

INTERNAL RULES

ON THE CONTROL AND PREVENTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM OF INVESTMENT INTERMEDIARY ALARIC SECURITIES LTD

obligated person as per Art. 3, § 2 (2) of LMML

I. General Provisions

1.1. These Internal Rules are elaborated on the grounds of Art.16, in relation with Art. 3 § 2(3) of the Law on Measures Against Money Laundering (**LMML**), promulgated in State Gazette 85/ 24.07.1998, last amended and supplemented with SG 93/24.11.2009 and effective since 25.12.2009; and Art. 9 § 3 and 5 of the Law on Measures Against Financing of Terrorism (**LMFT**), promulgated in SG 16/18.02.2003, last amended with SG 36/04.04.2008

1.2. The purpose of these Internal Rules is to establish measures for prevention of Investment Intermediary Alaric Securities Ltd (“The Company”), for the purposes of money laundering, for prevention and detection of the activities of physical and legal persons, groups and organizations, aimed at the financing of terrorism, as well as the organization and the control related to their implementation.

1.3. These Internal Rules establish the terms and the procedure for collection, processing, storage and disclosure of information, related to the control and prevention of the money laundering and the financing of terrorism; they specify the criteria for identifying suspicious operations, transactions or clients, and regulate the actions and the responsibilities of the Company, and its employees regarding the clients and the transactions, related to their service.

1.4. Money laundering is a three-phase process:

Placement – realization of initial deposit into the financial system, or of initial transformation of the funds acquired through, or in relation to a crime, in order to obstruct its identification;

Layering – performance of multiple, usually cross-border financial and other business operations and transactions with the property, which significantly impedes the establishment of its criminal nature;

Integration – the process is finalized, as the property is “integrated”, invested in the legal economy

1.5. The Rules have the aim to assist in the establishment and the implementation of a common standard regarding the specification and the unification of the forms and the content of the current documentation for the identification of the clients, the collection, the storage, the control and the reporting of the information for suspicious transactions and operations;

1.5.1. The Internal Rules are the basis, on which the Company provides and regulates its activities, related to the strict observance of LMML and LMFT.

1.5.2 The Internal Rules establish clear criterion for effective identification of suspicious operations, transactions and clients;

1.5.3. The Internal Rules provide for and regulate the mandatory procedures for training all the employees of the Company, and their use of technical equipment necessary for the detection and the prevention of money laundering;

1.5.4. The Internal Rules are adopted at the General Meeting of the Company, and must be approved by the Chairman of the State Agency for National Security.

II. CRITERIA FOR IDENTIFICATION OF SUSPICIOUS TRANSACTIONS, OPERATIONS, SOURCES AND CLIENTS

2A. SUSPICIOUS DEALS, TRANSACTIONS, OPERATIONS

2.1. Depending on the subjective aspect of the types of behavior aiming money laundering and financing of terrorism, there are three types of targets and behavior:

2.1.1. Transformation or transfer of property, acquired through criminal activity or through participation in such activity, in order to conceal or cover the illegal origin of the property, or to assist the person, who is participating in such activity to avoid the legal consequences of his action;

2.1.2. Concealing or covering the nature, the source, the location, the situation, the movement or the rights related to the property, acquired through criminal activity or through participation in such activity;

2.1.3. Acquisition, holding, possession or use of property with the knowledge, at the moment of acquisition, that it is acquired through criminal activity or from participation in such activity.

2.2. Depending on the way and the method of implementation of a specific operation or transactions, the following activities are defined and assisting the money laundering and the subsequent financing of terrorism:

2.2.1. Money laundering through cash operations;

2.2.2. Money laundering through payment accounts;

2.2.3. Money laundering through securities transactions;

2.2.4. Money laundering through offshore banks;

2.2.4. Money laundering through electronic cards, directed banking through Internet.

2.3. Suspicion for money laundering through cash operations and use of payment accounts for transactions with securities

2.3.1. Cash or non-cash payment, in Bulgarian or foreign currency for purchase of securities. Subsequent order for sale of the acquired securities and order for transfer of the amounts at account of other holder, different from the account, from which the amounts were initially received;

2.3.2. Cash or non-cash payment, in Bulgarian or foreign currency for purchase of securities for participation in privatization transaction. Subsequent order for sale of the acquired securities and order for transfer of the amounts at account of other holder, different from the account, from which the amounts were initially received or in the branch of the company in another country;

2.3.3. Buying large packages of securities, when the funds for the transaction are transferred from another financial institution, from an account with unknown holder or from an account, for which there is reasonable suspicion that is used as “mailbox”;

2.3.4. A sequence of unusual operations with sale-purchase of the same securities, done by different clients for a short period of time, when the initial payment is done in cash in foreign currency. The title to the securities is transferred to another company, which in turn sells them to a client of investment intermediary with the requirement the amounts to be transferred to a third company, which draws them in cash;

2.3.5. Order for performance of high-risk transactions /investment in securities/, sale-purchase of securities, which may result in significant losses for the investor – inability to liquidate the investments or inability to liquidate them without this resulting in large loss in the price;

2.3.6. Frequent purchase of securities at price below the identification threshold, done by the same client, when the total amount exceeds BGN 30 000 for short period of time;

2.3.7. Buying large packages of securities by physical or legal entities, when the invested funds do not correspond to their status;

2.3.8. Buying and selling large packages of securities under other circumstances, which seem unusual for the practice of the investment intermediary;

2.3.9. Request for transfer of dematerialized securities from a personal account to a client’s subaccount with the Company, when the client or his proxy fails to present certification document /depository receipt/ for the securities, or there is other circumstance, which causes doubt regarding due legitimacy or representation.

2.4. Suspicion for money laundering through offshore banks

2.4.1. Transfers from offshore investors for participation in privatization with subsequent return of the transfer to banks, other than the initial, in the cases, when the investment is not realized;

2.4.2. Using of letter of credits and other means for commercial payment, when the offshore documents cause doubt regarding the authenticity, or when such business activity is incompatible with the client’s activity;

2.4.3. Accumulation of large amounts at the accounts of the client, which do not correspond to his turnover, and subsequent transfer at offshore account(s).

2.5. Money laundering through electronic cards, directed banking through Internet

2.5.1. Transfer of amounts through stolen credit/ debit card, and subsequent transfer to a bank account of a third person with amount different than the initial;

2.5.2. Transfer of amounts through falsified bank cards, and subsequent transfer to a bank account of a third person(s) with amount different than the initial.

2.B. SUSPICIOUS, ILLEGAL, UNALLOWED SOURCES

2.1. Suspicious cash sources are:

2.1.1. Offshore zones;

2.1.2. Countries not applying the rules of the Financial Action Task Force (FATF);

2.1.3. Countries, havens of the bank secret

2.2. Illegal, unallowed sources are the profits and the incomes of different criminal enterprises, financing terrorist organizations. Some of them are:

2.2.1. Production, contraband and trading with narcotics;

2.2.2. Theft or personal documents for obtaining benefits;

2.2.3. Cyber crime, through frauds with credit cards, insurances, social insurance cards, etc.

2.2.4. Theft, forging and resale of humanized milk;

2.2.5. Falsifying trade brands, including consumer goods such as designer clothing, jewelry, fashion accessories and household appliances;

2.2.6. International contraband with cigarettes;

2.2.7. Alternative systems for money transfers and unlicensed currency transfers.

2C. SUSPICIOUS CLIENTS

2.1. Clients, whose money and properties have as original source offshore zones, countries, not applying the FATF recommendations, and countries havens of the bank secret.

2.2. Clients, who are publically known to be involved in criminal activities;

2.3. Clients included in the list of the credit millionaires;

2.4. Clients, suggesting the drawing of untrue documents for the transactions.

2.5. Clients trying the operation to be executed in violation or avoiding of the law;

2.6. Clients, who are known to be reported in relation with money laundering;

2.7. Clients, listing as address the address of a third party, or for correspondence address a mailbox;

2.8. The signature in the identification document does not match the signature of the client, affixed in relation with transaction with the contract party;

2.9. The representatives or the proxies of the client of the Company, whose documents proving their identification and legal capacity, cause doubt as to their authenticity;

2.10. Clients, represented by foreign branch or affiliation in the country of organization, for which it is known that are involved in the production and/ or distribution of narcotics, human traffic, prostitution, contraband with works of art, nuclear products, forgery of money, securities, documents and currency;

2.11. Any physical and legal persons, groups and organizations, included in the list under Art.5 of LMFT, adopted, supplemented and amended by the Council of Ministers, against which are applied measures against the financing of terrorism, including:

2.11.1. Physical and legal persons, groups and organizations, declared by the Security Council of the United Nations (UN), as related with terrorism, against which there are sanctions for terrorism with resolution of the UN Security Council;

2.11.2. Persons against which there are penal procedures for terrorism, financing of terrorism, forming, leading or participation in organized crime group, which has the aim of performing terrorism, obvious solicitation to performing terrorism, or threat to perform terrorism, by virtue of the Penal Code’

2.11.3. Persons, reported by the competent authorities of other country or the European Union.

III. MEASURES AGAINST MONEY LAUNDERING AND THE FINANCING OF TERRORISM

3.1. Identifying the clients and verifying their identification;

3.2. Identifying the real owner of the client – legal entity, and taking the respective actions for verifying his identification in a way, which gives sufficient reason to be assumed that he is identified as the real owner;

3.3. Collection of information from the client, regarding the purpose and the nature of the relation, which is established, or is to be established with him;

3.4. Ongoing monitoring of the established business or professional relations and checking the transactions and the operations, executed within these relations, to what extent they correspond to the available information about the client, about his commercial activity and risk profile, including investigating the origin of the funds, in the cases stipulated by the law;

3.5. Disclosing of information regarding suspicious operations, transactions and clients;

3.6. Blocking of monetary funds, financial assets and other property;

3.7. Refusing to provide of financial services, monetary funds, financial assets or other property.

IV. IDENTIFICATION OF CLIENTS

4.1. The identification of clients is done at the establishing of business relations, including at the opening of accounts, as well as in:

4.1.1. execution of operation or transaction at value over BGN 30 000, or its equivalent in foreign currency;

4.1.2. execution of operation or cash transaction at value over BGN 10 000, or its equivalent in foreign currency;

4.1.3. paragraphs 4.1.1 and 4.1.2 are applied in the cases of performing more than operation or transaction, which separately do not exceed BGN 30 000, or its equivalent in foreign currency, respectively BGN 10 000, or its equivalent in foreign currency, but there is evidence, that the operations or the transactions are related.

4.2. The identification of specific clients, including accidental clients for the Company, is done in all the cases, when they perform operation over BGN 30 000, or its equivalent in foreign currency. This is also done

in the case of more than one operation, which separately do not exceed BGN 30 000, but there is evidence, that the operations are related.

4.3. If the operation is done through representative, there must be a proof of the representative authority and identification of the representative and the represented.

4.4. In the cases, when the operation or the transaction is in favor of a third person, without authorization, or through a third person –bearer of the documents for the execution of the operation or the transaction, during the identification must be established the three names, the Personal ID number and the relation of the person, immediately performing the transaction, with the respective physical or legal person.

4.5. When establishing business or professional relations or executing operation or transaction through electronic statement, electronic document or electronic signature, or other form without the presence of the client, the identification data is verified through:

4.5.1. Verification of the presented documents;

4.5.2. Requiring additional documents;

4.5.3. Confirmation of the information by another person, obliged to apply the measures against money laundering in a member state of the European Union;

4.5.4. Requiring the first operation or transaction to be performed through an account, opened at the name of the client in Bulgarian bank, in a branch of foreign bank, which has received a license from the Bulgarian National Bank, to operate in the country through a branch, or at a bank form a member state of the European Union;

4.6. The identification of a client and the real owner of the client – legal entity, as well as the verification of their identification is done through documents, data or information from independent source.

4.7. In case of orders for operation or transaction at value over BGN 30 000, or its equivalent in foreign currency, respectively BGN 10 000, or its equivalent in foreign currency, when the payment is in cash, the employees of the Company, receiving the respective orders, are obliged to ask the client to declare the origin of the funds. The employees of the Company must require the declaration before the execution of the respective operation or transaction.

4.8. The data, collected during the identification, are entered in the client's database of the Company and in the Declaration, certifying the origin of the funds, as per. Art. 4 § 7 of the LMML, in the cases, when so required.

4.9. If the identification according to the requirements of these Rules is not possible, or in case of not presenting a declaration under 4.7 herein, the employees of the Company, receiving the orders, are obliged to refuse the acceptance of the order or the funds under the contract. If the identification of the client is not possible in the cases of already established business relations (accepted orders for transactions), the employees of the Company are obliged to terminate these relations. In these cases, the employees of the Company decide whether they should notify the State Agency for National Security.

4A. IDENTIFICATION OF CLIENTS, PHYSICAL PERSONS

4.1. The employees of the Company identify the clients, as the client presents an official identification document and by making a copy of it.

4.2. When identifying physical persons, the employees of the Company must register the type, the number, the date of issue and the authority issuing the identification document, and to collect data for:

4.2.1. the names;

4.2.2. date and place of birth;

4.2.3. official personal identification number or other unique element that proves the identity, contained in a valid official document with a photo of the client;

4.2.4. nationality;

4.2.5. country of permanent residence and address (mail box number is not enough).

4.3. Under the terms and the procedure, stipulated by the Council of Ministers, the employees of the Company may apply extended measures regarding clients of the Company, who are or have been high-ranking officials in Republic of Bulgaria or other country, as well as regarding clients, who are related to them. The employees of the Company may require from clients, who are or have been high-ranking officials in Republic of Bulgaria or other country, as well as regarding the persons related to them, the following additional data:

4.3.1. correspondence address;

4.3.2. telephone, fax and email address;

4.3.3. occupation;

4.3.4. position;

4.3.5. employer;

4.4. The foreign nationals, who are temporary residing in the country, are identified on the same basis, as the local physical persons. The confirmation of the identity of the client may be received by a foreign person, who is in charge of the identity confirmation at a foreign financial institution, consulate or embassy.

4.5. The identification must also include investigation, whether the client acts on his own behalf, or is authorized to act as a trustee of the actual owner of the money or the financial instruments;

4.6. The employees of the Company must inform the clients about their obligation to notify the Company in case of change in the identification data during the operation or the transaction, within 7 days after the change.

4.7. The procedures for identification of legal persons are applied also for physical persons, who are registered as sole traders.

4B. IDENTIFICATION OF CLIENTS – LEGAL PERSONS

4.1. General Provisions

4.1.1. During the identification and the verification of the identification of legal persons, the employees of the Company must require the original or a copy certified by notary public, of an official transcript

from the respective register, of current standing, and a certified copy from the incorporation agreement or act.

4.1.2. During the identification of legal persons, are collected data for the name, the legal form, the seat, the management address and correspondence address, the scope of activity and the purpose, the period of existence, the management and representation bodies, the type and the systava of the collective management body, the main location of business. When the official transcript from the respective register does not contain such information, it can be collected through other official documents.

4.1.3. The clients – legal persons, who have nominated directors, secretaries or capital owners, are required to present a certificate or other valid document, issued by a central register or by a register agent, which proves who are its actual owners. The actual owners of a client – legal person, are identified according to the provision of letter A. In the cases, when this is not possible, the identification can be done with a declaration, signed by the legal representative or the proxy of the legal person.

4.1.4. The employees of the Company identify the legal representatives, the proxies and other physical persons, subject to identification, according to the provisions of letter A.

4.1.5. The employees of the Company must inform the legal persons and physical persons – sole traders, about their obligation to provide information in case of change in the circumstances of their identification during the transaction or the operation, a copy of the new court registration, within 7 days after the change is entered in the register.

4.1.6. In the cases, when the operation or the transaction is in favor of a third person, without authorization, or through a third person – bearer of the documents for the execution of the operation or the transaction, during the identification must be established the three names, the Personal ID number and the relation of the person, immediately performing the transaction, with the respective physical or legal person.

4.2. Specific Provisions

4.2.1. The employees identify the clients – legal persons, as for each client they make a file, containing:

- Official transcript for current standing from the respective register, and if the persons in not subject to registration – certified transcript from the incorporation act and registration of the name, the seat, the address and the representative.
- A copy of the registration card or respectively form the registration certificate within the validity period as per Art. 17 § 3 and 4, of the BULSTAT Register Act, for persons, who are subject to entry in this register.
- A copy of the identification number of the persons, whose registration is subject to entry according to requirements of the Tax-Insurance Procedures Code;
- A copy of the respective license, permit or registration certificate of the persons, performing transactions and operations in relation with this activity, when the said activity is subject to licensing, permission or registration;
- Power of attorney certified by notary public, giving explicit powers, when the legal persons authorize their proxies to be in charge of the money and/ or the financial instruments property of the legal persons. If the intermediary is from a country, which does not have equivalent legislation on the

measures of money laundering and financing of terrorism, during the initial establishment of business relation is applied the complete procedure for verifying the identification.

➤ A specimen from the signature of the persons, who are authorized to represent the legal person and to be in charge of its money at the accounts, or its financial instruments.

➤ Documents for proven identification of the related persons, which stand behind the legal person (trustees, directors, actual owners).

4.2.2. For legal persons, registered abroad, the employees make a file with comparable documents.

V. COLLECTING, PROCESSING AND STORAGE OF INFORMATION

5.1. The collecting, processing and storage of information about the clients and their operations, is done by the employees of the Company. The additional collection of information is initiated in case of presence of the described hypotheses regarding suspicious clients, transactions or operations.

5.2. The collected information may be different for each specific case, depending on the type of the client, the nature of his business, the business relations with him, the size of his operations or transactions, etc. The collection of information is done in strict compliance of the laws of the country. The collected information may be used only for the purposes of LMML and LMFT.

5.3. The storage of the information concerning transactions and operations suspicious for money laundering and/ or financing of terrorism, is done by the Head of the Internal Control Department. The storage period of information for such operations, transactions, clients and the related documents, is 5 (five) years. When required, all this information and documents are provided to the State Agency for National Security – in original or as certified copy.

5.4. The received information with suspicion for money laundering is stored on original hard copies. When the information is transferred to electronic copy, a specially protected file is created.

VI. PROVIDING INFORMATION IN CASE OF SUSPICION FOR MONEY LAUNDERING AND FINANCING OF TERRORISM

6.1. In case of suspicion for money laundering, the employee must immediately notify the Head of the Internal Control Department and/ or the managing body of the Company, about the suspicious operation.

6.2. The Head of the Internal Control Department must enter any notification reported by the employees of the Company in a special journal, where the person reporting and the person receiving the signal affix their signatures. The journal for suspicious operations is strung-through, numbered, stamped, signed and stored by the Head of the Internal Control Department.

6.3. The employees must immediately notify the Head of the Internal Control Department and/ or the manager about any facts or circumstances, which have come to their knowledge in relation with the suspicion for money laundering.

6.4. In case of suspicion for money laundering and/ or financing of terrorism, the employees of the Company must:

6.4.1. report chronologically the full details of the possible violation of the law, including, what is unusual, irregular and suspicious about the operation or the transaction;

6.4.2. the Head of the Internal Control Department is informed whether this is the first attempt for violation of law by the respective physical or legal person;

6.4.3. keep secret all the facts and circumstances, and following the due procedures, report them to the Head of the Internal Control Department and/ or the management of the Company.

6.4.4. store all documents for an attempt to defraud the company, or to cover up the traces of a previous violation;

6.4.5. disclose to the Head of the Internal Control Department the bank account numbers, the name of the organizations and the grounds, based on which the suspected person has ordered the transfer of the funds, causing suspicion for money laundering and/ or financing of terrorism.

6.5. The employees of the Company, as well as persons who manage and represent it, cannot inform a client, when there is suspicion for money laundering.

VII. DISCLOSING OF INFORMATION

7.1. In case of establishing facts, causing suspicion for money laundering and/ or financing of terrorism, the Company must immediately notify the State Agency for National Security, before the execution of the transaction or the operation, and to delay its completion within the admissible period of time, according to the regulations concerning the respective activity. In case of objective inability for a delay, the notification is done immediately after its completion. The notification is done in writing, in a form, to which are attached all collected documents regarding the operation and the client.

7.2. The Company notifies, on a monthly basis, by the 15th day of the month, following the month for which is the information, the State Agency for National Security about any payment in cash over BGN 30 000 /thirty thousand leva/, or its equivalent in foreign currency, done by or for its client.

7.3. The disclosure of the information cannot be restricted for reasons of classified information, being a business secret, bank or trade secret and causes no responsibility for violation of other laws.

VIII. TRAINING OF THE EMPLOYEES

8.1. The Company must introduce all its employees to the requirements of LMML, the Regulations for implementation of LMML and LMFT, and periodically to conduct courses, working meetings, discussions and training on the methods for money laundering and financing terrorism, the interpretation and the implementation of the legislation concerning the measures against the money laundering and the financing terrorism.

8.2. The Company must organize current introduction and explanation of all amendments and supplements of the legislation concerning the measures against the money laundering and the financing terrorism.

8.3. The training of the employees regarding the observation of the requirements of LMML, the acts of its implementation, the LMFT and these Internal Rules, is done by the Head of the Internal Control Department at least once per year for all, and separately – for each new employee.

8.4. All employees of the Company are obliged to follow these Internal Rules. The Head of the Internal Control Department is responsible for the control of their observance.

IX. FINAL PROVISIONS

These Internal Rules on the control and prevention of money laundering and financing of terrorism, were adopted with resolution of the General Meeting of the Company and approved by the State Agency for National Security of Bulgaria.