

PROCEDURE UNDER THE LAW ON MEASURES AGAINST MONEY LAUNDERING (LMML)

“Identification, Assessment, and Risk Management under LMML”

1. Purpose and Scope

1.1. The objective of the procedure is to ensure the effective implementation of comprehensive client verification and management of risks related to money laundering and terrorist financing, in accordance with:

- The Law on Measures Against Money Laundering (LMML) and its Implementing Regulations;
- Instructions from regulatory authorities;
- Guidelines from the State Agency for National Security (DANS) and the Bulgarian National Bank (BNB).

1.2. The procedure describes the processes for onboarding new clients, ongoing monitoring of existing clients, conducting operations and transactions, and taking additional measures when a higher risk is identified.

1.3. This policy applies to all employees involved in client due diligence and risk control, with the following responsibilities:

The Head of Administrative Activities is responsible for performing client checks and documentation, approving risk classification and actions taken and ensuring the smooth operation of the administrative activities department.

All employees are required to collect and provide client information upon request.

1.4. Implementation follows the internal document “WORK PROCESSES IN BCCR JSC.”

2. References

2.1. The procedure fulfills the following requirements:

- LMML, Articles 4, 11, 53, 54, 66 and other relevant provisions;
- Implementing Regulations of LMML;
- Instructions from regulatory authorities;
- Guidelines from DANS and BNB;
- ISO 9001 (for process documentation and accountability).

2.2. Key terms and definitions are stated in LMML, its Implementing Regulations and ISO 9000.

Note: The term PEP (Politically Exposed Person) is used throughout the procedure.

3. Description of the Process

3.1. Submission of Application and Initiation of Internal Review

3.1.1. Submission of a batch or sub-batch registration request triggers the internal assessment and review procedure by the administrator.

3.2. Information Collection and Client Verification:

- **Identification documents:** identity card, bank account, Information Collection Questionnaire (Appendix №1) - completed by the client, covering legal or natural

person identification, control authorities, economic activities, financial indicators, licensing, relationships with third parties, and information about PEPs.

- **Source of funds:** DECLARATION under Article 66, para. 2 of LMML (Appendix №2).
- **Complex verification of third parties** (due diligence) - DECLARATION by the applicant confirming a "Third-party comprehensive check," as per LMML (Appendix №3).
- Ownership and representation – Declaration of beneficial owners (Appendix №4).
- Sanctions and PEP: Declaration of sanctions and publicly known individuals (Appendix №5).

3.2.2. Client check

Upon receipt of the completed documents, the administrative officer will conduct registration verification.

For Bulgarian legal entities that includes:

- o A check of the UIC in the Commercial Register;
- o BULSTAT Register;
- o VAT status in the National Revenue Agency and/or VIES system.

For foreign entities that includes:

- o An authenticity check in the relevant registries.

Archiving: all checks are stored in the client file (paper and/or electronic format).

3.2.3. Control Checklists

After a thorough review of all submitted documents, the findings are documented in the Comprehensive Client Identification Checklist (0-CL Client Comprehensive Identification_LMML_v1_10.06.24).

The results in the checklist are used for:

- Establishment of risk level (low, medium, high).
- Preparing a registration protocol;
- Requesting further information;
- Denial.

Ensuring complete traceability and compliance with LMML requirements.

3.3. Risk Assessment

3.3.1. Risk assessment is based on a combination of the following factors:

- The client's legal form, nature of activity, location, PEP status, reputation, and complexity of ownership are all relevant factors to consider.
- Please specify the type of operation/transaction, including its value, frequency, complexity, payment method, and currency.
- Geographical factors to consider include the client country or source of funds, as well as high-risk jurisdictions identified by the EU, FATF, and other international bodies.
- With regard to the products and services, there are risks specific to the products/services involved.

3.3.2. Risk classification:

- **Low risk**

- Clients and operations with usual characteristics, well-known, transparent and with low likelihood of money laundering.
 - **Medium (normal) risk**
- Clients and operations with typical characteristics, no suspicious behavior, standard control measures applied.
 - **High risk**
- Clients or operations with indicators of higher likelihood for money laundering or terrorist financing, including:
 - PEPs;
 - Clients from high-risk countries;
 - Complex ownership structures;
 - Unusual and complex transactions;
 - Clients without clear economic activity.

3.3.3. Measures for high risk clients:

1. Mandatory enhanced comprehensive verification;
2. Collection of additional documents and information on the origin of funds;
3. Verification of actual owners and ownership structure;
4. More frequent and detailed transaction monitoring;
5. Requirement for declarations on sanctions and PEPs;
6. Documentation of all actions and decisions in the checklist and file;
7. Notification to management on anomalies or inconsistencies.

3.4. Ongoing Monitoring

- Periodic assessment of existing clients – **at least annually** or due to a change in risk categorization;
- Monitoring operations over EUR 15,000 or other criteria for unusual transactions;
- Documenting in checklists and reporting forms.

4. Process Analysis

4.1. Risk Factors

- Inaccurate or incomplete documentation;
- Data discrepancies provided;
- Complex ownership structures;
- Unusual or complex transactions.

4.2. Review and Improvement

- Process reviews and analysis performed during management meetings;
- Results of analysis are used for:
 - Adjusting risk assessment;
 - Improving procedures;
 - Staff training;
 - Updating checklists and documents.

5. Documented Evidence of Process Execution

- F-03-01-01_Declaration of beneficial owners
- F-03-01-02_Declaration regarding sanctions and PEPs
- F-03-01-03_Appendix №1 Information Collection Questionnaire_LMML

- F-03-01-04_Appendix №2 Declaration under Art. 66, para. 2 LMML
- F-03-01-05_Appendix №3 Third-party check declaration_LMML
- F-05-01-07_Comprehensive Identification Checklist
- Client files
- WORK PROCESSES IN "BALKAN CARBON CREDITS REGISTRY" AD (BCCR)

6. References to other implemented procedures of ISO 9001:

- OP-01 "Management Responsibility"
- OP-05 "Supplier Selection, Evaluation, and Control"
- OP-06 "Client-related processes, planning and operational management"