 2.86% of the total number of NPOs in Serbia and is not proportional in all parts of the country, that is, it is almost identical to the number and distribution of associations. However, unlike associations, endowments and foundations are underrepresented compared to certain geographic areas.

After including a specific indicator related to the number of associations in border areas (where migrant centers are located), it was observed that in the analyzed period the growing trend in the number of associations registered after the migrant crisis continues, which is why it stands out as a dominant TF-related factor within the geographic risks. Competent Serbian authorities Serbia continuously monitor this risk and take appropriate measures to mitigate it.

Table 4. Registered NPOs in areas with migrant centers

	2018-2020	2021-2023
Dimitrovgrad	47	49
Pirot	183	195
Preševo	82	115
Šid	154	156
Subotica	757	786
Tutin	72	85
Telugu	168	195

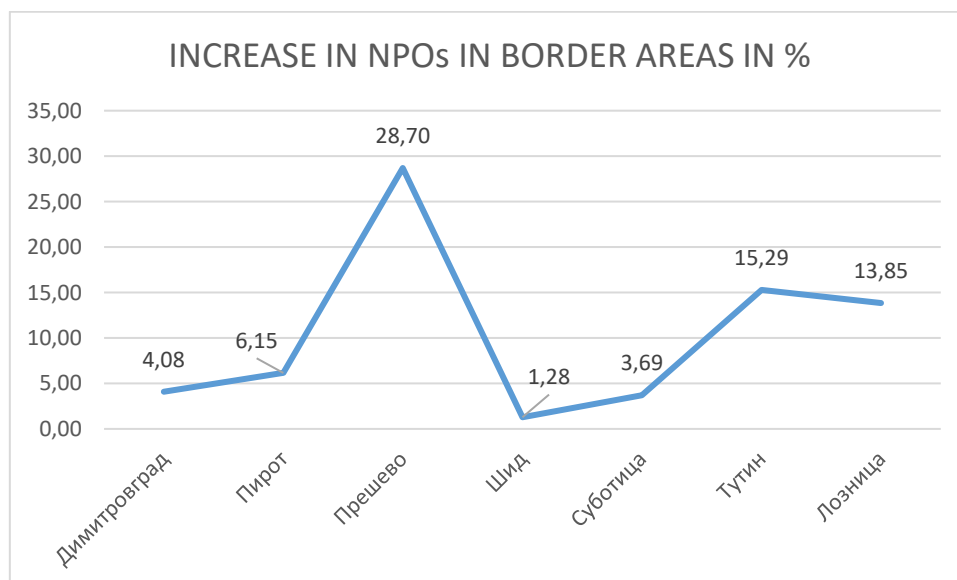


Figure 2 Increase of NPOs in border areas

2.5. Objectives, establishment and registration of associations, foundations and endowments in Serbia

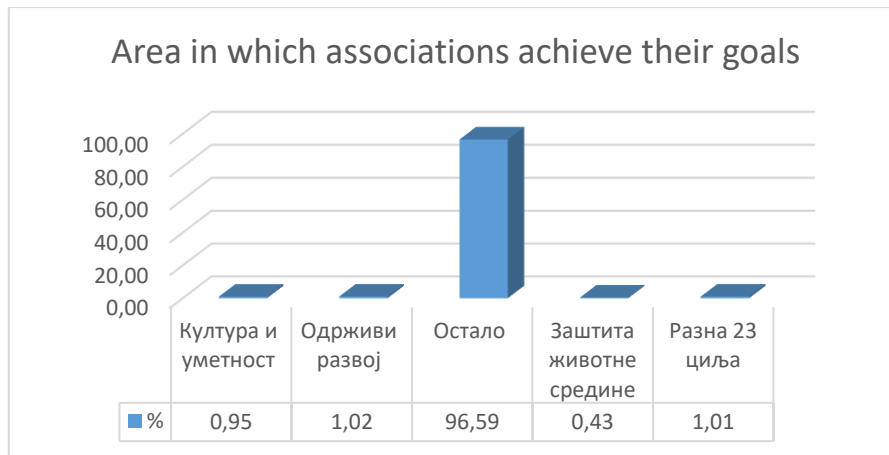


Figure 3. Area in which domestic associations achieve their goals

Culture and art: 0.95, Sustainable development: 1.02, Other: 96.59, Environmental protection: 0.43, Various 23 goals: 1.01



Figure 4. Area in which foreign associations achieve their goals

Other: 89.41, Charitable work and programs: 7.06, Environmental protection: 1.18, Human rights protection: 1.18, Education, science and research 1.18

The variety of goals that each association can freely list at the time of its establishment, in the appropriate option, in exercise of the freedom given to it by the Law on Associations, was one of the criteria for determining the TF risk in order to research as accurately as possible the facts concerning the spending of funds by associations in accordance with their statutory objectives. International typologies have shown that NPO organizations, in achieving their goals, misuse the proclaimed goals in order to spend the collected funds for some other purposes, some of which may be used for TF.

Most of the associations (35,621, 89.41%), when registering, choose the option "other" offered in the SBRA application form, copy-pasting all that is written in the statute, and this is a wide range of goals. Associations may also provide descriptions of their goal areas or a combination of several areas, in addition to choosing the already offered ones.

Therefore, the wide range of goals that are entered in the "other" option when registering with the SBRA gives the opportunity to somehow justify the spending of the collected funds by subsuming them under one of the above-mentioned general objectives,

which may significantly, partially or completely deviate from the purpose of the NPO, i.e. association in the specific case.

Therefore, to eliminate this type of risk it is recommended to introduce an obligation for associations to determine the dominant area where they achieve their goals and perhaps one more additional area, in the course of their establishment, which would facilitate the identification of the activities of associations in the context of their potential TF misuse.

With regard to the foundations and endowments' goals, the founders can choose from 19 goals for protection or promotion, and they can also opt for general goals (e.g., "Other goals," "Promotion, protection, and improvement of science and education," "Promotion, protection and improvement of humanitarian activities" etc.) that are not exhaustively listed in the registration application form, where multiple choices are possible.

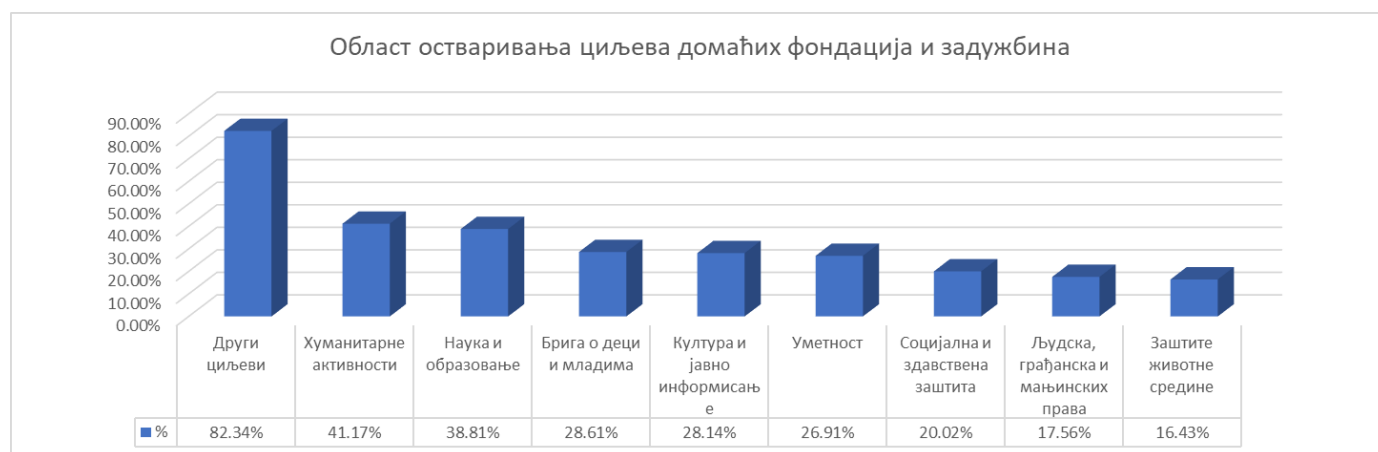


Figure 5. The area where domestic foundations and endowments achieve their objectives

Other goals, Charitable activities, Science and education, Child and youth care, Culture and public information, Art, Social and health-care protection, Human and minority rights, Environmental protection



Figure 6. The area where foreign foundations and endowments achieve their goals

Other goals, Science and education, Charitable activities, Democratic values, Culture and public information, Child and youth care

The data shows that the vast majority (82.34%) of foundations and endowments opted for the "other goals" option, which usually includes a combination of several existing goals offered or a specific area.

When it comes to the goals of **representative offices of foreign endowments and foundations**, the founders also choose from among the goals offered, but they can also opt for "other goals" that are not specifically stated in the registration application form. The data shows that 77.78% of representative offices of foreign endowments and foundations opted for the "other goals" option, followed by promotion, protection and improvement of science and education (25.93%), charitable activities (18.52%), democratic values (14.81%), culture and public information (11.11%) and care for children and youth (11,11%).

In the course of supervision of the NPO, the consistence of the declared goals with their actual activity was checked. In cases where non-compliance was established, administrative sanctions were imposed, which is described in more detail in the section related to supervision.

2.6. Risk assessment of NPO by the obliged entities under the AML/CFT Law and risk categorization

Banks classified 8% of their NPO clients in the low risk category, 72% of them in the medium risk category and 20% in the high risk category. Clients are classified in the high risk category based on one or more factors: establishment of cooperation without personal presence (non-face-to-face), clients are an offshore entity or are owned by an offshore entity, the client comes from a country with deficiencies in their AML/CFT systems, due to the type of products and/or services, forms and methods of execution transaction, business profile of the client, i.e. other circumstances related to the client when, based on the assessment, it was determined that there is or could be a high degree of ML/TF risk. Banks monitor the execution of transactions by NPO clients as well as whether the transactions are consistent with the goals of the NPO and generally did not notice that funds were spent by NPOs contrary to their statutory goals. In addition, if an NPO transaction matches a particular indicator or the transaction is carried out under a certain payment code, additional analysis may be performed and a report made to the APML (only two reports were recorded at the banks).

The average amount of transactions carried out by clients from the NPO sector, at the level of the banking sector, is about 66,000 dinars (about 600 EUR).

An analysis for **the non-financial segment of the system** was also made, and it also found that the number of their clients in the form of associations which were pursuant to their internal acts assessed as high risk, small.

SARs indicating TF risks, especially the geographic risk, are priority cases which are efficiently verified in all databases available to the APML, and then subject to further exchange of information with competent institutions in order to identify in a timely manner any potential TF- or terrorism-related activity and act accordingly.

In the reporting period, associations were not subject to TF related SARs from **the financial or non-financial institutions**.

Summary:

As of December 31, 2023, Serbia had 37,969 registered non-profit organizations, including 36,883 associations and 1,086 foundations and endowments. Financial analysis of the NPO sector from 2021 to 2023 showed no significant changes in the inflow of funds, including those from high-risk countries, which indicates a stable financial environment. The income of the NPO sector primarily comes from donations, grants and subsidies, with a stable share in gross national income (GNI) and gross domestic product (GDP). The number of employees in the sector is still small and amounts to 0.4% of the total number of employees in Serbia, and the share of income,

donations and GDP is twice the number of employees, which implies that the NPO sector is mostly financed by project financing. Risk categorization reveals that micro-entities dominate the sector, while NPOs in border areas and regions linked to the migrant crisis are increasingly present. Associations are often registered under broad or undefined objectives, increasing the risk of concealing their real activity. The banking sector classifies 20% of NPOs in the high risk category, which indicates that banks pay special attention when doing business with NPOs.

Factors that indicate a higher likelihood of TF:

Broadly defined objectives: Associations are often registered under broad or undefined objectives, increasing the risk of concealing their real activity

Non-profit organizations in high-risk regions: NPOs in border areas where migrant centers are located are more likely to be exploited for TF purposes.

Micro-legal entities: Smaller NPOs with limited oversight and financial reporting are at greater risk of abuse because they often lack comprehensive and systematic internal controls.

Factors that indicate a lower likelihood of TF:

Increased attention of banks towards the NPO sector: The banking sector classifies 20% of NPOs in the high-risk category, which indicates that banks pay special attention when doing business with NPOs

Proactive Monitoring of High-Risk Areas: Continuous monitoring and mitigation measures by Serbian authorities in border regions with migrants help reduce the risk of misuse of NPOs.

3. THREATS

3.1. Contextual threat analysis

Serbia is exposed to various terrorist financing threats due to its geopolitical position, regional dynamics and internal challenges, especially in relation to radicalized individuals and external extremist influences, rather than organized networks, as detailed in the TF NRA.

Table 5. Matrix of terrorist threats:

Threat	Likelihood of terrorist financing				
	Very large	Large	Medium	Small	Very small
Manifested terrorist activities (self-radicalized individuals and misuse of social networks)		3.67			
Ethnically motivated terrorism			2.75		
Religious extremism			2.75		
Migratory movements			2.5		
Ideological extremism					1
The impact of foreign armed conflicts on Serbia				1.5	
FTFs				1.67	
Exposure to threats from neighboring countries			2.25		

Below is a description of the type of TF threat, as identified in the TF NRA, which should serve as a context for assessing threats in the NPO sector. For each threat area, the potential NPO TF abuse activity is predicted by taking into account the three ways of possible NPO abuse for TF, which are contained in FATF Recommendation 8:

- NGO founded for financing terrorism
- NPO unknowingly misused for TF
- NPO funds diverted to TF

Each of these scenarios was put into the Serbian context and subsequently evaluated based on probability, taking into account the expert assessments of the Serbian authorities.

3.2. Ethno-separatist extremism

Ethno-separatist extremism remains a significant threat in Serbia, primarily driven by the separatist claims of Albanians in AP KiM and other parts of south-central Serbia that are predominantly inhabited by Albanians. These ethno-separatist activities are mainly manifested through periodic initiatives of Albanian political parties towards the international factor (governmental and non-governmental sector), in which the alleged vulnerability of the Albanian population is emphasized. Ethnic separatist movements can use the NPO sector to raise funds, both locally and internationally, to advance their goals.

Potential TF scenarios involving NPOs:

	FATF scenario	Contextual scenario	Potential probability
1.	<i>NGO founded for financing terrorism</i>	Likelihood that the NPO was founded under the pretext of supporting the "rights and freedoms" of the local population, but in reality, it serves as a front to raise funds to support separatist extremist activities or violent movements.	2
2.	<i>NPO unknowingly misused for TF</i>	A legitimate NPO focused on promoting initiatives in regions where minority ethnic communities are concentrated, unknowingly in partnership with individuals or groups associated with extremist movements. NGO resources or fundraising activities are manipulated to finance separatist goals.	2
3.	<i>NPO funds diverted to TF</i>	The NPO management or staff misuse the funds collected for development of local communities, through the infrastructure of the non-governmental organization, and redirects them to support separatist extremists. This could include financing travel for key leaders, buying supplies for demonstrations or violent activities, or sending funds to international networks that support separatist agendas.	3

Score: 2.67 - Medium TF probability

3.3. Religious extremism

Radical Islamist movements have been identified, although they generally involve smaller groups or individuals rather than organized networks. These actors operate outside official religious institutions, often establishing connections abroad, which increases the risk of diversion of funds from legitimate sources to support terrorist activities. Vulnerable communities, including converts and economically disadvantaged individuals, are often targeted by extremist recruiters, sometimes under the guise of humanitarian or religious support, creating a risk of terrorist financing.

	FATF scenario	Contextual scenario	Potential probability
1.	<i>NGO founded for financing terrorism</i>	An NPO founded under the pretext of promoting religious education or providing humanitarian aid to informal religious communities, but in reality collects funds to support extremist Islamist networks. These funds may be directed abroad to finance terrorist activities or used domestically to support radicalization efforts targeting converts or economically vulnerable individuals.	3
2.	<i>NPO unknowingly misused for TF</i>	An NPO that carries out educational or humanitarian activities cooperates with partners while not knowing they have ties to radical Islamist groups. The NGO's fundraising activities, intended for community development, have been misused to channel support to extremist causes, including sending funds to terrorist networks.	3

3.	<i>NPO funds diverted to TF</i>	An NPO that raises money for charity or religious projects for citizens of the Islamic faith finds that its funds have been diverted by several key staff members or management. These funds are then used to finance the travel of radical preachers, purchase materials to support radicalization efforts, or send money to extremist networks in the region that fund jihadist activities.	3
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Score: 3.00 - Medium to High TF probability

3.4 Movement of migrants and smuggling networks

The ongoing migrant crisis and the illegal smuggling of migrants through Serbia pose additional risks. Migratory movements can be linked to international terrorist structures, while criminal groups involved in people smuggling can potentially facilitate the financing of terrorism. Although no direct evidence has been found linking these movements to terrorist financing, smuggling networks active in Serbia and its border regions, especially involving individuals from conflict zones, remain a cause for concern.

	FATF scenario	Contextual scenario	Potential probability
1.	<i>NGO founded for financing terrorism</i>	An NPO is founded under the pretext of providing humanitarian aid to migrants or refugees in Serbia. However, the organization is actually a front for raising funds to finance terrorist networks operating within smuggling routes. The NPO collects donations from international donors, claiming to provide accommodation and food, while diverting a significant portion of the funds to finance illegal activities, including terrorism.	2
2.	<i>NPO unknowingly misused for TF</i>	A legitimate NPO that provides migrant assistance services through partners it is unaware of that are involved in smuggling networks. The financial channels of non-governmental organizations are used by these partners to finance the logistics of smuggling operations. Some of these operations may indirectly support terrorist groups, and the profits from smuggling are used to finance terrorist networks.	3
3.	<i>NPO funds diverted to TF</i>	An NPO raising funds to help migrants has its management or key staff members involved in smuggling networks. These individuals abuse the resources of NPOs, diverting funds collected for migrants to pay smugglers, who then channel a portion of the proceeds to terrorist groups. For example, the funds could be used to facilitate the illegal transit of operatives linked to terrorist organizations across Serbian borders or to support extremist cells within migrant communities.	3

Score: 2.67 - Medium TF probability

3.5. Regional instability and international conflicts

Conflicts in Ukraine and the Middle East also had a noticeable impact on Serbia's security environment. The Israeli-Palestinian conflict and the ongoing conflict in Ukraine fueled radicalization in Serbia. Although the participation of Serbian citizens in these conflicts is limited, the presence of supporters of terrorist ideologies (e.g. "Islamic State", "Al Qaeda" and others) together with the possibility of external financing from international networks, increases the risk of financing terrorism.

	FATF scenario	Contextual scenario	Potential probability
1.	<i>NGO founded for financing terrorism</i>	An NPO was founded in Serbia, claiming to provide humanitarian aid to victims of the Israeli-Palestinian conflict or the war in Ukraine. However, the organization is actually a front for collecting funds that are directed to groups operating in these conflict zones. These funds could be used to support militant activities, purchase weapons or facilitate the recruitment of foreign fighters.	2
2.	<i>NPO unknowingly misused for TF</i>	The NPO based in Serbia focuses on raising funds for humanitarian aid in war-torn areas, through partners it is unaware have ties to groups in armed conflict. These partners use NGO financial channels to support terrorist activities in conflict zones, either through direct financial transfers or by providing logistical support to foreign fighters.	2
3.	<i>NPO funds diverted to TF</i>	An NPO operating in Serbia raises funds for humanitarian projects related to conflicts in the Middle East or Ukraine. However, some members of the NGO's leadership and staff have sympathies for extremist causes and divert some of the funds to support terrorist groups abroad. These diverted funds can be used to facilitate the travel of Serbian nationals joining foreign conflicts, purchase supplies for militant groups, or send them to international networks that support terrorism.	2

Score: 2.00 - Low to Medium Likelihood of FT

3.6. Foreign terrorist fighters

A small but significant number of Serbian citizens have traveled to conflict zones in Syria and Iraq to join terrorist organizations, and some have returned. These foreign fighters, especially those with combat training, remain a security concern. Returnees could use Serbia's non-profit sector to raise funds or provide logistical support to terrorism.

	FATF scenario	Contextual scenario	Potential probability
1.	<i>NGO founded for financing terrorism</i>	A returnee from Syria or Iraq or another interested person establishes an NPO under the guise of providing rehabilitation services to ex-combatants or humanitarian aid to war-torn regions. In reality, the NPO is a cover for collecting funds to support ongoing terrorist activities, recruit new fighters or finance future terrorist actions in Serbia or abroad. An NPO may solicit donations from supporters, claiming to support a charitable cause, but the funds are diverted to terrorist organizations linked to foreign conflicts.	0
2.	<i>NPO unknowingly misused for TF</i>	An NPO operating in Serbia, focused on reintegration or humanitarian efforts, unknowingly associates with individuals who are returnees from conflict zones. These individuals use NPOs to channel resources used for terrorist purposes to support foreign terrorist fighters.	2
3.	<i>NPO funds diverted to TF</i>	The work of an NPO that raises funds for social services, rehabilitation or humanitarian purposes is infiltrated by supporters of foreign terrorist organizations. These individuals from certain decision-making positions divert NPO funds to finance terrorist operations, such as facilitating the travel of new recruits to conflict zones, purchasing weapons or equipment, or sending funds to terrorist cells abroad.	2

Rating: 1.33 - Low TF probability

3.7. Potential hazard indicators and NPO risk ranking

In the period 2021-2023, competent Serbian authorities followed up on indications of terrorist financing, and in this context, 16 cases indicating potential abuse of the NPO sector were considered:

- checks were initiated for certain natural persons (real or informal founders of NPOs, or they have certain roles in the management structures of NPOs) due to suspicion of their connection with terrorist organizations.
- potential connections of foreign NPOs which, according to data obtained through international cooperation, are linked to TF, with natural and legal persons in Serbia were checked.

The checks, which included cooperation with the APMML, did not confirm the TF suspicion, or possible misuse for TF. Also, they did not confirm the existence of connections with entities (individuals and NPOs) in our country.

Intelligence analysis, SARs, and pre-investigation procedures did not reveal that the NPOs were conducting activities that could be related to the abuse for terrorist financing.

As not all NPOs are risky, from the perspective of TF abuse, or risky at the same level of risk, for a comprehensive and qualitative overview and assessment of NPO susceptibility to TF abuse in Serbia, the applied methodological approach to ranking did not change compared to the previous NRA.

The analysis took into account indicators based on World Bank NPO TF Risk Assessment methodology and the document Procedures and criteria for the exercise of unified supervision over NPOs, as well as the TF typologies document identified by Serbian authorities as specific for Serbia.

More specifically, for the development of the NPO risk assessment, **the following parts of the World Bank NPO TF Risk Assessment methodology** were taken into account:

- the total value of the income of the NPO sector,
- the total value and types of income and total expenditures of the NPO sector,
- the total value of the inflow and outflow of funds from countries with an active terrorist threat to Serbia based on aid and gifts,
- analysis of goals and types of NPOs,
- convictions, indictments and investigations for crimes related to terrorism, including terrorist financing,
- intelligence on terrorist financing or terrorism,
- data held by FIU,
- publicly available data,
- typologies of terrorist financing including the sources, directions of movement and used channels for the transfer of funds, as well as the connection of NPOs with terrorist entities, misuse of NPO programs for financing and recruitment,
- assessment of closeness of NPOs with terrorist entities and collection and transfer of funds for terrorist entities and spending of funds on their behalf,
- assessment of inherent sensitivity by NPO profile categories (size, type of activity of complex ownership and management structures, financing structure - sources, method of collection and method of transfer: use of cash, digital assets and alternative transfer systems, organizational culture, etc.);
- state measures to reduce vulnerability: cooperation with the NPO sector to spread awareness of risks, the quality of NPO sector policies, regulations regarding NPO registration, transparency of data on NPOs, impact on the work of the NPO sector,
- measures of the NPO sector to reduce vulnerability: quality of management, quality of financial management, quality of project management, quality of employee supervision checks, transparency and self-regulation.

Also, in order to comprehensively analyze the exposure of NPOs to TF in Serbia, the following factors set out in the document **Procedures and criteria for the exercise of unified supervision over non-profit organizations were taken into account. These factors generally indicate suspicious activities, which may be related to TF or other illegal activities, which requires monitoring of NPOs that meet one or more of the above criteria:**

1. The NPO carries out its activity in the border area and districts where reception centers or asylum centers are located in Serbia;

2. The NPO did not submit the prescribed documentation to the Register of Financial Statements of the Serbian Business Registers Agency (Financial Statement and/or Declaration of Inactivity) for the previous year;
3. An NPO that owns movable and immovable property and submits a Statement of Inactivity or a financial report in which no activity is reported in the next three years.
4. The change in the basic assets of the endowment was not recorded by changes in the statute and the Serbian Business Registers Agency.
5. The NPO did not register the beneficial owner in the Central Records of Beneficial Owners of the Serbian Business Registers Agency, nor did it change the beneficial owner data in a timely manner;
6. The NPO registers more than three changes of headquarters in the previous three years with the Serbian Business Registers Agency;
7. The NPO registers more than three changes of representatives in the previous three years at the Serbian Business Registers Agency;
8. An NPO has general and diverse goals established by statute;
9. Two or more NPOs have the same representative;
10. Two or more NPOs have registered headquarters at the same addresses, as well as the same contact information (phone number, email address);
11. The representative of an NPO is at the same time the representative and/or founder of other entities engaged in economic and other activities.
12. The NPO recorded the performance of the economic activity provided for by the statute, but did not register it within three years.
13. An NPO has registered its economic activity, but submits a Statement of Inactivity or a financial report in which no activity is reported in the next three years.
14. An NPO often changes its recorded and/or registered economic activity,
15. The NPO often changes data such as: contact phone number, email address, current account, etc.;
16. The representative and registered beneficial owner of an NPO is a natural person, a foreign citizen who originates from territories with an active terrorist threat or territories bordering on them;
17. A member of an NPO is a natural person, a foreign citizen who originates from territories with an active terrorist threat or territories bordering on them;
18. An NPO, whose seat is in the territory with an active terrorist threat or territories bordering on the same, and which has a representative office in Serbia;
19. The NPO generates inflows only from abroad in the previous three years;
20. The NPO achieves more inflows from only one legal and/or Natural person in the previous three years;
21. The NPO has a recorded withdrawal of cash from the account in the amount of more than 50% of the total income in the observed period;
22. The available data indicate activities that are not in accordance with the statute of the NPO or are not common;
23. NPOs for which available data indicate connection with persons and organizations linked to terrorist activities;
24. NPOs were found in the previous unified supervisory inspection to engage in activity that may be related to TF.

Based on the developed **TF typologies**, Serbian authorities have singled out characteristic indicators involving potential abuse of the NPO sector for TF:

- responsible persons in the NPO carry out activities that are not consistent with the statutory goals (e.g. creation and distribution of materials and organizing lectures justifying terrorism or the activity of a terrorist organization);
- responsible persons in the NPO spend funds in a way that is not consistent with the statutory goals (purchase of various funds: vehicles, military equipment, props for martial arts training, providing financial assistance to the families of convicted and dead terrorists);
- an NPO facility that is not registered for the provision of accommodation and food services is equipped and used for a short stay of several persons (beds, kitchen, etc.);
- persons believed to support terrorist activities frequently visit NPO premises;
- The NPO was used for recruitment or ideological connection with zones where terrorist activities take place;
- an association from Serbia cooperates with NPOs suspected of supporting terrorist activities;

All the mentioned criteria are divided into two groups, general and specific, as follows:

- General indicators are relevant when considering various aspects (financial, social, legislative and other)
- Specific indicators from the aspect of misuse of terrorist financing (connection of persons and organizations with persons and organizations located in countries with an active terrorist threat, exchange of financial resources and other goods and services with persons and/or groups that can be linked to terrorism and others).

Summary:

Serbia is exposed to various contextual TF threats due to its geopolitical position, internal challenges and external extremist influences. Ethno-separatist extremism, radical Islamist movements, migrant smuggling networks, regional instability and foreign terrorist fighters present potential risks for abuse of the NPO sector. These threats can manifest in NPOs being deliberately created to finance terrorism, being unwittingly exploited by extremists, or having their funds diverted to support terrorist activities, although no recent examples have been identified (the last one from 2014, with final court judgment in 2019, which was described in the previous NRA).

Between 2021 and 2023, 16 NPOs were checked for indications of potential abuse, but no link to FT was found.

The risk assessment framework in Serbia considers various risk factors, including geographic location, financial irregularities and structural issues of NPOs. While not all nonprofits are equally susceptible to FT abuse, certain red flag indicators, such as frequent changes in registration or location, indicate an increased risk for some organizations.

Factors that indicate a higher likelihood of TF:

Exploitation of geopolitical and social vulnerabilities by extremist networks, including ethno-separatist movements, radical Islamist groups, migrant smuggling networks and regional conflicts, create opportunities for NPOs to be misused as channels to raise or divert funds to support terrorist activities.

Regional connection of the mentioned geopolitical and social vulnerabilities

Factors that indicate a lower likelihood of FT:

Effective checks: checks of suspicious activities of NPOs, by competent government authorities, are carried out quickly and thoroughly, reducing the likelihood of TF.

Active international cooperation: Exchange of intelligence with global partners and verification of suspicious activities through international networks reduces the possibility of misuse of NPOs.

Focused monitoring of high-risk non-profit organizations: Competent authorities have identified specific red flags and developed typologies and a methodological approach to monitor high-risk NPOs more closely, helping to prevent abuse.

4. VULNERABILITY

4.1. Transparency

The Republic of Serbia has a clear policy that strengthens responsibility, integrity and public trust in the management of NPOs. Serbian authorities have full access to information in the administration and management of the NPO sector.

The table below shows the registration of beneficial owners for obliged entities in Serbia from 2021 to 2023. The total number of obliged entities remained relatively stable during this period, but the percentage of registered beneficial owners increased, from 77.65% in 2021 to 82.85% in 2023. The vast majority of registered beneficial owners are domestic individuals, with a slight increase in foreign and mixed ownership over the years. This trend indicates improved compliance with beneficial ownership registration requirements, increasing transparency and reducing the risk of misuse to finance terrorism or other illegal activities. The consistently low number of foreign and mixed ownership indicates that most entities have domestic control, which can reduce the complexity of monitoring illegal activities.

Table 6. Registration of the beneficial owner

Year	Form of organization or legal form					
	Obliged entities	In total	%	Registered beneficial owners by type of natural person		
				Domestic	Foreign	Mixed
2021	36,630	28,446	77.65	28,305	125	16
2022	37,432	29,601	79.08	29,448	135	18
2023	37,432	31,014	82.85	30,850	148	16

Given that the NPO, after registration, cannot be in any other form than a legal entity, all transactions performed by the NPO must be through a payment account, i.e. through regulated financial channels.

Implementation of applicable legislation and raising awareness through educational and advisory programs in the private sector continuously encourage the NPO sector to conduct transactions through regular financial channels whenever possible. In this regard, cash transactions are carried out in exceptional cases, which has a great impact on reducing the threat and increasing the transparency of the financial operations of the NPO sector. Also, umbrella NPOs encourage other organizations to apply regulations and good practices that encourage financial transparency. Good accounting practices of licensed accountants for NPOs can also have a positive impact on financial transparency.

In addition to legal provisions, the increase in the transparency of the NPO sector would be contributed, among other things, by the publication of the list of donors, which was identified during the implementation of the unified supervision of the NPO sector, but also through the analysis of the NPOs replies to the Questionnaire for assessing the vulnerability of the NPO sector to terrorist financing.

Summary:

Serbia has established policies to increase transparency and accountability in the management of the NPO sector. Beneficial owner registration has steadily improved, increasing from 77.65% in 2021 to 82.85% in 2023. The majority of registered BOs are domestic persons, with a small increase in foreign and mixed ownership. This trend indicates better compliance with

transparency regulations, reducing the likelihood of misuse for terrorist financing. Serbian authorities promote the use of regulated financial channels, whereby cash transactions are used only in exceptional cases. Ongoing efforts, such as educational programs and good accounting practices, further support financial transparency in the nonprofit sector.

Factors that indicate a lower likelihood of TF:

Increased registration compliance: A growing percentage of registered beneficial owners improves nonprofit tracking, reducing the potential for abuse.

Use of regulated financial channels: Requiring NPOs to transact through payment accounts instead of cash reduces non-transparency in financial transactions.

Umbrella organizations and good practices: NPOs that promote best practices and certified public accountants further strengthen transparency.

4.2. Obligations of NPOs concerning the reporting on financial operations

The Serbian Business Registers Agency is authorized to manage the Register of Financial Statements, collect, record, process, archive and publicly publish financial statements and documentation on www.apr.gov.rs. This processing of financial statements includes checking the calculation and logical consistency of the data in the financial report forms (calculation accuracy), then checking whether those reports have been submitted on all the prescribed financial statements forms and whether all the prescribed documentation has been submitted with those reports, as well as checking whether the request for processing the financial statements was filed by the legal representative.

On the basis of the above law, and immediately after the processing of financial statements, the SBRA directly transfers the data from the statements to the National Bank of Serbia, Tax Administration and the National Statistical Office. The SBRA transfers the data from the statements to all other authorities, upon request.

The number of reports filed due to economic offenses related to non-submission of financial statements by associations, endowments and foundations to the SBRA, based on the Law on Accounting for the period from 1.1.2021 - 31.12.2023 is 9,343. The Registry of Financial Statements has no feedback on the outcomes of all submitted applications.

Economic offence reports against other legal entities - NPOs, due to failure to submit the financial statements:

- for 2019 – 3,068 reports;
- for 2020 – 3,153 reports;
- for 2021 – 3,122 reports.
- for 2022 - the report submission process will begin in the last quarter of 2024, when the improved application for submitting reports will be launched.

In the event that the NPO fails to submit financial statements to the Serbian Business Registers Agency, the SBRA *ex officio* submits economic offense report to the competent Basic Public Prosecutor's Office. Sanctions are imposed by the court in the proceedings for economic offence. The amount of the fine is set out by the Law on Accounting and amounts from 100,000 to 3,000,000 dinars for a legal entity, or from 20,000 to 150,000 dinars for a responsible person in a legal entity.

Also, associations, endowments and foundations are obliged, based on the 2001 Law on Corporate Profit Tax, 2001 Law on Personal Income Tax and the 2005 Law on Value Added Tax, to submit reports to the Tax Administration.

The obligation to submit financial statements by associations, endowments and foundations to the Serbian Business Registers Agency, i.e. to submit a declaration of inactivity

for those associations, endowments and foundations that have had no business events nor have data on assets and liabilities in their business books, is laid down by the law governing accounting. This law regulates the obligation of associations, endowments and foundations to keep business books, prepare financial statements and be subject to audit of financial statements, in accordance with the regulations on accounting and auditing, which is published in the Register of Financial Reports of the SBRA.

In the event that the NPO fails to submit a financial statement to the Serbian Business Registers Agency, the SBRA *ex officio* files economic offense report to the competent Basic Public Prosecutor's Office. Sanctions are imposed by the court in the proceedings for economic offence. The amount of the fine is laid down by the Law on Accounting and amounts from 100,000 to 3,000,000 dinars for a legal entity, or from 20,000 to 150,000 dinars for a responsible person in a legal entity.

Also, associations, endowments and foundations are obliged, based on the 2001 Law on Corporate Profit Tax, 2001 Law on Personal Income Tax and the 2005 Law on Value Added Tax passed, to file reports to the Tax Administration.

<p>Summary: The Serbian Business Registers Agency is responsible for collecting, processing and publishing financial statements of NPOs, including associations, endowments and foundations. NPOs are required to file financial statements annually, and failure to do so leads to charges of economic misconduct. From 2021 to 2023, 9,343 economic offense reports were filed due to failure to submit financial statements. The legal framework requires NPOs to keep books of accounts, prepare financial statements and file tax returns. Sanctions for non-compliance range from 100,000 to 3,000,000 dinars for organizations and 20,000 to 150,000 dinars for responsible persons.</p>
<p>Factors that indicate a higher likelihood of TF:</p>
<p>Failure to file financial statements: Despite the fines, a significant number of NPOs continue to fail to file financial statements, potentially concealing illegal activities or financial irregularities related to TF.</p>
<p>Factors that indicate a lower likelihood of TF:</p>
<p>Mandatory financial reporting: NPOs are legally required to submit detailed financial statements, which increases transparency and makes it easier to track potential misuse of funds.</p>
<p>Penalties for non-compliance: Strong sanctions for failure to submit financial statements act as a deterrent, ensuring better compliance and reducing the likelihood of uncontrolled financial activities.</p>
<p>Data exchange between competent authorities: The exchange of financial data between the Serbian Business Registers Agency, National Bank, Tax Administration and other state authorities enables comprehensive monitoring, reducing the chances of TF abuse.</p>
<p>Audit requirements: Associations, endowments and foundations are subject to financial audits, which further strengthens oversight and mitigates the risk of abuse.</p>

4.3. Financing of the NPO sector from the budget of Serbia

Financing of NPOs from the budget of the Republic of Serbia is decentralized and is carried out at all three levels of government - national, provincial and local, where the authorities themselves plan allocation of funds to NPOs, the objectives of this type of support, requirements, the method of financing, the duration of supported projects, etc. The legal basis for funding NPOs from budget funds is laid down in Article 38 of the Law on Associations,

which sets the basis for funding and co-financing of programs and projects of associations that implement activities of public interest from budget funds. This article stipulates that "the Government regulates more detailed criteria, conditions, scope, method, procedure of allocation, as well as the method and procedure of returning funds in case of improper use".

The Regulation on funds for encouraging programs or the missing part of funds for financing programs of public interest implemented by associations ("Official Gazette of the RS", number 16/2018) specifies in more detail the criteria, conditions, scope, method and procedure for allocating funds to the NPO sector, when comes to funds from the RS budget.

The importance of this Regulation is reflected in the establishment of a process of transparent financing from the RS budget, both for associations, and foundations and endowments, because it obliges authorities to allocate funds through public tenders with clearly defined procedures for publishing and conducting public tenders, pre-defined clear criteria for the allocation of funds, whereby the obligation is imposed to regularly monitor the implementation of approved projects and the way of using the approved funds, and simultaneous obligation of the NPO to regularly submit reports on the implementation of the approved projects.

Also, this Regulation defines the obligation of all public administration bodies to submit an annual plan for announcing public tenders, defines the concept of conflict of interest and situations in which there may be a conflict of interest, both for Commission members and for users of funds, as well as measures for its elimination. Before concluding the contract, the user of the funds is obliged to submit to the competent authority a statement that the funds for the implementation of the approved project have not been secured in another way, as well as a statement on the absence of conflicts of interest and an internal act on anti-corruption policy.

Summary:

Some NPOs receive funds from the Serbian budget, which sets additional requirements for transparency. Such funding is decentralized at the national, provincial and local levels. Funds are awarded through public tenders, with strict criteria, monitoring and reporting requirements to prevent abuse. NPOs must submit reports on project implementation and confirm the absence of conflicts of interest and other funding sources.

Factors that indicate a lower likelihood of TF:

Transparency in the allocation of state funds: The public tender process, with clear criteria and reporting obligations, ensures transparent distribution and reduces the risk of abuse.

Strict monitoring of the allocation of government funds: Regular monitoring of the implementation of projects and the use of funds helps prevent embezzlement.

Conflict of Interest Safeguards for Government Allocations: Mandatory conflict of interest declarations and anti-corruption policies increase accountability.

4.4. Awareness raising with the NPO sector to mitigate the risk of NPO abuse for TF

In the reporting period, significant cooperation was achieved with NPOs to mitigate the risk of NPO misuse for TF. We also achieved cooperation with numerous donors who supported activities in this area, better understanding of risks and improvement of cooperation between the two sectors.

A large number of meetings were organized in cooperation with NPOs and authorities, but also NPOs themselves conducted awareness raising and shared information in communication with their donors about ongoing efforts to prevent abuse of NPOs and donations for TF purposes.

Cooperation was established through the "Prevention of Money Laundering and Financing of Terrorism" Project implemented by the Council of Europe, which organized several trainings for NPO representatives in 2021 and 2022 to improve understanding of the risk of misuse of NPOs for TF.

The Directorate for Combating Economic Crime and Cooperation of the Council of Europe (ECCD) facilitated on June 21-23, 2022 an online regional conference under the title "Managing TF risks through the NPO sector in the Western Balkans and Turkey", which was attended by representatives of all the countries of the Western Balkans and Turkey, including Serbia, where, among other things, the Serbia's National Assessment of Risk of Misuse of NPOs for TF Purposes was presented to all participants.

Cooperation was established with the Partners Serbia, resulting in comprehensive and thorough training for tax inspectors, inspectors of the Ministry of Culture and administrative inspectors and representatives of the NPO sector. The training was supported by the Serbian Anti-Money Laundering Project, which was financed by the American Bar Association, Rule of Law Initiative. The training was held with the expert support of the K2 Integrity. The training was organized in Belgrade at the Kristal Hotel on 10-14 October 2022. The main goal was to build the capacity of the civil society and the private sector to implement the legislative AML/CFT framework. The training was attended by over 30 representatives from the NPO sector and lawyers associated with various NPO organizations, where the representatives of the NPO sector were informed about the risks, threats and consequences related to their potential abuse for money laundering and terrorist financing.

A webinar on Prevention of corruption, money laundering and financing of terrorism was organized in Strasbourg on December 20 and 21, 2022, by the Council of Europe's Directorate for Combating Economic Crime and Cooperation (ECCD). The webinar gathered together institutional stakeholders, and representatives of the NPO sector. The workshop was useful, mainly because it covered the method of assessing NPO TF risks, which could be used for the further improving Serbian risk assessment methodology, and the understanding of this sector with regard to its potential TF abuse.

The COE Prevention of Money Laundering and Financing of Terrorism Project organized on November 30 - December 1, 2023, a two-day meeting on Managing the risks of misuse of the non-profit sector. The first day of the meeting was dedicated to the implementation of NPO risk self-assessment for TF and the known ML risks, typologies of NPO sector misuse, while the second day was about risk identification and measures to mitigate it.

The Ministry of Human and Minority Rights and Social Dialogue has established cooperation with the Civil Society Resilience Strengthening project, supported by USAID and Swiss Agency for Development and Cooperation (SDC), and in 2023 several important activities were held with NPOs. A series of dialogues (3) and workshops were held that brought together representatives of institutions, the banking sector, CSOs and international organizations. These meetings enabled open discussions on the practical challenges of implementing AML/CFT regulations and defined concrete recommendations for improving compliance, without adding additional burden on the NPO sector. In accordance with the recommendations from the meeting, the project established a platform for continuous dialogue with the APML, Association of Serbian Banks and the Ministry of Human and Minority Rights and Social Dialogue. Some of the issues addressed are the treatment of beneficial owners of CSOs in the Central Records of Beneficial Owners, opening foreign currency and dinar accounts and uneven practices by banks, risk assessment of civil society organizations as bank clients, etc. On November 27, 2023, a joint meeting was organized on the implementation of mechanisms to prevent money laundering and terrorist financing. The main topics of the meeting were a review of the new proposals for the definition of beneficial owners, potential

additional guidelines for the implementation of regulations on beneficial owners of NPOs, and the presentation of examples from The Netherlands by the leading bank ABN AMRO and the Dutch Bank Association. The meeting was attended by all relevant actors from civil and public sector, as well as Association of Serbian Banks. The meeting was also aimed at the practices that banks have when it comes to the rules on beneficial owners, as well as other problems that the NPO sector has in doing business with banks due to the implementation of AML standards.

In addition, as one of the priorities for mitigating the risk of exposure of NPOs to terrorist financing is the promotion of self-regulation within the sector itself, in cooperation with Partners Global, which implements the Civil Society Resilience Strengthening project, numerous activities are planned in this area, from meetings to changes to the Code of Ethics for NPOs in the context of FATF standards and Recommendations 8.

In addition, cooperation was established with the EU resource center for civil society in Serbia, which is run by the Belgrade Open School, and in cooperation with GIZ, the first in a series of planned trainings for the NPO sector was organized. This two-day training entitled "Non-profit organizations in the AML/CFT system in Serbia" gathered about 20 representatives of CSOs, who learned about the basic CFT-related international standards when it comes to the NPO sector, about the findings of the National Risk Assessment and key risks for TF abuse of the NPO sector. The training was very interactive with a lot of discussion and exchange of experience by representatives of both the civil and public sector, which additionally prioritized topics on which it is also necessary to organize meetings with the civil sector in the coming period.

As part of this EU resource center for civil society in Serbia, at the end of 2023, as many as three trainings were organized for representatives of NPOs on the topic of financial sustainability of the civil sector, where, among other things, methods of raising funds and permitted methods of financial operations were discussed. The Ministry actively participated in these events presenting the possibilities of financing CSOs within the budget funds of the RS, but also all the obligations to organizations when it comes to reporting on the basis of the funds received at public tenders and on the implemented project activities.

At all meetings held in discussion with representatives of the NPO sector, the previous Risk Assessment and new risks that were recognized in the previous period were discussed, as well as the practices and procedures that exist in the organizations themselves, and as a positive step forward in the preparation of the new Risk Assessment, a meeting was organized with representatives of the six most relevant organizations in August 2024 in order to collect comments and suggestions regarding the creation of a new document. After the finalization of the text, it is planned to organize a new working meeting and familiarize the NPO with the first draft of the Risk Assessment, in order to give additional suggestions and comments for the improvement of this document.

Summary:

Serbia has taken significant steps in raising awareness in the NPO sector in order to mitigate the risk of terrorist financing. Through cooperation with international and domestic partners, numerous trainings and workshops were organized in order to improve understanding of risks and compliance with AML/CFT regulations. Efforts have also been made to promote self-regulation in the sector and improve dialogue between NPOs, financial institutions and government authorities, ensuring that NPOs can operate transparently without additional burden.

Factors that indicate a lower likelihood of TF:

Capacity building: Regular trainings and workshops increase awareness of TF risks in the NPO sector.

Self-regulation: NPOs are encouraged to adopt self-regulatory measures, such as codes of ethics, to prevent abuse.

Mutual dialogue: Continuous dialogue between NPOs, financial institutions and authorities helps to solve operational challenges and ensures better alignment.
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4.5. The importance of self-regulatory mechanisms for mitigate the risk of NPO abuse

Self-regulatory initiatives, even if reducing the TF risk is not a goal in itself, increase transparency and governance of NPO activities and thus make NPOs less attractive for abuse by terrorists and other malicious actors. Also, by reducing the TF risk through measures implemented within the sector, and developed by NPOs themselves, self-regulation reduces or eliminates the need for the government to enact various measures that can affect the operation of NPOs.

NPOs can reduce the risk of abuse by implementing financial control and risk management procedures within the organization itself. Until now, there have been several initiatives in Serbia to establish self-regulation in the NPO sector.

In 2008, Gradjanske Inicijative organization initiated the drafting of the Code of Ethics for NPOs together with over 550 other NPOs. The Code was opened for signature in 2011, and organizations can still access it by filling out an application form. By signing the code, NPOs undertake to adhere to the key principles of respect for human rights, social change and non-profit character, activism and responsibility. Some of the key principles that NPOs undertake to adhere to by signing the Code are: respect for the law, ensuring the highest quality of management, having a clear policy to prevent conflicts of interest, transparency of work, principled fundraising, as well as their responsible, efficient and effective spending.

"Trag Foundation" and five other partner foundations in the Western Balkan region have jointly developed regional "Standards for Transparency in Fundraising" which are based on principles valid in 11 countries of the European Union, and supplemented by consultations with civil society organizations that contributed to adapt the document to the situation in the region. The intention of these standards is to establish the principles of good practice in the process of fundraising in the community, which increases the trust of citizens in the work of NPOs, and contributes to the overall legitimacy, transparency and responsibility of the sector. The final version of the standards was published in mid-2014 and was signed by over 130 non-governmental organizations from all countries of the Western Balkans.

Also, the Neprofitne.rs platform was created in Serbia, as an information service and self-regulatory tool developed and managed by the Katalist Balkans organization. By publishing their program, project and financial data on this platform, organizations receive a badge that confirms their transparency, thereby strengthening trust in the community and other sectors, making it easier to find reliable partners among civil society organizations. There are three levels of badges (white, gray and blue), corresponding to different levels of transparency. A total of 405 organizations joined this platform and its criteria for meeting transparency in work.

Given the organizational structure, level of transparency (through the available information on the activities, employees, internal policies and procedures that the NPO is obliged to pass), the method of controlling the raising of funds in Serbia and from abroad, based on available data obtained through cooperation and public inspection of NPO statutes and financial statements, the conclusion is, in terms of reducing the vulnerability for misuse of this sector for TF purposes, that the NPO sector has well-established practices that have a positive impact on reducing vulnerability to abuse.

This is supported by the fact that the NPO sector has clear procedures for two newly recognized risks - crowdfunding and the forwarding of donations to smaller organizations by intermediary organizations.

➤ **Response to risks in the field of Crowdfunding**

In Serbia, since 2018, "Katalist Balkans" has been running a donation platform for crowdfunding - Donacije.rs. Until August 2024, NPOs launched 233 crowdfunding campaigns on this platform and collected over 150 million dinars of support from citizens and companies. Catalyst has developed an eight-step process to ensure the legitimacy of campaigns and the use of funds.

1. **Verification of legal status:** Based on the data from the application form, it is confirmed that the organization is registered as a non-profit entity in Serbia through the portal of the Serbian Business Registers Agency (APR). It is also checked whether the account is blocked in the unified NBS account register
2. **Database Check:** The organization's fundraising history and previous experiences are reviewed using the Giving Balkans philanthropic database Catalyst and previous donors and campaigns are identified.
3. **Sanctions List Check:** A verification is made as to whether the organization or its key personnel are on any official sanctions list, including those of the APML (Serbia), United Nations, and OFAC (USA).
4. **Area Verification:** A verification is made as to whether the organization is registered for the area they wish to address. Campaigns and projects that promote discrimination, intolerance or hate speech against any person or group based on race, ethnicity, religion, gender, sexual orientation or any other characteristics are not allowed on the platform. In addition, commercial ventures seeking profit, political campaigns or fundraising for political parties, as well as projects involving illegal activities or inciting violence are strictly prohibited. Campaigns that exploit sensitive topics, mislead donors, or violate intellectual property rights are also not allowed. The platform is dedicated to supporting non-profit initiatives with the goal of the common good, ensuring that all campaigns are aligned with the mission of promoting positive social impact and community development.
5. **Capacity Assessment:** An organization's capacity to run a Catalyst-supported fundraising campaign is assessed, based on the submitted application form, with a focus on the size of their community and the quality of their relationship with their supporters.
6. **Filling out profiles:** Organizations are required to fill out their profiles on the Neprofitne.rs platform, owned by Catalyst, including financial and program performance data, which are updated with their annual financial and narrative reports.
7. **Post-campaign reporting:** Organizations are required to submit financial and narrative reports on the progress of project implementation and the use of funds after the end of the campaign. They deliver reports with photos, a short description and an Excel spreadsheet to Catalyst, as well as to all their supporters and donors.
8. **Monitoring rights:** By agreement between the Catalyst and the organization, the Catalyst has the right to request monitoring of the project and review accounts.

A case study

During the six years of operation of the Donacije.rs platform, Catalyst once refused to allow an NPO (foundation) to launch a crowdfunding campaign. Following the above described processes, it was established in October 2022 that the NPO that applied for the campaign was registered at the same address as the arms trading company, which is on the OFAC sanctions list. It was also established that the representatives of the foundation are members

of the closest family of the owner of the company, which is also under US and UK sanctions, and that there is a high risk of money laundering obtained from the illegal arms trade.

➤ **Response to risks posed by redistribution of donations to smaller organizations by intermediary organizations**

According to the research Donor Strategies in a Time of Paradigm Shift published by Katalist Balkans at the end of 2023, which was financed by the Open Society Fund, the Rockefeller Brothers Fund and the Balkan Network for the Development of Civil Society, the percentage of foreign and international donors using regranting has increased as a granting mechanism. According to research, as many as 73% of donors active in the Western Balkans have regranting planned in their granting strategy (awarding a larger grant to an organization, which then redistributes those funds to smaller organizations and informal groups).

Accordingly, the NPO sector in Serbia has developed its mechanisms of control and management of financial resources, especially when it comes to re-granting funds to smaller organizations, especially when it comes to informal organizations. The work of unregistered associations, i.e. informal groups, is completely legal in Serbia, but financing the projects of such associations is difficult and associated with administrative and tax obstacles and risks. An informal group consists of several citizens who have gathered to solve some problems in the community, such as the development of public areas and space, nature conservation, organizing cultural events, events for young people, etc. Informal groups design and implement projects, they have needs and deserve support, even though they are not registered with the Serbian Business Registers Agency, and therefore do not have an identity number, tax number or business accounts in the bank. The work of informal organizations is supported by a certain number of donors and organizations in Serbia, but the Trag Foundation has the most experience, and as of recently also the Belgrade Open School, as an EU resource center.

In this regard, the NPO sector has built mechanisms of self-regulation and control of spending of funds:

- Registered associations have been engaged as intermediary organizations to cover certain parts of Serbia and be physically closer to informal groups with the aim of implementing or performing onsite supervision of implementation of informal groups' projects.
- The mandate of intermediary organizations is to announce a public call for projects of informal groups in the territory they cover, receive project proposals, check the informal groups, select and choose which projects of informal groups they will support.
- Before signing the project support contract, they get to know the members of the informal group personally and sign a written contract.
- After the contract is signed, they pay the necessary costs (services and goods) of the informal group's project in accordance with the agreed project budget, so that the members of the informal group initiate the payment, in accordance with the project budget, collect all supporting documentation about the expenditure, take a preliminary invoice in the name of the intermediary organization, and the intermediary organization checks the cost eligibility and makes a direct payment to the supplier, who then delivers the good or service directly to the informal group.
- Intermediary organizations monitor the implementation of the project of informal groups, perform on-site control and report to the project leader and the donor on the overall implementation of the projects.

In addition, other standard prevention and control measures are laid down when the intermediary NPO further distributes funds to smaller NPOs:

- Predetermined, clearly defined, public and transparent, comprehensive and competitive procedures for the selection of organizations to be supported;
- Organizations and projects that will be supported are chosen by a multi-member selection committee, based on pre-defined criteria, made up of experienced members, who have expertise, experience and are well informed about relevant topics;
- NPO project proposal applications are submitted in electronic form, which guarantees transparency, prevention of additional and subsequent interventions and the inclusion of entire program teams in the selection process and implementation monitoring;
- A detailed written donation agreement is always signed with the recipient of funds, with clearly defined rights and obligations for both parties;
- Strengthening the capacity of smaller organizations, organization of regular trainings on financial management, as well as on other necessary topics;
- Monitoring of visits to organizations during the implementation of projects in their premises or places of implementation of activities with sampling of documentation for inspection (spot check control);
- In the financial reporting, the organization that receives the funds is obliged to submit all the documentation on costs (100%) to the project holder and the intermediary organization, and the documentation consists of all invoices, bank statements, contracts, completed procurements, registration lists of participants, various results of activities, photographs and numerous other evidences;
- Organizing regular meetings with the recipients of funds;
- Monitoring and visits to key activities on supported projects;
- The project always ends with a detailed report, which has two parts: financial and a report on results and activities.
- After implemented projects, an external financial audit is always carried out by authorized auditing companies.

Summary:

Self-regulatory mechanisms in the NPO sector in Serbia significantly reduce the risk of misuse for TF by promoting transparency, accountability and good financial management. Initiatives such as the Code of Ethics, regional standards for fundraising transparency and platforms such as *Neprofitne.rs* have been established to ensure that NPOs operate with integrity. In addition, comprehensive processes in crowdfunding platforms such as *Donacije.rs* and re-approval procedures by intermediary organizations further mitigate the risk of financial abuse. These initiatives help build trust with the public and reduce the need for government intervention in the NPO sector.

Factors that indicate a higher likelihood of TF:

Crowdfunding risks: The growing use of crowdfunding platforms, while generally regulated, presents a potential vulnerability if not monitored carefully.

Channeling funds to informal groups: Funding unregistered and informal groups may present additional risks due to their less formal structures.

Factors that indicate a lower likelihood of TF:

Self-regulatory initiatives: Codes of ethics, transparency standards and platforms like *Neprofitna.rs* strengthen governance and transparency of NPOs.

Crowdfunding safeguards: Crowdfunding platforms follow rigorous processes, including checks and verification, ensuring that funds are used responsibly.

Re-authorization control: Intermediary organizations have well-defined procedures for managing and monitoring funds distributed to smaller and informal groups, reducing abuse.

External audits: Regular external financial audits of projects increase accountability and prevent financial abuse.
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4.6. Results of supervision

In the period 2021 - 2023, unified supervision of 64 associations and 10 foundations and endowments was carried out.

The supervised NPOs were selected on the basis of criteria that were checked through the databases of competent state authorities, and especially on the basis of the databases of the SBRA, NBS, Tax Administration and APML. The most prevalent criteria in the selected supervised NPOs are:

1. The NPO carries out its activities in Serbian border area and districts where reception centers or asylum centers are located; (37.5%)
2. The NPO registered more than three seat changes in the previous three years with the Serbian Business Registers Agency; (6.2%)
3. The NPO registered more than three changes of representatives in the previous three years with the Serbian Business Registers Agency; (5.9%)
4. Two or more NPOs have the same representative. (11.3%)
5. Two or more NPOs have their registered headquarters at the same address, as well as the same contact information (phone, e-mail address); (10.1%)
6. The NPO representative and registered beneficial owner is a natural person, a foreign citizen coming from a territory with an active terrorist threat or territories bordering on it; (3.4%)
7. The NPO has a record of withdrawing cash from the account in an amount greater than 50% of the total income in the observed period; (7.1%)
8. Failure to provide financial statements; (3,2)
9. APML data on terrorist financing and intelligence data on terrorism 2.1
10. Other (13.2)

The working group undertook a comprehensive and effective supervision of NPOs, which did not find any TF or possible misuse for TF.

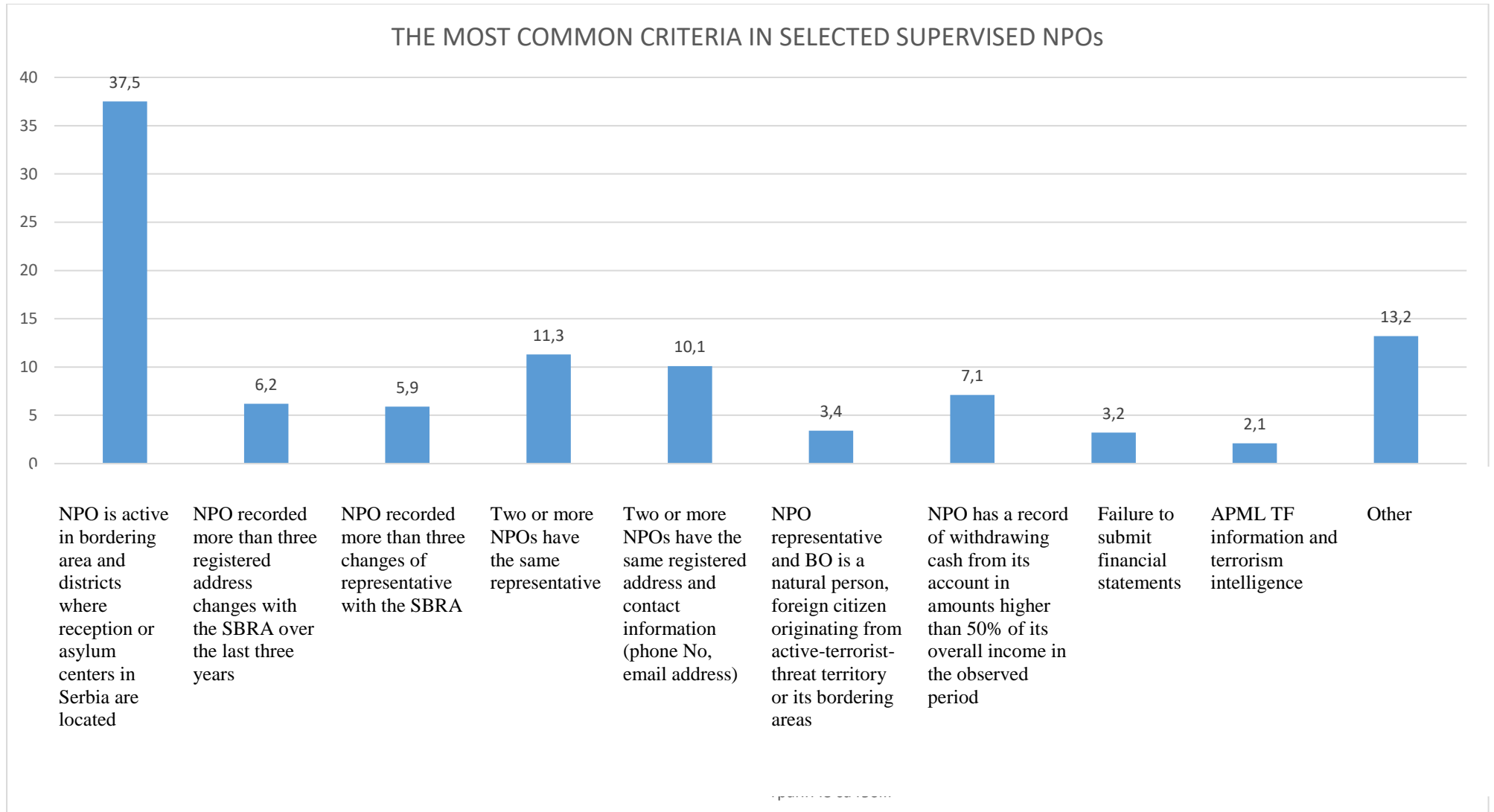


Figure 7. The most represented criteria in the selected supervised NPO

Table 7. NPOs supervised by the Working Group

SUPERVISED NPOs	2021	2022	2023
NUMBER OF INSPECTIONS	28	24	22
TOTAL INCOME	410,198,000.00	886,457,000.00	66,749,000.00
NUMBER OF EMPLOYEES	54	203	12

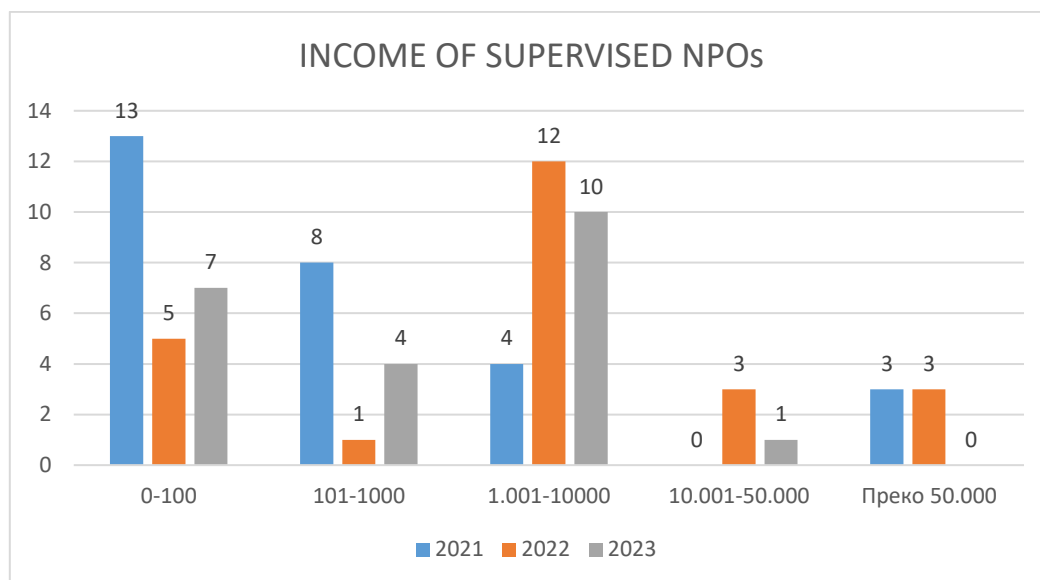


Figure 8. Total revenues of supervised NPOs in RSD 000

All supervised associations indicated several different goals as the primary areas of achievement of their goals: "Culture and art" (nations and nationalities), "Education, science and research", "Environmental protection", "Social protection" and others (chart 14).

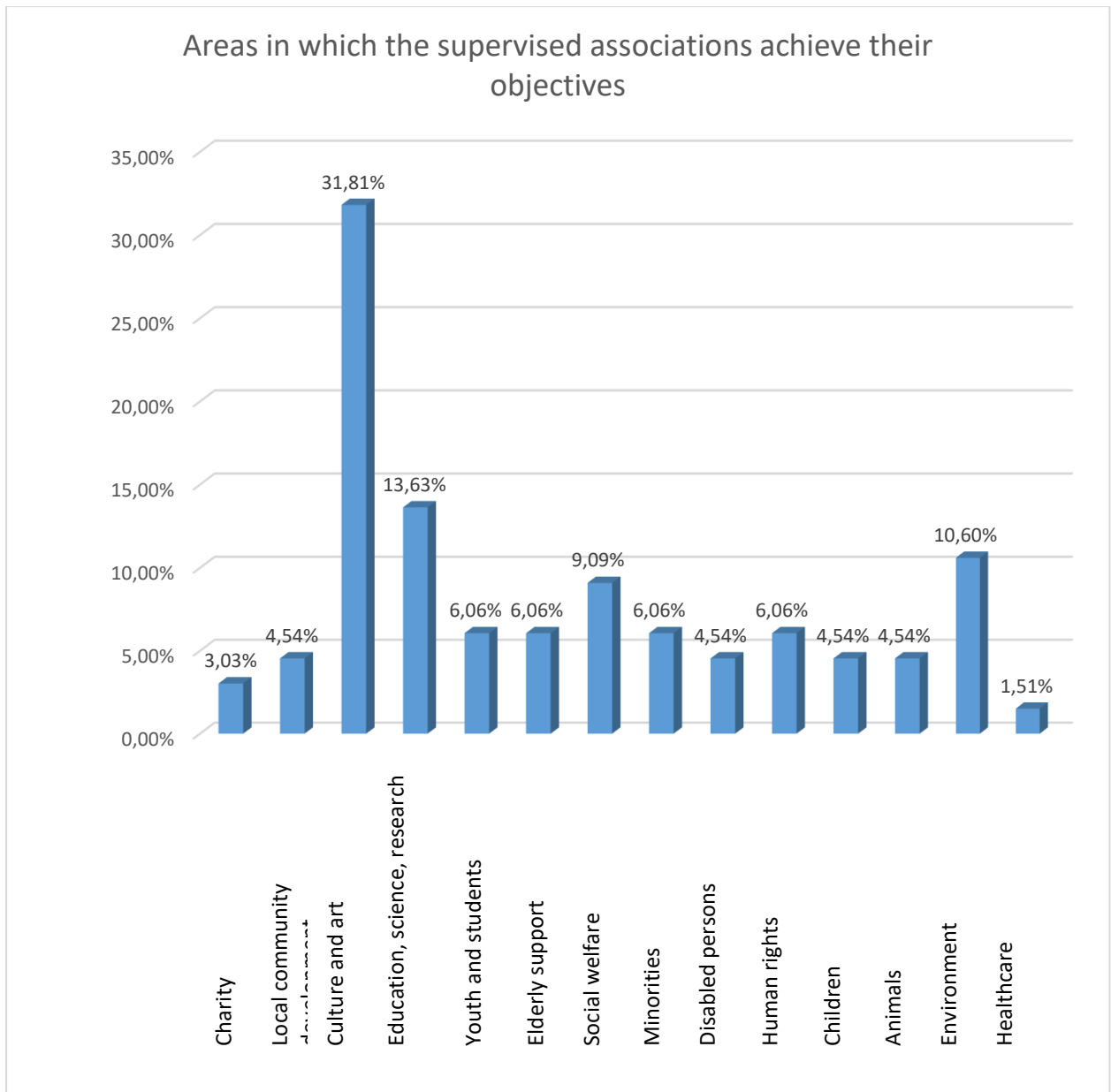


Figure 9. The areas in which supervised associations achieve their objectives

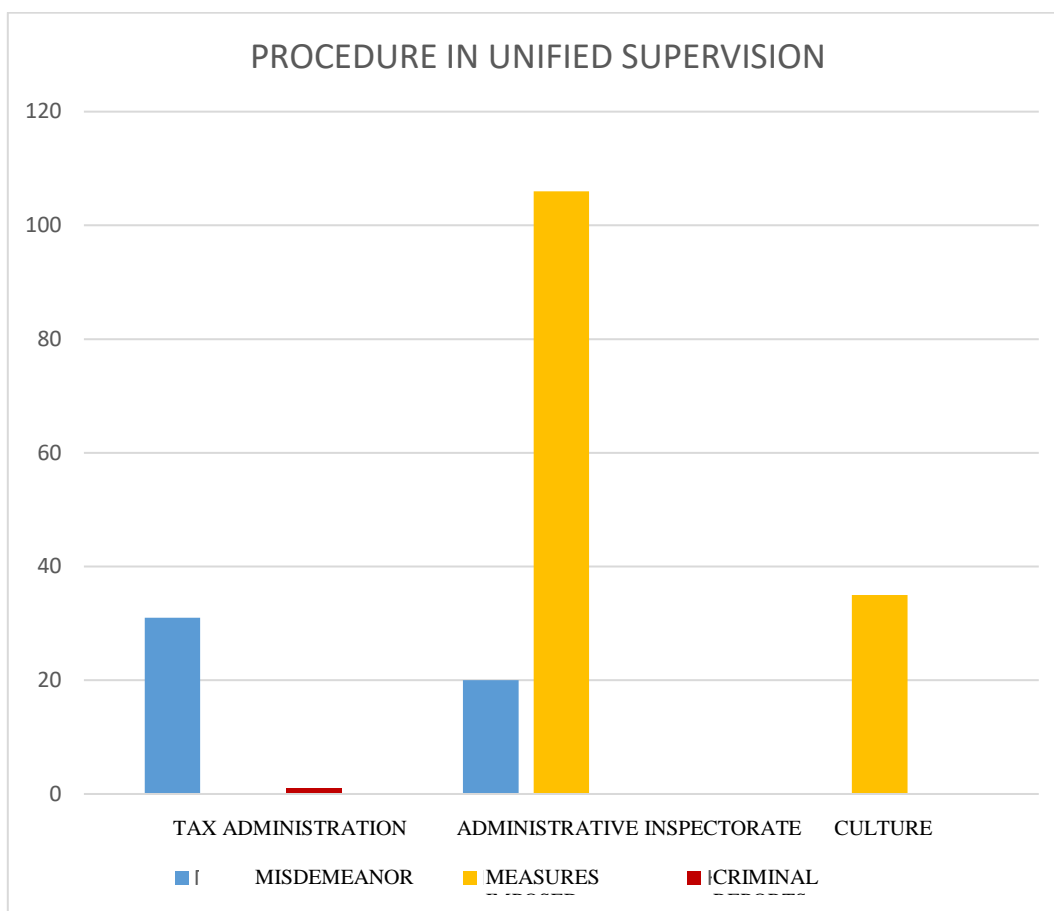


Figure 10. Results of unified surveillance

The grounds for filing a misdemeanor report **to the Tax Administration** includes situations where associations:

- carried out cash withdrawals for various purchases that are not for the purpose of carrying out the activity: purchase of furniture, white goods, sanitation, etc.;
- made cash withdrawals, but do not have valid supporting documentation;
- carried out cash withdrawals for the payment of utility bills to other natural persons who are not members of the association;
- made cash withdrawals on behalf of international travel and material expenses of representatives of the association without valid documentation;
- made a payment with a payment card without valid documentation justifying the grounds and the payment;
- made payments to other natural persons without proof that they were actually paid;
- made cash withdrawals for the purchase of fuel even though the association does not have a registered vehicle in its business books or concluded a related lease contract;
- made cash withdrawals for certain projects/events without any evidence that they were implemented;
- recorded income from the sale of products and services to the account of income from donations, which reduced tax liabilities, etc.

The Misdemeanors Court is currently handling 20 requests which are pending decision, and 11 requests ended in a conviction, imposing:

- 3 warnings for legal and responsible persons;

- 1 warning for the responsible person;
- 1 warning for a legal entity;
- 3 fines for legal entities ranging from 50,000.00 to 100,000.00 dinars;
- 4 fines for the responsible person ranging from 10,000.00 to 45,000.00 dinars.

Also, the Tax Administration submitted 1 economic offense report to the Basic Public Prosecutor's Office.

In the period 2021 - 2023, **the Administrative Inspection** and **the Inspection of the Ministry of Culture** imposed 141 measures:

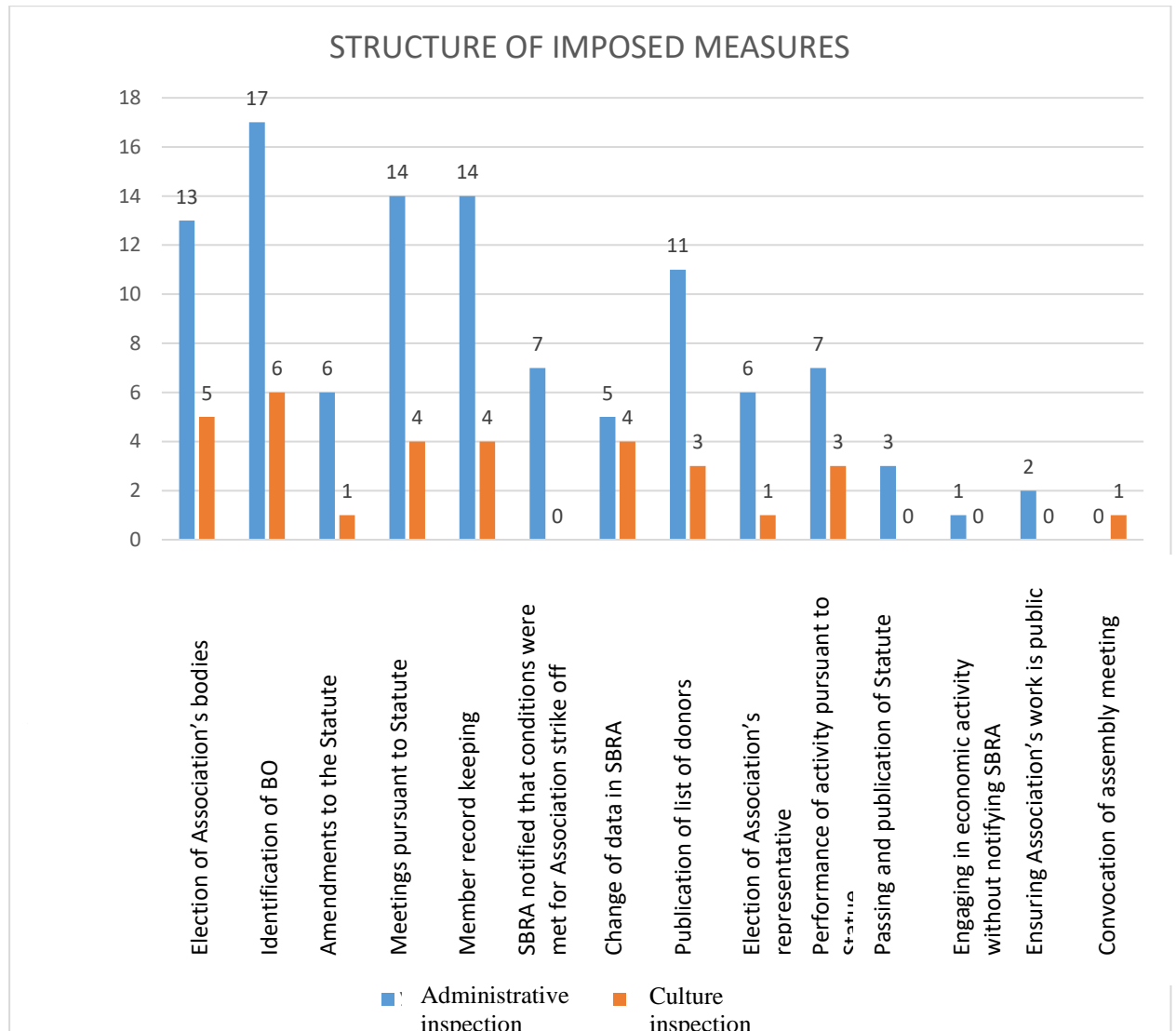


Figure 11. Structure of pronounced measures

The Administrative Inspectorate submitted 10 requests to initiate misdemeanor proceedings for failure to use property for the purpose of achieving the association's statutory goals (Article 41 of the Law on Associations), and based on the records of tax inspectors, 8 requests are still pending.

One request misdemeanor proceedings request ended in a conviction by the Misdemeanor Court, which found the association and the responsible person responsible and imposed a fine of 5,000.00 dinars on the responsible person, and a fine of 50,000.00 dinars on the legal entity because the assets of the association were not only used for the achievement of

the association's statutory goals, but were also distributed to the members of the association and persons related to them.

One misdemeanor request ended in a conviction by the Misdemeanor Court which found the association and the responsible person responsible and imposed a warning measure on the legal entity and a fine of RSD 5,000.00 on the responsible person because the Association's property was not used only for the achievement of statutory goals association, but was also distributed to the members of the association and persons related to them.

In most of the cases, cash was withdrawn without valid documentation and evidence that it was raised and spent for the purpose of carrying out activities, which meant that the association did not use the property for the achievement of statutory goals, or did it without proof that it was for the purpose of achieving statutory goals, which is particularly significant from the TF angle.

In addition to the imposed measures as a result of supervisory examinations, the Working Group for Supervising NPOs is also obliged to act according to the Law on Freezing of Assets with the Aim of Preventing Terrorism and WMDP. However, to date there have been no cases of enforcement of the provisions of this law.

In accordance with the Methodology for the performance of onsite inspection of associations, a significant percentage of the inspector's observations in the course of the joint supervision involve the performance of certain activities by the association, which **are not provided for in its statute** and/or which may indicate their potential abuse for TF.

One of the observations involve the use of the association's premises, in a religious building, for organizing Islamic religious classes for children with the involvement of teachers from other geographic areas. It is indicative that the mentioned premises are located in the immediate vicinity of the primary school, where religious studies are normally held.

Financial assistance to minors without one parent, usually the father, without proof of the death of that parent.

In some associations, rooms equipped with furnished beds to accommodate people, were noticed, without a valid justification in the statute.

- In relation to medium-high and high-risk NPOs, based on the monitoring results, risks related to weaknesses in the management culture were observed:
- shortcomings in the selection of body members and keeping records of NPO members in accordance with the law
- withdrawing cash from the NPO account without valid documentation,
- spending funds contrary to the statutory objectives,
- carrying out activities that are not specified by the statute,
- failure to comply with obligations to report changes to the Registrar.

Summary:

From 2021 to 2023, the competent authorities carried out supervision over 64 associations and 10 foundations and endowments, finding several financial irregularities and violations that most often related to: unauthorized withdrawal of cash, spending without appropriate documentation and activities that were not aligned with statutory goals of the organization. Fines and warnings have been imposed in several cases, while some cases are pending. No direct cases related to TF were identified, but the irregularities pointed to a lack of financial control and management in the NPO, increasing the potential for their abuse by the TF.

Factors that indicate a higher likelihood of TF:

Withdrawal of cash without documentation: The identified unauthorized withdrawal of cash without proof of the purpose of spending indicates that there are still gaps in the financial discipline of NPOs.

Spending of funds beyond the statutory goals: Funds spent on activities that are not provided for by the organization's statute in some cases indicate a further need for management improvement.

Inadequate governance practices: Weaknesses identified in governance structures and record keeping within NPOs increase the risk of financial mismanagement and potential abuse.

Factors that indicate a lower likelihood of TF:

Active inspections and monitoring: Regular inspections by government authorities help identify and address financial irregularities, reducing the risk of TF abuse.

Sanctions for non-compliance: Fines and administrative measures taken against non-compliant nonprofits serve as a deterrent, encouraging better financial practices.

4.7. Cooperation and coordination

Following their inspections, the inspectorates prepare a joint report on the performed inspection, in addition to the minutes from their jurisdiction, which they must forward with the attached examination report to the Coordination Commission for Inspection oversight and the Working Group for the Supervision of Non-Profit Organizations.

The Working Group must analyze the reports and share them with the National Coordinating Body for the Fight against Terrorism (hereafter NCB), which reviews these reports in an ongoing manner and uses them in accordance with its anti-terrorism and CFT mandate. At the same time, the Coordination of Commissions for Inspection Oversight has the obligation to inform the Coordinating Body for the Prevention of Money Laundering and Financing of Terrorism, so that this body can continuously monitor the implementation of the action items of the ML/TF NRA Action Plan. In this way, a mechanism has been established that ensures that in the event of suspicion on the involvement of NPOs in TF, such information will be forwarded to the competent authorities in order for them to undertake preventive and/or investigative actions.

All the competent Serbian authorities dealing with the prevention of NPO abuse for TF have designated a contact point for international cooperation.

Summary:

After inspections of NPOs, reports are consolidated and sent to the National Coordinating Body for Combating Terrorism and the Coordinating Body for Prevention of Money Laundering and Terrorist Financing. This system ensures that any suspicion of the involvement and abuse of NPOs in TF is shared with the competent authorities, with established mechanisms in place for continuous monitoring and international cooperation.

Factors that indicate a lower likelihood of TF:

Coordinated supervision: The inclusion of the above-mentioned authorities in considering and following up on inspection reports increases the vigilance of all stakeholders in the supervision system.

5. RISK CLASSIFICATION

It is not possible to rank NPOs appropriately in the context of their potential misuse for TF by analyzing general indicators only, and without including some specific indicators. For this reason, the Working Group employed the following specific indicators in its analysis and ranked NPOs for the purpose of determining their exposure to TF misuse:

- the total value of the inflow and outflow of funds from countries with an active terrorist threat to Serbia based on aid and gifts,
- convictions, indictments and investigations for crimes related to terrorism, including terrorist financing,
- intelligence on terrorist financing or terrorism,
- FIU data,
- TF typologies including the sources, directions of movement and channels used for the transfer of funds, as well as the links of NPOs with terrorist entities, misuse of NPO programs for financing and recruitment,
- assessment of proximity of NPOs to terrorist entities and collection and transfer of funds for terrorist entities and spending of funds on their behalf,
- NPOs based in Districts with the state border and/or administrative line in which an increased influx of migrants originating from territories with an active terrorist threat or territories bordering on them has been registered;
- the representative and registered beneficial owner of an NPO is a natural person, a foreign citizen who originates from territories with an active terrorist threat or territories bordering on them;
- a member of an NPO is a natural person, a foreign citizen who originates from territories with an active terrorist threat or territories bordering on them;
- NPO, whose headquarters is in the territory with an active terrorist threat or territories bordering on it, and which has a representative office in Serbia;
- NPOs for which available data indicate connection with persons and organizations linked to terrorist activities;
- activities that may be related to TF were observed at the NPO in the previous joint inspection oversight.

Based on the indicators from chapter 2.1. NPOs are ranked in six sets of risks, namely:

- "no risk" includes NPOs that include less than three common general indicators,
- "low-risk" includes NPOs with three common general indicators,
- "low to medium risk" includes NPOs with four common general indicators,
- "medium risk" includes NPOs with five common general indicators,
- "medium to high risk" includes NPOs with six common general and specific indicators,
- "high risk" includes NPOs with more than six common general and specific indicators.

An analysis found that 86.35% of the total number of NPOs have one and/or two general indicators, with the indicator "General and generically defined goals" being represented in all cases, and thus it was not possible to determine the degree of risk.

Further analysis revealed that:

- 19.87% of the total number of active NPOs include three general indicators, with the common criterion remaining "General and generically defined goals", and they are classified as low-risk.
- 15.11% of the total number of active NPOs have four indicators, common to this set being "General and generically defined goals" and "Two or more organizations have the same representative and/or founder" and are classified as low to medium risk.

However, by introducing the specific indicator "The headquarters of the organization is located in the border area, i.e. near the migrant centers", the number of NPOs that are indicative according to five criteria was differentiated, so there are 3,721 of them, i.e. 9.8% of the total number of active NPOs, and they are classified in the category of medium risk.

By further including special indicators (an NPO has withdrawn cash from its account in the amount of more than 50% of the total income in the observed period, the representative and registered beneficial owner of the NPO is a natural person, a foreign citizen originating from a territory with an active terrorist threat or territories bordering the same, NPOs for which the available data indicate a link with persons and organizations linked to terrorist activities and others) the analysis arrived at the number of NPOs classified into medium to high-risk and high-risk categories, namely:

- Medium to high risk - 1,226, or 3.23% of the total number of active NPOs;
- High-risk - 220, or 0.58% of the total number of active NPOs.

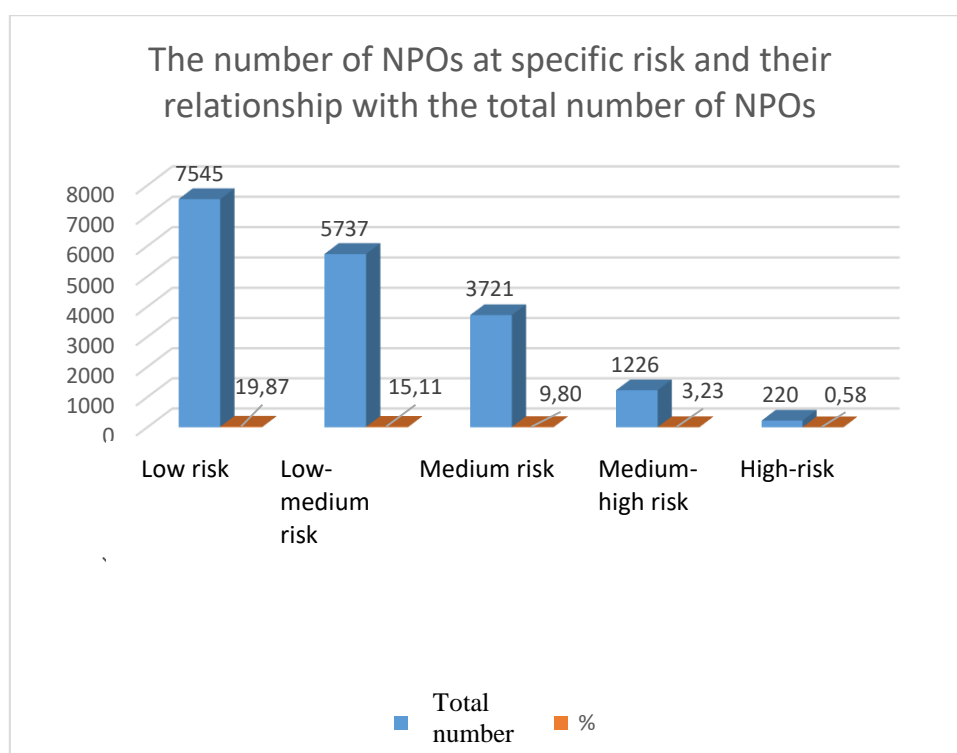


Figure 12. Number of NPOs by risk category

In this way, a selection for the joint NPO supervision was made according to priorities:

- Inspection of high-risk NPOs;
- Inspection of medium to high risk NPOs;
- Inspection of medium-risk NPOs;
- Inspection of low to medium risk NPOs;
- Inspection of low-risk NPOs.

It is important to note that immediately before each unified supervision, a check is made of the NPOs that are not at risk, as well as those at risk, in order to determine potential deviations from the defined sets. In the period 2021-2023, no deviations were observed that would be relevant from the point of view of statistical analysis.

Based on the obtained findings of the analysis of the NPO sector from the point of view of its potential misuse for the TF purposes, we conclude that the NPO sector is susceptible to misuse to a certain extent, because 0.58% of the entire NPO sector is in high, and 3.23% in a medium to high risk.

Also, it was found that the NPO sector in Serbia is not high-risk, as 81.2% of NPOs are not considered at all at risk of abuse for TF.

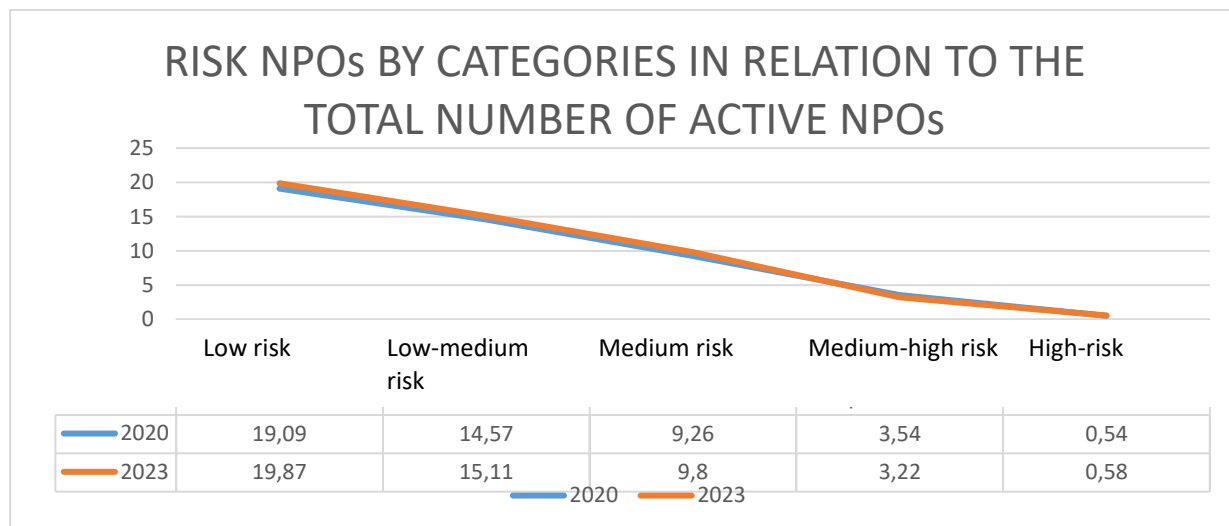


Figure 13. Risk NPOs by category in relation to the total number of active NPOs

The analysis and ranking of NPOs by the level of risk has indicated a slight increase in low-risk, low-to-medium-risk and medium-risk NPOs in the observed period compared to the previous NRA. This increase is commensurate to the increase in the total number of NPOs in the analyzed period compared to the previous one.

Summary:

The Working Group has made a risk classification of NPOs by analyzing general and specific indicators related to potential misuse for TF. NPOs are categorized into six risk levels ranging from no risk to high risk. The analysis has showed that the majority of NPOs (81.2%) were not considered risky, with only 0.58% classified as high risk and 3.23% as medium to high risk. Specific indicators, such as raising cash and connections to individuals from high-risk regions, contributed to the classification of higher-risk nonprofits.

Factors that indicate a higher likelihood of TF:

Cash withdrawals: Cash withdrawals without proper documentation are indicative of the high-risk category of NPOs.

Foreign links: Connections with individuals from high-risk or border regions with active terrorist threats have been identified as factors for high-risk classification.

Broad goals: NPOs with broadly defined goals are harder to track and more susceptible to abuse.

Factors that indicate a lower likelihood of TF:

Low percentage of high-risk NPOs: Only a small fraction of nonprofits are classified as medium to high risk.

Proactive inspections: Regular inspections and priority screening of high-risk nonprofits help mitigate potential abuse.

GENERAL CONCLUSION OF THE ANALYSIS OF NPO MISUSE FOR TERRORISM FINANCING

Serbia's approach to the NPO sector seeks to establish a balance between the transparent development of the sector with defined measures to prevent its misuse for financing terrorism. A comprehensive legal and institutional framework ensures comprehensive regulatory oversight, including strict registration, monitoring and mandatory financial reporting systems, for transparency and accountability. The transparency of NPOs has improved significantly, and supervision is being improved through the coordinated activities of competent state authorities and the monitoring of NPOs by financial institutions. Self-regulation, training and improved public confidence-building initiatives promote the sector's credibility. On the preventive side, proactive measures did not result in identified direct abuse of NPOs for TF between 2021 and 2023. However, potential risks from contextual threats such as religious extremism, links to high-risk individuals and weak financial controls of micro-legal entities highlight the need for constant vigilance, especially in border and migration regions, to maintain the integrity and security of the sector.

The risks of terrorist financing represent **a low to moderate risk** for the development and continued functioning of the NPO sector in Serbia.

Terrorist financing risks in the NPO sector generally reflect terrorist financing risks for Serbia as a whole and can be classified as moderate.

**ASSESSMENT OF MONEY LAUNDERING AND TERRORISM
FINANCING RISK IN THE DIGITAL ASSETS (VA/VASP) SECTOR**

Summary

Country profile, materiality of the VA and VASP sectors and contextual factors

Country Profile and Technology Adoption: Serbia, a medium-sized Balkan country, has high financial inclusion and moderate adoption of modern digital tools. Digital identity is increasingly being used, especially in the financial sector, in the form of electronic signature, qualified electronic signature, two-factor authentication and video identification. Despite the growing use of virtual currencies in Serbia, the public remains cautious, favoring traditional ways of investing, such as savings and real estate.

Data collection and compliance measures: The National Bank of Serbia has improved the legal framework for collecting data on activities related to VA and VASP, introducing the obligation of regular (quarterly and annual) reporting on transactions related to VA, as well as the Register of holders of virtual currencies for legal entities and entrepreneurs. Recent regulatory changes have improved the availability of data on VA transactions from VASPs, banks and other payment service providers, as well as card payment systems, thus addressing previous data collection difficulties and enabling a better assessment of sectoral risk.

Regulatory framework and compliance with international standards: There are legal prohibitions in Serbia on anonymous VA transactions, the use of anonymous VA (like *privacy coins*) and the use of mixers and tumblers. The early adoption of comprehensive regulations and the establishment of a licensing procedure for VASP ranks Serbia among the leading European countries in the regulatory maturity of this sector. In recent years, a significant number of unlicensed service providers have been identified and appropriate procedures have been initiated against them.

Use of blockchain analytics and future plans: Serbian authorities currently rely on certain commercial and public blockchain analytics tools, with plans to expand access to additional commercial tools to better track illegal transactions. In December 2023, Serbia was assessed as "largely compliant" with FATF standards in the area of VA and VASP (Recommendation 15), which reflects its increasing compliance with global AML/CFT standards.

ML risk assessment based on predicate crime and TF risk assessment for VA/VASP

Prevalent predicate crimes and typologies: This risk assessment identifies common predicate crimes associated with VA abuse, such as fraud, computer fraud, theft, and extortion. There are specific cases handled by competent authorities that include predicate crimes committed abroad and in the country, such as fraud and embezzlement with partial subsequent integration of proceeds into the Serbian real estate market. Cross-border legal entities were also found to be involved in fraud activities using VA, but international cooperation was effective in dismantling such networks.

Identified typologies of VA-related offences: The MoI High-Tech Crime Suppression Department has identified several VA-related ML typologies, including the use of anonymous VA, mixers, crypto exchanges (centralized and decentralized), online betting, OTC trading, cryptomats and NFTs.

TF concerns: Although no significant VA-related TF cases were identified in the observed period, Serbia recognizes the risks of TF in P2P transactions using VA performed outside of licensed VASPs.

ML/TF risk assessment based on client profiles

Risk hypothesis and client structure: In accordance with the National Bank of Serbia's AML/CFT guidelines, VASP must take into account product risk, client risk and geographic risk when providing services related to virtual currencies. The data show that the primary clients of VASPs are resident natural persons, followed by legal entities and entrepreneurs. An increase in the number of non-resident clients was recorded. VASPs apply strict AML/CFT controls.

Risk mitigation procedures: VASPs apply regulations in the area of AML/CFT when determining the identity of clients. One VASP applies an exception for low-risk VA transactions, but under strict conditions, and only three clients use this exception. VASPs perform robust identity checks and transaction monitoring, with increased control of high-risk clients. The record of holders of virtual currencies of the National Bank of Serbia helps in ensuring the transparency of VA ownership by legal entities and entrepreneurs.

Risk profiles and high-risk clients: VASPs consider high-risk clients to be those clients involved in high-volume transactions, entities with complex ownership structures, and clients from high-risk jurisdictions.

ML typologies: Hypothetical ML scenarios analyzed from the point of view of client profiling include the use of VASP licensed in Serbia by non-residents. The development of international connections by these VASPs may eventually lead to ML layering, where Serbia could be used as an intermediary.

Resident clients involved in criminal activity may also use VASP for simpler ML operations for the purpose of investment or concealment (layering), as well as potentially for the commission of criminal acts that are identified as the sources of main threats identified in Serbia, such as organized crime, drug trafficking, fraud and corruption.

International partnerships and future cooperation: The National Bank of Serbia has entered into cooperation agreements with the competent authorities of Luxembourg and Malta to mitigate risks from foreign jurisdictions through data exchange and supervisory cooperation. Negotiations with other jurisdictions where VASPs operate are also ongoing.

ML/TF risk assessment based on connections with other economic sectors

Sector specificities in the use of VA: There is an explicit legal prohibition for FIs supervised by the National Bank of Serbia to provide VA-related services or otherwise be exposed to VA. These FIs cannot be associated with the control or ownership of VASP and cannot use the services of VASPs. Apart from banks (where VASPs have payment accounts), other FIs supervised by the National Bank of Serbia (insurance companies, voluntary pension fund management companies, providers of financial leasing, etc.) do not have VASPs as clients. Other FIs (not supervised by the National Bank of Serbia, such as broker-dealer companies) avoid transactions related to VA, reflecting the consensus to minimize exposure to related risks in the financial sector.

Restrictions in the DNFBP sector: DNFBP sectors in Serbia are prohibited from directly accepting VA in exchange for goods or services, but can only do so through a licensed VASP. None of the two VASPs in Serbia are currently licensed for this service. High-risk areas such as online gambling or real estate are identified by VASPs as potential areas for VA abuse, but overall the use of VA in these sectors has limited impact on criminal activity.

Risk mitigation and observations: Cross-sector data and recent fraud cases indicate minimal interaction of VA with other economic sectors, with the exception of real estate, which is, in any case, mediated by financial institutions.

AML/CFT risk assessment by type of VA and VASP services

Types of VA and services provided: As of 2023, two licensed VASPs are operating in Serbia, primarily offering VA buying, selling and custody services with a focus on major virtual currencies (e.g. BTC, ETH, LTC) and stable VA (e.g. Tether, USD Coin). VASPs in Serbia do not use anonymous VA, nor do they use technical solutions to improve privacy (such as mixers), because they are prohibited by the AML/CFT Law.

VA type risk levels: Among the VA types, anonymous VA and Bitcoin pose the highest ML/FT risk due to liquidity and affordability, while stable VA also poses a risk due to its consistent value. OTC trading and P2P exchanges, which often involve anonymous VA, are difficult to monitor and pose a risk, as these transactions are outside the regulatory regime and there is no reliable data on their volume.

VASP risk factors: Some residual risk is attributed to unlicensed VASPs, as well as those operating in jurisdictions without strict VA regulation. VASPs in Serbia are prohibited from doing business with VASPs from jurisdictions that have not implemented international AML/CFT standards in the VA area.

Transaction patterns: The data shows an increasing use of stable VA such as USD Coin by various clients and a decrease in the use of volatile VA (e.g. BTC, ETH). Transactions with smaller amounts of VA, especially via crypto machines (a cash-based VASP service), also carry specific risks, although Serbian regulations mandate the application of AML/CFT measures for each transaction.

Chapter 1: Introduction

Preparation of the money laundering and terrorist financing (hereinafter: ML/FT) national risk assessments, according to the amended and revised recommendations of the Financial Action Task Force (*FATF*), an international body that sets standards in the fight against money laundering, financing of terrorism and the financing of proliferation of weapons of mass destruction, which were adopted in February 2012 - represents an international standard. Recommendation 1 invites countries to identify, assess and understand the ML/FT risks they face. According to that recommendation, states should designate an authority or mechanism to coordinate the risk assessment steps. Recommendation 15 calls on countries to identify and assess ML/TF risks arising from activities related to virtual assets (hereinafter: VA) and virtual asset service providers (hereinafter: VASPs).

Serbia has so far conducted three National ML/TF risk assessments in 2012/2014, 2018 and 2021. Bearing in mind the topicality of the WMD proliferation financing issue as well as the recommendations of international institutions, a decision was made in 2021 that, along with updating the national ML/TF risk assessments, the risks to which the Serbian system is exposed should also be made in relation to those two areas. In this regard, this is the second national ML/TF risk assessment in the VA sector. After the legislative interventions in the field of VA at the end of 2020 and the implementation of the first national assessment of the ML/TF risk in the VA sector, Serbia was assessed in December 2023 as largely compliant (*LC*) with the amended Recommendation 15.

The goal of the ML/TF Risk Assessment in the digital assets sector is to draw conclusions about which sectors and actions in the system of the country carry a potentially higher ML/FT risk in that sector, and which ones are lower, so that the country can adequately respond to the risks found, through a series of measures and activities, and to make adequate decisions commensurate to the risks found with respect to resource (re-)allocation, with the intention of investing more effort and resources in high-risk areas.

The assessment of the ML/TF risk in the VA sector this time, as well as in 2021, was carried out as an independent risk assessment and was carried out on the basis of the Methodology of the Council of Europe, taking into account both international and own experiences in this area.

On June 20, 2024, the Government of the Republic of Serbia adopted the Decision on the establishment of the Working Group for updating the National Risk Assessment of Money Laundering and Terrorism Financing, bearing in mind that this is one of the planned activities in the Action Plan for the implementation of the Strategy for Combating Money Laundering money and terrorist financing (2022–2024). The task of this working group is to consider the risks identified in the 2021 National ML Risk Assessment, National TF Risk Assessment, ML/TF Risk Assessment in the VA Sector, and WMD Proliferation Financing Risk Assessment, and to review the possible existence of new risks.

Representatives of the financial and DNFBP sectors, as well as representatives of VASPs, were involved in the preparation of the ML/TF risk assessment in the VA sector.

The risk assessment covers a period of three years, from January 1, 2021, when the preliminary risk assessment was done, until December 31, 2023.

The findings of the risk assessment carried out using this methodology should serve as a basis for identifying priorities in the risk management plan, including giving priority to certain segments of the VA/VASP sector when it comes to supervision. This methodology in no way implies that any VA or VASP business model under consideration is inherently criminal.

Chapter 2: Country profile, materiality of the VA and VASP sectors and contextual factors

2.1. General

This chapter provides a brief overview of the profile of the Republic of Serbia and describes its area, population, certain macroeconomic data, the use of modern technologies (computer, internet, mobile phones, digital identity) and the degree of acceptance of virtual currencies. These data will provide a broader context for understanding the use of the VA and VASP sectors in Serbia.

2.1.1. General geographic data

The Republic of Serbia is a smaller continental European country and a medium one in the Balkan region, both in terms of the size of the territory and the number of inhabitants.

2.1.2. Relevant macroeconomic data

Serbia is among the developing European economies and is not considered a global international financial center.²¹⁵

2.1.3. Use of modern technologies

Based on the available data, it can be concluded that the use of modern technologies in Serbia is at a high level with a constant growth of digital literacy.

2.1.4. Financial Inclusion

According to data from the National Bank of Serbia, as on 31 December 2023, the total number of active current accounts in banks in Serbia amounted to 17,530,251, of which the number of active current accounts of residents was 17,360,993, and non-residents 169,258. The increased number of accounts compared to the period when the previous risk assessment in this sector was made is primarily a consequence of government measures and one-off benefits provided by the government during and after the Covid-19 pandemic which implied automatic opening of those accounts in order to receive the benefits. Based on these and other data, it can be concluded that financial inclusion in Serbia is at a high level.

2.1.5. Using digital identity in everyday business

The use of digital identity in everyday business is present in Serbia, through the use of an electronic signature, a qualified electronic signature (which has the same legal effect and evidential force as a handwritten signature) and two-factor authentication, as well as through the procedure for identifying and verifying the client's identity through video-identification with obliged entities supervised by the National Bank of Serbia and the Securities Commission, including VASPs. However, the use of electronic signatures by natural persons is still at a very low level, despite all the efforts of the Serbian Government to enable a large number of electronic services for natural persons on the E-Government portal using a qualified electronic signature.

²¹⁵ Source:

<https://documents1.worldbank.org/curated/en/099040524061582128/pdf/P5006481fb98fb0db1a9401e200293e761d.pdf> and <https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index>

2.1.6. Degree of acceptability of virtual currencies in Serbia

When it comes to data on a global level, the company "Chainalyses", which deals with the analysis of cryptocurrency transactions, performed an analysis of the degree of acceptability of cryptocurrencies for 154 countries, whereby **Serbia ranks 66th with 0.014 points** (India ranks the first, with 1 point). However, in everyday business, the use of virtual currencies is negligible in the economic sector due to numerous restrictions, including the obligation to do business through an account, restrictions on capital flows with foreign countries and the impossibility of having virtual currencies be a part of the capital of companies.

Based on the data on the level of use of computers, the Internet, mobile phones, electronic services, as well as virtual currencies in Serbia, it is concluded that there are prerequisites for the use of VA in Serbia on a larger scale, but the use of VA is still at a very low level. The reasons for this are mainly citizens' aversion to risk, as well as the regulatory regime in Serbia, which is why the majority of citizens decide on traditional ways of investing money, such as saving or investing in real estate. VA in Serbia is still used mainly by individuals who are connected to the IT sector, are more prone to greater risks and have advanced digital skills, or a smaller number of citizens who see virtual currencies as a way to gain more profit in a short period of time, and do not have sophisticated knowledge about financial products.

2.2. Availability of statistical and other data

One of the challenges in conducting an ML/TF risk assessment in the VA and VASP sector is the availability of relevant data, considering that part of the transactions also take place via decentralized exchange, i.e. via P2P (*peer-to-peer*) exchange/transaction. The National Bank of Serbia, as a VA/VASP supervisor, holds a significant set of data related to the operations of VASP based in the territory of Serbia. Namely, although previously it collected this data for various supervision-related needs by sending out requests, the National Bank of Serbia adopted in December 2023 a Decision on the content, terms and method of submitting data related to virtual currencies to the National Bank of Serbia²¹⁶, requiring VASPs to submit to the NBS on a quarterly basis the data on the number and type of virtual currency users by type of service, data on crypto machines, their users and transactions, as well as data on transactions using virtual currencies. There is also an obligation for banks and other payment service providers to submit to NBS, on a quarterly basis, data on VASPs who have a current or other payment account with a bank or other payment service provider, as well as data on payment transactions related to transactions using virtual currencies which were made through the bank or any other payment service provider. In addition, an obligation has been introduced for card payment systems in which payment transactions are carried out using payment cards issued in Serbia to submit to the NBS on an annual basis data on payment transactions related to transactions using virtual currencies carried out within that card payment system. This mainly includes transactions made through foreign VASPs using payment cards issued in Serbia. All the above reporting entities submit the aforementioned data within the deadlines set. However, bearing in mind the time of the decision the first reporting period set out in that decision, only data obtained from the card payment systems were used for the purposes of this risk assessment, whereas other data was collected directly from VASPs, banks and other payment service providers.

2.3. VA and VASP sector

²¹⁶ "Official Gazette of RS", no. 119/2023.

Even before the adoption of the Fifth EU Directive in the area of prevention of money laundering and financing of terrorism (hereinafter: AML/CFT) on May 30, 2018, persons engaged in providing services of buying, selling or transferring virtual currencies or exchanging these currencies for money or other property through internet platforms, devices in physical form or in another way, or which mediate in the provision of these services, have already had the status of obliged entities under the AML/CFT Law (as of December 2017), under the supervision of the National Bank of Serbia. To align with the Fifth EU Directive, the AML/CFT Law was amended (entered into force on January 1, 2020) to define the concept and meaning of virtual currencies, and to introduce *custodian wallet providers* on the list of obliged entities, whose definition is also aligned with the Fifth EU directive.

After the adoption of the Law on Digital Assets²¹⁷ (hereinafter: LDA) and 2020 amendments to the AML/CFT²¹⁸ Law, all VASPs became obliged entities under the AML/CFT Law. As such, VASPs are obliged to take all AML/CFT actions and measures before establishing a business relationship with the client and in the course of that business relationship.

On December 16, 2022, the National Bank of Serbia granted two licenses for the provision of services related to virtual currencies in accordance with the LDA. More detailed data on the VA/VASP sector in Serbia are given in Statistical Table 1.

Statistical table 1: VA/VASP sector in Serbia

Data type		Number/value ²¹⁹
Total volume of transactions made by Serbian residents with foreign VASPs, using payment cards issued in Serbia ²²⁰ , by year:		
2021	Number of transactions	143,947
	Value (in RSD)	3,695,241,901.04
	Value (in EUR)	31,537,440.48
2022	Number of transactions	158,482
	Value (in RSD)	3,556,976,519.33
	Value (in EUR)	30,357,399.67
2023	Number of transactions	125,062
	Value (in RSD)	3,521,338,997.86
	Value (in EUR)	30,053,247.40
Total volume of transactions carried out by VASPs established in Serbia ²²¹ , by years:		
2021	Number of transactions	116,260
	Value (in RSD)	8,468,058,240.45
	Value (in EUR)	72,068,580.76
2022	Number of transactions	89,972
	Value (in RSD)	51,630,176,374.02
	Value (in EUR)	441,283,558.75
2023	Number of transactions	109,093
	Value (in RSD)	14,238,211,468.57
	Value (in EUR)	121,486,445.97
Total income of VASP, by years:		

²¹⁷ "Official Gazette of RS", no. 153/2020,

²¹⁸ "Official Gazette of RS", no. 113/2017, 91/2019, 153/2020 and 92/2023.

²¹⁹ The values are given according to the official median exchange rate of the dinar against the euro determined by the National Bank of Serbia on December 31, 2023.

²²⁰ Includes data submitted to the National Bank of Serbia by *Mastercard companies* and *Visa*.

²²¹ The data for 2021 and 2022 refer to only one VASP that provided its services even before the adoption of the LDA, while the other VASP started its operations in 2023.

2021	Value (in RSD)	1,169,149,000.00
	Value (in EUR)	9,950,204.25
2022	Value (in RSD)	3,571,947,000.00
	Value (in EUR)	30,399,548.94
2023	Value (in RSD)	6,383,567,000.00
	Value (in EUR)	54,328,229.78
Number of crypto machines in Serbia ²²² :		3
The number and total revenue of VASPs that do not provide VA storage and administration services for VA users (service custodians):		Both VASPs provide the service of storing and administering VA for the account of VA users.
The number and total income of VASPs that perform transactions with anonymous VA (<i>privacy coins</i>):		There are no such VASPs in Serbia, bearing in mind that the provision of services related to an anonymous VA, as well as making transactions with an anonymous VA, is expressly prohibited by Article 44 of the AML/CFT Law.
The number and total revenue of VASPs that advertise their services as services that include the so-called "mixing" or "tumbling" VA (preventing others from tracing the transfer of VA back to the initial transaction)		There are no such VASPs in Serbia, bearing in mind that Article 44 of the AML/CFT Law expressly prohibits the provision of services related to anonymous VA and making transactions with anonymous VA, as well as the use of information system resources (software components, hardware components and information assets) that enable and/or facilitate concealment identity of the client and/or that prevent and/or make it difficult to track transactions with VA.
Number and total income of persons who illegally provide services related to VA in the Serbia, by years:		Since the beginning of the application of the LDA, 29 persons have been identified, of which 23 legal persons, four entrepreneurs and two natural persons, who provided unauthorized services related to virtual currencies and over whom the National Bank of Serbia initiated the supervision procedure. Most of these persons immediately suspended the unauthorized provision of services, with one legal entity, two natural persons and one entrepreneur being fined and subject to measures in accordance with Article 131 of the LDA. The National Bank of Serbia also filed a criminal complaint against one legal entity and the responsible person in the legal entity due to suspicion that they committed the criminal act of unauthorized engagement in a specific activity from Article 353 of the CC.
Data type		Jurisdictions
Jurisdictions in which VASPs that provide services to clients in Serbia are established, without being established in Serbia:		United Kingdom, United States of America, Luxembourg, Italy, Malta, Estonia
Jurisdictions in which VASPs that provide services to domestic VASPs are established:		Luxembourg, United Kingdom, Italy, United States of America ²²³

Relative to the previous risk assessment, a significant increase in the number and value of transactions with VA was observed, both through domestic VASPs and foreign VASPs using payment cards issued in Serbia. The number of transactions made through domestic VASPs is four times higher, and the value is 18 times higher, although the share of these transactions in

²²² Only one VASP provides services related to VA using cryptomats.

²²³ According to the data available to the National Bank of Serbia and provided to it by VASP.

the total number (0.036% of the total number of domestic transactions) and the value of transactions (0.007% of the total value of domestic transactions) in the financial sector,²²⁴ and compared with the total global turnover,²²⁵ is still insignificant. The number of transactions through foreign VASPs using payment cards issued in Serbia is 24 times higher, while the value is 14 times higher.²²⁶ In the observed period, a significant increase in the number and value of transactions with VA through domestic VASPs was observed in 2022, followed by a significant decline in 2023, while the number and value of transactions are stable when it comes to transactions performed through foreign VASPs using payment cards issued in Serbia.

In the observed period, the Securities Commission approved two white papers for the issuance of digital tokens filed by the company FINSPOT DOO BELGRADE- Stari Grad, which provides factoring services.

2.4. Use of VA in regulated sectors other than VASP

2.4.1. Use of VA in the financial sector

VA is not used in the financial sector in Serbia, i.e. in FIs supervised by the National Bank of Serbia, given that regulations do not allow for their use.

Data on the relationship of Serbian FI's with VA and VASPs are given in the Statistical Table 2 which presents the data submitted by all banks, payment institutions and e-money institutions, and nine insurance companies, 12 funds management companies (investment and VPFs), seven financial leasing providers, 26 insurance intermediaries and nine broker-dealer companies.

Statistical table 2: Use of VA in the financial sector

Data type	Volume/number
Number of FIs that provide services related to VA in Serbia:	FIs under the supervision of the National Bank of Serbia cannot provide services related to VA in Serbia.
Number of FIs providing their services to VASP (absolute number and percentage of the total number of FIs):	A total of 10 FIs, which is 10.2% of the total number of FIs that submitted data.
The number of FIs that, as part of their business policy, treat the purchase or sale of VA performed by their clients as a "red flag " (highest risk indicator)	A total of 84 FIs, which is 85.71% of the total number of FIs that submitted data. FIs that declared negative as the explanation for the negative answer state that

²²⁴ Data on the number and value of VA transactions for 2023 were compared with aggregate data on the number and value of transactions in 2023 performed through the NBS *RTGS* payment system, the NBS Payment Clearing System and *the NBS IPS* system.

²²⁵ In the fourth quarter of 2023 only, the value of VA-related transactions at the global level amounted to 10,300,000,000,000 US dollars, while the value of these transactions carried out through VASPs in Serbia in the entire year of 2023 was 121,486,445 euros). Global transaction value data source: <https://www.coingecko.com/research/publications/2023-annual-crypto-report>.

²²⁶ It is important to point out that the data on the number and value of transactions carried out through domestic VASPs in the previous risk assessment are the data of two companies that were in the licensing process at the time of the risk assessment, one of which provided services related to VA even before adoption LDA. On the other hand, the data in this risk assessment are the data of two licensed VASPs (one VASP is the mentioned company, and the other VASP did not provide services related to VA in the period covered by the previous risk assessment). With regard to the number and value of transactions made with foreign VASPs using payment cards issued in the Republic of Serbia, it is important to point out that the data from the previous risk assessment includes only the data submitted to the National Bank of Serbia by *Mastercard*, while the data from this risk assessment includes data provided to the National Bank of Serbia delivered to the Bank of Serbia by *Mastercard* and *Visa*, which can explain the large differences in the number and value of these transactions.

(absolute number and percentage of the total number of FIs):	they do not allow the execution of payment transactions related to VA and that they do not provide financial services to VASP.
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2.4.2. Acceptance of VA as a means of payment (use of VA in the non-financial sector)

LDA explicitly prohibits accepting VA in exchange for goods sold and/or services provided by direct transfer of VA from the consumer to the trader (regardless of the type of goods and/or services). Acceptance of VA in exchange for goods sold and/or services provided in retail trade can be done exclusively through VASPs, which are licensed to provide VA acceptance/transfer services. However, despite this possibility, as on December 31, 2023, no VASP had a license to provide VA acceptance/transfer services, and no merchant in Serbia offers its consumers the option of paying for goods and/or services in VA.

Statistical table 3: Use of VA in other sectors

Data type	Volume/number
Number of other regulated (non-financial) business entities that accept VA as a means of payment:	Acceptance of VA in exchange for goods and/or services is allowed exclusively through VASP, which has the supervisor's permission to provide that service. As on December 31, 2023, no VASP had this permit, so accepting VA in exchange for goods and/or services is not allowed in Serbia.
The number of VASPs which, as clients, use services of the following sectors:	
Gaming services (real and online)	None.
Buying and selling real estate	None.
Buying and selling precious metals and buying and selling precious stones	None.
Lawyers, notaries public, other independent legal professions	Both VASPs use the services of lawyers and notaries public.
Auditors, accountants, tax advisors	Both VASPs use the services of accountants.
Buying and selling of works of art	None.

An analysis of the data provided by the obliged entities under the AML/CFT Law in the DNFBP sector (game of chance sector, real estate sales and rental agents sector, accountants sector and auditors sector) has shown they did not perform any VA-related transactions. Even postal operators do not carry out transactions using VA.

2.5. Regulation

As of April 1, 2018, the list of obliged entities under the AML/CFT Law also includes the persons engaged in the provision of services of purchase, sale or transfer of virtual currencies or the exchange of those currencies for money or other property via internet platforms, devices in physical form or in another way, i.e. who mediate in to the provision of these services. And, as of December 2019 custodial wallet service providers also became obliged entities. The National Bank of Serbia has supervised compliance of these obliged entities with the AML/CF Law since April 1, 2018, in accordance with the provisions of the law regulating the provision of payment services governing the supervision of payment institutions, including the imposition of measures against these obliged entities that may be taken according to payment institutions in accordance with that law.

In December 2020, Serbia adopted the LDA and the Law Amending the AML/CFT Law²²⁷, which comprehensively regulated the VA market in Serbia. LDA regulates the issuance of VA (virtual currencies and digital, i.e. investment tokens) and secondary trading of VA, the provision of services related to VA subject to a strict licensing regime, as well as the supervision of the issuance of VA and the provision of VA-related services. The LDA and the amended AML/CFT Law have expanded the list of obliged entities to the VA sector who are now obliged to apply general preventive AML/CFT measures as well as the preventive measures specifically related to VASPs. In this way, full alignment with international AML/CFT standards required by FATF Recommendation 15 has been achieved, while taking into account the provisions of the Fifth EU AML Directive. The regulations governing the freezing of assets with the aim of preventing terrorism and the proliferation of WMD also apply to VASPs. Serbia is among the first countries in Europe and the world to regulate the area of VA, so the regulations of Serbia are not comparable with countries in the region, which have only partially regulated this area (e.g. only for the purposes of implementing the regulations on AML/CFT) or not at all.

In addition to the above, these regulations govern the control and processing of unauthorized provision of services related to VA, mechanisms for the protection of VA users, mechanisms for preventing market abuse, cooperation of competent authorities and reporting.

After of the above legislative novelties in the VA area and the implementation of a special ML/TF risk assessment in the VA sector in 2021, **Serbia was assessed as largely compliant (LC) with the amended Recommendation 15** in December 2023.

Since the LDA was passed, two companies have been licensed by the National Bank of Serbia and the Securities Commission for providing VA-related service, while seven applications for that license were rejected due to improper documentation.

2.6. Use of blockchain analysis

Currently, only publicly available blockchain analyzes are available to supervisory authorities, but the plan is to allow access to other available blockchain analyzes in the future.

The High-Tech Crime Suppression Department of the Ministry of the Interior currently uses a commercial tool to track transactions through the *Chainalysis network*.

Chapter 3: ML risk assessment through predicate crime and TF risk assessment for VA/VASP

3.1. Hypothesis

This section describes the predicate offenses and ML/TF typologies associated with VA and VASP based on specific cases.

²²⁷"Official Gazette of RS", no. 153/2020.

Although a large number of VA-related crimes are essentially predicate crimes or the ML crime, some perpetrators of criminal offenses also use VA to avoid paying public revenues or potentially raise funds for TF.

With respect to frequency of criminal acts, the most common type in Serbia is fraud, computer fraud, theft, aggravated theft, blackmail and extortion committed via the Internet. In addition to the above, there is an increasing number of crimes related to the distribution of narcotic drugs through *the darknet* and communication applications (mainly Telegram) whereby payments are made in virtual currency. There has also been an increase in the criminal offense under Article 185 of the Criminal Code, i.e. purchase and distribution of pornography resulting from the exploitation of minors for virtual currencies. Considering the nature of these criminal offenses, the most common and at the same time the main sources of information about VA-related crime are victims who submit criminal reports to the MOI High-Tech Crime Suppression Department and the Special Department for the fight against high-tech crime of the Higher Public Prosecutor's Office in Belgrade. In the criminal reports they describe the manner, time and place of the crime. Considering the systems of protection on the Internet against the distribution of pornography through the exploitation of minors, information related to this crime is often obtained from foreign agencies dealing with the suppression of this type of crime, and they can also lead to distributors. In more and more ID theft cases whose victims are Serbian nationals who keep their IDs in the so-called digital (virtual) wallets, what often facilitates the fraud is that their "keys" are not adequately secured, mainly due to poor technical knowledge of how the system of generating and storing public and private keys works with VA.

The source of APMML information are SARs filed by obliged entities. Many SARs identify forgery of documents, fraud, conversion of proceeds from crime into VA, etc., as main predicate crimes. The collection and exchange of operational data is carried out through the Egmont Group of FIUs.

3.2. Demonstration

Typologies related to VA theft were identified in the following: abuse of the account of a natural person, i.e. data theft and its use for the purchase of VA, concealment of the origin of proceeds from crime and their use to buy VA.

The MOI High-Tech Crime Suppression Department has identified the following ML typologies using VA:

1. Using *privacy coins* ;
2. Use of mixer services (centralized and decentralized);
3. Use of centralized cryptocurrency exchanges and exchanges;
4. Use of decentralized exchange offices;
5. Using online betting shops;
6. OTC trading;
7. Use of crypto machines;
8. Using the mining pool;
9. Purchasing non-fungible tokens (hereinafter: NFT);
10. Combination of the above.

These typologies coincide to some extent with the ML typologies presented in the FATF guidance papers related to the implementation of VA/VASP-related FATF standards from 2020, 2021, 2023 and 2024.

The Special department for combating high-tech crime of the Higher Public Prosecutor's Office in Belgrade represented Serbia in a case in which a joint investigative team was established, comprising the competent authorities of the Federal Republic of Germany, the Republic of Bulgaria and the Republic of Cyprus. The case involved events occurring in 2020 and 2021 in which German citizens were harmed through alleged investments in VA. The websites that were shown to them were fake, and the investments they made, after converting funds into VA, went to different parts of the world. On the day of arrest operation (January 11, 2023), a call center was identified in Serbia whose employees, until the moment of the operation, were misleading a large number of citizens of the Commonwealth of Australia, the Swiss Confederation, Canada, Federal Republic of Germany and the Kingdom of Sweden. Mutual legal assistance in criminal matters was sought from all these countries in order to identify the victims, damages and how the victims' money, after conversion into cryptocurrency, was forwarded to various countries.

In the observed period, the Higher Public Prosecutor's Office in Novi Sad - Special Department for Suppression of Corruption had one case of money laundering through VA, which is currently at the investigation stage. From June 8, 2021 to February 17, 2023, the responsible person of a commercial bank branch office in Subotica, filed requests on behalf of 26 bank clients, without their knowledge and consent, to open/change accounts. More specifically, she registered a new phone number and email address which she controlled, forging the client signatures on the requests. In this way, she activated packages of current accounts for the clients, which she controlled through electronic and mobile banking applications, and then, by forging client signatures, she made requests for partial payment/premature payment of savings. Based on the forged requests made in this way, she handled the clients' money without authorization in the total amount of EUR 450,820.14 (RSD 52,881,202.40), which she then converted into VA (virtual currency *Litecoin*), through a licensed VASP. The defendant also traded virtual currencies through an account in a foreign VASP, i.e. bought and invested in various virtual currencies and digital tokens through 367 fractions. In this case, at the motion of the prosecutor the Higher Court in Novi Sad - Special Department for the Suppression of Corruption issued a decision imposing a temporary measure in order to secure the property claim of the damaged bank and seize the proceeds, whereas the defendant was prohibited from alienating and encumbering all the virtual currencies and digital tokens which were in the account held with a foreign VASP, which is connected to the e-mail address of the defendant.

The Department for Suppression of High-Tech Crime also handled a case of Unauthorized production and circulation of narcotic drugs from Article 246 of the Criminal Code, whereby the suspects advertised the sale of narcotics for a long period of time through encrypted communication applications, and thus found customers with whom they agreed on where the drugs handover will be made without direct contact. The drugs would be paid in cryptocurrencies (so-called *dead drop*). Buyers of narcotic drugs would send photos and GPS coordinates of the place where the drugs were left, using the above application, and in this way the drugs was handed over.

In the observed period, there were no incoming requests through the Ministry of Justice for the provision of MLA, nor for confiscation of property. The Directorate for Management of

Seized/Confiscated Assets has not received any order of the prosecutor or any court decisions mandating seizure or confiscation of VA/VASP. There were two cases of seizure of virtual currencies, one of which was a case related to ML, which involved an international joint investigative team with the Federal Republic of Germany, Republic of Bulgaria and Republic of Cyprus. In this international operation, Serbia confiscated virtual currencies from a Serbian citizen in value of EUR 963,000.00, which were generated through fraud.

According to the data of the Special Department for Combating High-Tech Crime and the Department for Suppression of High-Tech Crime, out of 478 criminal reports, 74% were related to fraud, i.e. serious theft involving VA, and 15% to the crimes of theft, serious theft and computer fraud. The remaining 11% involved the crimes of unauthorized access to a protected computer, computer system or computer network, computer sabotage, destruction and damage to computer data. Relative to the previous NRA, it should be highlighted that citizens have become familiar with both legitimate and illegitimate methods of earning through VA owing to the widespread use of the Internet, and awareness of the frequent forms of abuse (through pop-up windows promising enormous profits from trading virtual currencies). That is why, in the last four years, many citizens, even without any practical knowledge of virtual currency trading, decided to trade through platforms that were often investigated by the countries where they were registered. Others were, because of weak or no control, registered in the so-called tax havens. The amounts for which legal and natural persons were defrauded, by all three forms of criminal offences, most often ranged between EUR 250 (the amount most often requested access fake cryptocurrency trading platforms on the stock market) and EUR 10,000. A medium number of cases, related to blackmail software and cryptocurrency theft, include amounts from EUR 10,000 to 100,000. The least frequent cases of theft and fraud related to cryptocurrencies, amount from EUR 100,000 to 350,000, while the cases of blackmail software involve the highest but at the same time also the least frequent amounts requested in cryptocurrencies, ranging from EUR 100,000 to 500,000.

According to the statistics of the Special Department for the Fight against High-Tech Crime, the total amount of the estimated economic loss caused by VA-related criminal offenses, prosecuted by this prosecutor's office, amounts to about EUR 8,000,000.00. At the same time, the amount of illegal proceeds obtained by the VA-related criminal offenses is EUR 8,000,000.00, since it is equivalent to the economic loss of the victims. The reason for the eleven-fold increase in loss, i.e. proceeds, relative to the previous Risk Assessment is described above.

Based on the data of the courts about final court decisions for ML, it was established that no final judgments were passed in the observed period for the criminal offense of ML using VA.

In the observed period in Serbia, there were no recorded cases of TF using VA or using VASP services.

When it comes to the APML, the main source of information are SARs filed by obliged entities. Many of the SARs cite forgery of documents, fraud, conversion of proceeds from crime into VA, etc., as predicate criminal offenses. The APML did not have cases in the observed period of financial intelligence sharing with foreign counterparts through the encrypted Egmont Group platform, in relation to VA theft. The reason is the ever-increasing exchange of information with an international dimension through prosecutor's offices, i.e. through MLA in criminal matters. This does not apply to the sharing of spontaneous information from the foreign counterpart FIUs, which can be found below.

The APML analysis of SARs filed by obliged entities in most cases can identify the phenomenon of conversion of funds of dubious origin into VA. In other words, purchases are often made both by individuals and by legal entities using VA money, which is believed to originate from criminal activity. Namely, many of the SARs filed describe the suspicious activity of cash, whose origin is unclear, being deposited into the bank accounts of natural persons, and then used for the purchase of VA, or the funds believed to be proceeds are moved just to be subsequently converted into VA. Also, cases of non-cash transactions between related legal entities were identified as having unclear economic justification. In other words, these transactions are believed to be fraudulent legal transactions, whereby a part of the funds is used for the purchase of VA.

In the observed period, obliged entities under the AML/CFT Law did not report to the APML any suspicious activities related to TF, with links to VA.

In the following period, it is necessary to invest in technological equipment, software tools, knowledge and human resources for the successful conduct of investigations, seizure of VA and management of VA seized in relation to the above criminal acts.

VASPs should pay attention in cases where:

- there is suspicion that virtual currencies are being used to pay for goods and services on the *Darknet* ;
- there is a suspicion that blackmailing software - *ransomware* - is being used;
- there is a suspicion that virtual currencies are used for extortion - *blackmail* and *sextortion*;
- there is suspicion of unauthorized access to client wallets, hacking of registered accounts and similar computer fraud;
- there is a suspicion of business abuse and creation of a Ponzi (pyramid) scheme;
- when executing transactions, software for enhanced anonymity of transaction participants (*tumblers* and *mixers*) is used, or when exchanging virtual or official currencies for virtual currencies with enhanced anonymity (Monero, etc.);
- register transactions related to risky areas;
- provide services to foreign citizens who come from risk areas and who possess Serbian ID documents issued on the basis of temporary residence;
- incomplete details regarding the order for the execution of transactions in favor of NPOs (endowments, associations, foundations, etc.) or in favor of natural persons connected with such organizations;
- funds arrive or are sent to trading platforms VA - *Peer2Peer* platforms;
- funds arrive or are sent to unregistered and unlicensed VASP in the country or abroad.

The listed suspicions may be related to both ML and TF.

Based on APML experience so far, there are several shortcomings in the VASP sector, the misuse of which can affect the exposure and vulnerability of the entire sector, and therefore contribute to an increased risk of TF.

Simplified procedures for online identification of clients on foreign platforms and for document delivery may facilitate misuses such as alteration or forgery of personal ID documents,

decisions on temporary residence of foreign citizens, transactions histories or bank account balances, and identity theft.

The APML received a total of eight spontaneous information through the Egmont Secure Website in the reporting period. This information was shared with the APML because of their links with Serbia. In the same period, APML also received spontaneous notification about a large number of natural persons who engaged in so-called *stock price liquidity trading* (trading to increase capital liquidity). Cryptocurrency deposited by these individuals on that platform had the same origin. After the funds were deposited, they were then transferred back to the original source before the next person begins the same process.

In addition, in 2024, APML received one SAR from a counterpart involving natural persons, Serbian citizens, who invested their funds in cryptocurrency, and who were suspected to have acquired the funds through the crime of fraud. This information was transmitted to the competent state authority.

At the same time, also in 2024, the APML sent a request to its counterparts for information on non-cash inflows in favor of a resident legal entity, whose registered activity was computer programming, which in a short period of time received non-cash funds through Kraken - a VA trading platform, from Liechtenstein and the USA. Exchange and collection of information from foreign counterparts is underway. Also, there was a noticeable increase of the number of cases where funds were withdrawn from stolen or cloned credit and debit cards, and due to various fraudulent activities with prepaid cards.

3.3. Conclusion

Risk matrix 1

No.	Item	Likelihood Estimate (L)	Consequence Assessment (C)	Risk Rating (L x C)
1.	Aggravated theft	3	0.5	1.5
2.	Ransomware	3	0.5	1.5
3.	Fraud	4	0,75	3
4.	Other scams	2	0.5	1
5.	Exchange of proceeds (unauthorized disposal of funds from payment accounts in banks) for VA through VASPs	2	0.5	1

Related vulnerabilities: *Insufficient user knowledge and awareness about the potentials for abuse for the purpose of committing the above criminal offences, encryption of user data, and in exchange for their decryption a ransom is demanded in VA, possible practical problems in the implementation of the regulatory framework related to the seizure and storage of VA, as well as the lack of case law in such cases. Weaknesses regarding the establishment of the origin of funds and/or VA when performing transactions through VASPs.*

Related threat: *Criminals gain access to sensitive user data (e.g. credit card data, account numbers, private keys) which they can use to commit crime, use of embezzled funds for ML and TF. Banking service users' data is misused by responsible persons of banks or forgery of such data, the funds obtained or misappropriated are used for ML/FT.*

Description of the event: *The above crimes mainly included hacking of digital wallets or email addresses, misuse of payment cards or current account numbers, as well as phishing. In addition, the agent in the bank's branch had used the funds in the client's account without authorization, which she then exchanged for VA through VASP.*

Description of the risk: *The risk of this type of criminal offense is mainly related to insufficient knowledge of cyber security and all aspects arising from it, which are closely related to the VA area and products arising from it. The possibility of also abusing the availability of personal and financial data about product/service users by misusing the job post in a bank or other financial institution, thereby acquiring proceeds that can further be used for criminal activities.*

Other findings

Based on the Risk Level Matrix, we can conclude that the VA-related criminal offenses include: fraud, theft and aggravated theft, forgery and abuse of payment cards, and use of blackmail software. The analysis shows that the consequences involved are moderate (the volume of ML can be compared to the operations of a small company), while the risk probabilities are: medium for "other frauds", high for "serious theft" and "ransomware" and very high for "fraud". In the coming period, efforts will be made to raise the awareness of citizens and businesses about the possibilities of abuse (e.g. phishing, various types of fraud, misuse of payment cards), and to improve capacities (e.g. additional training of LEAs) in order to suppress these crimes.

The data available to LEAs have an effect on the mitigation of the risk for ML/TF through VA because medium and lower amounts are used to commit these crimes, with a tendency towards a moderate risk, due to the constant increase in cryptocurrency value through market capitalization, and the very nature of ransomware software, theft and cryptocurrency scams which motivate criminals to engage in further transactions to hide the origin of their cryptocurrency through private cryptocurrencies, mixer or *coin join* services, and then transferring them to fiat currency.

The VA-related ML case of the Higher Public Prosecutor's Office in Novi Sad - Special Department for Suppression of Corruption, has revealed deficiencies when it comes to identifying the origin of funds, i.e. VA used in transactions carried out by VASPs, so the supervisory authorities will pay particular attention to this in future.

A potential threat from FT using VA includes the use of VA by persons linked to terrorism and TF through direct contact, i.e. through P2P exchange/transactions, without the intermediary of a licensed/registered VASP. This is the cause of the highest residual risk for TF through VA, given the absence of prior CDD measures. In order to mitigate the risk to a certain extent, VASPs should be especially careful when they deal with clients who are linked with countries with an active terrorist threat and regularly monitor publicly available global TF typologies through VA.

Chapter 4: AML/CFT risk assessment according to client/user profile

4.1. Hypothesis

In accordance with the Decision on the Guidelines for Implementing the AML/CFT Law for obliged entities supervised by the National Bank of Serbia, which was modeled after the FATF High Risk ML/TF Indicators, VASPs supervised by the NBS should consider product risk (services related to virtual currencies), client risk and geographic risk in the provision of services related to virtual currencies.²²⁸

VASPs in Serbia cannot provide services to clients with whom they have not previously established a business relationship (except in the case of the exception referred to in Article 16a AML/CFT Law), which significantly contributes to the prevention of potential ML/TF abuse.

Table 1 provides an overview of the number of VASP clients, by type, as on December 31 of any given year.

Table 1. Overview of the structure of VASP clients, by age

Year	2021	2022	2023
Non-resident natural persons	30	354	551
Non-resident legal entities	/	/	18
Resident natural persons	10,920	16,315	18,860
Resident legal entities	71	131	213
Resident entrepreneurs	17	34	50
Officials (PEPs)	9	14	16
Legal entities with a complex ownership structure	2	2	9
NPOs	/	1	/
Clients dealing in the trade of hunting and sports equipment	/	/	/

The majority of VASP clients are natural persons, followed by legal entities, while entrepreneurs account for a smaller share. The clients are mainly residents. There was a growing trend, in the observed period, of the number of clients, especially non-residents, which can be explained to a certain extent by the increased number of migrants due to the war in Ukraine, although the total number of non-residents is still small. All clients with whom a business relationship was established have the right to use all services for which VASP is licensed.

VASPs strictly apply the AML/CFT regulations in their regular business operations, whereby they check and monitor their clients in an ongoing manner. Where they identify suspicion, they take measures such as blocking of funds and conducting an in-depth analysis of the suspicious transactions. Also, enhanced CDD is an integral part of their process of monitoring and mitigating the ML/TF risk.

4.2. Demonstration

VASPs identify and verify the identity of their clients in accordance with the AML/CFT Law. One VASP currently identifies its clients through a video-identification procedure and this

same VASP applies the exception from Article 16a of the AML/CFT Law. Serbia's evaluation for technical compliance with FATF Recommendation 1 in the 5th round of mutual evaluations by MONEYVAL found a deficiency in terms of an insufficient link between the exceptions and the risk assessment findings, i.e. the exceptions in place were not based on the low risks found at the national level. For this reason, the present NRA has paid special attention to the exception from Article 16a. This exception can only be applied to natural persons and only if, in accordance with the risk analysis, it is estimated that there is a low risk of ML/TF and if all other conditions set out in the AML/CFT Law are met (the value of an individual transaction using a VA is less than RSD 15,000, regardless of whether it is one or more interconnected transactions, where the value of such transactions by a certain client does not exceed RSD 40,000 monthly, or RSD 120,000 annually, the VASP has secured a tested and verified technical solution that enables the delivery of a copy, i.e. a printout of the client's personal ID document, a photograph of the client and a copy of the document from which the residence address, i.e. residence address of the client can be determined, where the client's personal ID document does not include information about that address, VASP sufficiently monitors transactions using VA so that it can identify unusual or suspicious transactions). Namely, FATF Recommendation 15 does not require CDD to be performed for occasional transactions not exceeding USD 1,000 US, or Euro, but this exception is specified in Article 16a of the AML/CFT Law in a much stricter matter than the FATF requirement, not only in terms of the amount, but also in terms of the obligation to identify the user to whom that exception applies, only in a simplified manner. In law and practice, the Serbian legal framework opted for the amount of EUR 1,000, applied by FATF as a threshold for occasional transactions, as a cumulative amount on an annual level for one client, so the *de facto* threshold of the assumed risk established by FATF is not exceeded. Moreover, simplified CDD are applied to ensure that the individual client undertaking such transactions is monitored in case of accumulation of these amounts.

In addition to introducing numerous mechanisms to prevent the misuse of this exception, the low risk of both ML and TF is indicated by the fact that the exception is applied by only one VASP and in a very limited scope (in the observed period it had only three clients to whom it applied this exception), whereby that exception must be approved through a special procedure by the NBS, which supervises compliance with it. One VASP relies on two payment institutions, in line with the AML/CFT Law, for identification and verification of the client's identity.

The analyzed data suggests that the number of VASP clients who are natural persons is significantly higher than those who are legal persons. The reason for this, according to VASPs, is tax treatment and accounting obligations. When considering these risks, it should be borne in mind that the NBS has established a Register of Holders of Virtual Currencies, which includes data on legal entities and entrepreneurs who hold virtual currencies, regardless of whether they acquired the virtual currencies through a licensed VASP or not (e.g. by mining or direct purchase from the seller of virtual currencies - OTC trading). As of August 19, 2024, the number of legal entities and entrepreneurs using VASP services in this registry, as reported by VASPs, is 210. Also, the provisions of the Law on Payments of Legal Entities, Entrepreneurs, and Individuals Who do not Perform Business are also relevant when considering these risks.

When it comes to ML/TF risks associated with VA investment by companies, it should be pointed out that this phenomenon is rare in Serbia and that, as the analyzed data suggests, it is

evident that legal entities are much less often VASP clients than is the case with natural persons.

Based on the analysis of the VASP sector, it is concluded that VASPs are applying enhanced actions and measures in accordance with the AML/CFT Law. VASP has established business relations with a total of 16 officials and nine legal entities with a complex ownership structure, whereby a trust is recognized in the structure of one of VASP's clients. Officials exclusively used VAs buying and selling services for funds, using the virtual currencies *Tether*, *Bitcoin* and *Etherium*. As for non-resident clients, there is a growing tendency in the observed period, and at the end of 2023, the total number of non-resident clients was 569, of which 551 were natural persons and 18 non-resident legal entities. One VASP stated that it had one client in the form of a non-profit organization (NPO) during 2022, which according to VASP's risk assessment was classified as medium risk.

VASPs have established business cooperation mainly with VASPs that are registered in the USA and the UK. In addition, VASPs provide their services to VASPs based in Lithuania, while using the services of VASPs registered in Luxembourg and Italy.

VASPs have ensured compliance with regulations governing the freezing of assets with the aim of preventing terrorism and the WMD proliferation. When establishing a business relationship, or identifying a client, the VASP will establish whether the client is a designated person. This is done by checking publicly available databases, and the list of designated persons which is available on the official APML website.

According to VASPs, the use of VA for ML/TF is mainly associated with natural persons, persons related to high-risk business sectors, newly-established legal persons/arrangements or legal persons/arrangements, persons who perform large-scale transactions using VA, and legal persons with a complex ownership structure.

When it comes to the financial sector, 22% of banks identified natural persons as the most often associated with the use of VA and/or VASP for ML/TF purposes. Persons associated with high-risk jurisdictions follow, at 19%, as second most risky in terms of potential VA/VASP misuse for ML/TF. This includes countries and territories that have weak or inadequate AML/CFT regulations, making them attractive to criminal activity. Persons engaged in large-scale trade, newly established legal entities and/or arrangements, persons associated with high-risk economic sectors and persons holding multiple VASP accounts are also considered to be the types of clients associated with the use of VA/VASP for ML/TF. The largest number of payment institutions and e-money institutions consider these will be persons associated with high-risk business sectors (e.g. online betting), then persons associated with high-risk jurisdictions and, in general, natural persons, while a slightly smaller number consider such persons to include newly-established legal entities with complex ownership structures or with connections to multiple jurisdictions, followed by persons who operate with large sums of cash, persons who engage in large-scale VA trade and persons who have several different VASP accounts.

As for the rest of the financial sector, 50% of obliged entities cite natural persons, persons associated with high-risk business sectors and persons who operate with a large amount of cash as the type of clients most often associated with the use of digital assets for ML/TF.

Based on the opinion of the financial sector, officials (PEPs) in Serbia use VA and VASP services significantly less compared to traditional financial institutions.

DNFBP sector representatives believe that natural persons are the clients who are most often associated with AML/CFT, and the use of VA by officials (PEPs) is unusual.

4.3. Conclusion

Risk matrix 2

No.	Item	Likelihood Estimate (L)	Consequence Assessment (C)	Risk Rating (L x C)
1.	Transit (layered) ML by non-residents	1	0.5	0.5
2.	ML by residents from the predicate criminal offense of domestic origin	2	1	2
<p>Related Vulnerabilities: <i>The VASP client base in Serbia is limited primarily to resident natural persons, who perform simple VA transactions, while higher risk categories such as legal entities, non-residents, PEPs and NPOs are few, and the de facto supervisory authority can carry out detailed supervision of their business operation through VASPs if necessary. All these categories of clients were subject to checks during the recent onsite supervision of VASPs.</i></p>				
<p>Related threat: <i>The observed increase in the number of non-resident clients increases the potential threat from external predicates.</i></p>				
<p>Event description: <i>Hypothetical scenarios related to the use of VASP by non-residents, taking into account the development of international links by these VASP, may eventually lead to a layered ML scenario, where Serbia might be used as an intermediary. Resident clients involved in criminal activities can also use VASP for simpler ML operations aimed at investment or concealment (layering), and potentially for committing criminal offences which are the sources of the main threats identified in Serbia, such as organized crime, drug trafficking, fraud and corruption.</i></p>				
<p>Risk description: <i>Transit (layered) ML by non-residents; ML by residents of proceeds from predicate criminal offenses of domestic origin.</i></p>				

Other findings

Regarding the type of clients, there are ML/TF risks, given that VASPs in Serbia provide their services to both natural and legal persons, residents and non-residents. However, the risks have been mitigated owing to the strict KYC requirements applied by VASPs in Serbia based on the AML/CFT Law, including the application of enhanced CDD in certain cases, and whenever due to the nature of the business relationship, the form and manner of carrying out the transaction, the business profile of the client, or other circumstances associated with the client there is or may be a high ML/TF risk. One VASP offers the possibility of video-identification to its clients and the same VASP applies the exception from Article 16a AML/CFT Law, but in this respect the risks are significantly mitigated, bearing in mind the strict requirements that the VASP must fulfill in accordance with the regulations of the supervisory authorities governing video-identification, as well as in accordance with Article 16a of the AML/CFT Law if they intend to apply the exception in that Article. In addition, the National Bank of Serbia

carefully monitors the application of this exception, and in case of its increased use, it will consider taking additional measures, i.e. its further justification.

In addition, risks exist because VASPs provide their services to officials (PEPs), but they are significantly mitigated since VASPs apply enhanced CDD on officials and because the number of officials who use VASP services is negligible.

However, evident changes in the structure of licensed VASP clients in Serbia, compared to 2021, especially the increase in non-resident clients, require special attention in the coming period. Nevertheless, VASPs in Serbia apply *KYC* procedures, which include a detailed check of clients when establishing business relationships, and the collection of additional documentation, such as proof of origin of the client's funds. VASPs check relevant international lists for their clients, such as the UN sanctions list, OFAC sanctions list, Serbian domestic list, etc.), and they also use specialized databases such as *Lexis Nexis*, in order to further strengthen the ML/TF risk management process. Detailed checks and analyzes are carried out both at the establishment of the business relationship and in the course of the relationship, which ensures constant control and compliance with relevant regulations.

VASPs cooperate with foreign VASPs, but they are required to make a prior notification to the supervisor, which together with the requirement that the country of the foreign VASP origin must comply with the AML/CFT standards mitigates these risks to a significant extent. Given that Luxembourg, Malta, Estonia and the United Kingdom are among the jurisdictions listed in Statistical Table 1 and bearing in mind the VA regulatory framework in these jurisdictions, as well as their importance for the European VA market, the National Bank of Serbia in February 2023 entered into a Cooperation Agreement with the Luxembourg Financial Sector Surveillance Commission (The Commission de Surveillance du *Secteur Financier* - *CSSF*), and in August 2024 with the Malta Financial Services Authority. Consultations and negotiations regarding the conclusion of a cooperation agreement with the FIU of Malta, and the FIU of Estonia, are ongoing. The National Bank of Serbia initiated the conclusion of a cooperation agreement with the Financial Market Authority of the United Kingdom. There are plans to initiate cooperation with other supervisory authorities of countries where the VASPs operate and/or with which they have business relations, with the aim of exchanging data in the licensing and supervision procedures.

Chapter 5: ML/TF risk assessment based on relationships with other business sectors

5.1. Hypothesis

This section describes the extent to which ML and TF cases involving VA and VASP rely on sectors other than the VASP sector. The use of VA in other economic sectors **is either not allowed or such sectors are not known for such VA use.**

VA in Serbia is mainly used in the IT sector, especially by companies engaging in blockchain technology to a certain extent, for the development of products and services. In other sectors, VA is used very little, mostly by individuals who play video games on the Internet.

5.2. Demonstration

When considering the ML/TF risks linked with the use of VA to obtain FI services (e.g. payment of insurance premiums in VA), such risks were identified in Serbia as early as 2013

and 2014, when the National Bank of Serbia took the position that FIs may not use VA to provide their services. With the adoption of the LDA, this very restrictive regime for using VA in the financial sector was solidified. In addition to the above, when considering the ML/TF risks associated with the use of VA to obtain FI services, it is important to highlight that the restrictions related to FI are consistently implemented in practice. Namely, the National Bank of Serbia, which carries out comprehensive (offsite and onsite) supervision of most of the FIs, has so far not found that FIs it supervises use VA to provide their services. Regarding the relationship with VASPs as clients, in 2021, most banks had a rather restrictive approach to establishing business relationships with VASPs. One of the motives is the awareness of the high risk that this type of transactions may pose, including ML/FT risks. During this period, most banks prohibited the provision of financial services to VASPs and disallowed any form of business cooperation with them. A similar approach was maintained by banks in 2022, although there was a slight increase in the number of banks which began to allow certain types of services for VASPs, but under very strict conditions (e.g. allowing the execution of limited transactions by VASPs licensed in Serbia, and only when they paid regular accounts, while transactions by VASP clients were still prohibited). Until 2023, some banks have allowed the opening of accounts for VASP clients, including the possibility of purchasing VA through VASPs established abroad, while some banks have allowed the provision of services to VASPs licensed in Serbia. Nevertheless, a significant number of banks maintained their restrictive policy, which together with strict supervision and control measures testifies to the caution and high standards applied in ML/TF risk management by the banking sector.

Out of a total of 15 payment institutions and e-money institutions, two payment institutions and one e-money institution stated that they provided financial services to VASPs, but that they did not actually have any VASPs as permanent clients. They also stated that VASPs did not hold any payment accounts with them (being prohibited), but that it was possible to make a payment transaction at those institutions related to VA trade. Other institutions (12 of them) stated that they did not provide financial services to VASPs, and that they carry out CDD, transaction monitoring, etc. based on which they could see whether VA was used by those clients. One institution clarified that, if based on the implemented CDD, the person who issues VA or VASP appears as a client – the contract would not be concluded, and therefore such transactions would not be executed at the institution.

As for the rest of the financial sector, the analysis of the data provided by 63 obliged entities (nine insurance companies, 12 companies for managing (investment and voluntary pension) funds, seven providers of financial leasing, 26 insurance intermediaries, nine broker-dealer companies) has indicated a high level of caution in the Serbian financial sector with regard to VA and VASPs. None of the listed obliged entities allow the execution of transactions related to VA. This was confirmed in 100% of cases, suggesting that there is a strong consensus in the financial sector on the necessity to avoid engaging in these types of transactions due to potential risks and regulatory restrictions. Additionally, none of these institutions provide financial services to VASP, which also indicates an awareness of the risks and a lack of interest in engaging in this sector. All obligors stated that they have no exposure to VA, such as investments in VA or financial derivatives linked to VA. This further confirms the conservative approach and risk avoidance that may be associated with these forms of assets.

With regard to the DNFBP sector, bearing in mind that the acceptance and/or transfer of digital assets directly from the consumer to the merchant is prohibited based on the LDA, the risks of AML/CFT associated with the use of VA to obtain the services of non-financial institutions,

the use of VA to access online gambling (except for what takes place in the casinos) and online video games and using VA for the purchase of other types of (unregulated) goods and services must be considered in the light of the fact that the possible use of VA in these sectors must be exclusively through licensed VASPs who are obliged to carry out all actions and measures in accordance with the regulations from the area of ML/TF prevention. Currently, in Serbia, no VASP has a license to provide the service of accepting VA in exchange for goods and/or services.

The sectors in which VA is most often used for AML/CFT purposes, according to VASP, are processors of special games of chance, intermediaries in the sale and rental of real estate, online gambling (except for that in casinos) and online video games. Nevertheless, VASP believe that the use of VA in these sectors does not have a significant impact on the execution of criminal acts in economic activities.

The opinion of the largest number of banks is that the influence of the use of VA and VASP on the commission of criminal offenses in the financial sector is relatively small, while more than half of payment institutions and e-money institutions (eight of them) think that this influence is quite insignificant, and slightly less than half the institution (seven of them) thinks that this influence is to some extent significant. As for other obliged entities from the financial sector, regarding the use of VA for the commission of criminal acts in the sector is considered rather insignificant by all obliged entities.

The majority of obliged entities from the DNFBP sector believe that the impact of the use of VA and VASP on the execution of criminal offenses in those sectors is rather insignificant or extremely insignificant. In connection with the assessment of the risk of AML/CFT associated with investing VA in commercial enterprises, the judicial practice even before the adoption of the LDA was explicit in the position that it is not possible to invest VA in commercial enterprises, and the adoption of the aforementioned law stipulated that virtual currencies cannot be entered as a stake in a company, they can already be converted (exchange) for money and pay into the company as a monetary contribution, but non-monetary contributions to the company may be in digital tokens that do not relate to the provision of services or performance of work. It is important to consider the aforementioned risks that the National Bank of Serbia has established the Register of Holders of Virtual Currencies, which contains data on legal entities and entrepreneurs who are holders of virtual currencies, regardless of whether they acquired the virtual currencies by using the services of a licensed provider of related services with or without virtual currencies (e.g. by mining or on the basis of direct purchase from a seller of virtual currencies - OTC trading). As of August 19, 2024, the number of legal entities and entrepreneurs who have virtual currencies in the above-mentioned records who submitted data independently is 52. Also, when considering the above-mentioned risks, the provisions of the Law on Executing Payments to Legal Entities, Entrepreneurs and Natural Persons who do not perform business activities, are also relevant.

When it comes to the risks of AML/CFT associated with the investment of companies in VA, it should be pointed out that this phenomenon is rare in Serbia and that based on the analyzed data it is evident that legal entities are much less often clients of VASP than is the case with natural persons.

The Customs Administration of Serbia had no knowledge of criminal acts that could be linked to VA. In addition, no special economic zones have been identified in Serbia that could be used for AML/CFT in connection with VA abuse.

In the observed period, the APML had no reports of suspicious transactions related to the use of VA, which rely on other economic sectors, nor did it exchange such data with foreign counterparts through the Egmont Secure Website in the indicated period.

As for the repressive part of the system, according to the data of the High-Tech Crime Suppression Department and the High-Tech Crime Special Department of the Higher Public Prosecutor's Office in Belgrade, in the observed period there was one case of international cooperation after a request was submitted to the competent authorities of the Republic of Korea, after which the Special the department for high-tech crime submitted to the court a request for temporary confiscation of property, which was approved.

Namely, Do Kwon, a citizen of the Republic of Korea, the former financial director of the company *Terraform Labs*, has been charged before the authorities of the Republic of Korea for a complex fraud related to the cryptocurrency *Terra* (LUNA) which led to a significant loss in the value of that cryptocurrency. According to the charges, he intentionally created false financial statements and manipulated data to irregularly influence the prices of LUNA tokens. Do Kwon lived in Serbia, in an apartment worth two million dollars in Belgrade, municipality of Savski venac. According to official data from the Real Estate Cadaster Service, the apartment is owned by Han Chang-Joon, a citizen of the Republic of Korea, who was arrested together with Do-Kwon when they tried to escape from Montenegro to the United Arab Emirates. The apartment is currently in the process of seizure by order of the prosecutor.

In addition to the aforementioned case, in November 2022, the Ministry of Justice of Serbia signed the Agreement on the establishment of a joint team between Serbia, which was represented by the Special Department for High-Tech Crime and the Department for Suppression of High-Tech Crime, then the Federal Republic of Germany, the Republic of Bulgaria and Republic of Cyprus. In this action, the Special Department for High-Tech Crime, in cooperation with the Department for the Suppression of High-Tech Crime, and in the presence of public prosecutors, conducted searches in four call centers on the territory of Belgrade. Legal entities, their founders and responsible persons in these legal entities are accused of organizing the same, mutually unrelated call centers, which contacted citizens of various countries and misled them via the Internet and VoIP calls, that they could make a profit from investing in virtual currency.

In the specific case, three persons are accused of having committed the ML crime as a group, since the assets described above were paid by injured foreign nationals to these fraudulent call centers and then converted into various virtual currencies (most often Bitcoin). They were then further transferred to several digital wallets, from where they were transferred to services for "mixing" in order to cover their tracks. The investigation against the persons was terminated until they become available to the criminal prosecution authorities of Serbia, all with the aim of preventing the onset of the relative statute of limitations. The person who is suspected of having organized and maintained the entire structure is not a Serbian citizen and is not available to our criminal prosecution authorities, but two apartments in the territory of Belgrade were confiscated from him, which are assumed to represent property that resulted from a criminal offense.

What would be important to point out in this particular case is the international element in the existence of all these complex criminal acts of fraud and the necessity to react urgently in order to collect the highest quality electronic evidence, which was fulfilled in this particular case.

Namely, in cases where the citizens of Serbia are harmed in the manner described, the calls come from abroad, so it is necessary to quickly identify the locations from which the calls are made in order to eventually locate the perpetrators, which also makes the use of services like VPN much more difficult.

5.3. Conclusion

Risk matrix 3

No.	Item	Likelihood Estimate (L)	Consequence Assessment (C)	Risk Rating (L x C)
1.	Integration of "dirty money" from foreign fraudulent activities with VA into real estate	2	0.8	1.6
2.	Layering of "dirty money" using VA and online games of chance	1	0.2	0.2
Related Vulnerabilities: <i>Vulnerabilities in the controls of the DNFBP sector regarding the purchase of real estate (lawyers, notaries, real estate brokers) and organizers of games of chance.</i>				
Associated Threat: <i>Threat arising from predicate crimes from domestic sources and involvement in international fraudulent activities; Foreign fraud threats related to VA.</i>				
Description of the event: <i>Frauds committed abroad using VA and foreign VASP generate significant amounts of income, which are partly invested (integrated) in Serbia, primarily in the real estate sector. Other segments of the financial system, particularly the banking sector, as well as the DNFBP sector (lawyers, notaries and real estate brokers) are also subject to potential involvement. Predicate crimes in the country generate revenue, which is converted into VA and subsequently laundered through online gambling.</i>				
Risk description: <i>Integration of "dirty money" from foreign fraudulent activities with VA in real estate; Layering of "dirty money" using VA and online games of chance.</i>				

Other findings

Based on the data specified in chapter 5.2. and Statistical Table 3 it is concluded that in Serbia there are no sectors in which VA/VASP is significantly used.

Regarding the ML/FT risks associated with the use of VA to obtain FI services, taking into account the restrictive regime (prohibition) of the use of VA by FI (both before and after the adoption of the LDA), the fact that restrictions related to FI are implemented consistently in practice, the small number of FIs that their business policies allowed establishment of business relations with clients who are VASP, it can be concluded that there are numerous mechanisms in place that contribute to the impossibility of realizing the aforementioned risk.

In terms of ML/TF risks associated with the use of VA to obtain services from non-financial institutions, the use of VA to access online gambling (other than that which takes place in casinos) and online video games and the use of VA to make purchases of other types (unregulated) goods and services, bearing in mind that the possible use of VA in these sectors must be exclusively through licensed VASPs who are obliged to carry out all actions and

measures in accordance with the regulations in the area of prevention of AML/CFT, the fact that no VASP has such a license, as well as the existence of the Register of holders of virtual currencies, it can be concluded that the mentioned risk medium, primarily due to the possibility of using VA online (e.g. for online gambling on foreign platforms or video games), which is difficult to monitor.

With regard to the risks related to the use of VA for investing in commercial enterprises, bearing in mind that investing virtual currencies in commercial enterprises is not allowed, that the Register of holders of virtual currencies has been established, that companies in Serbia must perform transactions using the services of payment service providers and possess current account in the bank, that the use of cash is limited, it can be concluded that there are numerous mechanisms in place that contribute to the elimination of the mentioned risk.

Regarding the risks related to the investment by companies in VA, given that this phenomenon is very rare in Serbia and that based on the data provided by VASPs, it is evident that legal entities are much less often clients of VASPs than is the case with natural persons, that companies in Serbia must carry out transactions using the services of payment service providers and have a current account in the bank, that the use of cash is limited, and given that the Register of holders of virtual currencies has been established, it can be concluded that this risk is low.

Bearing in mind the case handled by Serbian investigative authorities, as well as the fact that it is a known global typology, obliged entities should pay special attention to clients who provide call center services.

Chapter 6: AML/CFT risk assessment by type of VA / VASP service

6.1. Hypothesis

As on December 31, 2023, two companies were licensed to provide VA-related services. Both VASPs provide the services of receipt, transfer and execution of orders related to the purchase and sale of VA for third parties, services of purchase and sale of VA for cash and/or funds in a bank account and/or e-money, the service of VA exchange for another VA, as well as the service of VA storage and administration for a VA user. One VASP also provides a VA portfolio management service. One VASP provides their services through cryptomat, namely only the service of buying and selling VA for cash and to private clients only.

Concerning the types of VA, VASPs in Serbia mostly operate with virtual currencies *Bitcoin (BTC)*, *Ethereum (ETH)*, *Litecoin (LTC)* and *Bitcoin Cash (BCH)*. These virtual currencies are easily accessible and extremely liquid, but they are not stable, on the contrary, their value fluctuations are frequent and can be extremely large. Both VASPs in Serbia operate with stable virtual assets (*Tether, USD Coin*), which are stable, available and liquid, although less liquid compared to, for example, *Bitcoin* and *Ethereum*.

Since the beginning of the implementation of the LDA and the Law Amending the AML/CFT Law,²²⁹ VASPs do not do business with VA that indirectly or directly allow for client anonymity (anonymous DIs, such as *privacy coins*), bearing in mind that such business is explicitly prohibited in Serbia by the AML/CFT Law. VASPs also may not use hardware or software solutions that allow or facilitate client anonymity and/or that disallow and/or make

²²⁹"Official Gazette of RS", No. 153/2020.

VA transaction tracking difficult (such as mixing protocols). VASPs do not allow decentralized or P2P transactions associated with VA. A company applying for a VASP license is obliged to enclose and file to the NBS or Securities Commission, a list of VA it plans to do business with, and to submit all planned changes and/or additions to such a list in advance, in order to verify compliance with this prohibition.

In the observed period, APML received SARs from VASPs, which mainly involved the trading in *Tether*.

According to the data of the Ministry of Interior's Department for Suppression of High-tech Crime, *Monero*, *ZCASH* and *DASH* are currently the most used for committing crime.

6.2. Demonstration

VAs that pose the highest ML/TF risk are: anonymous VA (so-called *privacy coins*), *Bitcoin* because it is easily available and extremely liquid, and stable VA because it does not change its value relative to the currency to which it is tied. Closed VA carries the least risk since it can only be used within a restricted network and cannot be transferred or sold.

Table 2 provides data on the number and value of transactions performed by VASPs in the observed period as part of the service of VA purchase and sale for money, classified by VA and client type.

Table 2. Number and value of transactions by type of VA, by year

VA type	Year	Natural persons		Entrepreneurs		Legal entities	
Number and value of transactions (in RSD)							
Bitcoin	2021	18.772	1.663.165.306	40	22.836.507	3.349	226.561.892
	2022	13.599	813.712.302	44	19.611.812	232	346.177.353
	2023	10.262	726,164,562.49	16	2.477.251	74	468,078,893.11
Bitcoin Cash	2021	1.381	33.773.957	/	/	167	2.901.690
	2022	1.025	20.186.794	/	/	/	/
	2023	419	6.950.818	/	/	/	/
Cardano	2021	11	3.749.321	1	1.900.000	/	/
	2022	3	504.758	/	/	/	/
	2023	1	12,000	/	/	/	/
Ethereum	2021	14.811	1.307.796.495	56	18.004.490	2.281	87.348.328
	2022	5.003	432.645.859	12	3.497.072	53	29.751.659
	2023	3.367	308,114,933.23	8	787.562	42	22,728,586
Litecoin	2021	21.097	604.111.618	1	60.000	3.445	64.229.103
	2022	15.036	414.761.953	/	/	80	4.479.272
	2023	11.083	280.935.038	4	570.284	6	832.910
Tether	2021	5.799	1.333.915.536	8	1.692.211	619	415.975.583
	2022	3.617	1.289.040.617	85	37.325.245	563	2.785.407.891
	2023	5.356	1,148,754,186	38	7,309,980.23	437	4,665,532,494.47
Ripple	2021	2	750.000	/	/	/	/

	2022	/	/	/	/	/	/
	2023	2	226.464.655	2	327,741.89	/	/
USD Coin	2021	10	60.319.807	/	/	6	19.396.820
	2022	9	137.509.442	14	6.244.904	49	563.977.908
	2023	334	47.078.429	12	7.198.283	80	361.405.754

An analysis of the data shows there is a noticeable increase in the use of stable VA (especially *USD Coin*), both by individuals and legal entities, and a decrease in the use of unstable VA (*Bitcoin (BTC)*, *Ethereum (ETH)*, *Litecoin (LTC)*). This is probably because it is a stable and liquid VA, and because VA which is not stable, and especially *Bitcoin*, saw frequent and high fluctuations of value in the observed period.

All these types of VA are also susceptible to security risks (blockages, hacking, attacks), but VASPs are obliged to ensure stable and secure operations, especially when it comes to the management of the VASP's VA-related ITC system, in accordance with the supervisors' regulations.²³⁰ In accordance with these regulations, VASPs, among other things, must establish an incident management process that will allow for a timely and effective response in the event of violation of the security or functionality of the ICT system resources and to notify the supervisor of the incident that seriously threatened or violated its business, i.e. which could seriously threaten or damage its business operations.

Table 3 provides an overview of the number and value of transactions made through cryptomats, by year and type of VA.

Table 3. Number and value of transactions via cryptomats, by type of VA

VA type	Year	Number of transactions	Value of transactions (in RSD)
Bitcoin	2021	2.830	84.357.300
	2022	1.911	83.761.000
	2023	2.061	101.926.500
Ethereum	2021	255	4.779.900
	2022	98	2.663.100
	2023	140	4.316.800
Litecoin	2021	1.690	46.033.100
	2022	922	37.031.000
	2023	752	35.921.500

Concerning the buying and selling of *Bitcoin* via cryptomats, number and value of the transactions was stable in the observed period, with a noticeable decrease of buying and selling *Litecoin* in this way. *Ethereum*, on the other hand, had a record growth in 2023 compared to

²³⁰ LDA, Decision on the conditions for virtual currency service provider ICT system management and Rulebook on the conditions of digital token service provider ICT system management.

2022. Relative to the previous risk assessment, there is a significant decrease in the number and value of transactions made using cryptomats, which is, among other things, a consequence of the decline in the number of cryptomats in Serbia. Given that only one VASP allows transactions through cryptomats, and allows them only to users with whom it has a prior business relationship under the AML/CFT Law, and the above data concerning the use of cryptomats compared to the previous risk assessment, we can conclude that risks of using cryptomats in Serbia decreased significantly. Nevertheless, the supervisors pay special attention in their examinations to the use of cryptomats and actions and measures taken when carrying out transactions using cryptomats, given the use of cash in the process. Therefore, supervisors will continue to focus on this in the period to come.

When it comes to private sector opinion research, according to VASP, the ML/TF threat in the VA sector is posed by anonymous virtual currencies (*privacy coins*), as well as OTC trading and P2P transactions. VASPs stated that the inability to monitor OTC trading and P2P transactions constitutes a vulnerability of the VA sector. In the context of Serbian VASP operations, identification of the origin of the VA being sold is a vulnerability, especially where VA was acquired several years before. In VASP's opinion, anonymous VA (*privacy coins*), especially *Monero (XMR)*, VA within restricted networks (like video games), NFT, are the most used for ML and TF, as they can be used to transfer funds in a way that makes tracking and transmission control difficult. In addition, VASPs believe that stable VA, as well as *Bitcoin*, is often used for these purposes because it is easily available and extremely liquid. Serbia does not allow VASPs to do business with anonymous VA, so such business, generally speaking, does not pose vulnerability, but risks related to anonymous VA do exist in relation with the OTC market and P2P transactions, where anonymous VA is used, and the supervisory authorities do not have data on the scope or the type of those transactions.

When it comes to types of VASP, VASPs believe VASPs established or operating in countries that did not regulate the VA/VASP area and do not require licensing of these entities are most often used for ML/TF (the supervisors' opinion coincides with that of the VASPs in this regard). In addition to unregistered/unlicensed VASPs, greater susceptibility to abuse was observed in OTC trading and non-custodial wallets. When analyzing transactions to mitigate their TF risk, VASPs do not use the set transaction limits. However, automated and manual verification of transactions (especially suspicious ones) forms an integral part of the VASP transaction analysis process. Transaction limits are set for the purpose of determining the origin of the client's funds. All customer transactions are summarized at the end of the working week, and some are subject to additional analysis if they cause suspicion. Special attention is paid to transactions using cryptomats, which are analyzed within one working day. In addition, all transactions carried out through the banking system are subject to a special check, which further mitigates the risk. According to VASPs, transactions of smaller amounts (e.g. 100 euros) are considered risky from the TF point of view. An integral part of the process to mitigate this risk includes monitoring of smaller amounts that aim to avoid detection. VASPs pay special attention to interrelated VA transactions destined to countries posing a high TF risk. To date, no transactions have been identified in their business that would be associated with TF risk.

According to banks, *privacy coins*, investment tokens and user tokens are the most risky for ML and TF with a 26% probability of abuse each. VA within restricted networks, with a 19% probability, also poses a significant risk of abuse, but somewhat lower compared to the former. On the other hand, stable VA is, according to the banks, less risky, with a 3% probability of abuse, while Bitcoin, transparent blockchain-based altcoin, and NFTs are not used for ML/TF. Banks were unanimous that domestic VASPs are not used for ML/TF as they are licensed in

Serbia and subject to domestic regulations, which reduces the risk of abuse. However, the banks highlighted that if controls and supervision are not strong enough, even domestic VASP may be misused for ML/TF. When it comes to foreign VASPs, 60% of banks believe that they pose a greater threat for ML/TF, especially if they come from countries with strategic deficiencies in their AML/CFT systems (which is also supervisors' opinion). The greatest danger, according to 90% of banks, comes from VASPs operating without any license, either in Serbia or abroad. Banks also indicated the possibility of using non-custodial wallets and OTC transactions, in which VASPs do not participate.

The types of VAs that most payment institutions and e-money institutions think are the most often used for ML/TF are Bitcoin and other virtual currencies, while a slightly smaller number think they are *Privacy coins*, followed by altcoin based on a transparent blockchain, while some institutions consider these to be NFTs, investment tokens and other types of VA as well. By far the largest number of payment institutions and e-money institutions (11 of them) consider that VASPs that are established or operate in countries that did not regulate VA/VASP and do not require VASP registration or licensing are the type of VASP most often used for ML/TF. Two institutions believe that the most used ones are domestic VASPs, two that these are unregistered/unlicensed VASPs, and one institution believes that foreign VASPs, registered/licensed abroad, are most often used.

As for the rest of the financial sector, all obliged entities identified *Bitcoin* as the most commonly used virtual currency for ML/TF, while half of them also identify altcoins and user tokens as relevant in this context. The largest number of obliged entities (50%) believe that VASPs that are established or operate in countries that did not regulate VA and do not require VASP registration or licensing are most often used for ML/TF. This suggests there is a perception that the lack of regulation and oversight in certain jurisdictions creates room for abuse of these entities for illegal activities. Next in order of frequency are unregistered or unlicensed VASPs, which 39.47% of the obliged entities believe are the most often used for ML/TF. This is a significant indicator that unregulated VASPs pose a serious risk to the legality of their activities. Domestic VASPs, licensed in Serbia, and foreign VASPs, registered or licensed abroad, received the lowest score among obliged entities, with only 2.63% and 15.79% responses, respectively. These data suggest that obliged entities are less concerned about the misuse of these types of VASPs, possibly due to the belief that they are subject to strict regulatory requirements and oversight. About 3.95% of obliged entities believe that VASPs are not used at all for ML/TF, but that this is done using other methods, such as using non-custodial wallets or trading through OTC transactions.

According to the DNFBP sector, *Bitcoin* and *privacy coins* are the most risky. Also, VASPs registered abroad and in countries that did not regulate VA/VASP pose the greatest ML/TF risk. Unregistered and unlicensed VASPs have also been identified as a significant risk.

In the period 2022 – 2024, APML held several meetings attended by VASP obliged entities, highlighting all potential ML/TF threats and risks through this sector, and providing suggestions for proper compliance by VASPs.

With regard to LEAs, at the beginning of 2023, a joint operation by the German and Serbian prosecutors' offices resulted in seizure of funds in the amount of about 1,900,000 US dollars in various virtual currencies that were proceeds from fraud (for more information please see Chapter 5.2 - call centers case).

The case of the Higher Public Prosecutor's Office in Novi Sad - Special Department for the Suppression of Corruption (more details in section 3.2) is also relevant, since the money that the defendant used without authorization was converted into the virtual currency *Litecoin*, through a licensed VASP.

According to the data of the Department for Suppression of High-tech Crime of the Ministry of the Interior, *peer-to-peer buying and exchange of VA* on a larger scale was identified in the observed period, but it is extremely complex to monitor the movement of these transactions, because they mostly involve natural persons who carry out OTC exchange, or through various groups (e.g. Telegram) who meet in person and exchange VA for funds. There are stereotypes of VA addresses of unlicensed VASPs that may be zero or small amounts on wallets with a lot of addresses and a quick transition of VA from one wallet to another.

6.3. Conclusion

Risk matrix 4

No.	Item	Likelihood Estimate (L)	Consequence Assessment (C)	Risk Rating (L x C)
1.	Use of virtual currency <i>Bitcoin</i> for ML/TF	3	0.5	1.5
2.	Use of virtual currency <i>Litecoin</i> for ML/TF	3	0.5	1.5
3.	Use of anonymous VA (<i>privacy coins</i>)	1	0.5	0.5
4.	Links with VASPs that are established or operate in countries that did not regulate VA/VASP and do not require licensing of these obliged entities	1	0.5	0.5
5.	Use of unlicensed VASPs	1	0.25	0.25
Related vulnerabilities: <i>Vulnerabilities related to unlicensed or foreign activities with VA.</i>				
Related threat: <i>Domestic or foreign predicate crimes.</i>				
Risk description: <i>Conversion of proceeds of crime to Bitcoin or Litecoin; use of anonymous VA (privacy coins) in a decentralized exchange and through foreign VASPs. Lower risk of unauthorized provision of VA-related services by natural persons through various means of communication on the Internet (e.g. Telegram groups).</i>				

Other findings

Serbia prohibits the use anonymous VA, and software and hardware solutions and information goods that enable and/or facilitate the client anonymity and/or that prevent and/or make it difficult to track transactions using VA. However, there is a risk that anonymous VA or the above software and hardware solutions and information goods will be used in P2P exchange/transactions and OTC trading, which is why there is a certain degree of risk of ML/TF using anonymous ID in Serbia. In this regard, supervisors' opinion coincides with that of the private sector (VASP), and the experiences of investigative authorities. However, this risk is mitigated by significant restrictions on international VA transactions based on NBS regulations, regardless of the type of VA, and because the international VA transactions made from Serbia are mostly carried out using payment cards. In order to reduce the risk of the VASP

sector, the NBS sent a guidance to the banks on July 12, 2021, through the Association of Serbian Banks, that transactions with VA, as a general rule, pose a high risk, and that banks are obliged in such cases, under the AML/CFT Law, to undertake enhanced CDD. The NBS also highlighted that they are not obliged to enable payment transactions in relation with international VA transactions, even if these transactions are carried out through foreign licensed or registered VASPs, both in individual cases on a risk sensitive basis, and more generally, by not allowing such transactions regardless of the circumstances of the specific case. Therefore, banks cannot perform payment transactions (payment, collection, transfers) related to transactions using VAs that are performed outside of licensed or registered VASPs, including OTC trading or P2P transactions. In addition, during the observed period, NBS representatives repeatedly provided guidance and suggestions at meetings with the Association of Serbian Banks for the purpose of adequate compliance by banks in this area.

Taking into account the above, it is estimated that there is a certain degree of ML/TF risk due to the use of *bitcoin and litecoin*, which are the most represented types of VA on the Serbian market and globally and which have appeared in the cases of the Department for the Suppression of High-Tech of Crime and the Special Department for high-tech crime (in this regard, the supervisors' opinion coincides with the opinion of VASPs) and stable VA, which is increasingly used in transactions through licensed VASP (especially *USD Coin*). There are also risks posed by anonymous VA (*privacy coins*), but in P2P transactions, since VASPs cannot perform transactions using such VA under the AML/CFT Law. As for NFTs, the risks are relatively low considering that they are not known to be issued and used in Serbia. In the observed period, one request was submitted to the supervisor for the approval of a white paper related to the issuance of NFT, but the applicant gave up on it due to the inability to meet the requirements. Also, there are no risks from the use of investment tokens issued in Serbia, because they issued in Serbia solely for the purpose of financing a specific project and based on the approval of the Securities Commission in accordance with the LDA. Another reason is that they are not traded on the secondary market, but can only be redeemed from the issuer. The use of investment tokens issued outside of Serbia is not recognized except for the use of VA, which is hybrid in character (it has the features of virtual currencies and investment tokens).

There are risks related to transactions made through licensed VASPs in Serbia, but are mitigated by strict CDD requirements on VA users, which are applied without exception, i.e. regardless of the value of individual transactions. However, shortcomings have been observed in identifying the origin of funds, i.e. VA used in transactions carried out by VASPs, and the supervisors will pay special attention to this in the following period. Due to the fact that the largest number of international transactions using VA from Serbia are carried out using a payment cards, the risks regarding transactions carried out by residents through foreign VASPs are mitigated due to the restrictions introduced in the NBS regulations, but also by the business policy of the largest number of banks in Serbia (90%) that apply enhanced CDD when executing payment transactions related to VA transactions. However, risks exist because of possibility of online access to foreign VASPs, including those established and operating in countries that did not regulate VA and do not require VASP licensing/registration, as well as the possibility to perform transactions outside of banks (e.g. by exchanging one type of VA to another).

The risks regarding the use of unlicensed VASP in Serbia are very low (compared to all types of VA), since the supervisors continuously monitor the activities on the VA market and promptly react in case of suspicion that VA-related services are being provided without

authorization. However, there is still a slight risk of unauthorized provision of VA related services by natural persons, especially through various means of communication on the Internet (e.g. Telegram groups). Therefore, there are plans to improve cooperation between supervisors and LEAs, especially in information exchange, in order to suppress all modalities of unauthorized provision of VA-related services.

Regarding the types of VA-related services provided by VASP, the risk assessment is as follows:

In relation to the service of receipt, transmission and execution of orders related to the purchase and sale of VA for third parties, provided by both VASPs in Serbia, our assessment is that there is a certain risk of ML/TF when providing this service, since it involves receiving and keeping beneficiaries' funds and VA. This risk is significantly mitigated by the fact that this service can be provided in Serbia only by licensed VASPs who are required to apply strict requirements including to establish a business relationship with each VA user, the application CDD and monitoring the client in each specific case²³¹ and the application of enhanced CDD where prescribed by the AML/CFT Law.²³² Concerning the application of the exception from Article 16a of the AML/CFT Law, it is necessary to take into account the strict requirements for the application of that exception, which are listed in point 4.2., and this makes the risk of it being used for ML low. According to the supervisors' opinion, which coincides with that of VASPs, transactions of smaller amounts (e.g. 100 euros) are considered risky from the point of view of TF. Although the exception from Article 16a of the AML/CFT can represent a vulnerability for TF, this vulnerability is mitigated by the above strict requirements for the application of this exception (it can only be applied if, based on a risk analysis, it is estimated that there is a low TF risk), as well as by an extremely limited scope of application of this exception in practice (it is applied by one VASP only and only with respect to three clients). In addition, an integral part of the process to mitigate this risk includes the monitoring of smaller amounts by VASPs, in order to avoid abuses. VASPs pay special attention to VA-related transactions to countries with a high TF risk. To date, no transactions have been identified that would be associated with TF risk.

In addition, Serbia has an established system of supervision in place. It is performed by the NBS and Securities Commission, with a wide range of administrative, civil and criminal sanctions, which are carefully imposed so that are deterring in nature. The risk of provision of this service by an unlicensed VASP in Serbia is significantly mitigated by the continuous activities of supervisors to identify such persons and by the sanctioning mechanisms available to the supervisors under the LDA. Also, the risk is further mitigated because the operations of legal and natural persons through foreign VASPs are significantly limited by the NBS regulations in the field of foreign exchange operations and the obligations of banks arising from them, bearing in mind that the largest number of international VA-related payment transactions is carried out using payments card.

In relation to the services of buying and selling VA for cash and/or funds in the account and/or e-money and services of exchanging VA for another VA, provided by both VASPs in Serbia, there is an ML/TF risk when providing these services, and in particular the services of sale of VA for money and the service of exchange of VA for another VA, considering that proceeds from crime are often exchanged for VA through OTC trading or P2P transactions. However,

²³¹

²³²The application of enhanced actions and measures is limited to situations of increased risk of ML/TF.

in these cases, unregistered or unlicensed VASPs are more often used for further transactions with that VA due to lower *KYC* standards or the absence of such standards, especially with regard to determining the origin of the VA. Therefore, the ML/TF risks posed by these services in Serbia are significantly mitigated by the strict *KYC* standards that must be applied by VASPs licensed in Serbia²³³, as well as by the continuous supervision for unauthorized provision of VA-related services and the prompt sanctioning of those persons. These services can also be provided using cryptomats, where there is a certain degree of ML/TF risk, considering that transactions using cryptomats are most often carried out using cash and without the obligation to identify the user. However, this risk is mitigated by the VASP's obligation to implement CDD even when the VA-related service is provided using cryptomats, regardless of the amount of the individual transaction.

The service of saving and administering VA for VA users and related services provided by both Serbian VASPs, poses a low ML/TF risk, because it does not imply the execution of individual transactions using VA. In any case, the risks are mitigated by the strict *KYC* standards that must be applied by VASPs licensed in Serbia that provide this service, especially with regard to identifying the origin of the VA involved in this service, as well as by the continuous supervision over the unauthorized provision of VA-related services and prompt sanctioning. Storage of cryptographic keys can also be provided by banks upon prior notification to the NBS. None of the banks had requested approval for this service until December 31, 2023, therefore no bank provides this service in Serbia, which is why we have not identified risks in the banking sector in that regard.

With regard to the VA portfolio management service, which is provided by a VASP in Serbia, there is a certain ML/TF risk, but it is significantly mitigated by the fact that it can only be provided by licensed VASPs in Serbia who are obliged to apply strict requirements including the obligation to establish a business relationship with each VA user, the application of CDD in each specific case, especially with regard to identifying the origin of the VA involved in this service, as well as the application of enhanced CDD in cases set out in the AML/CFT Law. The risks are also reduced by the continuous supervision of the supervisory authorities over the unauthorized provision of services related to VA and the prompt sanctioning of those persons.

Services related to the issuance, offer and sale of VA, with the obligation to purchase it (sponsorship) or without such obligation (agency), the service of maintaining the register of liens on VA, the service of acceptance/transfer of VA and the service of organizing a trading platform for VA - are not subject to any licenses for the provision of services related to VA. Therefore, the risks of AML/CFT when providing these services are low, because they are possibly provided to residents of Serbia by foreign VASPs, primarily through foreign VA trading platforms. However, the risks are significantly reduced by the fact that the operations of legal and natural persons through foreign VASPs are significantly limited by the regulations of the National Bank of Serbia in the field of foreign exchange operations and the obligations of banks arising from them, bearing in mind that the largest number of payment transactions in connection with transactions with VA abroad using payment cards. Banks can perform a payment transaction related to a VA transaction only if the VA transaction is carried out through a foreign VASP registered/licensed abroad in accordance with international standards in the area of AML/CFT, but they are required to apply enhanced CDD in accordance with the risk assessment. Banks can decide not to allow the execution of such payment transactions at

²³³Based on AML/CFT Law, VASP is obliged to reject an offer to establish a business relationship, as well as the execution of a transaction if it cannot perform CDD, including determining the origin of the property that is or will be the subject of a business relationship, i.e. transaction.

all, which is currently the business policy of more than 80% of banks in Serbia, based on the data submitted by the banks to the National Bank of Serbia. Most banks in Serbia apply enhanced measures and actions when it comes to transactions related to VA/VASP. These measures generally involve more detailed checks and continuous monitoring of client activities, in terms of additional requirements (evidence or documentation) that justify the execution of such transactions. Some banks apply enhanced actions and measures in accordance with the risk assessments of each individual client, while, on the other hand, certain banks monitor transactions involving VA transfers with special attention or classify clients connected to VA as high-risk and apply special monitoring measures over their transactions. These measures include the monitoring of payment cards and small transactions, with particular reference to the countries from which or to which funds are transferred. One bank applies an even more comprehensive approach, including controlling all participants in a VA-related transaction and actively monitoring publicly available information about them. This bank may also request from its VASP clients additional clarifications regarding the users of their services. Also, some banks apply measures to monitor inflows and outflows on a quarterly basis for resident and non-resident natural persons, with special reference to transactions exceeding 5,000 euros. The approach of the banking sector towards the application of enhanced actions and measures reflects a high level of responsibility and seriousness, which is reflected in a wide range of implemented measures for effective AML/CFT risk management.

Bearing in mind the above, the risks of AML/CFT in this respect are significantly mitigated, but they still exist due to the possibility that other methods of payment, i.e. collection (such as foreign e-money institutions) are used to execute transactions with VA.

Taking into account the number of SAR submitted by VASP in the period of 2022 and 2023, it can be assessed that a satisfactory number of SAR was submitted, which can also be assessed as satisfactory in terms of content. In support of the above is the fact that the obliged entities (VASP) in a large number of cases recognized and reported the APML risk of ML that is linked to VA.

Chapter 7: Treatment of risk

7.1. General

In accordance with the conclusions from the previous chapters, the policy in the VA/VASP sector is aimed at the complete de-anonymization of transactions executed through VASP and the strict application of the so-called *travel rule*.

Since 2018, the National Bank of Serbia has been conducting offsite supervision over the implementation of regulations in the area of AML/CFT at VASP. In the observed period, the National Bank of Serbia carried out offsite supervision at VASP every year by sending questionnaires about the activities of VASP for the purposes of AML/CFT, as well as other requests for data submission. In addition, the National Bank of Serbia started two onsite supervisions of both VASPs in the observed period, one of which is in the final phase. Both inspections are carried out in order to comprehensively check the actions of VASP in accordance with the LDA, AML/CFT Law and the Law on Freezing of Assets with the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction, as well as the regulations adopted on the basis of those laws, bearing in mind that both VASP have received a permit in December 2022 and that these are the first onsite supervision of their operations. Future immediate inspections are planned as targeted inspections in areas of higher risks. On March 17, 2023, the Securities Commission issued two licenses to provide services related to digital tokens. According to the Action Plan for the fight against money laundering and financing of terrorism for the period 2022-2024, the Securities Commission, in the first year

after granting the license to work to the mentioned entities, initiated regular onsite supervision of these entities under the AML/CFT Law, which are currently in the final phase.

The National Bank of Serbia as a supervisory authority, in addition to having sufficient capacity to supervise the provision of services related to virtual currencies, continuously conducts training for employees in this area, both internally and in cooperation with international institutions, educational institutions and foreign regulators, bearing in mind dynamic development in the field of VA/VASP. However, further investments are needed in the development of the capacity of supervisory authorities, taking into account the expansion of the use of VA in Serbia, as well as additional training on this topic.

In addition, the National Bank of Serbia continuously conducts workshops for the private sector in order to maintain and develop the capacity of the private sector to identify the risks associated with the use of VA, primarily to ensure a more comprehensive identification of suspicious transactions related to VA/VASP.

The National Bank of Serbia maintains good cooperation with other competent authorities in the area of prevention of AML/CFT, especially in the area of VA/VASP. Nevertheless, it is necessary to strengthen cooperation between preventive and repressive authorities, and it is planned to conclude a cooperation agreement between the National Bank of Serbia, on the one hand, and the Ministry of Internal Affairs and the Higher Public Prosecutor's Office in Belgrade, on the other hand, with the aim of exchanging data on criminal offenses related to VA and VASP.

Although the legal framework of Serbia in the area of VA/VASP is organized according to the model of the most developed countries in terms of the VA market and in accordance with the most modern international standards in this area,²³⁴ bearing in mind the dynamic development of this area, it is necessary to regularly review the adequacy of the legal framework related to VA in the part related to AML/CFT risks, as well as the guidelines of the supervisory authorities.

With regard to the operational behavior of competent law enforcement authorities, it is planned to carry out continuous training, increase the technological equipment and improve the personnel of these authorities, as well as the use of commercial software for monitoring and analyzing transactions and proper education for their use.

When it comes to supervisory activities, there are plans to continuously implement onsite and offsite supervision of all VASPs on the Serbian market, based on risk, as well as to further identify unauthorized persons who provide VA-related services and to take prescribed measures. It was evident from the cases of the Department for Suppression of High-Tech Crime and the Special Department for High-Tech Crime (especially the case of the Higher Public Prosecutor's Office in Novi Sad from point 3.2), that VASPs do not adequately check the origin of funds, i.e. VA used in the transactions, so future supervision will pay special attention to that segment of VASP's business. There is also an intention to initiate cooperation with other foreign regulatory and supervisory bodies (in addition to Luxembourg, Malta, Estonia and the United Kingdom, with which the NBS has already established or initiated such cooperation).

7.2. Current investment in AML/CFT resources (country) and resource mobility

²³⁴Especially with FATF Recommendation 15.

The vision of the Republic of Serbia in this area is to protect its financial system and economy from ML, TF and WMDPF threats, thus strengthening the integrity of the financial and DNFBP sectors and contributing to safety and security.

Serbia regularly updates its national ML/TF risk assessment, on the basis of which it adopts a national strategy against ML/TF and accompanying action plans. Also, Serbia has a comprehensive legal AML/CFT framework for the VA/VASP sector that is in line with international standards in this area.

Also, in order to achieve the stated goal, it is important to form an interagency AML/CFT Coordination Body, whose members include representatives of the most important state AML/CFT institutions.

The supervisory authorities continuously develop personnel and operational capacities for the supervision of VASP. However, more education on VA and transaction monitoring software is necessary, which would further facilitate the work of preventive and repressive authorities. Also, it is necessary to update and purchase commercial tools for monitoring transactions and blockchain analysis, which would be used by preventive and repressive authorities.

In the observed period, targeted trainings of public prosecutors and judges were held in order to familiarize them with the new developments in the legal system that resulted from the comprehensive regulation of the VA market in Serbia. These workshops were of a regional nature (for the areas of four appellate prosecutor's offices/courts).

7.3. Summary and priorities of risk treatment

Based on the conclusions from this risk assessment, it is concluded that the use of VA by companies is not high, and bearing in mind that the volume of transactions of companies is, as a rule, significantly higher than the volume of transactions of natural persons, this has its consequences when establishing priorities in the AML system. /FT.

The priority is monitoring the development of the VA market in Serbia and considering the consequences that such eventual development may have for AML/CFT risks. Timely identification of all entities that are unauthorized to provide services related to VA is of key importance, as well as insisting on the consistent application of VASP obligations related to establishing the identity of all participants in the transaction and storing data about it, especially when it comes to cross-border transactions.

On the other hand, Serbia follows international standards in this area, especially the standards and recommendations set by the most relevant international AML/CFT bodies (FATF, *MONEYVAL*) for Serbia. In this sense, it is particularly important to follow the practices in the supervision of VASP, as well as the supervision of FI whose clients are VASP, so that both VASPs and FIs are able to recognize suspicious transactions in this area and to inform the competent authorities about them. The goal is to continuously train and strengthen the capacity of supervisory authorities.

In order to continue monitoring the international standard in this area, it is necessary for APML employees, due to the nature and dynamics of the work and monitoring the development of the VA market, to make study visits to foreign counterparts, in order not only to maintain

continuity of work and identification of suspicious transactions related to the VA market, but also to exchange knowledge and experience with colleagues from foreign FIUs. In the previous period, the APML staff attended trainings organized by colleagues from the High-Tech Crime Suppression Department.

7.4. Guidelines for VASPs and FIs

The NBS, as a supervisor, regularly communicates with the public through its announcements and information published on its website, but also directly, by answering questions and giving opinions on the application of regulations within its jurisdiction. In cooperation with the supervisory authorities, APML provides opinions on the application of AML/CFT Law, which are published on the internet presentation of APML and are publicly available for searching. In addition, the National Bank of Serbia has issued binding Guidelines for the implementation of the provisions of the AML/CFT Law for obliged entities supervised by the NBS, in which a special chapter is intended specifically for VASP. Also, in July 2021, the NBS provided answers to the questions of the Association of Serbian Banks of Serbia in relation to the implementation of the LDA and the by-laws of the NBS adopted on the basis of that law in an official letter. In 2021, the Securities Commission adopted a series of by-laws implementing the LDA. In cooperation with the Organization for Security and Cooperation in Europe (OSCE), the Securities Commission has prepared an overview of answers to the most frequently asked questions regarding LDA. The Securities Commission provides opinions on the application of regulations and standards related to digital tokens.

VASP is expected to strictly comply with the aforementioned regulations, undertake prescribed CDD, based on risk assessment, as well as enhanced actions and measures in the cases prescribed by the AML/CFT Law. VASPs should pay special attention to official clients, as well as non-resident clients, who may be more in this sector due to the nature of the VA/VASP sector, and who may be from countries that have strategic deficiencies in the AML/CFT system. VASPs should be aware that for violation of obligations established by laws and other regulations, measures and penalties determined by the LDA are imposed, as well as that there is a possibility of revocation of the license to provide services related to the VA for serious violations of the regulations governing AML/CFT.

7.5. Cross-border surveillance and enforcement of AML/CFT

The LDA also regulates the cooperation of supervisory authorities with the authorities of foreign countries responsible for the supervision of VASP and the VA market. In February 2023, the NBS concluded an Agreement on Cooperation with the Commission for the Supervision of the Financial Sector of Luxembourg (*The Commission de Surveillance du Secteur Financier - CSSF*), and in August 2024, an Agreement on Cooperation with the Malta Financial Services Authority (*Malta Financial Services Authority*). Consultations and negotiations regarding the conclusion of a cooperation agreement with the FIU of Malta, as well as with the FIU of Estonia, are ongoing. The National Bank of Serbia initiated the conclusion of a cooperation agreement with the Financial Market Authority of the United Kingdom. Following-up on the received request, the Commission, on the basis of the Memorandum of Understanding with the International Organization of Securities Commissions (IOSCO), initiated official communication with the Financial Supervisory Commission of the Republic of Poland in a matter that included elements of VA use. On June 23, 2021, the NBS and the Securities Commission concluded a Cooperation Agreement, in which they specified the manner of cooperation and data exchange for the purpose of

performing and improving supervision, decision-making in administrative procedures and performing other tasks determined by the LDA. The subject of this agreement is cooperation in connection with supervision in the area of AML/CFT.

Regarding the repressive part of the system, it is important to highlight the case of international cooperation with the competent authorities of the Republic of Korea and the case of joint action by the prosecutors' offices of Germany and Serbia (more information about these cases is available in section 5.2)

7.6. Non-AML/CFT measures

Additional measures, other than AML/CFT, which have an effect on mitigation of ML/TF risks include regulatory restrictions in the field of foreign exchange operations (bearing in mind that Serbia has not yet liberalized all international transactions), but also in VA-related regulations outside the AML/CFT area²³⁵, regulations in the field of information security. In addition, the NBS keeps records of legal entities and entrepreneurs who have virtual currencies, whereby the obligation to submit data lies either with the domestic VASP for transactions carried out through them or with the legal entities and entrepreneurs themselves if they obtained the VA in another way (by mining or P2P acquisition).

7.7. Financial inclusion

Legal entities and entrepreneurs in Serbia are obliged to open a current account in a bank and do business through the bank account only, and to pay all money received in cash within the prescribed period to the bank account. Natural persons are also mostly involved in regular financial flows.²³⁶ In addition, the large number of Internet and mobile banking users relative to the population reduces the risks of financial exclusion. Bearing in mind the high degree of digitization of financial services in Serbia, it can be said that all this has an effect on mitigation of risks related to the use of VA in daily business and their reduced use. As increased risks related to the use of VA in daily business, their use for illegal activities, such as participation in games of chance organized by foreign organizers and insufficient education of citizens and the private sector about the characteristics and costs of VA, is especially highlighted, which is why in the following period awareness raising measures on VA should be taken.

7.8. Further monitoring and supervision

As of 2018, the NBS supervises domestic VASPs using a risk-based approach. The NBS carried out supervision in accordance with the AML/CFT Law, the guidelines for the application of that law intended for the obliged entities supervised by the NBS, and its own internal supervision methodology. In the following period, continuous onsite and offsite supervision of all VASPs licensed by the supervisors is planned, in accordance with the risk assessment. The supervisors will examine whether all other AML/CFT requirements have been met (which are also assessed in the licensing procedure), as well as whether business relationships have been established with clients and if the *travel rule* has been applied when

²³⁵The LDA also regulates numerous other obligations related to the security of VASP's operations, such as capital requirements, the obligation to establish a risk management system and internal controls, internal audit, requirements related to the IT system, keeping records of users whose funds are held by VASP and protection those funds and others.

²³⁶The amendment to the Law on Payment Services from 2018, which implemented the EU Directive on the right to a basic account, particularly contributed to this.

executing transactions using VA. In addition, the supervisors will carry out continuous supervision over the unauthorized provision of VA-related services and timely identification of all entities that do not have a license but provide services on the Serbian market, and take measures against those entities.

7.9. Notifications

Table 4. Summary table of risk factors

No.	Description of the risk event	Related threat	Related Vulnerabilities	Probability assessment	Consequence assessment	Valuation (risk rating)
By the predicate criminal offense						
1.	Aggravated theft	Use of stolen funds from digital wallets for ML/TF.	Insufficient awareness and knowledge of users, encryption of user data, problems in applying the regulatory framework, lack of case law	3	0.5	1.5
2.	Ransomware			3	0.5	1.5
3.	Fraud			4	0.75	3
4.	Other scams			2	0.5	1
5.	Exchange of funds acquired through criminal activities (unauthorized disposal of funds from payment accounts in banks) for VA through VASP	Misuse of data of users of banking services by responsible persons in banks or falsification of such data, collected or misappropriated funds are used for ML/TF.	Weaknesses in determining the origin of funds and/or VA when performing transactions with VASP.	2	0.5	1
According to the subject						
6.	Transit (layered) ML by non-residents	The observed increase in the number of non-resident clients increases the potential threat from external predicates.	The client base of VASP in Serbia is limited primarily to resident natural persons, who perform simple VA transactions, while higher risk categories such as legal entities, non-residents, PEPs and NPOs are few, and the de facto supervisory authority can carry out detailed supervision of their by doing business through VASP if necessary. All these categories of clients were subject to checks during the recent onsite supervision of VASP.	1	0.5	0.5
7.	ML from residents from the predicate criminal offense of domestic origin			2	1	2
According to the type of VA						
8.	Using the virtual currency <i>Bitcoin</i> for ML	Domestic or foreign predicate crimes.	Vulnerabilities associated with unlicensed or foreign activities with VA.	2	0.75	1.5

9.	<i>Litecoin</i> virtual currency for ML			2	0.75	1.5
10.	Using anonymous VA (<i>privacy coins</i>)			1	0.5	0.5
According to the economic entity						
11.	Connection with VASPs that are established or operate in countries that do not regulate the area of VA/VASP and do not require licensing of these obligors	Domestic or foreign predicate crimes.	Vulnerabilities associated with unlicensed or foreign activities with VA.	1	0.5	0.5
12.	Use of unlicensed VASPs			1	0.25	0.25
According to the financial sector / DNFBP sector						
13.	Integration of "dirty money" from foreign fraudulent activities with VA in real estate	The threat stemming from predicate crimes from domestic sources and involvement in international fraudulent activities; Foreign fraud threats related to VA	Vulnerabilities in the controls of the DNFBP sector around the purchase of real estate (lawyers, notaries, real estate brokers) and organizers of games of chance.	2	0.8	1.6
14.	Layering of "dirty money" using VA and online games of chance			1	0.2	0.2
Financing of terrorism						
15.	Using virtual currency <i>Bitcoin</i> for TF	Domestic or foreign predicate crimes.	Vulnerabilities associated with unlicensed or foreign activities with VA.	2	0.75	1.5
16.	<i>Litecoin</i> virtual currency for TF			2	0.75	1.5
17.	Using anonymous VA (<i>privacy coins</i>)			1	0.5	0.5

Table 5. Summary table for integrated risk treatment

Area	Action description	Priority	Competent authority	Deadline
Sectoral policy	<p>Complete deanonymization of transactions executed via VASP (strict application of the so-called <i>travel rule</i>)</p> <p>Timely identification and sanctioning of all VASPs that provide unauthorized services related to VA</p> <p>Training and promotion of personnel competent authorities for law enforcement</p> <p>Organizing workshops for the private sector</p> <p>Cooperation between competent authorities</p> <p>Conclusion of an agreement on cooperation between the NBS, on the one hand, and the Ministry of Interior and the competent prosecution, on the other hand, on the exchange of data on criminal offenses related to VA and VASP</p>	Tall	<p>National Bank of Serbia</p> <p>Securities Commission</p> <p>Competent judicial authorities</p> <p>MoI</p> <p>APML</p>	Continuously
Legislation	<p>Regular review of the adequacy of legal solutions related to VA in the part related to AML/CFT risks</p>	Low	<p>The National Bank of Serbia (as the constitutionally authorized proposer of the law and supervisory body)</p> <p>Ministry of Finance (as the competent institution that prepares the laws proposed by the Government)</p> <p>Securities Commission (as supervisory body)</p>	Continuously

Regulatory framework	Regular review of the adequacy of the regulatory framework related to VA in the part related to AML/CFT risks, especially when it comes to the guidelines of supervisory authorities and alignment with the latest regulatory trends and international standards (e.g. FATF guidelines)	Medium	National Bank of Serbia Securities Commission	Continuously
Institutional framework	Regular review of the adequacy of the institutional framework related to VA in the part related to AML/CFT risks, as well as further improvement of the capacity of supervisory authorities	Low	National Bank of Serbia Securities Commission APML	Continuously
Operational activity (enforcement of law and order)	Training, technological equipment and personnel improvement of competent law enforcement authorities	Tall	Law enforcement authorities	January 1, 2025
Supervisory activity	Continuous implementation of offsite and onsite supervision of VASP, in accordance with risk assessment, as well as identification of persons who are unauthorized to provide services related to VA and taking measures Initiating cooperation with other foreign regulatory and supervisory bodies	Tall	National Bank of Serbia Securities Commission	Continuously
Research	Improving the monitoring of VASP activities without the need for onsite supervision, as well as identifying persons who are unauthorized to provide services related to DI	Medium	National Bank of Serbia	Continuously

Chapter 8: Criteria for risk profiling and procedures for risk evaluation of specific VASPs

8.1. Summary of threats, vulnerabilities and risks

In the observed period, there were several reported cases of the use of VA for ML purposes. In the observed period in Serbia, there were no recorded cases of TF using VA or by VASP. Also, there was no VA confiscated, nor virtual currency transactions temporarily suspended. The main reason is the negligible volume of VA use in the economic sector due to the prohibition of direct acceptance of VA in exchange for goods and/or services, the ban on the use of VA by the financial sector, the relatively small number of VA users, most of whom are resident natural persons, the moderate adoption of modern digital tools, restrictions in foreign exchange operations and a small number VASP that operates on the territory of Serbia. The value of the VASP sector and the volume of transactions with VA in relation to the financial sector is absolutely negligible.

It should also be taken into account the small number of VASPs in Serbia, especially compared to other European countries, which limits its potential to be considered an international crypto center. For example, according to the analytical data of the company *Coincub*, in Europe between March and April 2023, 1,577 VASPs were registered in 20 countries (compared to two licensed VASPs in Serbia), of which, for example, in Bulgaria (which carried out risk assessment in the VA sector and VASP) – 84 VASP,²³⁷ eight VASP are registered in Croatia.²³⁸ Also, it should be borne in mind that Serbia is conducting a sectoral risk assessment for VA and VASP for the second time (compared to, for example, Hungary, which is still working on such a risk assessment²³⁹).

When it comes to threats, it is obvious that one part of the threats comes from the fact that VA can be transferred through P2P transactions, decentralized exchanges and so-called on the OTC market without licensed VASPs, which makes it impossible to determine who are the participants in the transaction and without implementing previous CDD. The anonymity of certain virtual currencies (*privacy coins*) further increases the threats. In practical terms, the OTC market is often beyond the reach of supervisory authorities. These are threats that relate primarily to TF, but to a certain extent they can also relate to ML. Threats are also reflected in the possibility that money obtained through criminal activities can be exchanged for VA on the OTC market or by using cooperation with some unregulated VASP abroad. Certain card payment systems allow transactions with virtual currencies to be carried out smoothly by making transfers to global VA trading platforms, which prevents the prior control of the bank and the documentation of the client making the payment abroad in accordance with the regulations governing payment transactions with abroad. Recent regulatory changes have improved the availability of data on transactions with virtual currencies from VASP, banks and other payment service providers, as well as card payment systems, by introducing the obligation of regular reporting to the National Bank of Serbia. The threat is also insufficiently developed citizens' awareness of the characteristics of virtual currencies, which represent a significant source of risk for fraud in this area without the possibility of protection by competent authorities in Serbia in cross-border transactions.

²³⁷ Source: <https://coincub.com/ranking/crypto-licences-report-2023/>

²³⁸ Source: <https://www.hanfa.hr/podrucja-nadzora/virtualne-valute/registar-pruzatelja-usluga-virtualne-imevine/>

²³⁹ Source: <https://rm.coe.int/moneyval-2024-3-hy-5throun-6thenhfur/1680b06af8>

Threats are related to the potential of using virtual currencies to commit crimes such as to fraud, forgery or abuse of payment cards, tax evasion, security of computer data (blackmail software), participation in OCGs, racketeering, drug trafficking, extortion, blackmail and infringement of intellectual property, some of which have been handled by competent Serbian authorities in specific cases. High risk is also present when it comes to illegal gambling. The threats also involve situations where a VASP, which is licensed by a Serbian supervisor, will be misused for committing the ML crime, at all stages, from placement of funds into a VASP, to layering through various types of transactions using VA (especially the so-called *chain hopping*), to the transfer of the 'legitimate' funds from the VASP to other FIs (integration). Global threats arise from the possibility of abuse of the global platforms for VA trade, especially those originating from countries which do not implement international AML/CFT standards.

When it comes to vulnerabilities, they arise primarily from the anonymity of specific VA and the possibility of using them through P2P transactions, in decentralized exchanges and on the OTC market, taking into account the ban on anonymous VA-related services in Serbia. The security that technologies enabling VA transactions involve can also be a source of vulnerability. Vulnerability is pronounced in those VASPs engaging in exchanging VA for legal tender, in particular in terms of taking action to identify the origin of the assets. Vulnerability also originates from the fact that some countries do not comply with minimum standards on VASP licensing/registration and with other AML/CFT standards on VASPs, which weakens the global and cross-border system because VA may be easily transferred. Vulnerability is mitigated by effective international cooperation of investigative authorities in cross-border ML and predicate crimes cases, by establishing cooperation between Serbian and foreign supervisors, by *de facto* banning the establishment of business cooperation between domestic and foreign VASPs from countries that do not apply international AML/CFT standards. The system is less vulnerable when it comes to investment and user tokens, than for virtual currency, due to the nature of these tokens and the fact that they are usually tied to a specific project, issuer or service and do not represent a universal means of exchange.

Despite numerous restrictions on the use of VA by businesses and citizens (stricter regulation compared to global AML/CFT standards), both in cross-border and domestic transactions, and the small number of licensed VASP in Serbia, we notice an increased use of VA, especially virtual currencies, in everyday transactions. There is also an increasing number of banks allowing the execution of payment transactions related to the purchase and sale of virtual currencies (although banks apply enhanced CDD in these cases, and the number of banks allowing these transactions is still negligible relative to the total number of FIs), as well as a greater number of cases of misuse of VA for crime, including ML and predicate crimes. This is why we rate the risk as **medium high for virtual currency transactions, and low for investment and user tokens**. In period to come, all risks will be continuously monitored, and depending on the development of the market, this rating may change, based on the findings of supervisory examinations, regular monitoring of cross-border payment statistics, domestic VA-related transactions, increased use of VA in daily business, and as a result of monitoring VA-related criminal offences. Also, in order for competent authorities to monitor VA transactions adequately, there are plans to ensure they have access to additional commercial blockchain analysis tools.

In relation to the inherent risk identified, numerous risk mitigation measures are provided for, and they are presented in Chapter 7. Notwithstanding this, however, the main residual risk arises from the fact that VA can be transferred through P2P transactions, decentralized exchange and through the so-called to the OTC market beyond licensed VASPs, which makes

identification of the participants in the transaction impossible, as there were no prior CDD measures taken. A good example of residual risk is the fact that the ban on the use of anonymous VA cannot be applied in the case of the above transactions.

8.2. Identification of VASPs to be supervised

VA-related services in Serbia can only be provided by a company that has its registered office in Serbia and a license to provide such services. This means that a foreign VASP intending to have any form of commercial presence in Serbia (e.g. installing cryptomats or open an account in a Serbian bank) must establish a company in Serbia and obtain a permit from the NBS and/or Securities Commission. In addition, if the domestic VASP intends to provide services abroad, it first must obtain the consent of the NBS and/or Securities Commission and fulfill all requirements, and to provide proof that the regulations of the foreign country are aligned with international AML/CFT standards and that the Serbian supervisor will not be prevented from performing supervision in that country.

Domestic VASPs are obliged to submit a list of all foreign VASPs with which they do business to the supervisors in Serbia as part of the licensing process and before establishing cooperation. This reduces the risks of doing business with foreign VASPs that do not apply adequate measures in this area. The VASP is obliged to inform the supervisor without delay about all changes of the facts or circumstances based on which they were licensed, including changes in the data of foreign VASPs with which it operates, and to submit to that authority at the same time the amended documentation and data relevant for licensing.

VASP in Serbia are supervised by the NBS and the Securities Commission, on a risk-sensitive basis. The NBS conducts supervision in accordance with the AML/CFT Law, the Guidelines for the application of the AML/CFT Law for obliged entities supervised by the NBS and its own internal risk-assessment and supervision methodologies. The Securities Commission supervises VASPs in accordance with the LDA, AML/CFT Law, the Regulation on Supervision performed by the Securities Commission, as well as other internal acts that lay down risk assessment methodologies for service providers related to digital tokens.

The NBS and supervisors regularly check the available information on whether specific persons provide unauthorized VA-related services. This is done through regular searches of the Internet, social networks and information from the market. Previously, information was obtained from domestic VASPs, banks and citizens, and from other competent authorities (MOI, APML, etc.). All obliged entities have access to the register of licensed VASPs in Serbia, through the NBS website, which is why FIs and other obliged entities under the AML/CFT Law have no difficulty in identifying VASPs that are authorized/unauthorized to provide VA-related services. The National Bank of Serbia initiated verification proceedings against 29 legal entities, entrepreneurs and natural persons due to the suspicion that they were providing unauthorized VA-related services.

8.3. Prioritization of VASPs for the purposes of supervision

The plan is to make a risk assessment of each individual VASP, and to prepare an annual monitoring plan in relation to the individual level of risk, in which priority will be given to VASPs with the highest identified systemic risk.

**ASSESSMENT OF THE RISK OF FINANCING THE PROLIFERATION
OF WEAPONS OF MASS DESTRUCTION**

INTRODUCTION

The financing of the proliferation of weapons of mass destruction (WMDPF) has attracted the attention of the international community for years, primarily due to the individual countries and other factors involved, as well as the risks and great potential damage that weapons of mass destruction (WMD) can cause. Numerous international organizations closely monitor the WMDPF phenomenon and take a broad view of the risks to which the global community is exposed.

Since its establishment, the United Nations (UN) has been trying to eliminate the use of WMD, by adopting several resolutions aimed at reducing and potentially banning chemical, biological, radiological and nuclear weapons, which represent the greatest threat to the survival of humanity. The UN has given the highest priority to eliminating these threats, which has led to the establishment of a regime of application of targeted financial sanctions (TFS) to be applied by member states. States are constantly urged to better understand the WMD process, that is, to constantly improve their own capacities in the fight against the proliferation of WMD.

The Financial Action Task Force (FATF), which sets global standards in the field of money laundering and financing of terrorism (ML and TF), also recommends measures related to the implementation of relevant UN Security Council Resolutions in the area of WMDPF. In 2018, the FATF began intensively improving its standards in the area of combating the proliferation of WMD, which represented a step forward in perceiving WMDPF as an essential component in the broader fight against ML and TF. Therefore, in 2020, the FATF revised Recommendation 1, which requires that the public and private sectors identify, assess, manage and mitigate the risks related to the proliferation of WMD. In this context, the WMDPF risk refers exclusively to the potential violation, non-implementation and evasion of TFS provided for in Recommendation 7. A risk-based approach (RBA) is essential for an effective implementation of FATF recommendations.

As a responsible member of the UN and other international organizations, Serbia is committed to strengthening regional and international peace and security, which is why it does not possess, develop or plan to develop WMD. Therefore, Serbia continuously fulfills the obligations arising from Resolution 1540 of the UN Security Council on preventing the proliferation of WMD and the means of their delivery (confirmed by UN Security Council Resolution 2572 of 2021). Serbia also expressed its firm commitment to join the EU, which implies participation in the common foreign and security policy and the suppression of the proliferation of WMD. This means that Serbia has a solid legal system and specific mechanisms for the application of TFS in the WMDP, which is why it is fully aligned with international standards.

As an active participant in the protection and improvement of the global AML/CFT system, Serbia prepared its first ML/TF Risk Assessment (for 2018-2020) in 2021, in accordance with FATF recommendations. It represented a significant step towards additional protection of the domestic/national system and helped the state and private sector to better understand its own vulnerabilities and threats related to WMDPF. A clear understanding of the risks was crucial for the development of further plans and the effective implementation of mechanisms in the fight against WMDPF. In order ensure that it invests sufficient efforts in the challenges presented by the WMDPF, Serbia systematically and continuously looks at, identifies and evaluates the threats and vulnerabilities that this phenomenon poses.

Therefore, this, second in order, National Risk Assessment logically builds on the previous one and reflects the ongoing commitment of the Republic of Serbia to fulfilling international obligations, as well as and to broader consideration of direct and indirect threats posed by WMDP to the national economic and financial interests.

Context

The risk assessment was carried out in the course of 2024 with the active participation of all stakeholders in the system for preventing WMDPF in Serbia. This comprehensive effort involved the participation of export control authorities, supervisory authorities, the Financial Intelligence Unit (FIU), LEAs, customs and trade companies. The private sector also had an important role, making a significant contribution through participation in this process. The methodology involved the use of a number of tools, including focus groups, questionnaires and a detailed analysis of case data available to the relevant authorities, which was accompanied by statistics. This approach, which involved joint data-driven work, enabled a thorough assessment of the risks associated with WMDPF in Serbia.

The risk assessment methodology was specially designed for this activity. Its structure follows the revised FATF Recommendation 1, which has specific requirements when it comes to the risk of WMDPF. It also includes a clear definition of WMDPF risk, which differs from the concept of ML/TF risk, and methodological elements related to the assessment of risk ML/TF risk.²⁴⁰

WMDPF risk assessment methodology

This methodology further develops *the key elements* FATF's definitions of WMDPF risk, using them as a starting point in designing a practical framework to be used by competent authorities to collect and analyze WMDPF data. It also takes into account a number of points from the FATF Guidelines on Combating WMDPF (FATF Guidelines on WMDPF), which do not contradict the new definition of WMDPF risk. A certain number of components of the guidelines, which are not directly related to the FATF methodology, were nevertheless taken into account in the broader analysis of the WMDPF context.

The definition of the WMDPF risk in the FATF methodology reads:

“Proliferation financing risk” refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial obligations referred to in Recommendation 7.

It is evident from the definition that its main focus is on the obligations of competent authorities and financial institutions/DNFBPs as required by Recommendation 7 and potential scenarios when obligations are not fulfilled. This implies that the key focus of the WMDPF risk assessment should be on the measurement of the vulnerabilities associated with the fulfillment of the requirements related to the application of the TFS and the various modalities of such vulnerabilities.

The second element of focus in the WMDPF risk assessment activity refers to the term "potential", which means that the probability of different vulnerability scenarios should be considered in the risk assessment exercise.

The extent of the threat

WMDPF threats can broadly be classified into two types: "transit" threat, where jurisdiction is essentially used to stratify funds from WMDPF between origin and final

²⁴⁰See also the general definition of risk from the Methodology, which refers only to issues of combating ML and TF.

destination, and "direct" threat, where the origin of material funds is for WMDPF in the country itself.

Unlike the FATF's traditional approach to the risk of ML and FT, the definition of the WMDPF implies a narrower understanding of the term "threat", which is essentially limited to persons and entities on the relevant UN sanctions lists (objects of TFS application). Here, however, it is necessary to take into account additional clarifications on what the term threat includes, based on the FATF Guidelines on WMDPF. In this sense, the term threat includes the following:

- (a) who act on behalf of or at the direction of, either directly or indirectly, designated persons or entities;
- (b) that are owned or controlled by them; and
- (v) that help them avoid sanctions or violate the provisions of the resolution.

Extent of vulnerability

The definition of WMDPF foresees three main vulnerability outcomes (*violation, non-implementation or evasion*) that can occur as a result of the existence of one or a combination of different types of vulnerability. The scope of vulnerability that is related to a specific outcome is determined by taking into account the scope specified in the FATF Guidelines for WMDPF (paragraph 30.b), which refers to weaknesses relevant to compliance with the TFS, i.e. " that *the weak implementation of actions and CDD, TFS and control related to beneficial ownership by supervised entities may facilitate the use of legal persons or arrangements (persons under foreign law) to avoid sanctions* ". This allows the Methodology to focus on the following main recommendations when analyzing vulnerability outcomes: Q.7, Q.10, Q.24, Q.25. These recommendations, as well as several elements of other recommendations, are attached to three vulnerability outcomes, namely:

1. Breach of the TFS regime

Violation - should be understood as the intentional deactivation of the WMDPF control system by one or more obliged entities for the purpose of executing a WMDPF transaction or accepting a client subject to TFS for WMDPF.

Structural issues and recommendations that can be linked to this vulnerability outcome are as follows:

- 1.1 Consciously compromised control or ownership of FI / certain legal and natural persons outside the financial sector / VASP (P.26);
- 1.2 Deficiencies in the management of FI / certain legal and natural persons outside the financial sector / VASP according to the standards of competence and suitability with the intention of violation (*fit and proper*) (P.26);
- 1.3 Problematic employees who work under the influence of actors in WMDPF with the intention of violation, which are the result of failure to check employees in internal control (P.18)

2. *Non-implementation* of measures against WMDPF

Non-implementation - means systematic, sporadic or one-time non-implementation of provisions related to the TFS for WMDPF, the motives of which are not intentional evasion or breach of obligations.

Structural issues and recommendations that may be associated with this vulnerability outcome are as follows:

- 2.1 Lack of appropriate risk assessment and assessment (valuation) of one's own vulnerabilities (P.1, P.15)
- 2.2 Poor supervision and control of the application of regulations (P.26, 27, 28, 35)
- 2.3 Non-implementation of basic requirements P.7

3. *Avoiding* the application of measures against WMDPF

Avoiding the application of TFS as a measure to combat WMDPF refers to circumstances in which the vulnerability of the regime to combat WMDPF is exploited by threat actors without the direct complicity or inadvertent omission of the obliged entity.

The structural issues and recommendations that may be associated with this Vulnerability Outcome are mainly those related to poor compliance with CDD and beneficial ownership requirements in various elements of the system, which may be exploited by listed individuals or entities, namely:

- 3.1 Ineffective controls through the application of actions and CDD (P.10)
- 3.2 Insufficient controls regarding beneficial ownership (P.24, 25)
- 3.3 Correspondent banking – CDD using payable -through accounts (criterion 13.2)
- 3.4 Abuse of low awareness of compliance obligations in the financial institution (absence of compliance culture) (P.18, 22 and 23)
- 3.5 Disadvantages of relying on third parties for certain CDD (P.17)
- 3.6 High risk countries and territories (P.19)

For each criterion, the report provides a self-assessment of the measures taken to implement the respective requirements of the FATF recommendations, any identified deficiencies in terms of effectiveness, and measures taken to eliminate deficiencies in each specific sector.

For the purposes of this analysis, the report uses (where relevant) indicators and practices related to the fight against ML and TF as a way to (roughly) demonstrate the effectiveness of the system against WMDPF (e.g. in terms of the application of standards of competence and suitability - fit and proper).

Context analysis

In addition to the analysis of the outcome of vulnerability, the FATF Guidelines for WMDPF recommend three more areas of contextual analysis, when it comes to assessing the potential/possibility to avoid sanctions, namely:

Volume of international financial services (materiality) - financial centers have the potential to be actors in the proliferation of WMD provide an opportunity to use legitimate financial affairs and commercial channels to conceal WMD proliferation activities.

Basic risk of proliferation - factors that affect the risk of proliferation (i.e. illegal movement of goods that are sensitive from the point of view of proliferation of WMD) may be relevant to the context of WMDPF.

Strength of export controls, customs and border controls and other mitigation measures – the degree to which the underlying risks of WMD proliferation are mitigated by the effective application of export controls and other measures. This element is described in the report in the part related to the institutional and legislative framework, however, the evaluation of the effectiveness of export controls does not fall within the professional scope of the fight against AML /CFT/ WMDPF. Therefore, in this case, evidence from a third party on

compliance with external standards, for example EU standards (which is the case for Serbia), is considered sufficient.

Materiality is included as a separate section of the risk assessment report, while the underlying risk of proliferation is analyzed under the section dedicated to "direct threats". In this sense, it should be noted that financial prohibitions based on activities are outside the scope of the Methodology FATF, and therefore vulnerability analysis remains a key focus.

Rating scale

Each segment of the analysis ends with an assessment of the key findings in relation to the probability impact scale, i.e. to what extent the identified factor (e.g. a specific threat scenario or element of vulnerability) has an impact on the probability of occurrence of WMDPF in Serbia. This is based on the following scale:

Assessment of individual factors		For mean (average) summary calculations	NRA rating
+3	A significant increase in the probability of WMDPF	Between +3 and +2	High risk
+2	A partial increase in the probability of WMDPF	Between +2 and +1	High risk
+1	A slight increase in the probability of WMDPF	Between +1 and 0	Medium risk
0	Neutral impact on the probability of WMDPF	0	Medium risk
-1	A slight decrease in the probability of WMDPF	Between 0 and -1	Medium risk
-2	Partially reducing the probability of WMDPF	Between -1 and -2	Low risk
-3	A significant reduction in the probability of WMDPF	Between -2 and -3	Low risk

Ratings for each identified factor are given based on the expert consensus of the NRA Working Group, after reviewing the qualitative analysis and all quantitative data underlying the specific factor.

I DESCRIPTION OF THE INSTITUTIONAL AND LEGISLATIVE FRAMEWORK

Legislative and procedural framework for WMDPF

The Law on International Restrictive Measures regulates the procedure for implementing international restrictive measures that the Republic of Serbia imposes, applies or abolishes on the basis of legal acts adopted by the UN Security Council, Organization for Security and Cooperation in Europe (hereinafter: OSCE) and other international organizations whose Serbia is a member. This law also applies when such measures are in line with Serbia's foreign policy interests. In the meantime, the Law on the Freezing of Assets With the Aim of Preventing Terrorism and Proliferation of Weapons of Mass Destruction (hereinafter: LAF) lays down actions and measures to limit the disposal of assets by certain persons, the responsibilities of state authorities for the implementation of these measures, and the rights and obligations of legal and natural persons in accordance with this law.

The decision on the implementation of the introduced international restrictive measures is taken by the Government of Serbia, on the proposal of the Ministry of Foreign Affairs (hereinafter: MFA). These measures are implemented by state institutions and bodies, local self-government bodies, banks and financial institutions, companies, entrepreneurs and other legal and natural persons. The Register of Restrictive Measures is established to monitor and control the implementation of restrictive measures. This register tracks measures applied to countries, international organizations and natural or legal persons subject to restrictions. When issuing permits for import, export, brokering or dual-use goods, international restrictive measures are fully applied - especially measures of the UN Security Council - taking care that persons on consolidated UN lists or other restrictive lists are excluded from those procedures.

In order to contribute to the effective implementation of the law, a special working group was formed, chaired by the Ministry of the Interior, made up of all relevant institutions responsible for the implementation of the law.

LAF implements UN Security Council resolutions and FATF recommendations regarding TFS against terrorism, terrorist financing and WMD proliferation, especially FATF Recommendations 6 and 7.

According to LAF, a designated person is any natural person, legal entity, group or association - whether registered or unregistered - that is designated as a terrorist, terrorist organization or terrorist financier, or that is associated with the proliferation of WMD. This designation can be based on resolutions of the UN Security Council, acts of international organizations of which Serbia is a member, proposals of state authorities or justified requests of foreign countries. Designated entities may also include movable or immovable property associated with the proliferation of WMD, such as ships and aircraft.

In accordance with Article 3 of the Law, lists of designated persons adopted by the UN Security Council and other international organizations are published in their original form in English on the website of the Ministry of Finance - APLM. These lists also include lists related to the proliferation of WMD, in particular UN Security Council Resolution 1540 (2004), which aims to prevent the illicit production and proliferation of WMD, and subsequent resolutions, as well as resolutions related to North Korea (Resolution 1718, 2006) and Iran (Resolution 2231, 2015).

MFA is responsible for promptly/immediately/urgently/without delay informing the competent authorities, including the Ministry of Internal Affairs, APLM, Customs Administration, Serbian Business Registers Agency, National Bank of Serbia and the security and intelligence services, about all changes in the list of designated persons.

In order to facilitate the rapid implementation of TFS, the APLM, in cooperation with the Mihajlo Pupin Institute, developed an IT tool for searching the list of designated persons.

This tool automatically downloads updated lists from the UN Security Council and international organizations of which Serbia is a member, allowing legal and natural persons to check whether the persons they do business with are on those lists.

Recognizing the importance of preventive measures in detecting, detecting and preventing WMDPF, the director of APML issued instructions for the application of LAF. This document raises public awareness and supports entities and supervisory authorities in establishing the necessary policies and procedures to comply with the law.

LAF also describes the procedures for marking persons and restricting their property. The process is guided by the "without delay" principle. For example, on December 20, 2018, the Government of Serbia placed seven persons convicted of crimes related to terrorism on the list of designated persons, and two of them were found to have no assets.

The amended AML/CFT Law of December 2019 delegated part of the responsibility to supervise the implementation of asset freezing measures to the supervisory authorities responsible for examining compliance with the AML/CFT Law. Supervisory authorities are obliged to periodically assess the ML/TF risk, including the risk of non-application of financial sanctions.

Institutional structures

The central body responsible for the coordination and development of policies in the area of combating WMDPF is the AML/CFT Coordinating Body, which, among other things, deals with issues related to WMDPF. The body, chaired by the Deputy Prime Minister and the Minister of Finance, includes representatives of key ministries and government agencies and services. Its primary task is to oversee the development and implementation of integrated strategies and action plans to combat ML/TF, ensuring compliance with international standards and national priorities.

In relation to WMDPF, the Coordinating Body performs the following tasks:

- **Strategy and Action Plan Development:** Develops comprehensive and integrated strategies and action plans to combat ML/TF/WMDPF, ensuring a cohesive/comprehensive *national* approach to dealing with these risks.
- **Monitoring and evaluation:** The body monitors the implementation of the stated strategies and action plans, evaluating their effectiveness and making the necessary adjustments to improve performance.
- **Risk assessment:** Supervises /monitors the results of the national risk assessment for WMDPF, taking care that the identified risks are taken into account when designing the strategy and implementing regulatory measures.
- **Internal (inter-agency) coordination:** Facilitates cooperation between different state authorities, ensuring uniform action in the implementation of measures to combat WMDPF and eliminating any shortcomings or challenges in implementation.

A framework for combating the proliferation of WMD

In order to prevent the WMDP and fulfill its international obligations under Resolution 1540 of the UN Security Council, the Government of Serbia adopted the Strategy for the fight against the Proliferation of WMD for 2021-2025 and the accompanying Action Plan. The strategy sets out goals, measures for their achievement and mechanisms for monitoring their implementation.

In 2021, Serbian Government established the National Coordinating Body for Combating WMD Proliferation (WMDPNCB), whose task is to monitor the implementation of the current Strategy and Action Plan, but also to ensure a timely preparation of future planning

documents. This body provides for efficient use of resources and coordinates activities that derive from international agreements on the control of chemical, biological, radiological and nuclear weapons, which is why the National Commission for the Implementation of the Convention on Biological Weapons was established, and cooperates with this body.

The WMDPNCB comprises representatives from various ministries responsible for foreign affairs, defense, internal affairs, justice, health, trade, as well as institutions such as the NBS, Directorate for radiation and nuclear safety and security, Institute for Nuclear Sciences "Vinča" and Security and Information Agency (hereinafter: BIA), and others.

Multi-level cooperation on issues of combating WMDPF is ensured by the joint participation of representatives of the WMDPNCB and the AML/CFT Coordinating Body at joint meetings, when the topics of the agenda relate to issues of WMDPF, interagency coordination and the development of strategic frameworks.

Earlier risk assessments and implementation of an action plan against WMDPF

In 2021, Serbia conducted a WMDPF risk assessment as part of a broader national risk assessment (NRA), identifying key threats such as companies operating as "front persons", offshore companies with a complex ownership structure, foreign politically exposed persons, re-export transactions and the use of forged documents. Based on this analysis, the banking sector was considered a higher risk sector, due to the large volume and value of transactions and its ability to open accounts and manage international transactions.

As a result of the NRA, the Action Plan accompanying the National AML/CFT Strategy for 2020 - 2024 was updated and adapted to the NRA findings and a number of action items introduced therein with the aim of improving the counter- WMDPF system and mitigating the identified risks. In particular, the following action was taken:

- In line with international practice and in consultation with relevant international experts, the Customs Administration adopted a list of indicators for identifying suspicious activities related to the WMDPF;
- APML has developed indicators for identifying suspicious activities related to the financing of terrorism (general and specific) and WMDPF, taking into account the specificity of each obliged entity, which are published on the APML website and are made available to both obliged entities and all interested parties;
- Based on a training needs analysis for the private sector in accordance with the WMDPF risk assessment findings, three extensive trainings for the public and private sectors were held by engaging international experts. In addition to supervisors, MUST representatives, Customs Administration, MOI and other state authorities responsible for issuing permits for trade in strategic goods, the training was also attended by the private sector, mainly from the banking sector. The participants received educational materials, brochures, etc. which address to a great extent the findings of the previous WMDPF risk assessment;
- There are plans to hold similar WMDPF training for the Financial Investigation Unit and other relevant MOI units on the above-mentioned plan related to identifying WMDPF activities, because this unit focused on ML and TF in the previous period;
- International experiences were exchanged, including through regional study visits, and especially with the responsible USA authorities, including the Treasury Department, Trade, Customs, Financial Regulators, about good practices in SAR analysis and other WMDPF-related activities;

- A publication with a glossary of WMDPF terms was also created and this material was distributed to all relevant entities.
- Raising awareness and improving the knowledge of relevant participants in the WMDPF prevention system through the translation of key international documents, primarily the updated FATF Methodology and the RUSI Methodology developed by King's College;
- Certain relevant state authorities, such as the Republic Geodetic Institute (hereinafter: RGZ), implemented IT solutions for the implementation of the list of designated persons in relevant institutions;
- The online designated persons' search tool is continuously improved and promoted at AML/CFT obliged entities' training events.

Key state institutions involved in the regime for the fight against WMDPF

While most state institutions (including the security sector and judicial authorities) are part of the framework for the fight against WMDPF, the following entities represent its key elements:

1. Administration for the Prevention of Money Laundering (APML)

APML is the financial intelligence unit of Serbia, part of the Ministry of Finance, responsible for collecting and analyzing financial intelligence data in relation to the fight against WMDPF. It coordinates with FIs and state authorities to ensure compliance with asset freezing measures, monitors suspicious transactions related to WMDPF and provides guidance on the application of regulations and restrictive measures related to WMDPF. The APML plays a key role in detecting, preventing and responding to the risks of WMDPF.

2. Customs Administration

The Customs Administration, as an administrative body within the Ministry of Finance, is extremely important for monitoring and controlling the cross-border movement of goods, especially dual-purpose goods that can be used for WMDPF purposes. It ensures that export, import and transit comply with regulations in the area of combating WMDPF by detecting suspicious shipments that could be linked to WMDPF activities. The Customs Administration also implements restrictive measures at the borders in order to prevent the transfer of goods linked to WMDPF.

3. Ministry of Internal and Foreign Trade (MUST)

The Ministry of Internal and External Trade (hereinafter: MUST) supervises the regulation and supervision of foreign trade, ensuring that business entities fulfill their obligations in relation to the fight against WMDPF in relation to the circulation of dual-use goods and sensitive materials. This ministry has a key role in issuing trade licenses and ensuring that national and international sanctions are applied in Serbia's trade policy, minimizing the risk of WMDPF through trade networks.

Export controls

The system of control of the export of weapons, military equipment and dual-use goods in Serbia is a key element related to mitigating the "direct threat" as a component of the

WMDPF. This system is structured by a solid legal and institutional framework that regulates each stage of the export and import process, ensuring that controlled goods are not diverted to illicit purposes by WMD proliferation actors and their financiers. Key regulations in the country such as the Law on Export and Import of Weapons and Military Equipment (hereinafter: ZNVO) and the Law on Export and Import of Dual-Use Goods (hereinafter: ZRDN), together with by-laws, international conventions and agreements, serve as the basis for these controls. The export control framework in Serbia is also harmonized with the EU framework and the EU Common Position (944/2008), which states the criteria for issuing export licenses for weapons, military equipment and dual-use goods, and is fully integrated into the regulations Serbia. This is contributed to by regular harmonization of Serbian national control lists for weapons, military equipment and dual-use goods with modified EU list of military equipment and the EU list of dual-use goods. This alignment strengthens Serbia's ability to cooperate with international partners in the application of export controls.

The export and import of weapons, military equipment and dual-use goods, including brokerage services and technical assistance in these sectors, takes place in three phases:

1. Registration: Legal entities and entrepreneurs must be registered with MUST in order to engage in the export/import of weapons and military equipment, i.e. to provide brokerage services and technical assistance. The registration, which is valid for five years, gives the entity the right to perform these activities.
2. Licensing: MUST issues licenses for the export/import of weapons, military equipment and dual-purpose goods, as well as for related brokerage services. Licenses can be changed or revoked if necessary, and significant changes require the consent of the competent state authorities. For import, permits are issued only for goods from list 1, 2 and 3 of the Chemical Convention. In addition, MUST verifies end user certificates for import and export.
3. Supervision and control: MUST checks compliance with various regulations before issuing permits, including checking company owners, shareholders and business partners in relation to sanction lists. Also, it ensures /confirms that the country of final destination is not subject to embargo and that the prices and demand for the goods are in accordance with the needs of the receiving country. Ministry employees access databases such as the US Government Risk Report and use information from open sources for additional checks. The approval of the Ministry of Internal Affairs (by land and water), as well as the Directorate of Civil Aviation (by air) is required for the transport and transit of military goods.

Licensing criteria

ZNVO and ZRDN establish criteria based on EU Common Position 944/2008, which determine whether a license should be granted. These criteria ensure that the issuing of permits:

1. It does not jeopardize the observance of the international obligations of the Republic of Serbia, especially those related to the sanctions of the UN Security Council, as well as other international organizations of which the Republic of Serbia is a member;
2. It does not threaten the respect of human rights or violate humanitarian law in the country of destination ;
3. It does not threaten regional peace, security or defense interests of Serbia ;
4. It does not threaten Serbia's foreign or economic policy ;
5. Does not contribute to ongoing conflicts or unrest in the country of destination ;

6. It has a negative impact on Serbia as a result of the behavior of the end-user state towards the international community, especially towards terrorism, international organized crime and respect for international law.

Applications that do not meet the first four criteria are automatically rejected, while the assessment of the remaining criteria is carried out by national institutions, each according to their competence - the Ministry of the Interior, Ministry of Defense, Ministry of Interior and the Security and Information Agency.

Licensing challenges and preventing diversion

The primary challenge facing authorities is the potential diversion of legally exported goods, particularly to countries in conflict. Dual-use goods, although sophisticated, may have military applications even if they are not on control lists. To prevent this, MUST works closely with the Customs Administration and other competent authorities, tracking goods based on tariff codes, their end use and destination. An interagency working group was established to monitor goods and prevent diversion.

Awareness and international cooperation

In order to improve compliance with regulations, annual seminars are held for business entities that participate in the export control process, and the last one was held in September 2024. These seminars educate economic operators on the challenges of export control, including the risks of diversion and abuse. Serbia is also actively involved in international cooperation, exchanging information with regional partners and participating in EU projects to establish an efficient export control system. Serbia regularly submits reports to international organizations such as the UN and the EU on the export of weapons and military equipment and, when necessary, exchanges information with individual countries in this area.

Monitoring and reporting

Customs authorities, security services and inspection authorities carry out continuous supervision over export and import operations. State institutions are obliged to exchange information on exporters, importers and controlled goods. Business entities, including exporters and banks, must provide access to necessary records and information upon request.

In order to ensure transparency, the Report on the export and import of weapons and military equipment and the Report on the export and import of dual-use goods are published annually. These reports, aligned with EU standards, are submitted to the National Assembly (Parliament) and published in the Official Gazette and on the Ministry's website. Serbia also submits regular reports under international obligations, such as the Arms Trade Treaty. Because of its transparency, Serbia is consistently ranked highly in the Transparency Barometer published by the Small Arms Survey.

Customs authorities have an extremely important role in controlling the circulation of dual-use goods at borders, ports and during transit. Customs authorities work according to clear guidelines established by the Rulebook on Obligations of Customs Authorities, which ensures the effective/efficient/effective interception of suspicious shipments that can be linked to the WMDPF. For dual-purpose goods, which often have civilian and military applications, the Directorate for Preventive Protection of the Ministry of Interior supervises the issuance of transport permits, especially when the goods are classified as dangerous.

Transport of dangerous goods requires special approvals, including approval from the Ministry of Defense for Class 1 ADR/RID/ADN items, which include military weapons and certain dual-use goods. Air transport of such goods is also subject to strict conditions, which ensure safe and secure transit in accordance with domestic regulations.

Customs control of weapons, military equipment and dual-purpose goods

Based on Article 37, paragraph 1 of the Law on the Export and Import of Arms and Military Equipment ("Official Gazette of the RS", No. 107/14), the Ministry of Finance adopted the Rulebook on the Obligations of Customs Authorities in Arms Export, Import and Transit Procedures and military equipment, which was published on April 3, 2015, in the "Official Gazette of RS", number 32/2015. This rulebook prescribes the duties of customs authorities in terms of control of export, import and transit of weapons and military equipment.

In order to develop a systematic approach to the control of the traffic of such sensitive goods, Serbian Customs Administration launched the project "Control of foreign trade in the field of weapons, military equipment and dual-purpose goods". This project is jointly implemented by the Department for Customs Affairs (Department for Customs and Customs Protection and Department for Subsequent Control) and the Department for Control of Customs Regulations (Department for Customs Investigations, Department for Risk Analysis, Department for Suppression of Smuggling and Department for Intelligence Affairs).

As of 2008, the Customs Administration cooperates with MUST, from which it receives data on companies registered for foreign trade in weapons and military equipment, as well as on issued and denied permits for the export and import of weapons, military equipment and dual-purpose goods. The Customs Administration informs MUST on a quarterly basis about the realization of the issued permits. Also, on the portal of the Customs Administration, the opinions of the Ministry on the determination of the need to issue permits for certain goods are available, prepared in cooperation with technical experts who identify the goods and determine whether a permit is required for their export/import. The Customs Administration is also involved in the drafting of legal regulations related to the production, circulation, import and export of controlled goods.

Example: Violation of customs regulations (2009)

In 2009, a renowned Serbian furniture manufacturer was bought by Bezaflam, a textile flame retardant from the Swiss company Bezema. This chemical, classified as a dual-purpose commodity, serves to reduce the flammability of textiles, but it can also be used for the production of war poisons, that is, as a precursor for the production of chemical weapons.

According to the Chemical Weapons Convention (CWC), international trade in such chemicals must be reported to the Organization for the Prohibition of Chemical Weapons (OPCW), which in this particular case concluded by collating the data that the mentioned Swiss company had received permission from its regulatory authority to export the said chemical, and yes Serbian the company did not request permission from the competent ministry to import such goods. After that, the customs authorities carried out a customs control of the Serbian company and found that the company did not request a permit for the import of these goods from the competent ministry, which is why the goods were temporarily detained and proceedings were initiated for an economic offense related to the import of goods for which the consent of the competent authority was not requested. Through this procedure, it was determined that the Serbian company had been importing these goods for a long time, which it used exclusively for the purpose of producing furniture, and that it did not consider that it was

necessary to request an import permit for this type of goods, so it was eventually released from responsibility.

The outcome of this case is that, even during the court process, an obligation was introduced to declare, through the CAS nomenclature system, the numbers of chemicals (unique identifiers for chemical substances) which the customs authorities must control at import/export, about which they are informed and other businesses subjects

Also, this Serbian company requested at each next import of this type of goods, and obtained permission from the competent ministry, aware that it was a dual-purpose item.

Border control and challenges

The key indicators and challenges faced by the Customs Administration in controlling the import of weapons, military equipment and dual-purpose goods are:

- Suspicious countries of origin or senders of goods, especially from high-risk countries on the UN and EU sanctions lists or countries that represent specific risks for Serbia ;
- Suspicious end users ;
- Unusual delivery routes ;
- Goods packed in a way that conceals their identity or goods in re-export;
- Incomplete or poorly written customs documentation ;
- Misdeclared or incorrectly classified goods according to the customs tariff.

Customs documents can be manipulated to avoid obtaining the necessary permits. In cases where there is suspicion of potential misuse in connection with WMD, enhanced control measures are applied using all available material and technical means. Cooperation with relevant domestic and international authorities, through the exchange of data and continuous training of customs officers, helps the Customs Administration in solving identified risks.

Example: The case of dual-use goods in 2021

In June 2021, a customs broker notified the Customs Administration of an upcoming transaction on behalf of a firm from Doha, Qatar. The goods were to be imported and sold to a third country without entering the free market of Serbia, in accordance with Article 39 of the Law on Foreign Trade ("Official Gazette of RS", no. 36/2009 and 36/2011). The goods, which were originally sourced from Romania and Italy, raised concerns about the price being significantly lower than expected. The goods, originally valued at 20,000,000 euros, were now valued at 1,700,000 euros in resale.

The goods, described as "Saturation Diving System Components", consisted of submarines with hyperbaric chambers and large storage tanks, potentially for military use. After inspection, the impression was that the goods were second-hand and likely serviced, with some components manufactured between 2011 and 2015, which contradicted the original 2009 contract.

The Customs Administration initiated verification procedures under the Protocol on Mutual Administrative Assistance in Customs Matters under the Stabilization and Association Agreement. Officials from Italy and Romania confirmed the authenticity of the documents and payments. This information was shared by the Customs Administration with the Ministry of Internal Affairs Service for Combating Organized Crime. Meanwhile, the customs broker was instructed to seek the opinion of the MUST about the goods. The Ministry confirmed that the diving system did not require import-export control and that it was not included in the National Control List of Weapons and Military Equipment.

In the period 2019 - 2024, there were no other cases for dual-use goods that would have their outcome in the court. However, the example mentioned above demonstrates the mechanisms used by the Customs Administration to identify and clarify suspicions when it comes to trade in dual-use goods or WMD.

Through these measures, Serbia's export control system serves as a critical defense against the risks associated with WMDP, ensuring that all controlled goods are appropriately monitored and regulated to prevent their use in illicit activities.

II DIRECT APPLICATION OF TFS

Analysis of suspicious activities and reporting of designated persons

APML received a total of 5,080 SARs. However, none of these reports directly indicated or led to the conclusion that there was a link to WMDPF. This includes analysis of CTRs and SARs filed by other state authorities and counterparts.

In the period 2021-2023, the APML carried out additional checks on six SARs (three SARs in 2022 and three in 2023) due to suspicion on potential links with WMDPF, and collected additional data. These SARs concerned two legal entities in 2022 and three legal entities in 2023.

Additional checks did not confirm any suspicion on WMDPF, nor were there any risks or indications related to this threat.

In the period 2021 - 2023, the APML received five cases related to the freezing of assets of designated persons, based on the list of designated persons adopted by the Serbian Government on December 20, 2018. It is important to note that these cases involve persons designated for their links with terrorism, not WMDP. Nevertheless, these cases demonstrated the effectiveness of the Serbian TFS system.

The APML submitted the report to the Minister of Finance within the deadline provided by law. Confirming that these are designated persons and that their property is subject to freezing, the Minister issued orders for immediate freezing of assets of the designated persons.

Example I:

The bank has filed an SAR indicating that the legal entity "A" was operating on the basis of fictitious documentation. Taking into account the allegations from the SAR, and the amount of the funds transferred in international payment transactions using a high-risk payment code for re-export, the case was prioritized which required its detailed analysis, and a review of the SAR from the point of view of WMDPF.

In the course of work on the case, transaction histories were collected for legal entity "A" and their analysis, using the available data from the APML database, found as follows:

The legal entity "A" was founded at the end of 2021 and registered to carry out wholesale trade in grain, raw tobacco, seeds and feed for animals. The owner of the legal entity is a citizen of country A, and in the "KYC" questionnaire of the bank, it is stated that an annual inflow of up to EUR 100,000 is expected. Legal entity "A" submitted a report on inactivity for the year 2021, while neither financial reports nor reports on inactivity were submitted for the years 2022 and 2023.

The analysis of the turnover of the person in question, for the period November 2021 - January 2023, determined total inflows based on the payment of goods located abroad and directly delivered abroad (payment code 312, which refers to re-export) in the amount of USD 37, 5 million and EUR 2.5 million, mostly from the Baltic countries, countries of Western Europe and country A. Total outflows under the same payment code (312) were close to

inflows, USD 34.6 million and EUR 1.8 million, and were made to the Middle East, Western Europe and the above-mentioned countries from which inflows were also recorded.

The business documentation on the basis of which the transactions under payment code 312 were carried out raised suspicions that these were fictitious transactions or the sale of goods that were not stated in invoices and contracts:

- payment based on the "purchase of sunflower seeds from country "A" to a legal entity from the Middle East that is registered to provide consultancy services in the field of information technology,
- an electronically concluded contract on the purchase and sale of corn from country A, in which the quality and specific characteristics of the goods, but also the quantity and price, are not specified,
- sale of wheat to a legal entity from the Baltic region that is engaged in the trade of medical products.

Also, doubts about the legality of the business operations of the legal entity "A" were caused by the manner in which the entity in question operates: the transactions were carried out through electronic banking, and the bank employees were not able to get in touch with the representative of the entity in question in order to obtain all the necessary information about the business activity..

The APML forwarded the above information to the competent prosecutor's office, which, in addition to the Ministry of Internal Affairs, engaged the Tax Police as part of the preliminary investigation.

In another case, the bank submitted a suspicious activity report to the APML, which states that the business of legal entity "B" increased many times over the course of 2022. Suspicion of fictitious business of withdrawing funds was indicated by the fact that all inflows to foreign currency accounts of the person in question were recorded from a country that is a participant in an international conflict. By prioritization, it was decided that the APML should carry out a detailed analysis by subject, as well as that the application should be reviewed from the aspect of the WMDPF.

In the process of working on the case, turnovers were collected on the accounts of the legal entity "B" and their analysis, using the available data from the APML database, determined the following:

Legal entity "B" was established twenty years ago and registered for the wholesale trade of electronic and telecommunication parts and equipment. It was indicative that the registered activity was changed during 2022 to the wholesale trade of parts and equipment for motor vehicles, which indicated the suspicion that it was about concealing the actual business of the person in question.

By analyzing the financial statements, it was determined that by 2022, the person in question generated annual income of up to EUR 200,000, and by analyzing the turnover, it was determined that the person did almost no business abroad (average inflows from abroad amounted to about EUR 4,000). However, during 2022, inflows from abroad were recorded on the accounts of the person in question in the total amounts of USD 122 million and EUR 5.5 million based on re-exports; almost all funds come from a country that is involved in an international conflict. According to the same payment code, during the year 2022 outflows of approximate value were recorded as inflows: USD 103 million and EUR 10 million. The accounts of legal entities to which the funds were transferred were most often located in the Middle and Far East and offshore destinations.

Also, it was established that the legal entity in question did not deliver to the banks any transport documents representing the ownership of the goods and showing the origin of the

goods, nor customs declarations, but only invoices (which sometimes did not state the type or origin of the goods) and general contracts.

The APML forwarded the above information to the competent prosecutor's office.

Conclusion

The asset freezing system in Serbia in relation to TF and WMDPF has proven to be very operational and effective, as evidenced by the handling of various cases, including "false positive" results (matching the name of the client with the name of a person from the list of designated persons even though it is not the same person) and the application of asset freezing measures on the basis of domestic lists of designated persons. The system's ability to quickly spot and manage these cases demonstrates its robustness and practical functionality. This operational efficiency suggests that the system would respond effectively that there were direct cases of WMDP in Serbia involving persons on the UN Security Council sanctions lists for WPDP.

	Key points	Impact on the probability of WMDPF
1.	The TFS system in Serbia is effective in spotting direct targets	Partial reduction (-2)

III ANALYSIS OF MATERIALS

Serbia's financial sector, although relatively stable and growing, is still small compared to other European countries, which limits its potential to be considered an international financial center. As of 2023, the total assets of the Serbian banking sector amounted to approximately 50.7 billion euros, which is modest in comparison with the financial sectors of established European financial centers such as London, Frankfurt or Paris. For example, the total assets of the banking sector in Germany exceed 9 trillion euros, and in the United Kingdom it exceeds 10 billion euros. Even compared to regional players /factors/markets such as Poland, where the assets of the banking sector amount to around 600 billion euros, the financial system of Serbia is significantly smaller. This limited scope of the financial sector is also reflected in the stock exchange activities in the country. The Belgrade Stock Exchange, which is the primary stock exchange in Serbia, has a low trading volume and limited market capitalization, which makes it a significant "player" in the world financial markets.

The Serbian banking sector, although well capitalized and profitable, does not have the depth or international reach necessary to support the type of financial transactions seen in the world's financial centers. The sector is dominated by several large domestic banks and subsidiaries of foreign banks, with foreign-owned banks holding around 75% of total assets. However, these banks primarily serve the local market and the Western Balkan region, with limited participation in global finance. Credit markets in the country are relatively underdeveloped, with total domestic credit to the private sector amounting to around 45% of GDP, compared to the European Union average of over 100%. In addition, the choice of financial products available in Serbia is limited, with a focus on traditional banking services rather than complex financial instruments or services, which are typical of large financial centers. The absence of significant derivatives markets, limited foreign exchange trading and the minimal presence of international financial institutions further emphasize the insignificant role of Serbia in the global financial system.

The insurance sector in Serbia, although stable and growing, also reflects the overall modest scale of the financial industry in the country. As of 2023, the Serbian insurance market has generated premiums of around 1.1 billion euros, which is relatively small compared to other European countries. For example, in neighboring Croatia, the annual premiums of the insurance sector amount to around 1.5 billion euros, while in more developed markets such as Poland, annual premiums exceed 15 billion euros. The insurance market in Serbia is dominated by several large companies, with the first five insurers accounting for over 70% of the market share. The sector primarily focuses on non-life insurance products, such as motor insurance and property insurance, which account for the majority of premiums written. Life insurance, despite the fact that it is growing, still represents a smaller part (0.5%) of the market compared to more developed economies. The insurance penetration rate in Serbia, measured as the ratio of gross invoiced premium to GDP, is about 2%, which is below the European Union average, which indicates further room for growth. However, the limited scope and focus on core insurance products means that the insurance sector in Serbia does not have the depth or diversity needed to significantly contribute to the country being considered a global financial hub.

Serbia's trade profile also reflects its position as a smaller, regionally focused economy, rather than a global trade hub. In 2023, the total volume of Serbian trade, including imports and exports, was around 85 billion euros. Although this is significant in relation to Serbia's GDP, it is small compared to large European countries. For example, Germany's trade volume exceeds 2 trillion euros per year, and even smaller EU countries such as Hungary and the Czech Republic have trade volumes exceeding 200 billion euros. Serbia's trade is largely concentrated on the European Union, with around 60% of total trade. Key export products are among other things, machines and transport equipment, agricultural products and industrial goods, and the main trade partners are Germany, Italy and China. However, the country's export base is relatively narrow, and lacks the diversity of high-volume trade necessary to be considered a major import-export hub. Based on an internal analysis, 4,300 companies (which makes up 3% of all companies registered in Serbia) were engaged in re-export operations based on the turnover of goods obtained from abroad and directly delivered abroad (hereinafter: re-export). In total re-export transactions (for all countries), the most represented countries on the inflow side are the Russian Federation with 20.9%, Bosnia and Herzegovina with 7.9%, France with 5.6%, Turkey with 4.4%, the Republic of North Macedonia with 4.2%, Montenegro with 3.8%, Switzerland with 3.7%, the United Arab Emirates with 3.4% and Germany with 3.3%. The largest outflows were made to Switzerland (11.5%), the United Arab Emirates (8.8%), the Russian Federation (6.4%), Hong Kong (6.1%), Turkey (5.1%), China (5.0%) and Germany (4.5%).

Overall, it can be concluded that Serbia's financial sector, banking system and trade profile are more suited to a medium-sized, domestic and, to some extent, regionally focused economy, than a global financial or trade hub.

Sectoral analysis of materiality shows that the banking sector represents about 90% of the total balance of the financial sector of Serbia, while the remaining 9% covers the insurance, financial leasing and voluntary pension funds sectors. Moreover, the international exposure of the banking sector is significantly stronger than other sectors in Serbia, i.e. apart from small-scale remittances, the banking sector has a *de facto* monopoly on international transactions (and trade finance in particular) in Serbia, making it the dominant area of focus for the purposes of this risk assessment. Given that the activity of the WMDPF is, by its very nature, inextricably linked to international financial flows, it automatically classifies all other groups of obliged entities in Serbia into a secondary category, which should be analyzed through referral (reverse referencing process) to the findings that were reached in connection with the banking sector.

Conclusions regarding materiality

Serbia does not have the characteristics described by the FATF in its WMDPF Guidelines as suggesting a high WMDPF risk profile, i.e. it does not represent a large financial center with broad international trade links, a large volume of cross-border transactions. The country's financial system is relatively isolated from larger global financial institutions and flows. The banking sector occupies a dominant position in the financial system of Serbia and almost has a monopoly in servicing international transactions.

	Key points	Effect on probability
1.	Serbia does not have the characteristics of an international financial center	Big reduction (-3)
2.	Serbia does not have the characteristics of an international trade hub	Big reduction (-3)
3.	Stronger regional position in finance and trade compared to some Western Balkan countries	Partial reduction (+1)
	Average impact (total materiality for Serbia)	Partial decrease (-1.6)
	Key points (sectoral materiality)	Effect on probability
1.	Prevailing materially important position of the banking sector in the financial system and almost a monopoly on international transactions	Big Increase (+3)
2.	The secondary position of other sectors from the point of view of materiality in the context of WMDPF	Big reduction (-3)

IV THREAT ANALYSIS

Threats to WMDPF can be broadly categorized into two types: a "transit" threat, where jurisdiction is essentially used to layer WMDPF funds between source and destination, and a "direct" threat, where WMDPF materials are sourced within the country itself.

Direct Threat - Overview

The direct threat of proliferation financing is usually more pronounced in countries with well-developed dual-use industries, especially those involved in the production of chemical, biological or nuclear materials that can be repurposed for WMD development. In such environments, WMDPF actors may attempt to obtain sensitive technology or material under the guise of legitimate transactions, exploiting the advanced capabilities and expertise available in these sectors.

The export of dual purpose goods from Serbia is very small. In 2022, a total of 11 export licenses were issued (with a total value of 15.28 million dollars), in 2023, 22 licenses were issued (with a total value of 32.03 million dollars), and in 2024, until October 1 a total of 7 permits were issued, worth 15.51 million dollars. The goods that were the subject of export are mostly from category 1C350 of the National Control List of dual-use goods, harmonized with the EU list (chemicals that can be used as precursors for toxic chemical agents and chemical mixtures of certain characteristics and components), 1A008 (explosive charges, devices and components) 5A002 (systems, equipment and components for the protection of information), 6A002 and 6D 003 (optical sensors and equipment, as well as software specially designed for the development and production of equipment). The most common export destinations were

Bosnia and Herzegovina, Montenegro, Hungary, the Kingdom of the Netherlands and DNR Algeria.

All permits were issued in accordance with the procedure prescribed by the Law, that is, on the basis of complete documentation, which, among other things, includes the mandatory submission of a statement on the final purpose of the goods and the end user. Based on the documentation, Ministry of Internal and Foreign Trade considers each request individually, using the so-called Analyzes of the risk of redirection of goods, either to another country (re-export) or to another destination within the country and for another final purpose (re-transfer). In the risk analysis procedure, it is considered whether the quantity of the goods corresponds to the usual procurement for that purpose. Next, the question of the price of the goods is considered, i.e. whether it is disproportionately high or low compared to the market price. Then the end user is considered, i.e. whether it is a legal or Natural person (owner or responsible person) that is under sanctions and the final destination of the goods (whether it is a country under UNSC sanctions or sanctions of other international organizations of which the Republic of Serbia is a member). In the risk analysis process, employees use the resources of the SME, but also of the diplomatic and consular missions of other countries in those countries where Serbia does not have its own diplomatic missions, data from the jurisdiction of the BIA, open sources (Internet) as well as protected databases to which they have access based on a donation (Risk Report, for example)

For example, one application for the issuance of a permit was rejected, because it was determined that the purchase price was lower than the purchase price. The applicant justified himself by saying that he was meeting foreign partners, that it was a ticket to long-term business, etc. but his request was denied.

Another example when, as a result of a risk analysis, the request was rejected in the field of arms and military equipment export, when a company from an EU member state concluded a contract with a Serbian arms manufacturer on the purchase of 8,000 semi-automatic rifles "for further sale". The dilemma was, first of all, what would such a large amount of weapons be for a relatively small country, then where would they store those weapons until the final sale, then where would they find a buyer, and finally what would be their ultimate purpose. Later, information was received from the Ministry of Justice that the country was marked as a country with a high level of corruption in the European Parliament Report. Based on all of that previous knowledge, the request was denied.

It is interesting to mention the case when a Serbian company submitted a request for the export of goods from Kazakhstan (from the stock of the army of the former USSR) to the Kingdom of Saudi Arabia. The first suspicious circumstance was why a rich country buys old weapons when the most modern ones are available. Another suspicious circumstance was the route of transporting the goods, because the goods, according to the request, were supposed to be imported to Serbia and from there exported to the Kingdom of Saudi Arabia. Such a route was "strange" because it significantly increases the cost of transportation, instead of the goods going directly from Kazakhstan to KSA. Since the applicant did not provide adequate answers to the questions, the request was rejected.

In the process of checking the foreign partners of our companies, a case was also registered when, on the basis of open sources, it was established that the owner of the company-buyer from a Latin American country was convicted in the first instance for abuses in trade and that he was banned from carrying out activities related to on trade in weapons and military equipment for the duration of three years. Subsequently, that person submitted a second-instance final judgment, which annulled the first-instance judgment, including the imposed measure, so the case was opened to the procedure and, in the end, a permit was issued.

It is also important to point out that, during the previously mentioned seminar for the economy and scientific institutions in the field of foreign trade in dual-use goods, on September

10, 2024, the dangers of WMD financing were pointed out to the companies and that representatives of the APML held a lecture on the topic of risk. On that occasion, a questionnaire was sent to the companies, which contains questions about whether and in what way the companies check their foreign partners, whether they are aware of the risks and the existence of sanctions against individuals and companies, whether they are aware of the risks of diverting legally exported goods, are they aware of the risks of doing business with certain intermediaries etc.) with a request to fill them out. Based on the answers of the companies, it can be concluded that they are aware of the mentioned risks and that, before concluding the deal, they check their foreign partners using different sources (websites of APML, MFA, UN, websites of the countries where these partners come from).

Taking into account the above analysis and the indicators previously developed by Serbia, the following financial indicators can serve as an indicator (red flags - row flag) direct threats to WMDPF in the country:

1. **Disproportionate commodity prices:** The purchase or sale price of dual-use or military goods is significantly higher or lower than market value, potentially indicating attempts to justify the transaction under dubious circumstances (e.g., motivating foreign partners for long-term business).
2. **Unusual trade routes or excessive transport costs:** Export applications involving complex or unusual trade routes that significantly increase transport costs, such as routing goods through Serbia rather than directly to the final destination, which may indicate an intention to conceal the true origin or destination goods.
3. **Exports to high-risk jurisdictions:** Transactions involving countries or entities designated as low transparency, especially when the purpose, storage and end use of large quantities of military equipment are unclear or inconsistent with the needs of the destination country.
4. **End-user or foreign partner with a "suspicious" background:** Cases where CDD measures reveal that the end-user or foreign partner has a history of criminal convictions related to illegal trade practices or is subject to trade prohibitions.
5. **Purchase of old or surplus military equipment by rich countries:** Requests for export licenses involving rich countries buying obsolete military equipment, where there is no obvious strategic reason to acquire an older NGO over a more modern one, which raises questions about the purpose or destination of these goods.

It should be noted, however, that the probability of a direct threat from WMDPF in Serbia was ultimately assessed as low. This assessment is due to several factors: the limited scope of the Serbian dual-use industry, the rigorous export control regime and the additional level of financial control carried out by financial institutions. These combined measures significantly reduce the probability that WMDPF activities will occur in the country itself.

Transit threat - an overview

A transit threat would imply the use of the Serbian financial system as a channel for the transfer of funds linked to the activities of WMDP. In this scenario, the financial institutions of Serbia would be exploited by foreign actors who use Serbia as a transit point for the purpose of layering or transfer of funds, and the final destination would be another jurisdiction. This could happen through complex financial transactions designed to disguise the origin and destination of funds, making detection difficult.

As recognized by the FATF, this type of transit threat is more characteristic of international financial centers, which have large, complex financial systems. These centers have widespread financial networks and provide sophisticated financial products that are ideal

for layering transactions as part of a broader WMDPF strategy. Serbia, however, does not have the same level of global financial connectivity nor the complex financial infrastructure that would normally be used for such purposes.

Namely, the simplicity of the Serbian financial infrastructure and its relatively small size act as a significant obstacle for any large or permanent financing operations of the WMDPF by foreign actors. The simple nature of the financial system, together with the limited number of financial institutions, means that the authorities and financial institutions would easily detect any extensive or ongoing activities of the WMDPF. This increased visibility and increased probability of detection do not make Serbia an attractive target for continued activities WMDPF, since foreign actors usually seek a more complex and non-transparent environment in order to conceal their activities.

However, the possibility of one-time operations is more likely. For actors financing WMD proliferation, the Serbian financial system could come into play for isolated transactions that are less likely to immediately raise suspicion. This could involve smaller, discrete movements of financial assets or individual cases of acquisition of assets intended to avoid regulatory scrutiny. Such one-off operations could be organized in such a way as to take advantage of specific opportunities or weaknesses in the financial sector of Serbia, without establishing a longer presence of these actors, which would be easier to detect. Therefore, although systemic exploitation is unlikely, Serbia could serve as a target for sporadic attempts to use its financial infrastructure for purposes related to WMDPF.

In this context, Serbian competent authorities have identified the following indicators (red flag) activities that are potentially related to WMDPF, which are partially identified in the Instructions for obliged entities identifying and preventing TF and reformulated them to focus on *the transit* threat.

Unusual one-off transactions:

- Transactions that are not in accordance with the typical financial behavior of the client, in particular, large or complex transactions that do not correspond to the usual business activities of a person or entity, may signal an attempt to exploit the financial system of Serbia for the purposes of WMDPF. This is particularly relevant for transactions involving foreign companies that have no clear ties to Serbia.

Using shell companies or complex ownership structures:

- The participation of fictitious companies, especially those with an unclear ownership structure, or newly established companies in financial transactions may indicate attempts to conceal the true nature of the transaction. This one indicator (red flag row flag) situations when such companies are used in one-time transactions or in transactions with dual-purpose goods or other sensitive goods.

Transactions with high risk jurisdictions:

- Financial transactions with countries known for their involvement in WMDPF activities are significant indicators (red flags). This applies to transfers of funds to or from those jurisdictions, especially when the purpose of the transaction is unclear or does not fit the profile of the participants in the transaction.

Resident natural or legal persons:

- The participation of natural or legal persons of non-residents in financial transactions within Serbia, especially those who have no obvious business or personal ties to the country, could indicate an attempt to use the financial system of Serbia for WMDPF.

Sudden changes in economic activity:

- Companies or institutions on the territory of Serbia that will suddenly start to engage in activities involving the sale of high-value goods, dual-use technologies or significant cross-border transactions, especially when there is no previous history of such activity, may indicate an attempt to use such companies or financial institutions as a channel for WMDPF.

Preventing the transit threat from WMDPF in Serbia relies on rigorous checks in parties (actions and CDD - CDD) whose aim is to identify the beneficial owners, on effective supervision whose aim is to ensure business compliance and on the timely application of targeted financial sanctions (TFS) in order to block and freeze transactions (restriction of disposal). These measures are crucial for detecting and disrupting the activities of the WMDPF in a small and transparent financial system such as the Serbian one. These elements will be covered in detail in the Sectoral Vulnerability Report section.

	Key points	Effect on probability
1.	Probable threat from WMDPF actors conducting minor and sporadic/rare transactions related to WMDPF	Small increase (+1)
2.	An unlikely threat from a systemic WMDPF through sophisticated networks with a financial operational base in Serbia	Partial reduction (-2)
	Average impact	Smaller decline (-0.5)

V SECTOR ANALYSIS

The vulnerability analysis presented below is based on a comprehensive array of sources and contains several essential elements. These are the analysis of sectoral vulnerability from the NRA, with a special focus on aspects that are most relevant to the risks of WMDPF, as well as the latest evaluations of technical compliance from the Evaluation Report and Progress Report (MER /FUR), analyzes of all and remaining deficiencies in technical compliance for specific FATF recommendations. In addition, the analysis takes into account the elements of the self-assessment of the supervisory authorities in relation to the immediate outcomes (IO), the results achieved by Serbia in the ICRG process, the results of the inspection oversight, insights from the private sector survey, as well as from the answers to the questionnaires sent by the supervisory authorities to the obliged entities..

The final ratings take into account the results of the comparative analysis of materiality for the sectors from the section on materiality in the previous text.

Sector 1 (banks)

Findings of the previous NRA

In the 2021 NRA for WMDPF, the banking sector was identified as the sector with the highest risk in the context of the WMDPF, given its central role in the financial system and

high exposure to international transactions. The sector represents about 90% of the total balance of the financial sector of Serbia, and the remaining 9% is occupied by the sector of insurance, financial leasing, voluntary pension funds, payment institutions, e-money institutions and authorized currency exchange operators. When assessing threats related to WMDPF, the primary concern was the risk of states, organizations and individuals exploiting financial institutions for WMDPF. These issues, as well as the prominent position of the banking sector in the system, remained a constant for the NRA in question for WMDPF for 2024.

And in the previous NRA, it was emphasized that legal entities and entrepreneurs have the obligation to operate through a current account, prescribed by the Law on Payments of Legal Entities, Entrepreneurs and Individuals ("Official Gazette of RS", No. 68/15), making the banking sector a central element in public finance system. This legal obligation requires legal entities and entrepreneurs to open and maintain current accounts with the bank for all transactions, including international payments. In addition, they are prohibited from making payment transactions in cash and must deposit all received cash into their accounts within seven working days. These measures, as stated in the previous NRA, significantly reduce the use of cash, thereby improving the monitoring and detection of potential transactions related to the WMDPF, but also concentrate most of the potential risks on the banking sector itself, thus relieving other groups of obliged entities.

1. *Violation* of the system for preventing WMDPF.

According to the applied Methodology, "*violation*" should be understood as the intentional deactivation of WMDPF controls by one or more obliged entities in order to perform a WMDPF transaction or accept a client subject to the application of the TFS for WMDPF. The key elements of vulnerability in this segment are as follows:

1.1. *Compromised control or ownership of a financial institution and lack of application of standards of expertise and suitability in management (fit and proper) (R.26.3):*

- In 2018, MONEYVAL checked Serbia's compliance with FATF Recommendation 26, specifically criterion 26.3, and assessed it as "mostly met", which speaks of the strength of the checks that have been established.
- The amended by-laws of the NBS allowed it to expand the practical implementation of the framework for combating AML/CFT in order to protect the financial sector from actors participating in the WMDPF. This entails a thorough check of owners and directors in financial institutions against lists of targeted financial sanctions, including those adopted by the UN Security Council.
- Beneficial owners are subject to increased scrutiny to prevent WMDPF actors from hiding behind complex ownership structures.
- The NBS also screens applicants based on specific indicators of WMDPF risk, such as involvement in high-risk sectors such as arms trade or sensitive technologies, and examines their international business activities, especially those related to regions known for WMDPF risks.
- After granting approval for candidates, the NBS continues to monitor their profile, especially in search of possible risks related to WMDPF. If new problematic elements appear, such as connections with high-risk jurisdictions or suspicious financial transactions, the NBS has the authority to revoke the consent and not allow individuals to perform key functions.

- Number of applications processed by the supervisory authority

In 2021, one decision was made on prior consent for the acquisition of ownership in the bank, three decisions on consent for the merger of banks, 87 decisions on consent for the appointment of members of the bank's administrative bodies, three suspensions of the procedure for the appointment of members of the administrative bodies, and three rejections of requests. In 2022, three consents for the acquisition of ownership, two consents for the merger of banks, and 58 consents for the appointment of members of the bank's administrative bodies were passed. In 2023, two consents for the acquisition of ownership and 73 consents for the appointment of members of administrative bodies were passed, with one suspension of the procedure. Until September 16, 2024, one request for the acquisition of ownership was in progress and 39 consents for the appointment of members of administrative bodies were passed.

➤ *Number of applications found to have different beneficial ownership*

- In the approval (licensing) procedures for banks (appointment of members of the bank's management body, licensing permit, acquisition of ownership in the bank, merger of banks), there were no cases where the NBS determined a different beneficial owner than the one the applicant stated in the documentation.

➤ *Number of applications rejected by the supervisory authority*

As mentioned, in 2021, three Decisions were passed on the rejection of the request (in one case, in the procedure of giving prior consent to re-election, the request was rejected, because the proposed person did not personally pay the imposed fine), but the bank did it instead, and during his mandate, many irregularities were noted in the bank's operations, some of which were difficult, and it was assessed that the proposed person does not have a good business reputation, which implies that the proposed person does not have personal, moral and professional integrity, as well as the ability to manage affairs and business risks. In another case of giving prior approval for re-appointment, the request was rejected because the person proposed as a member of the Bank's Executive Board did not ensure a 40-hour work week and the frequency of his absence from work was noted and his ability to perform duties was questioned, bearing in mind that was authorized to replace the absent CEO (CEO) in order to be able to act in accordance with the prescribed competences and ensure physical presence in the bank, i.e. RS, so that, as a member (deputy president) of the Executive Board, he would organize and supervise the bank's operations on a daily basis and be responsible for the implementation and efficient functioning of the bank's internal control system. In the third case, in the procedure of granting prior consent for the appointment of a member of the bank's board of directors, the request was rejected because the proposed person was convicted of an economic offense (while he was a director in another bank) under the Law on Prevention of Money Laundering and Financing of Terrorism (the court pronounced a fine below the minimum prescribed for this type of business misdemeanor) and due to the fact that misdemeanor proceedings under the Law on Foreign Exchange Operations were ongoing against this person. In 2022, 2023 and 2024 (until September 16, 2024), there were no rejected requests by the NBS.

These regulatory facts show that existing suitability mechanisms are thorough and effective in identifying and preventing individuals with reputational and professional irregularities from accessing management or ownership positions in banking institutions. Given that the NBS uses the same tools and procedures for all its supervised sectors, the probability ranking resulting from this factor extrapolates / applies to all supervised sectors

within the NBS (payment institutions, e-money, financial leasing, digital asset service providers, insurance company).

The above measures provide a **significant reduction (-3) in the probability of a deliberate breach of the TFS system by a financial institution due to compromised ownership and control.**

1.2. Problematic employees who work under the influence of WMDPF actors, as a result of failure to check employees in internal control (R.18)

- Serbia was assessed as "compliant" with the requirements related to internal control according to FATF Recommendation 18, which was stated in the FUR 2019.
- AML/CFT Law requires banks to establish employee screening procedures. This is regularly checked by the National Bank in its supervision activities, whereby no irregularities were identified in the period from 2021 to 2024 in this matter, nor pronounced measures to eliminate irregularities.
- An additional level of obligations is placed before the compliance officer, who must pass a double approval - NBS (integrity check) and APML (qualification of professional competences), which culminates in an oral interview with the APML. The process is repeated every 5 years for existing compliance officers.
- For complex international transactions, especially in relation to dual-use goods or complex trade-related settlements, banks work according to the "4 eyes" principle, which involves obtaining double approval - from the Compliance Department and the International Payments Department, which minimizes all errors of employees in the application of formal or informal controls.
- In practice, cases have been identified in which bank employees, despite having successfully passed employment checks, were subsequently involved in criminal behavior related to and aimed at abusing their duties in the financial institution, which resulted in their participation in economic crimes, including laundering money. The fact that these cases were identified by the competent authorities and criminal sanctions were applied confirms the robustness of preventive and repressive controls in the banking sector.

The above measures cause a **significant reduction (-3) in the likelihood of intentional TFS violations by problematic employees.**

General conclusion on the probability of breach of TFS

Effective measures to prevent actors linked to WMDPF from owning or controlling financial institutions, together with preventive measures to prevent the phenomenon of problematic employees (rogue employees) provide a significant reduction in the likelihood of TFS violations.

	Key points	Effect on probability
1.	A significant reduction (-3) in the likelihood of a willful violation of the TFS by a financial institution due to compromised ownership and control	Big reduction (-3)
2.	The above measures provide a significant reduction (-3) in the likelihood of intentional TFS violations by problematic employees	Big reduction (-3)
3.	Average probability of <i>TFS violation</i>	Significant probability reduction (-3)

2. Non-implementation of TFS measures.

2.1 *Measures to ensure proper risk assessment and own vulnerability assessment (R.1, R.15):*

- At the time of writing this risk assessment, obliged entities in Serbia are under no obligation to perform a risk assessment or assess their own vulnerabilities in relation to the WMDPF.
- A number of mitigating elements compensate for the lack of a risk assessment obligation. In 2018, as mentioned earlier, the APML issued an Instruction on the implementation of LAF, in which the obligation to assess risks in terms of preventing the financing of proliferation was stated.

The stated circumstances cause a **significant increase (+2) in the probability of non-implementation of measures to prevent WMDPF**, bearing in mind the obligation to assess and understand the risks.

2.2 *Measures to prevent poor supervision and control of the application of regulations (supervision and enforcement) (R.26, 27, 35):*

- Serbia received the following grades for the respective recommendations: R.26 - LC²⁴¹ (FUR 2018), R.27 - C (MER 2016), R.35 - LC (FUR 2018).
- The NBS applied a structured approach to monitoring the operations of banks, with a focus on the prevention of ML/TF/WMDPF. Offsite supervision is carried out at least twice a year through the Questionnaire on the risk management of ML and TF, which includes specific indicators related to FT, WMDPF and the application of TFS. These risk indicators are crucial for the formation of the annual plan of onsite inspection oversight, which is adopted by the Executive Board of the NBS.
- Risk assessment in banks is determined using internal NBS methodologies and risk matrices, which enables the consistent application of a risk-based approach. In order to increase the efficiency of supervision, the NBS adopted internal regulations, including the methodology for assessing the risk of money laundering, TF and WMDPF, as well as a manual for the Onsite inspection of these risks in banks.
- The WMDPF-related supervision is integrated into the supervision programs related to the prevention of ML/TF or is carried out as a targeted inspection oversight, based on the assessed level of risk of each bank. Intermediate supervision is continuous, while onsite supervision is planned annually based on these risk assessments. Direct monitoring involves a detailed review of internal procedures and checking compliance with TFS lists from sources such as the UN.
- Special attention is paid to checking the up-to-dateness of the TFS databases and ensuring that the banking systems can effectively detect potential abuses for the WMDPF. Real-time checks, such as simulations involving the use of data from sanction lists, are conducted to assess how banks manage potential business relationships or transactions with designated persons.
- During this supervision process, the NBS also considers the internal regulations of banks, the professional training of employees working on compliance with the regulations related to TF/WMDPF and the efficiency of the information and

²⁴¹C – compliant; LC – largely compliant; PC – partially compliant; NC - non-compliant

technical system used to identify and monitor designated persons. These checks ensure that banks' systems are fully at the service of detecting risks related to designated persons.

- To date, no irregularities in compliance with these regulations by the banks have been established, nor has it been established that any of the indicated persons are clients of banks in Serbia, nor that their systems enable the opening of accounts or transactions for such persons.

Since January 2020, a set of questions related to WMD and TFS financing risks has been integrated into the regular ML/TF risk management questionnaire. These questions include whether banks have procedures in place to comply with their obligations under the Law on Freezing of Assets, their use of designated person identification software, and details of their checks and updates on sanctioned entity lists. During the period from 2019 to 2023, 231 questionnaires were analyzed, focusing on the prevention of WMD proliferation.

In onsite inspections of banks, special attention is paid to the effectiveness of internal acts related to compliance with asset disposal restrictions, regular training of employees and the capacity of the bank's IT system to support this compliance. During each inspection, the functionality of the banks' IT systems is checked, including simulations of opening accounts or processing transactions for persons from the current list, in order to ensure adequate application of sanctions. Findings are recorded in the inspection report, and inadequacies can lead to sanctions under the Banking Act, which can range from written warnings to fines, or, in more severe cases, revocation of the license to operate.

To date, no irregularities have been found, nor has it been established that the persons from the list of designated persons are bank clients or that the IT system supports the opening of accounts and execution of transactions for such persons.

The above measures cause **significant reduction (-3) of the probability** of non-implementation of TFS owing to effective supervision or enforcement.

2.3 Measures to ensure the implementation of basic requirements R.7:

- In relation to R.7, Serbia was rated LC (FUR 2018)
- Although Serbia has fulfilled most of the requirements from Recommendation 7, there are still areas that need to be further improved.

General conclusion on the probability of non-implementation of the TFS

The relationship between disadvantages (lack of explicit measures and obligations regarding risk assessment) and advantages (strong practice and high-quality technical application of requirements R.7) shows a neutral influence on the probability of non-implementation of TFS in Serbia.

	Key points	Effect on probability
1.	Partial implementation of TFS measures related to risk assessment and risk understanding obligations by obliged entities leads to a partial increase in the probability of non-implementation (+2)	Partial increase (+2)
2.	Effective implementation of oversight functions ensures a significant reduction (-3) in the probability of non-	Big reduction (-3)

	implementation of the TFS due to poor oversight or enforcement	
	Measures related to the implementation of technical obligations in the TFS (R.7) are comprehensive, but contain certain shortcomings, resulting in a small increase (+1) in the probability of non-implementation	Small increase (+1)
	<i>Average probability of non-implementation of TFS in the banking sector</i>	Neutral effect on probability (0)

3. Evasion of TFS

3.1 Measures to prevent ineffective CDD controls (R.10)

- Serbia was rated *largely compliant* for Recommendation 10 in the 2018 FUR.
- Although one gets the impression that there is still a minor technical deficiency when it comes to the volume of information necessary for CDD procedure for legal entities (no obligation obtaining data on the names of senior management), in the context of WMDPF this element is more prominent in the screening process for TFS.
- In the Onsite inspection of the subjects of supervision under its jurisdiction, the NBS checks the behavior of the obligor in the part that refers to the beneficial owner of the client, checks whether all the required data on the beneficial owner of the client have been established, whether these data have been established in the required manner and within the prescribed period.
- The findings of bank supervision and/or irregularities related to these checks are part of the report on the performed control. In accordance with Article 7, paragraph 2 of the AML/CFT Law, if the obliged entity is not able to apply the actions and measures from paragraph 1, point. 1. to 5. of that article, will reject an offer to establish a business relationship, and if the business relationship has already been established, he is obliged to terminate it.
- The NBS controls compliance with CDD standards in banks and other regulated entities, carefully selecting a representative sample based on specific criteria from the Manual for onsite inspection ML/TF risk management. This sample includes clients from a variety of risk categories and account types, with a focus on high-risk clients with significant transactions. The sample includes clients from jurisdictions designated as high-risk for cross-border threats, as well as clients who perform transactions of more than the RSD equivalent of EUR 15,000. Transactions such as donations, loans and real estate transactions are also included, ensuring representation of both cash and non-cash transactions.

During the inspection, the NBS examines client files and transaction records to check compliance with CDD. If irregularities are found, they are documented in the control report, with the specified violation of the law and the ordered corrective measure, which may include fines, in accordance with the Law on Banks. Banks are obliged to eliminate the deficiencies within a certain period, after which the next inspection checks whether they have been eliminated, by means of a new sample related to the identified irregularity.

From 2021 to 2023, less than 5% (4.41%) of audited clients showed deficiencies in CDD implementation, indicating a low level of non-compliance. The NBS can impose administrative measures, including fines, if the banks do not comply with the orders. The aim

is to ensure banks' compliance with legal requirements, including the use of various sanction lists and ensuring the efficiency of the CDD process.

Obligated entities set out their actions by internal acts when, when establishing a business relationship or during its duration, it cannot determine all the required data about the client by applying adequate client CDD (general, simplified or enhanced). Most often, in the event that the obliged entities cannot carry out the prescribed work and measures of familiarization and monitoring of the client when establishing a new business relationship, as well as during its duration, the parties leave an appropriate deadline for supplementing the necessary documentation, data and information. During that term, the obliged entity does not conclude a contract with the client, and if a business relationship has been established, he does not execute transactions on the order of the client. If the client does not obtain the prescribed data and documentation within the deadline, the obliged entity will not establish a new business relationship with the client, and if a business relationship has been established, the obliged entity will terminate that business relationship, except in the case when the account is blocked based on the procedure of the competent state authority in accordance with the law. After the termination of the business relationship, the obliged entity prepares a written note in which he considers the grounds of suspicion as to whether it is money laundering and terrorist financing. For example, based on data received from banks, during 2023, banks refused to establish a business relationship/execution of transactions in a total of 3,117 cases. Of these, 617 cases refer to the refusal to establish a business relationship/execution of a transaction due to the impossibility of performing actions and CDD. In 1,814 cases, it refused to establish a business relationship/execution of transactions due to the inadmissibility of the client according to the degree of risk of money laundering and terrorist financing, while in 686 cases it stated another reason (e.g.: transaction of a walk-in client engaged in the provision of services related to digital assets, and with which the bank does not provides services, doubts about the client's business activity, requests for products that the bank does not own, transactions in currencies that the bank is unable to support, etc.

Due to certain insignificant remaining shortcomings, the above measures provide only **a partial reduction (-2) of the probability of evading TFS** due to CDD measures (actions and CDD).

3.2 Measures to prevent insufficient controls when it comes to beneficial ownership (P.24, 25)

- Serbia was rated LC for P.24 (MER 2016) and LC for P.25 (FUR 2018)
- Serbia has successfully implemented all of the FATF ICRG Action Plan (completed in 2019), which included the establishment of a beneficial ownership register.
- Serbia has made significant progress in improving the control of beneficial ownership of legal entities and arrangements, which shows a strong commitment to preventing money laundering and terrorist financing. The country's legislative framework, which is primarily governed by the Law on Companies, provides a solid basis for the registration and supervision of business entities. By establishing a centralized register of beneficial owners, which is managed by the Serbian Business Registers Agency (APR), Serbia ensures that information on beneficial ownership is available, which further strengthens transparency and accountability. This structure not only complies with international standards, but also facilitates Serbia's efforts to remain a proactive participant in the fight against financial crime.

The transparency of the system is a significant asset, as it provides access to detailed property information in real time, both to the authorities and the public. SBRA's centralized electronic registers cover a wide range of data that can be easily accessed by various stakeholders. This approach supports proactive surveillance and allows authorities to respond quickly to any suspicious activity. In addition, mandatory bank account opening requirements for legal entities provide an additional level of security, allowing financial transactions to be easily tracked. Together, these measures contribute to a strong infrastructure that helps identify and reduce potential risks associated with money laundering and other illegal activities.

Although certain segments could be improved, this does not diminish the overall effectiveness of Serbian measures in establishing beneficial ownership. For example, although the registration process currently relies on formal procedures, this approach simplifies data collection and ensures that information is readily available in a centralized database. Any deficiencies associated with data verification are relatively minor in the context of Serbia's comprehensive system, which already includes mechanisms for fines and sanctions. Although the document mentions a limited number of criminal prosecutions for false reporting, this should be seen in the wider context of the continuous improvement of Serbia and the strong framework that is already in place.

Due to certain minor remaining drawbacks, the above measures cause only **a partial reduction (-2) in the probability of TFS evasion due to the implementation of beneficial ownership mechanisms**

3.3 Measures to ensure proper correspondent banking - CDD measures for customers using payable-through accounts (criterion 13.2):

- Serbia was rated LC in FUR 2018 in relation to Recommendation 13 and has since eliminated all remaining deficiencies.
- The AML/CFT Law prohibits keeping and using pass-through accounts. This direct restriction effectively blocks potential attempts to use the Serbian system as an anonymized transit zone for WMDPF via correspondent banking.

The above measures have no drawbacks and therefore cause **a significant reduction (-3) in the probability of evading TFS through correspondent banking and pass-through accounts.**

3.4 Internal control in financial institutions (R.18)

- Serbia was rated C in the FUR 2018 in relation to Recommendation 18. The internal control and awareness of the risks to the WMDPF among financial institutions was assessed by a targeted questionnaire that was distributed for the purposes of this risk assessment, which is also confirmed by the practice of the NBS in supervision. The findings of the NBS are listed here:
 1. All banks check sanction lists when accepting (establishing a business relationship) with parties and performing transactions. Sanction list checks are carried out using the list of designated persons brought by the Government of the Republic of Serbia, official websites such as the UN

website and from additional sources: OFAC, UN, HM Treasury, EU, as well as commercial databases.

2. Regarding the elements of mitigating the "direct threat to WMDPF ", all banks are aware of restrictions on trade, import or export of certain goods, including weapons, military equipment and dual-use goods. These restrictions refer to the import, export and transit of dual-use goods, as well as the provision of brokerage services and technical assistance for these goods without the permission of the competent authority. Enhanced checks are carried out to ensure compliance with regulations, including licensing and permits, sanctions list checks, documentation checks (export and import permits, commercial documents) and checks on business partners and end users. Supervision and monitoring of transactions is also carried out.
3. Banks are generally familiar with the process of identifying controlled goods and know who to consult in case of doubt regarding the export and import regime of those goods. They also have full knowledge of the tariff system for all goods, especially when certain tariff codes require special procedures for export or import.
4. More than half of the banks have proven in practice that they recognize price deviations in relation to the market value of controlled goods. When doubts arise when checking the participants in the transaction or reviewing the collected documentation, the banks also check whether the value of the goods in the submitted documentation corresponds to market prices.
5. Banks are very aware of the TFS UN regime. They understand which countries are involved and which types of sanctions apply. Moreover, they understand the requirements of the Internal Compliance Program for companies that trade in controlled goods.
6. Banks did not perform transactions with trusts, nor did they represent foreign companies dealing in the circulation of controlled goods.
7. Two banks reported suspicions regarding cash payments and other transactions that could be linked to activities related to controlled goods. Additional checks did not reveal any suspicion of WMDPF, nor were any risks or indications related to this threat observed.
8. Banks have a total of 1,878 clients involved in re-export operations, of which 360 are classified as low-risk, 1,305 as medium-risk, and 213 as high-risk. Banks are actively involved in monitoring transactions related to re-export operations, especially those linked to countries suspected of circumventing sanctions. Re-export activities are subject to a detailed analysis, including a review of participants, goods, producers, end users, end user countries, carriers, etc., based on the documentation provided by the customer.
9. Generally, banks developed special criteria for recognizing suspicious activities related to the WMDPF, which may indicate a "transit threat" for WMDPF.

Implementing internal controls and informing financial institutions leads to a **big reduction (-3) of the probability of evading** TFS through banks that are not sufficiently aware of the obligations and risks related to TFS

3.5 Measures to prevent deficiencies in third-party reliance (R.17)

- Serbia was rated as C in terms of relying on third parties in MER 2016.

Based on the statements submitted by the banks by providing answers to the Questionnaire on ML/TF risk management on 31.12.2023, only one bank stated that it relied for the performance of certain CDD on a foreign third party. This was a case of reliance on banks from foreign countries (8 banks), members of the same banking group, as well as to other banks from foreign countries, members of the EU and from the region (1 bank), which is in accordance with the Law.

- Nor were there any cases identified by the supervisory authorities, when the standard of relying on third parties by the obliged entity was not considered sufficient for the performance of work.
- Although FATF's requirements do not contain any obligations regarding relying on third parties in the WMDPF context, it is clear that there is room to strengthen reliance standards and practices when it comes to relying on entities in foreign jurisdictions for this function, especially in the context of evasion of TFS and WMDPF, given the new FATF definition. In this regard, it would be useful to propose an additional risk mitigation measure to ensure that every financial institution in Serbia that relies on third parties abroad makes sure that the third party has performed an appropriate assessment of its risks to the WMDPF. This would prevent the financiers of WMDP from taking advantage of Serbia through weaker links in foreign jurisdictions.

Although the measures have no formal shortcomings, certain improvements beyond the FATF standards may be necessary, which is why there is only a partial reduction (-2) of the probability of evading TFS through outsourcing.

3.6 Measures for increased attention to high-risk jurisdictions (R.19)

- Serbia was assessed as LC in relation to Recommendation 19 in the 2018 FUR.
- Serbia has effectively applied the requirements, and obliged entities respect the general standards related to the prevention of ML/TF in this matter,
- As for the "direct threat" from WMDPF, Serbian banks / banks operating in Serbia, as stated above, generally understand the associated geographic risks;
- No guidelines have yet been issued to address the potential "transit threat", i.e. profiling of jurisdictions on the basis of their level of compliance with WMDPF standards, estimated risk from WMDPF and the level of exposure and materiality of the financial sector.

Although the measures do not contain formal deficiencies, certain areas of improvement can also be justified through FATF standards, which is why there is only **a partial reduction (-2) of the probability of evading** TFS through transactions with high-risk countries

General conclusions

Serbia has successfully implemented most of the control mechanisms in the banking sector to ensure a significant reduction in the probability of WMDPF by avoiding TFS. Controls through the application of CDD measures, the mechanism for verifying beneficial ownership and internal controls are sufficiently robust and well implemented, while banks have

a high degree of understanding of the various aspects and types of threats they may face in the context of WMDPF. Certain improvements remain to be made, as outlined above, in relation to outsourcing and high-risk territories, although this goes beyond FATF recommendations.

	Key points	Effect on probability
1.	A partial reduction (-2) of the probability of evading TFS in the context of PK measures	Partial reduction (-2)
2.	Due to certain insignificant gaps, the measures provide only a partial reduction (-2) of the probability of TFS evasion due to insufficient application of BO mechanisms.	Partial reduction (-2)
3.	The above measures are not flawed and therefore provide a significant reduction (-3) in the probability of evading TFS through correspondent banking and pass-through accounts.	Big reduction (-3)
4.	Implementing internal controls and being informed by financial institutions leads to a large reduction (-3) in the probability of evading TFS through banks	Big reduction (-3)
5.	Although the measures do not contain formal deficiencies, certain areas of improvement may be warranted beyond FATF standards, which is why there is only a partial reduction (-2) in the probability of TFS evasion due to reliance on third parties	Partial reduction (-2)
6.	Partial reduction (-2) of TFS evasion probability through transactions with high-risk countries	Partial reduction (-2)
	Average TFS evasion probability across the banking sector	Significant decrease in probability (-2.3)

General summary for the banking sector

	Key points	Probability
1.	<i>Materiality</i> : dominant material position of the banking sector in the financial system	Big Increase (+3)
2.	General probability of violation	Big reduction (-3)
3.	Total probability of non-implementation	Neutral impact (0)
4.	Overall probability of evasion	Big drop (-2.3)
	<i>Sectoral result</i>	-0.575 (Medium risk)

Sector 2: Virtual Asset Service Providers

Banking sector (reference sector)	Virtual Property Service Providers	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The NBS framework is applied; no change compared to the reference sector	-3

R.26/28: Problem employees (-3)	The NBS framework is applied; no change compared to the reference sector	-3
	General probability of violation	-3
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24, 25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	The NBS framework is applied; similar questionnaire results as for the reference sector.	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	Big reduction (-3)
2.	General probability of violation	Big reduction (-3)
3.	Total probability of non-implementation	Neutral impact (0)
4.	Overall probability of evasion	Partial decrease (-2.3)
	<i>Sector score (average)</i>	-2.75 (Low risk)

Sector 3: Payment operators (including e-money and postal operators)

Banking sector (reference sector)	Payment operators	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.26/28: Problem employees (-3)	The NBS framework is applied; no change compared to the reference sector	-3
	General probability of violation	-3
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24, 25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	The NBS framework is applied; similar questionnaire results as for the reference sector.	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	Big reduction (-3)
2.	General probability of violation	Big reduction (-3)
3.	Total probability of non-implementation	Neutral impact (0)
4.	Overall probability of evasion	Partial decrease (-2.3)
	<i>Sector score (average)</i>	-2.75 (Low risk)
	<i>Total NRA equivalent</i>	

Sector 4: Exchange

Banking sector (reference sector)	Exchange office	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The NBS framework is applied; there is no change compared to the reference sector, but there are cases of threats to integrity	1
R.26/28: Problem employees (-3)	The NBS framework is applied; but there are cases of compromising integrity	1
	General probability of violation	1
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	The NBS framework is applied; similar questionnaire results as for the reference sector.	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	1
3.	Total probability of non-implementation	0
4.	Overall probability of evasion	-2.3
	<i>Sector score (average)</i>	- 1,075 (Low risk)

Sector 5: Brokers/dealers, investment funds

Banking sector (reference sector)	Brokers/dealers, investment funds	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	Effective measures to ensure proper ownership and control	-3
R.26/28: Problem employees (-3)	Effective internal control measures in institutions, including personnel screening	-3
	General probability of violation	-3
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	An effective oversight program conducted by the Securities Commission	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	Effective internal control and awareness in the sector	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	-3
3.	Total probability of non-implementation	0
4.	Overall probability of evasion	-2.3
	<i>Sector score (average)</i>	-2.075 (Low risk)

Sector 6: Insurance

Banking sector (reference sector)	Insurance	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.26/28: Problem employees (-3)	The NBS framework is applied; no change compared to the reference sector	-3
	General probability of violation	-3
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	The NBS framework is applied; similar questionnaire results as for the reference sector.	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	Big reduction (-3)
2.	General probability of violation	Big reduction (-3)
3.	Total probability of non-implementation	Neutral impact (0)
4.	Overall probability of evasion	Partial decrease (-2.3)
	<i>Sector score (average)</i>	-2.75 (Low risk)

Sector 7: Financial leasing

Banking sector (reference sector)	Financial leasing	
	Sector specificities	Influence
Materiality		
Material position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.26/28: Problem employees (-3)	The NBS framework is applied; no change compared to the reference sector	-3
	General probability of violation	-3
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	The NBS framework is applied; similar questionnaire results as for the reference sector.	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	Big reduction (-3)
2.	General probability of violation	Big reduction (-3)
3.	Total probability of non-implementation	Neutral impact (0)
4.	Overall probability of evasion	Partial decrease (-2.3)
	<i>Sector score (average)</i>	-2.75 (Low risk)

Sector 8: Voluntary pension funds

Banking sector (reference sector)	Voluntary pension funds	
	Sector specificities	Influence
Materiality		
Material position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.26/28: Problem employees (-3)	The NBS framework is applied; no change compared to the reference sector	-3
	General probability of violation	-3
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The NBS framework is applied; no change compared to the reference sector	-3
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	The NBS framework is applied; similar questionnaire results as for the reference sector.	-3
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-2.3
	Key Conclusion Points	Probability
1.	Materiality	Big reduction (-3)
2.	General probability of violation	Big reduction (-3)
3.	Total probability of non-implementation	Neutral impact (0)
4.	Overall probability of evasion	Partial decrease (-2.3)
	<i>Sector score (average)</i>	-2.75 (Low risk)

Sector 9: Real estate brokers

Banking sector (reference sector)	Real estate brokers	
	Sector specificities	Influence
Materiality		
Material position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	Ownership and controls insufficient to fully prevent infringement	+1
R.26/28: Problem employees (-3)	Employee controls insufficient to prevent full breach	+1
	General probability of violation	1
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	Supervisory measures are implemented with gaps, leading to potential cases of non-implementation	+2
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	1.6
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	Internal controls and sector awareness are not sufficient to prevent evasion	+2
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-1.5
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	1
3.	Total probability of non-implementation	1.6
4.	Overall probability of evasion	-1.5
	<i>Sector score (average)</i>	-0.475 (Medium risk)

Sector 10: Accountants and tax advisors

Banking sector (reference sector)	Accountants and tax advisors	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	Ownership and controls insufficient to fully prevent infringement	+1
R.26/28: Problem employees (-3)	Employee controls insufficient to fully prevent breach	+1
	General probability of violation	1
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	Implemented measures of supervisors with certain deficiencies	+1
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	1.3
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	Internal controls and sector awareness are not sufficient to prevent evasion	+2
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	- 1.5
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	1
3.	Total probability of non-implementation	1.3
4.	Overall probability of evasion	-1.5
	<i>Sector score (average)</i>	-0.55 (Medium risk)

Sector 11: Lawyers

Banking sector (reference sector)	lawyers	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	Ownership and control measures insufficient to fully prevent infringement	+1
R.26/28: Problem employees (-3)	Employee controls insufficient to prevent full breach	+1
	General probability of violation	1
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	Supervisory measures are implemented with gaps, leading to potential cases of non-implementation	+2
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	1.6
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	Internal controls and sector awareness are not sufficient to prevent evasion	+2
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-1.5
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	1
3.	Total probability of non-implementation	1.6
4.	Overall probability of evasion	-1.5
	<i>Sector score (average)</i>	-0.475 (Medium risk)

Sector 12: Notaries

Banking sector (reference sector)	notaries	
	Sector specificities	Influence
Materiality		
Material position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The Serbian law, more precisely the Law on Notaries, defines the role of notaries as a service of public trust, with clear guidelines that prohibit them from performing other professions at the same time. This ensures that notaries are solely committed to their responsibilities, strengthening trust and minimizing the risks associated with compromised controls. The law also provides for rigorous appointment requirements, ensuring that only individuals worthy of public trust can become notaries public. The Ministry of Justice and the Chamber of Notaries jointly supervise notaries, contributing to a high level of efficiency in entry control.	-2
R.26/28: Problem employees (-3)	Regarding employee integrity, the Law on Notaries specifies the requirements for notary trainees, associates and assistants, with provisions for their duties and responsibilities. To date, no disciplinary action has been reported against these notary public employees, which indicates a high standard of integrity among the staff.	-2
	General probability of violation	-2
Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The Chamber of Notaries performs regular and special supervision over notaries for the purpose of implementing AML/CTF obligations. Through onsite and offsite supervision, the Chamber evaluates notaries' adherence to property disposal restrictions related to the prevention of terrorism.	0
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	1
Avoidance		

R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	Internal control within the notary office for compliance with anti-money laundering and anti-terrorist financing regulations is implemented through comprehensive policies and procedures that govern day-to-day operations, employee conduct and customer interactions. Notaries and their staff must conduct thorough due diligence on all clients, which includes verifying identity, assessing the level of risk and ensuring that the sources of funds or assets are legitimate. Confidentiality is the basis of internal control, as staff are required to protect sensitive information obtained during transactions, with strict data security protocols in place both during and after their employment. In addition, employee integrity is ensured by policies that limit work in other professions and require adherence to professional standards. Compliance is further strengthened by routine checks of sanction lists and documentation of all procedures, which ensures transparency and accountability.	0
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
	Overall probability of evasion	-1.83
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	-2
3.	Total probability of non-implementation	1
4.	Overall probability of evasion	-1.83
	<i>Sector score (average)</i>	-1.45 (Low risk)

Sector 1 3: Games of chance

Banking sector (reference sector)	Games of chance	
	Sector specificities	Influence
Materiality		
Financial position of the banking sector (+3)	Secondary position of other sectors from the point of view of materiality in the context of WMDPF (-3)	-3
Violation		
R.26/28: Compromised ownership and control (-3)	The gaming sector in Serbia implements strict market entry requirements, in accordance with FATF Recommendations 26 and 28. The licensing process mandates the disclosure of ownership structures to the ultimate beneficial owner, ensuring transparency and reducing the risk of criminal infiltration. Entities must also meet no-conviction requirements, which means ownership and management structures must be free of criminal records. This provision improves the integrity of the sector by limiting entry to individuals of reputable backgrounds. Permits are issued for ten-year periods, which provides a degree of operational stability and allows regulatory authorities to enforce compliance with initial requirements. However, as noted in the ML NRA, there have been cases of compromised controls identified by the authorities, indicating a greater risk to the sector.	+1
R.26/28: Problem of employees (-3)	While the primary focus is on ensuring the integrity of owners and senior staff, full ownership disclosure requirements also indirectly help prevent fraudulent employees by establishing a traceable link to those in operational control. The lack of reported incidents involving improper actions by employees or owners suggests that current preventative measures are largely effective. However, the absence of specific policies related to front-line employees or the implementation of regular checks on employees who are not owners indicates that there may be room for strengthening control at this level. Enhanced employee checks, such as routine background screenings or continuing professional development, can provide additional safeguards to ensure that employees are acting in compliance and maintaining the integrity of the sector.	1
General probability of violation		1

Non-enforcement		
R.1: Assessment of the risk of WMDPF (+2)	The same legislative/regulatory gaps; no change compared to the reference sector	+2
R.26/28, 27: supervisory functions (-3)	The Games of Chance Administration uses a risk-based approach to oversight, adjusting inspection efforts based on assessed risks and an annual inspection plan. This approach enables targeted supervision, which has proven to be effective in monitoring the sector's compliance with AML / CFT regulations. Offsite supervision is carried out by issuing questionnaires, with between 19 and 25 offsite inspections reported annually in recent years, without revealing significant irregularities. Onsite inspections complement this supervision with a more detailed examination of compliance; for example, recent inspections highlighted minor issues related to suspicious activity indicators and the inclusion of AML / CFT topics in training programs. These findings indicate that while oversight is effective overall, there is still a need for continuous improvement to ensure that entities are consistently complying with all regulations.	-2
R.7: technical obligations related to TFS(+1)	The same legislative/regulatory gaps; no change compared to the reference sector	+1
	Total probability of non-implementation	0.33
Avoidance		
R.10: CDD measures (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.24,25: Beneficial ownership mechanisms (-2)	The same legislative/regulatory gaps; no change compared to the reference sector	-2
R.13.2: Correspondent banking and account obligations (-3)	Not applicable	-3
R.18: Internal controls and awareness (-3)	Although certain aspects, such as employee-focused checks and internal training on specific AML/CFT indicators, could benefit from minor improvements, they do not detract from the sector's overall compliance efforts. Serbian casinos generally maintain sound internal controls, although some compliance failures have been identified.	-1
R.17: Third-party reliance (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2
R.19: Transactions with high-risk countries (-2)	The same recommendations for additional measures; no change compared to the reference sector	-2

	Overall probability of evasion	-2
	Key Conclusion Points	Probability
1.	Materiality	-3
2.	General probability of violation	1
3.	Total probability of non-implementation	0.33
4.	Overall probability of evasion	-2
	<i>Sector score (average)</i>	-0.9 (Medium risk)

VI OVERALL RISK SCENARIOS

Based on the analysis of materiality, threats, vulnerabilities, practices in export controls and the effectiveness of controls related to WMDPF, it can be concluded that Serbia is not receptive/attractive/suitable for a large number of WMDPF risk scenarios. *However, there is one particular scenario of WMDPF with a **partially reduced (medium-low) probability** in the context of Serbia, which implies rare, one-time transactions through the banking sector by legal entities engaged in re-exports, using concealment of beneficial ownership, weak CDD processes, links with high-risk jurisdictions and money laundering through trade for camouflage.*

Key features:

Nature of transactions:

- Rare, one-off transactions that are made through the banking sector.
- Use of evasive techniques to avoid detection.

Persons participating in:

- Companies and legal entities engaged in re-export business.
- The potential for concealment of beneficial ownership to conceal the true identity of the parties behind the transactions.

Techniques used:

- Concealment of Beneficial Ownership: Efforts to hide the identity of ultimate beneficial owners, making it difficult for authorities and financial institutions to find the true ownership structure.
- Weaknesses in CDD: Exploiting gaps in third-party identification and verification processes.
- High-Risk Jurisdictions: Contact with jurisdictions known for elevated risks of WMDPF and money laundering through trade.

Camouflage methods:

- Trade Money Laundering (TBML): Transactions disguised as legitimate trade operations.
- Using third parties and complex ownership (corporate) structures to further conceal the true nature of transactions.

Sectoral assessment

--	High risk
Sector 1: Banks Sector 9: Real estate brokers Sector 10: Accountants and tax advisors Sector 11: Lawyers Sector 13: Games of chance	Medium risk
Sector 2: Virtual Asset Service Providers Sector 3: Payment operators (including e-money and postal address) Sector 4: Exchange Sector 5: Brokers/dealers, investment funds Sector 6: Insurance Sector 7: Financial leasing Sector 8: Voluntary pension funds Sector 12: Notaries	Low risk

VII RISK MITIGATION MEASURES

General measures

Measures to mitigate the risk of non-implementation of the TFS

1. Introduce clear obligations for obliged entities under the AML/CFT Law to carry out a risk assessment of WMDPF

Risk mitigation measures to avoid TFS

1. Amend the AML/CFT Law provisions concerning the identification of senior management of legal entities
2. Fulfill obligations in such a way as to ensure that the obliged entity who relies on third parties abroad is satisfied that the third party has undertaken an appropriate assessment of its risks from WMDPF.
3. Issue guidance on profiles of jurisdictions based on WMDPF risk (e.g. based on their level of compliance with WMDPF prevention standards, assessed WMDPF risk and level of financial sector exposure and materiality).
4. Amend the AML/CFT Law provisions in order to provide for an obligation to adopt indicators for suspicious activities related to WMDPF

Other measures

1. Establishment of a joint Working Group of AML/CFT Coordination Body and National Coordination Body for WMDPP, with the aim of exchanging operational data and undertaking joint activities on issues of funding for WMDPP.

SUMMARY

The 2024 National WMDPF Risk Assessment in Serbia covers the period 2021-2023 and draws on the previous NRA conducted in 2021. It uses a new methodology developed by Serbian authorities for the purposes of applying the new definition of PF risk in accordance with FATF recommendations, focusing on its three elements: violation, non-implementation and evasion of TFS. Each of these three elements was interpreted based on a series of valid FATF recommendations and evaluated in terms of their effective application in Serbia. In addition to the FATF definition, the Methodology included an assessment of the "direct" threat arising from the possible proliferation of weapons of mass destruction within the jurisdiction, and the "transit" threat, whereby PF financiers may abuse a country's financial system for the international movement of funds. Materiality and contextual factors such as export controls are also taken into account.

It has been established that the legislative and procedural framework for WMDPF in Serbia is largely in line with FATF recommendations 6 and 7. It is regulated primarily by the Law on International Restrictive Measures and the Law on Freezing of Assets to Prevent Terrorism and the Proliferation of Weapons of Mass Destruction. These laws mandate the implementation and monitoring of restrictive measures and asset freezes based on UN Security Council resolutions and other international obligations. Institutional structures include *the Coordinating Body* for the Prevention of ML and TF, which, among other things, deals with issues related to the WMDPF, which oversees strategy, risk assessment and interagency coordination. The WMDPF framework also includes the Strategy for Combating the Proliferation of Weapons of Mass Destruction, under the supervision of a national coordinating body, with comprehensive cooperation on the ground between state agencies. The key agencies that are involved are the APML, the customs authorities and the Ministry of Internal and Foreign Trade, which implement the regulations of the WMDPF.

The export control system of arms, military equipment and dual-use goods in Serbia mitigates the risks of financing the proliferation of nuclear weapons through a strong legal and institutional framework aligned with EU standards. This involves a three-stage process: registration with the Ministry of Internal and External Trade, licensing based on strict criteria to ensure compliance with national and international obligations, and supervision by Customs and relevant ministries to prevent unauthorized diversion. These authorities, dealing with export control, faced specific cases and thereby confirmed their ability to face potential threats.

In the reporting period, the APML processed 5,080 SARs, none of which was related to the WMPDF. From 2021 to 2023, six specific cases were investigated, in which connections with PF were suspected, yet the suspicions were not confirmed. The FT/PF asset freezing system in Serbia has proven to be highly operational and effective, as evidenced by its handling of various cases, including "false positives" and the application of freezing measures based on domestic terrorist lists. The system's ability to quickly identify and manage these cases demonstrates its robustness and practical functionality. This operational efficiency suggests that, had there been direct cases of PF in Serbia involving individuals listed on the UN Security Council's PF sanctions lists, the system would have responded effectively.

In terms of materiality, the Serbian financial and trade sectors are relatively small, lacking the scale and complexity of large global financial centers and trade hubs. Despite a certain regional importance in finance and trade, Serbia lacks key characteristics that would mark it as a high-risk PF profile according to the FATF PF typologies and guidelines.

As for the threats, the limited size and transparent nature of Serbia's financial system make it unlikely to be used for complex or systemic nuclear proliferation financing activities that reflect "transit" threats, although sporadic and smaller-scale attempts are possible. As for "direct" threats, Serbia's limited capacity in the production of goods dual uses, combined with

strict export control measures and a rigorous licensing process, significantly reduce the likelihood of WMDPF.

Based on export control cases and interagency cooperation, indicators have been developed that include disproportionate pricing of dual-use or military goods, unusual trade routes with excessive transportation costs, exports to high-risk jurisdictions, end-users or foreign partners with questionable business practices, and the purchase of obsolete military equipment by the rich countries.

By looking at the materiality and sectoral vulnerability, it was concluded that the PF risk is moderate in sectors such as banks, real estate brokers, accountants, tax advisors, lawyers, organizers of games of chance, while other sectors are considered to be low risk.

Based on the analysis of materiality, threats, vulnerabilities, export control practices and the effectiveness of controls, it can be concluded that Serbia is not prone to a multitude of PF risk scenarios. However, one particular PF scenario that has a partially reduced (medium-low) probability in the context of Serbia, which includes:

- rare, one-time transactions through the banking sector by legal entities that
- engage in re-exports, using concealment of beneficial ownership,
- weak CDD processes,
- links to high-risk jurisdictions and trade-based money laundering as camouflage.

List of representatives of institutions involved in the National Risk Assessment process

NRA coordinator	
Public Prosecutor's Office for Organized Crime	Jelena Pantelić

Working group		
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4	Office of the National Security Council and Classified Information Protection	Dejan Nikolić
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6	Supreme Court	Tatjana Vuković
7	Ministry of Internal Affairs	Nebojša Adamović
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9	Ministry of Finance - Administration for the Prevention of Money Laundering	Tatjana Jerosimić
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11	National Bank of Serbia	Dragan Mihailović
12	Supreme Public Prosecutor's Office	Miljko Radisavljević
13	Public Prosecutor's Office for Organized Crime	Vladimir Stevanović
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16	Public Prosecutor's Office for Organized Crime	Aleksandar Isailović
17	Ministry of Justice	Zlatko Petrović
18	Ministry of Justice	Magdalena Marković
19	Ministry of Justice	Jovana Kutanjac
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15.	Securities Commission	Vesna Stupljanin
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17.	Ministry of Foreign Affairs	Milan Gojković
18.	Ministry of Foreign Affairs	Sanja Kovač
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33.	Serbian Business Registers Agency - Register of Business Entities	Jelena Čukić
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35.	Serbian Business Registers Agency - assistant manager of the operator	Diana Prvulović
36.	Serbian Business Registers Agency – Pledge Register and Register of Financial Leasing	Tamara Đukanović
37.	Serbian Business Registers Agency - Register of Associations	Jovana Janković
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40.	Ministry of Internal and Foreign Trade	Mirjana Damjanović
41.	Ministry of Internal and Foreign Trade	Snezana Obrenov Ivanović
42.	Ministry of Internal and Foreign Trade	Sonja Randjelovic
43.	Ministry of Internal and Foreign Trade	Jelena Popović
44.	Ministry of Internal and Foreign Trade	Jelena Petrović
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46.	Central Securities Depository and Clearing House	Aleksandra Pavlović
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49.	Notary Chamber of Serbia	Marko Tomić, notary public
50.	Notary Chamber of Serbia	Saša Bošković, notary public
51.	Notary Chamber of Serbia	Dušanka Žunić, secretary of the chamber
52.	Notary Chamber of Serbia	Jadranka Golubović
53.	Bar Association of Serbia	Uroš Cvetojević, lawyer
54.	Bar Association of Serbia	Miloš Mršović, lawyer
55.	Bar Association of Serbia	Dušan Drobnjaković, lawyer
56.	Supreme Court	Tatjana Vuković, judge
57.	Supreme Court	Gordana Kojić, judge
58.	Supreme Court	Ivana Bulovan, adviser for European integration and international projects
59.	Supreme Court	Jasmina Ljubičić, statistician
60.	Supreme Court	Nataša Mladenović, statistician
61.	Higher Court in Belgrade	Nataša Albijanić, judge of the Special Department for Organized Crime
62.	Higher Court in Belgrade	Zoran Bursać, judge of the Special Department for Combating Corruption, president of the department
63.	Higher Court in Belgrade	Dragana Marković, judicial associate, Special Department for Organized Crime
64.	Higher Court in Belgrade	Mirjana Cicić, Statistician of the High Court
65.	Higher Court in Niš	Jelena Miladinović
66.	Higher Court in Niš	Bojan Vujačić
67.	Higher Court in Kraljevo	Vesna Spasić, judge
68.	Higher Court in Kraljevo	Gordana Krstić, judge
69.	Higher Court in Novi Sad	Ana Stamenić, judge
70.	Higher Court in Novi Sad	Đorđe Radovanović, judge

71.	First basic court in Belgrade	Aleksandar Đorđević, judge
72.	Second basic court in Belgrade	Dejan Garić, judge
73.	Second basic court in Belgrade	Luka Pantelić, judge
74.	Court of Appeal in Belgrade	Duška Đorđević, judge
75.	Court of Appeal in Belgrade	Gordana Ivković, senior adviser
76.	Court of Appeal in Belgrade	Nataša Milosavljević Miljković, statistician-analyst
77.	Court of Appeal in Novi Sad	Borivoj Pap, judge
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79.	Court of Appeal in Kragujevac	Aleksandar Blanuša, president of the court
80.	Court of Appeal in Kragujevac	Radoman Sparić, deputy president of the court
81.	Court of Appeal in Nis	Jasmina Jovović, judge
82.	Court of Appeal in Nis	Ivan Bulatović, judge
83.	Misdemeanor Court of Appeal in Belgrade	Maja Vadjal, judge
84.	Misdemeanor Court of Appeal in Belgrade	Marija Mimica, judge
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86.	Commercial Court in Belgrade	Dragana Stojanović, head of the office for economic crimes
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88.	Commercial Court of Appeal in Belgrade	Srđan Nikić, registrar's office manager
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142.	National Bank of Serbia (Payment System Sector)	Maja Latinović
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153.	Tax Administration (Tax Police Sector)	Boban Ničić
154.	Tax Administration (Control Sector)	Vladimir Jovičić
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156.	Ministry of Justice - Directorate for Asset Management	Mirjana Milosavljević Zorić
157.	National Statistical Office	Vesna Zajc
158.	National Statistical Office	Dijana Dodig Bukilica
159.	Republic Geodetic Institute	Snežana Josipović
160.	Republic Geodetic Institute	Blažo Filipović
161.	Coordination Commission for Inspection oversight	Branislav Đilas
162.	Coordination Commission for Inspection oversight	Lidija Vajagić
163.	Agency for Prevention of Corruption	Predrag Knežević
164.	Agency for Prevention of Corruption	Marija Parezanović Bradara
165.	Military Intelligence Agency	Njegoš Kopitić
166.	Military Intelligence Agency	Nikola Galić
167.	Military Security Agency	Željko Cekinović
168.	Military Security Agency	Dragan Petrašević
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170.	Ministry of Culture - Sector for cultural heritage protection and digitization	Vanja Vulević
171.	Ministry of Construction, Transport and Infrastructure	Ivan Divac, acting assistant minister for inspection oversight
172.	Ministry of Construction, Transport and Infrastructure	Dunja Spasić, Head of the Team for Legal-Administrative Affairs

173.	Ministry of Construction, Transport and Infrastructure	Branislav Vučković, Head of the Department for Legal Affairs of the Ministry, Secretariat of the Ministry
174.	Ministry of Construction, Transport and Infrastructure	Ana Mihajlović, Secretariat of the Ministry
175.	Ministry of Economy	Sandra Tasić
176.	Ministry of Economy	Jelica Trninić Šišović
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178.	Ministry of Justice - Directorate for Cooperation with Churches and Religious Communities	Danica Peruničić
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180.	High Council of the Judiciary	Žak Pavlović
181.	High Council of Prosecutors	Jelena Glušica
182.	High Council of Prosecutors	Vanja Martinović
183.	Judicial Academy	Nenad Vujić
184.	Judicial Academy	Mirko Milovanović
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186.	Ministry of Finance - Financial System Sector	Aleksandar Janjušević
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188.	Ministry of Finance - Treasury Department	Gordana Petrović Sector for normative and legal affairs and control of business procedures
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190.	PE Nuclear facilities of Serbia	Miloš Mladenović, head of the Nuclear Safety Sector
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193.	Ministry of Tourism and Youth - Tourism sector	Marija Marić
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195.	Ministry of Tourism and Youth - Tourism inspection sector	Saša Risteski
196.	Ministry of Internal Affairs - Department for Emergency Situations, Department for Traffic and Transport of Explosive Substances and Controlled Goods	Slađana Knežević
197.	Ministry of Internal Affairs - Department for Emergency Situations, Department for Traffic and Transport of Explosive Substances and Controlled Goods	Mila Puzić Trnavac
198.	Ministry of Internal Affairs - Service for the fight against high-tech crime, Department for the analysis of transactions of cryptocurrencies and other forms of digital assets	Branko Krstić
199.	Ministry of Internal Affairs - Office for the fight against high-tech crime, Department for the analysis of transactions of	Vladimir Marjanović

	cryptocurrencies and other forms of digital assets	
200.	Ministry of Economy - Directorate for Measures and Precious Metals	Čedomir Belić, Director of the Directorate for Measures and Precious Metals
201.	Ministry of Economy - Directorate for Measures and Precious Metals	Zoran Damnjanović, acting assistant director of the Control and Supervision Sector
202.	Ministry of Economy - Directorate for Measures and Precious Metals	Dragan Pantić, independent expert
203.	Ministry of Defense - General Staff of the Serbian Armed Forces	lieutenant colonel Uroš Alašević
204.	Directorate for Radiation and Nuclear Safety and Security of Serbia	Vladimir Janjić, assistant director, head of inspection
205.	Directorate for Radiation and Nuclear Safety and Security of Serbia	Katarina Žarković, legal specialist
206.	Ministry of Mining and Energy	Stefan Srbljanović, State Secretary
207.	Ministry of Mining and Energy - Sector for International Cooperation and European Integration	Marija Rolović
208.	City Administration of the City of Belgrade - Secretariat for Urbanism and Construction Affairs	Vladan Đešnić, d.i.a.
209.	City Administration of the City of Belgrade - Secretariat for Urbanism and Construction Affairs	Vesna Jovanović, B.Sc. lawyer
210.	Ministry of Agriculture, Forestry and Water Management - Sector of Agricultural Inspection	Teodora Jakovljević, acting assistant minister
211.	Ministry of Agriculture, Forestry and Water Management - Sector of Agricultural Inspection	Predrag Vukčević, Head of the Department of Agricultural Inspection for Agricultural Land
212.	Ministry of Agriculture, Forestry and Water Management	Zoran Marinković, adviser, veterinary medicine and planning and monitoring of official controls
213.	Ministry of Agriculture, Forestry and Water Management - Administration for Agrarian Payments	Milica Pavlović (Sector for Legal and General Affairs)
214.	Ministry of Agriculture, Forestry and Water Management - Administration for Agrarian Payments	Minja Radovanović (Sector for the approval of incentive payments)

Private sector

Serbian Chamber of Commerce and Industry and Industry	Katarina Ocokoljić
Serbian Chamber of Commerce and Industry and Industry	Vladimir Đorđević
Serbian Chamber of Commerce and Industry - Factoring Association	Tanja Kursar
Association of Insurers	
Real Estate Cluster	Damir Borić
Real Estate Cluster	Nenad Đorđević
Association of Serbian Banks	Sanja Tomić
Association of tourist agencies JUTA	