TYPOLOGY REPORT 2025

FINANCIAL SANCTION EVASION

FINANCIAL INFORMATION UNIT

CONTENT

I. OBJECTIVE

Countries and international intergovernmental organizations, such as the United Nations Security Council and the European Union, employ a range of multilateral measures and mechanisms to prevent and respond to threats to international peace and security. Among these, sanctions policies and regulatory frameworks have increasingly been used by states and international intergovernmental organizations in recent years as an important instrument of foreign policy. Statistical data indicate that the number of sanctions imposed by major sanctioning countries and international organizations increased steadily between 2021 and 2024. For example, the total number of sanctions imposed by the European Union reached a maximum of 298 designations (243 natural persons and 55 legal entities) up to 2020. However, this number increased to 1,510 designations (1,349 natural persons and 161 legal entities) in 2022 and 767 designations (489 natural persons and 278 legal entities) in 2023.

Among the sanctions regimes implemented internationally, Mongolia is obligated to comply with the sanctions lists issued by the United Nations Security Council relating to the financing of terrorism and the financing of the proliferation of weapons of mass destruction. Mongolia is not legally required to comply with sanctions imposed unilaterally or by other international intergovernmental organizations. Nevertheless, there is an increasing risk that countries subject to unilateral or multilateral sanctions may seek to evade such measures by exploiting neighboring countries or countries with which they maintain friendly relations.

In light of the growing international use of sanctions, there is a need to develop a typology report that outlines the sanctions measures applicable within Mongolia's anti-money laundering, counter-terrorist financing, and counter-proliferation financing framework, as well as preventive measures and common sanctions evasion typologies. Accordingly, the Financial Information Unit of Mongolia has prepared this Typology Report on Financial Sanctions Evasion.

This Typology Report has been prepared with the following objectives:

1. To enhance the understanding of reporting entities regarding sanctions evasion and to raise awareness of sanctions lists that are required to be implemented.
2. To strengthen the capacity of reporting entities to identify, detect, and take appropriate measures to prevent transactions and activities intended to evade sanctions.
3. To support reporting entities in identifying customers, products, and services that may be intentionally or unintentionally exploited for sanctions evasion activities.

II. SANCTIONS

Sanctions is the measures imposed by states or international organizations to restrict the financial freedom, economic activities, and business operations of countries, natural persons, or legal entities that threaten the national interests of a government or violate international norms and legal instruments. The earliest recorded example of sanctions dates back to 432 BC, when Athens adopted the "Megarian Decree," prohibiting trade with the city of Megara and banning Megarians from entering Athenian ports.[1] Currently, sanctions have been widely employed by international organizations such as the United Nations and the European Union, as well as by countries including the United States and the United Kingdom, as a principal foreign policy instrument to deter and respond to deliberate wrongful conduct by states.

The United Nations Security Council imposed its first sanctions approximately 50 years ago against Southern Rhodesia (present-day Zimbabwe). Since then, the Security Council has established more than 30 sanctions regimes, 14 of which remain in force today. As a Member State of the United Nations, Mongolia is obligated to implement all sanctions regimes adopted by the United Nations.

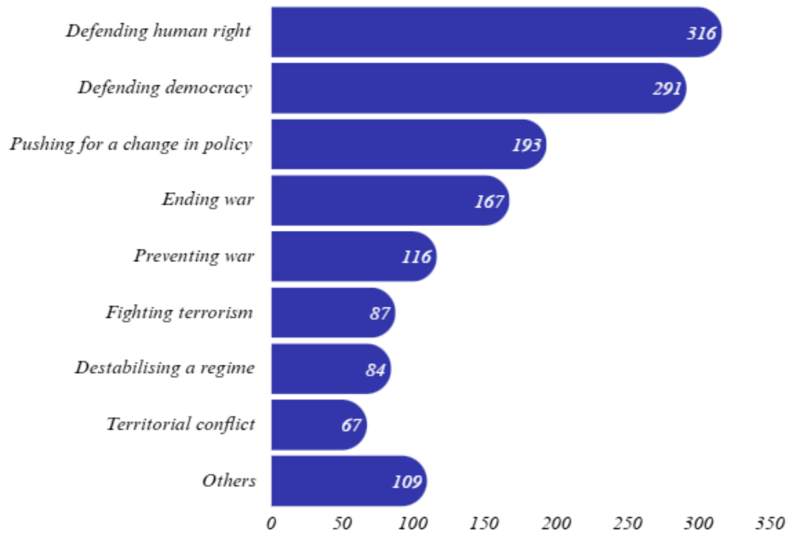
Sanctions also serve broader purposes, including preventing and managing interstate conflicts, combating terrorism, strengthening cybersecurity, holding human rights violators accountable, and preventing the proliferation of nuclear weapons. Accordingly, sanctions constitute an important instrument of foreign policy. Broadly, sanctions may be categorized according to their primary objective as signaling sanctions, coercive sanctions, and punitive sanctions, as described below:

- **Signaling sanctions:** States or regional organizations impose sanctions to express their opposition to the policies or actions of another state while leaving open the possibility of further measures. Such sanctions are often used to signal disapproval of conduct that violates internationally accepted norms.
- **Coercive sanctions:** These sanctions seek to compel a state or other targeted entity to change its policies by increasing the economic or political costs imposed upon it, including through trade restrictions, tariffs, or other economic measures.
- **Punitive sanctions:** States or regional organizations impose punitive sanctions to penalize targeted entities in pursuit of justice. Such measures may include restrictions on specific goods, products, economic sectors, or financial services associated with the designated target.

[1] Morgan, T. C., Syropoulos, C., & Yotov, Y. V. (n.d.). Economic Sanctions: Evolution, Consequences, and Challenges. The Journal of Economic Perspectives, Vol. 37(No. 1), pp. 3-30. https://www.jstor.org/stable/27192407

According to Desbordes R. and Munier F. (2023), the principal reasons for imposing sanctions include the following.[2] Their study indicates that sanctions are most commonly imposed to protect human rights, safeguard democracy, and compel target states to modify their policies.

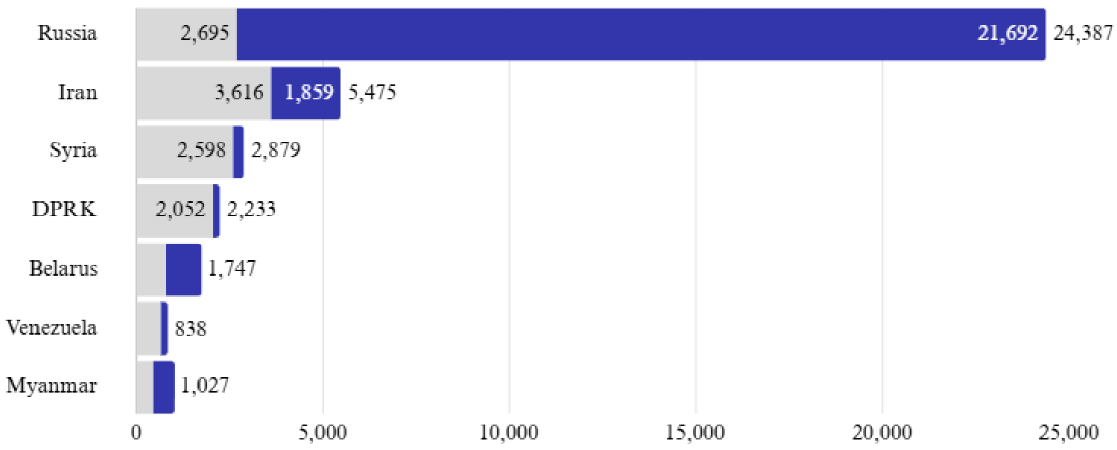
Figure 1. Grounds for imposing sanction measure



Source: (Institute Jacques Delors, 2024)

The following figure illustrates the seven countries subject to the highest number of sanctions as of 19 January 2025, ranked according to the total number of sanctions imposed. (Figure 2)

Figure 2. Most sanctioned nations, 2025



Source: Castellum AI, 2025

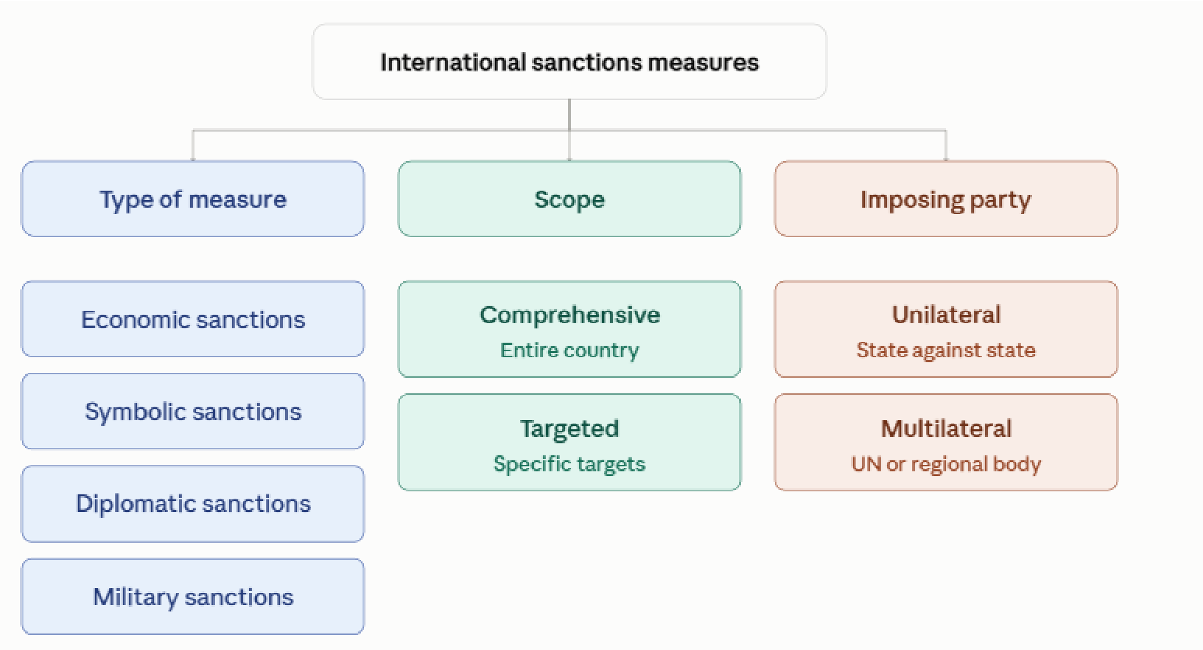
As illustrated in the figure above, the number of sanctions imposed against the Russian Federation increased significantly following the outbreak of the Russia–Ukraine war in 2022.

[2] Institut Jacques Delors. (2024, September 26). *Understanding international sanctions.* Institut Jacques Delors. Retrieved May 12, 2025, from https://institutdelors.eu/wp-content/uploads/2024/09/Infographie_Santions_Russie_Matelly_EN_A4.pdf

2.1 Types of sanction

Sanctions can be classified based on their type, scope, and the imposing authority as follows: [3]

Figure 3. Classification of international sanctions measures



Source: (Schmitt, 2016)

Sanctions can be categorized into the following four main types. These are further explained below:

1. ***Economic Sanctions*** is defined as "measures aimed at disrupting conventional trade and financial relations in pursuit of foreign policy and national security objectives." This type of sanction is widely used by countries and generally consists of trade sanctions, financial sanctions, and other measures aimed at restricting economic activities.

   - Trade Sanctions
     - Prohibition of goods products, and services
     - Restrictions on investment activities
     - Import and export restrictions
     - Others measures
   - Financial sanction
     - Restrictions on interbank transactions
     - Prohibition of foreign exchange transactions
     - Exclusion from the SWIFT network

[3] Schmitt, O. (2016). *International Sanctions.* In M. D. Cavelty, & T. Balzacq (Eds.), Routledge Handbook of Security Studies (2nd Ed.) (2nd edition ed., pp. 360-370). Routledge.

- Freezing of accounts belonging to legal entities, individuals, and government institutions
- Asset freezes
- Other measures

2. ***Cultural/Sport Sanctions*** (often symbolic in nature) serve as a means for the international community or a group of countries to express their opposition to specific policies or actions of a particular state. These measures are primarily intended to demonstrate a political stance without causing significant additional economic costs or direct losses.
3. ***Diplomatic Sanctions*** are directed toward government representatives and key individuals of a targeted country. Such measures may include revoking visas of diplomats, politicians, or influential figures from the sanctioned country, as well as restricting or suspending their participation in international organizations.
4. ***Military Sanctions*** target military cooperation and related activities. These measures may include the suspension or termination of military training programs, arms trade restrictions, and the cancellation or postponement of joint military exercises.

Furthermore, sanctions may vary in scope. They can be comprehensive in nature, covering an entire country, as demonstrated by the long-standing sanctions imposed by the United States on Cuba, or they can be more targeted, focusing on specific businesses, groups, or individuals.

Sanctions can also be classified based on the characteristics of the sanctioning authority as follows:

- ***Multilateral sanctions*** are imposed by international organizations, such as the United Nations Security Council or intergovernmental organizations (e.g., the European Union), against specific countries, legal entities, or individuals. Member states are obligated to implement and comply with such sanctions. As a member of the United Nations, Mongolia must comply with the sanctions lists issued by the UN Security Council, particularly those related to countering the financing of terrorism and preventing the financing of proliferation of weapons of mass destruction. Furthermore, the FATF, as the global standard-setting body for financial sanctions related to anti-money laundering (AML), countering the financing of terrorism (CFT), and countering proliferation financing (CPF), assesses countries' compliance frameworks based on the FATF 40 Recommendations. In particular, **Recommendation 6 and Recommendation 7** require countries to implement targeted financial sanctions established by the **United Nations Security Council** in relation to terrorism, terrorist financing, and the proliferation financing of weapons of mass destruction.

- **Unilateral sanctions** are imposed by a single country based on its own decisions and policies against another country, legal entity, or individual. Each country has its own domestic laws and regulations governing the implementation of unilateral sanctions against specific states, organizations, or individuals. The United States has used sanctions as a key foreign policy instrument since the 1950s. In recent years, it has imposed sanctions against approximately 25 countries, including the Islamic Republic of Iran, the Democratic People's Republic of Korea (North Korea), the Bolivarian Republic of Venezuela, and the Russian Federation.

2.2 Significance and adverse consequences of sanctions measures

The literature presents different views on the effectiveness of sanctions measures. The following section synthesizes the common findings across these studies regarding both the significance and the adverse consequences of sanctions.

Significance of Sanctions Measures

International sanctions are a foreign policy instrument employed by states or international organizations to curb violations, uphold international law and regulatory order, safeguard peace and security, and protect human rights. These measures exert influence by weakening the economic, military, or political capacity of a targeted individual, entity, or state, thereby halting its activities or inducing a change in policy. Sanctions further play a critical role in preserving the integrity of the international community's rules-based order, protecting the interests of individuals whose rights have been violated, and holding perpetrators legally accountable.

Adverse consequences of sanctions measures

On the other hand, sanctions measures tend to adversely affect not only the targeted individual or entity but also the general population and vulnerable groups of the country concerned. Studies indicate that broad-based, comprehensive economic sanctions in particular have negative effects on food security, access to healthcare services, unemployment, and poverty levels. Sanctions may also undermine the domestic political stability of the targeted state, fueling extremism and unrest, while exerting long-term negative effects on regional economic activity, investment, and trade. In certain cases, where sanctions fail to achieve their intended objectives, they may instead drive the targeted state to develop its domestic industrial and arms production capabilities or to devise new methods of sanctions evasion.

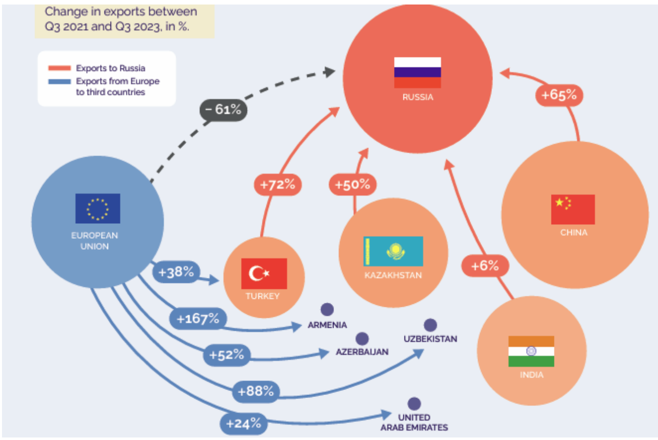
III. ECONOMIC SANCTIONS INTERNATIONALLY

In recent years, economic sanctions evasion methods have become increasingly sophisticated and have drawn growing international attention. Although economic sanctions are typically imposed with respect to a specific country or region, activities aimed at evading them extend across borders, creating enforcement complications. Furthermore, while internationally imposed sanctions measures are intended to safeguard global political, security, and economic stability, the strategies and methods used to circumvent them are becoming complex common tactics include the indirect use of neighboring countries as conduits, and the exploitation of the anonymity features inherent in virtual assets to continue channeling financial flows to sanctioned persons and entities.

Moreover, by intentionally or unintentionally engaging in business or financial dealings with listed (sanctioned) individuals and entities, third countries, companies, and individuals face a heightened risk of exposure to secondary sanctions — a factor driving international organizations to further tighten policies and oversight aimed at combating sanctions violations and circumvention. Against this backdrop, a detailed examination of the forms that sanctions evasion attempts take, together with their associated risks and consequences, is of considerable importance to both regional and international security.

3.1 Use of bordering and friendly countries for the purpose of sanctions evasion

As the volume of economic sanctions imposed on a given country increase, so does the risk that countries sharing a border with it become involved in sanctions evasion (circumvention) activities (FIN-FSA, 2024).

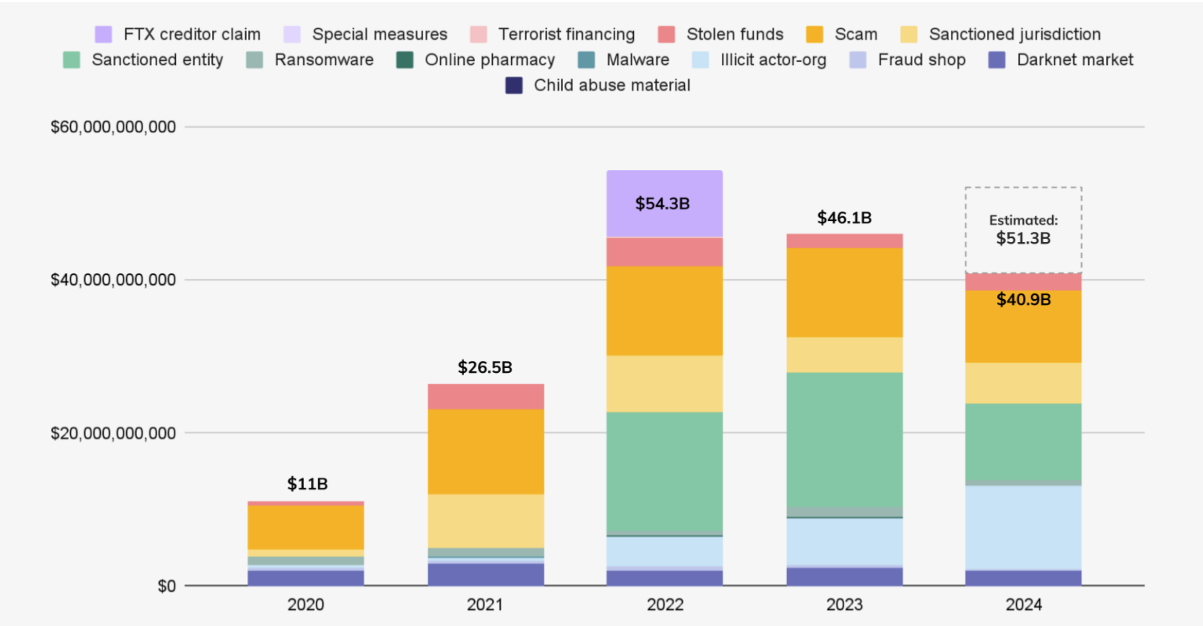


For example, changes in the Russian Federation's foreign trade between Q3 2021 and Q3 2023 illustrate this pattern. The data show that while total exports from European Union member states to Russia declined by 61 percent, exports from the EU to third countries in Central Asia and other states maintaining friendly relations with Russia rose sharply. Conversely, exports to Russia originating from its neighboring and friendly countries increased sharply over the same period. This pattern indicates a rise in Russia's procurement of goods through intermediary trade routed via its friendly countries.

3.2 Use of virtual assets for the purpose of sanctions evasion

Crypto Crime Report, Chainalysis, 2025 presents data on the total volume of cryptocurrency received by illicit addresses over the period 2020–2024, illustrated in the chart below. The data show that, since 2022, receipt of cryptocurrency payments by sanctioned countries and legal entities has increased (depicted in green and pale yellow), with sanctioned countries and legal entities receiving USD 15.8 billion in 2024 — accounting for 39% of total illicit crypto transaction volume.

Figure 5. Total cryptocurrency value received by illicit addresses



Source: (Chainalysis, 2025)

3.3 Risk of exposure to secondary sanctions

Pursuant to an Executive Order issued by the President of the United States, the U.S. Office of Foreign Assets Control (OFAC) began, in February 2024, designating legal entities that engage in conduct supporting Russia — including providing services to sanctioned persons or trading in prohibited goods — for inclusion on the sanctions list. This development creates an indirect, or secondary, sanctions exposure risk for legal entities and individuals in countries that are not themselves subject to sanctions, and may carry particularly significant adverse consequences for small economies. A number of relevant international and domestic cases involving exposure to secondary sanctions are set out below.

International Cases:

Case 1. Halkbank (Türkiye)

The bank was found to have brokered USD 20 billion in transfers in violation of sanctions imposed on Iran, and to have laundered funds through the U.S. financial system using companies operating in Türkiye, the United Arab Emirates, and Iran.

Case 2. Hebei Xinhai Chemical Group

OFAC designated Hebei Xinhai Chemical Group Co., Ltd. of the People's Republic of China, along with three companies operating at China's Dongying Port, for sanctions on the grounds of importing Iranian crude oil.

Case 3. Aiotec GmbH

Aiotec GmbH was found to have sold a polypropylene processing facility located in Australia to Iran while falsely declaring the ultimate beneficial owner to be based in Türkiye, in violation of the Iranian Transactions and Sanctions Regulations. As a result, the company agreed to pay a USD 14.5 million penalty to OFAC.

Mongolian case:

As of Q1 2025, two legal entities registered in Mongolia with foreign investment were listed on OFAC's sanctions list (OFAC, 2023). The grounds for each are as follows:

- Gazprombank JSC, established in 1990, is a Russian state-owned financial institution that operates in Mongolia through a representative office.

  Grounds for designation: The bank was placed on the sanctions list for violating Directive 3 under Executive Order 14024, which, effective March 26, 2022, prohibits new debt or equity transactions with a maturity of longer than 14 days involving Russian banks, financial institutions, and enterprises.

  However, given that approximately 80% of Mongolia's petroleum-related payments are processed through this bank, Mongolia's Ministry of Finance engaged with the U.S. Department of the Treasury on the matter and received a "COMFORT LETTER" confirming that oil payments made from Mongolia would not fall within the scope of the designation.

  The comfort letter stated that the U.S. Treasury recognized that Mongolia relies on Gazprombank and its six foreign subsidiaries to pay for critical imports, particularly energy, and that Mongolia faced difficulties in making such payments; accordingly, non-U.S. foreign financial institutions would not be exposed to risk under this sanctions measure. The letter was stated to remain valid through June 30, 2025. This situation illustrates that a sanctions measure may have adverse effects on countries beyond the target state, and that, in such cases, other countries may be granted relief from the sanctions measure on the basis of specific conditions and justifications.

- **"Dafeng Asia Co." LLC** was added to the sanctions list on November 2, 2023, on the grounds of violating Section 11 of Executive Order 14024. Specifically, the company was found to have supplied electronic products to Russia's "BALTELEKTRON" in at least ten shipments, which was deemed to constitute material support to Russia's manufacturing and technology sector. [4]

In addition, South Korea imposed unilateral sanctions in 2023 against "Hanne Ulaan," a foreign-invested legal entity registered in Mongolia and linked to Choi Chon Gon, a Russian national of Korean origin.

- The grounds for this designation were that Choi Chon Gon, a Russian national of South Korean origin, established a shell company in Mongolia in 2019 ("Hanne Ulaan" LLC) [5]

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[4] OFAC. (2023, November 2). *Taking Additional Sweeping Measures Against Russia - United States Department of State*. State Department. Retrieved May 19, 2025, from https://2021-2025.state.gov/taking-additional-sweeping-measures-against-russia/

[5] VOA. (2023). *South Korea Sanctions Ex-Citizen for Working on Behalf of North Korea.* https://www.voanews.com/a/south-korea-sanctions-ex-citizen-for-working-on-behalf-of-north-korea-/7158178.html

and used it to assist North Korea in evading UN Security Council sanctions, reportedly facilitating the procurement of USD 7.6 million worth of goods destined for North Korea.

Furthermore, a 2021 report by the Panel of Experts of the UN Security Council's Sanctions Committee had previously noted, with respect to "Hanne Ulaan" LLC, that Mongolian authorities — on suspicion that Choi Chon Gon, a Russian national, had established a shell company in Mongolia in 2019 and potentially used it to make transfers to North Korea (DPRK) — had frozen USD 13,800 in assets held in commercial bank accounts belonging to "Hanne Ulaan" LLC and Choi Chon Gon.[6]

[6] UN Security Council. (2021, March 4). *S/2021/211 Security Council.* Security Council. Retrieved 2025, from https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/s_2021_211.pdf

IV. REGULATORY FRAMEWORK OF MONGOLIA

Under the UN Charter, the UN Security Council is mandated to take action to maintain international peace and security; Article 41 of the Charter provides that the Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and may call upon UN Member States to apply such measures — commonly referred to as sanctions measures.

Pursuant to the Law on Combating the Proliferation of Weapons of Mass Destruction and the Financing of Terrorism, and the "Procedure for Listing Terrorist Entities and for Monitoring and Freezing the Assets of Listed Persons," approved by Government Resolution, every person within Mongolia is obligated to implement targeted financial sanctions. Under this Law and Procedure, any person or legal entity located within the territory of Mongolia, as well as any Mongolian citizen or legal entity located abroad, is prohibited from making funds available to, providing financial services to, or conducting transactions with any person or legal entity listed on a sanctions list issued by the UN Security Council or by a competent authority of Mongolia.

Article 6, Section 6.1 of the Law on Combating Money Laundering and Terrorism Financing stipulates implementation of sanctions measures issued by the UN Security Council and competent authorities. [1]

In addition, Article 2, Section 2.6 of the Procedure on Anti-Money Laundering and Countering the Financing of Terrorism Preventive Activities, which sets out the detailed operational requirements of the Law on Combating Money Laundering and Terrorism Financing, provides that, in conducting a risk assessment under Section 2.1 of that Procedure, entities must take into account, in addition to the high-risk business relationships specified under Article 5, Section 5.8 and Article 6 of the Law on Combating Money Laundering and Terrorism Financing, the following factors. Item 2.6.2.2 of that list of factors identifies "countries subject to financial sanctions, restrictions, or similar measures." This indicates that sanctions measure other than those imposed by the UN — while not mandatory — are nonetheless required to be taken into account.

Article 29, Section 29.10 of the Criminal Code of Mongolia sets out the measures to be taken in respect of violations of financial sanctions imposed against persons and legal entities on lists related to the financing of terrorism — namely, financial sanctions adopted pursuant to UN Security Council resolutions concerning the proliferation of weapons of mass destruction and counter-terrorism, as well as lists approved by the Government on the recommendation of the competent counter-terrorism authority.

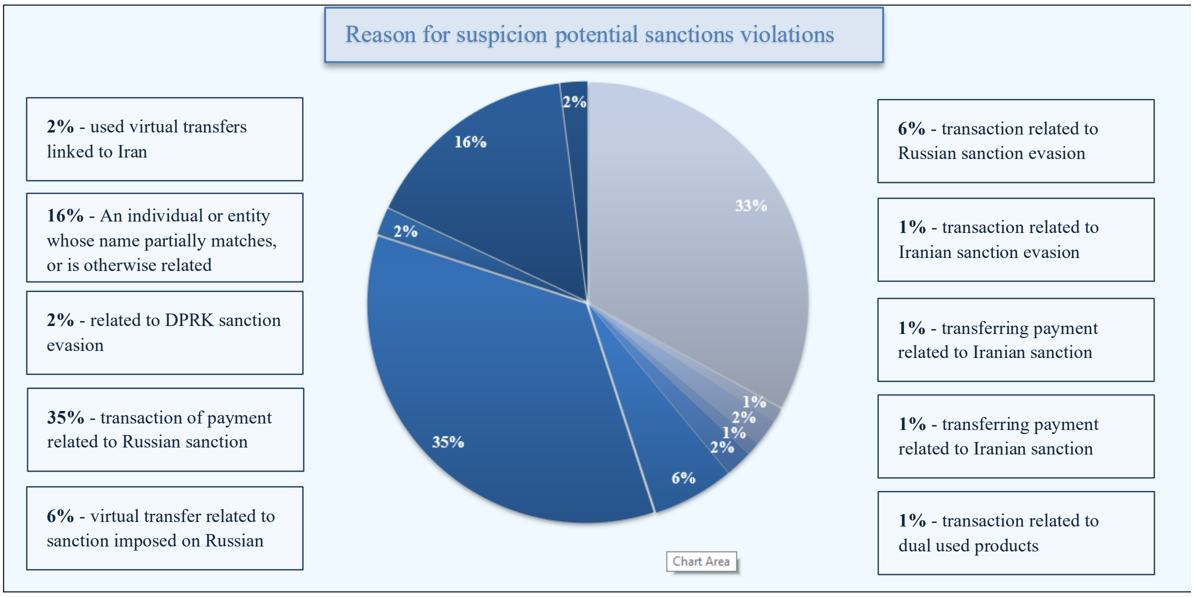
Furthermore, Article 11, Section 11.29 of the Law on Violations provides that, where a violation of statutory requirements relating to the implementation of sanctions measures issued by the UN Security Council or a relevant state authority does not rise to the level of criminal liability, the offense is subject to confiscation of assets and income equal in value to the amount of the unlawful transaction, together with a fine — in the case of a natural person, equal to 20,000 units, and in the case of a legal entity, equal to 200,000 units.

Article 23, Section 23.2 of the Law on Combating Money Laundering and Terrorism Financing provides that reporting entities are subject to statutory liability for failure to comply with time-bound instructions, directives, warnings, or requirements issued in accordance with that provision.

According to information provided by law enforcement authorities, no criminal cases related to sanctions violations have been investigated or adjudicated in Mongolia to date. Challenges identified in detecting, investigating, and prosecuting crimes committed for the purpose of evading financial sanctions include: insufficient capacity among investigators, prosecutors, and judges to trace financial crime and international financial flows; weak mechanisms for information exchange with foreign counterparts; the time-intensive nature of such investigations; and, in certain cases, legal and procedural obstacles. Going forward, it will be necessary to adopt international good practices and strengthen cooperation with other countries in the detection, investigation, and prosecution of crimes committed for the purpose of evading financial sanctions.

Since July 2022, the FIU has received suspicious transaction reports related to potential sanctions violations. The grounds for suspicion identified in these reports are as follows:

Figure 6. Reasons for suspicion related to sanctions



Source: FIU

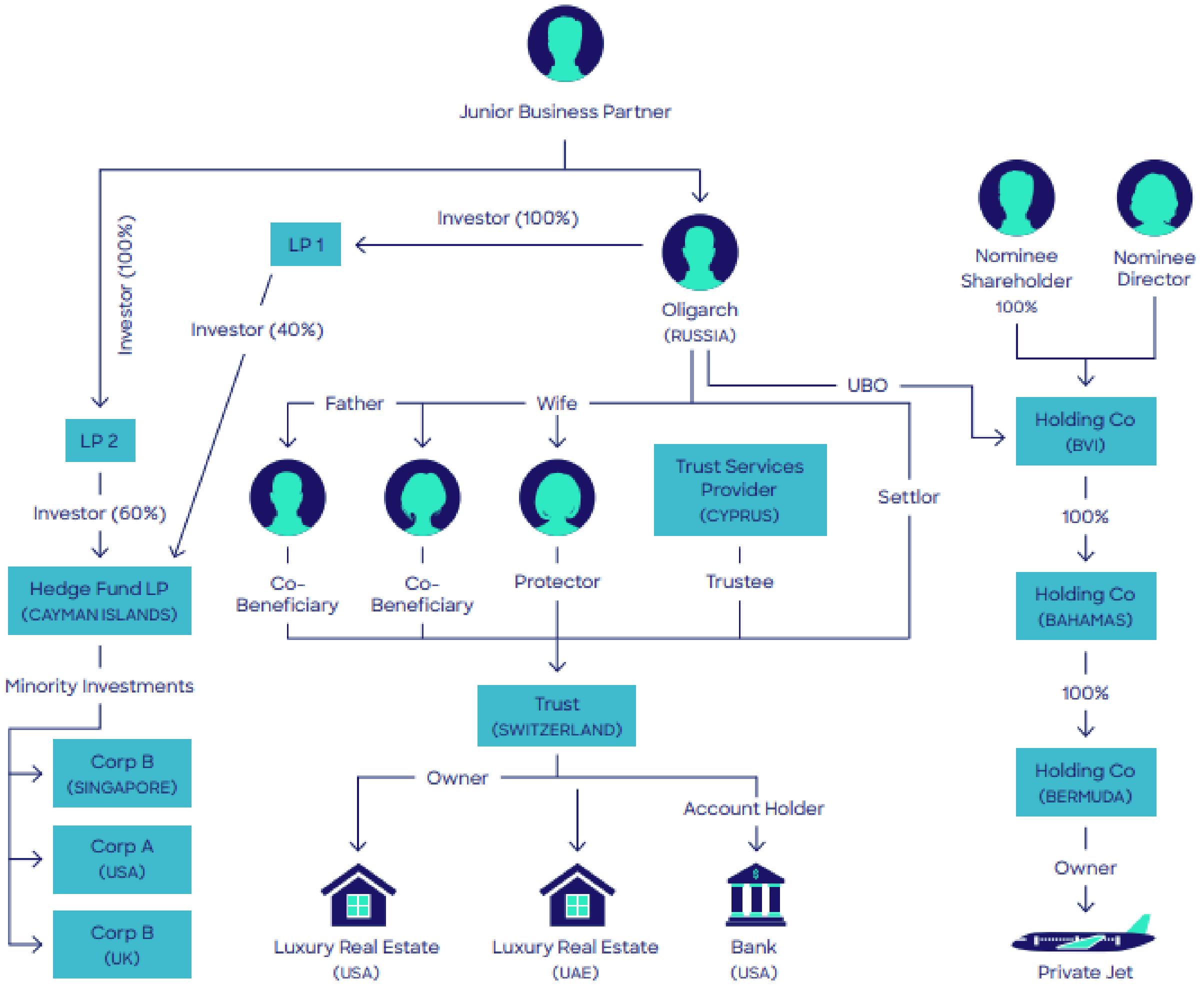
V. TYPOLOGY

5.1 International typology

The following typologies are commonly observed internationally in the evasion of economic sanctions, including: concealment of the ultimate beneficial owner (UBO); use of virtual assets; exploitation of correspondent/intermediary banking networks; alteration of the country of origin of goods; use of falsified documents; use of third parties; and the creation of new names or entities, among others.

Typology 1.

Figure 7. Evasion of Financial Sanctions Through Concealment of the Ultimate Beneficial Owner



Source: (ACAMS, 2023)

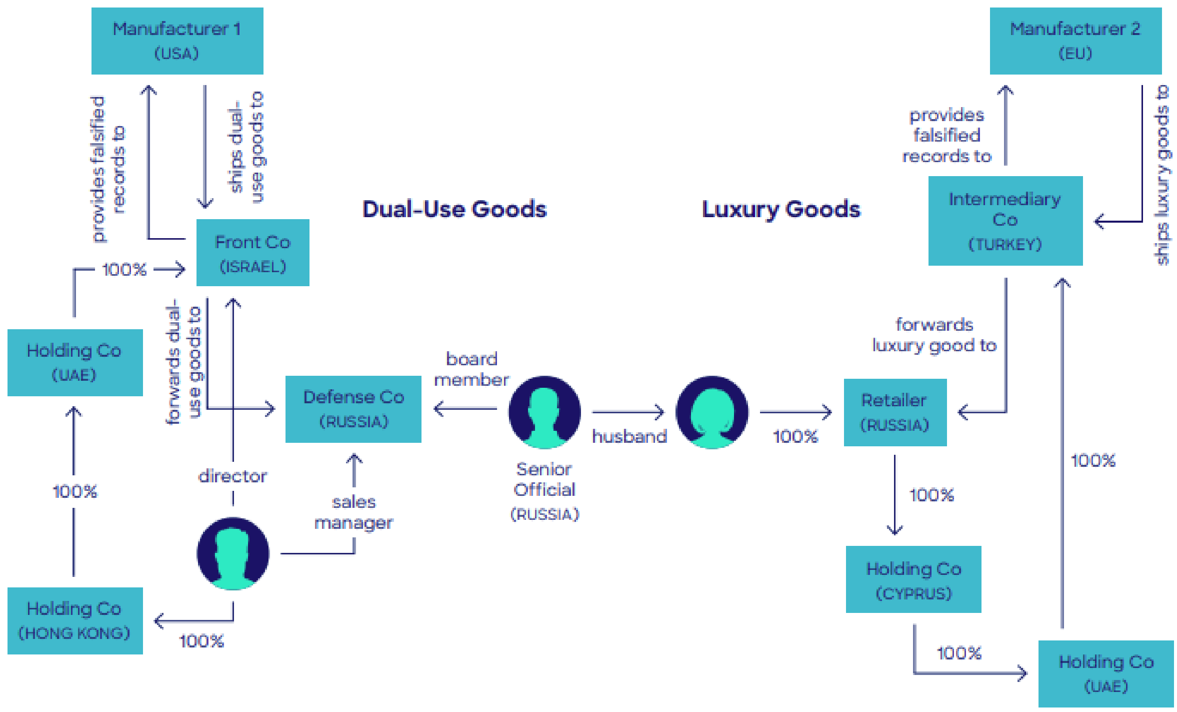
A Russian **oligarch** is an indirect investor in a hedge fund registered in the Cayman Islands, holding 40% of the fund's total assets. The remaining 60% is held by a **business partner** of the oligarch, who maintains control over the entirety of the hedge fund's assets. The fund has made investments in three offshore companies registered in Singapore, the United States, and the United Kingdom.

The oligarch also established a trust in Switzerland, through which his assets are managed via a trust service provider based in Cyprus. His two children are registered as beneficiaries of the trust, and his spouse is registered as the protector. The trust's assets include two luxury real estate properties located in the United States and the United Arab Emirates, as well as a bank account holding substantial cash deposits at a U.S. financial institution. The oligarch retains control over this family trust.

The oligarch is further the ultimate beneficial owner of three holding companies registered in the British Virgin Islands, the Bahamas, and Bermuda, through which he conceals his beneficial ownership and holds a private aircraft. As illustrated in the figure above, two individuals acting as nominees for the oligarch are recorded as the shareholders and directors of the company registered in the British Virgin Islands.

Typology 2.

Figure 8. Common Typologies in the Procurement of Dual-Use Goods



Source: (ACAMS, 2023)

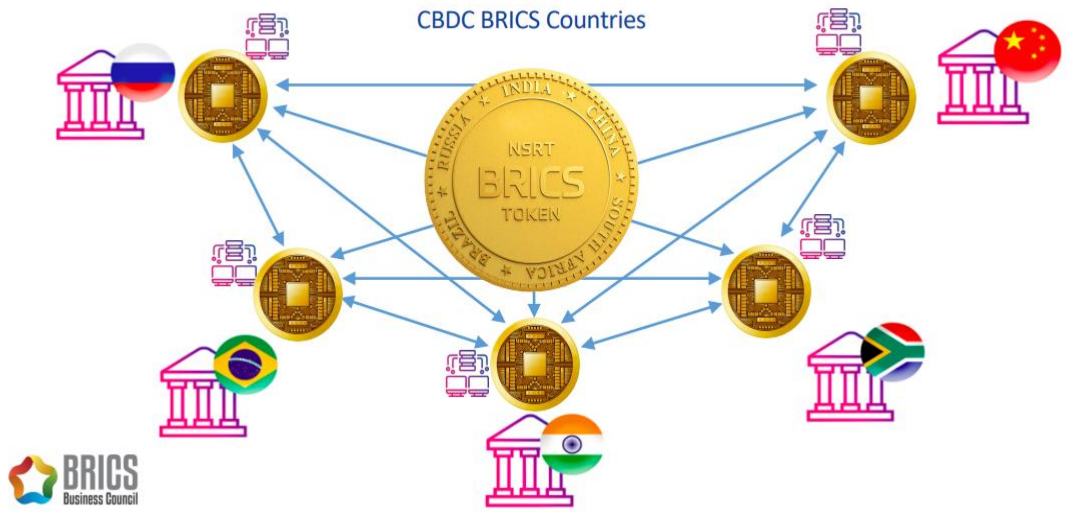
Dual-use goods: *A senior Russian government official on the sanctions list serves as a board member of "Defense Co," a state-owned defense enterprise. A sales manager at "Defense Co" established two holding companies in Hong Kong and the United Arab Emirates, through which he indirectly controls "Front Co," a company registered in Israel. When purchasing dual-use goods (items capable of both civilian and military application) from a U.S. manufacturer, "Front Co" misrepresents the end use, end user, and final destination of the goods; upon receipt, the goods are then forwarded from "Front Co" to "Defense Co" in Russia.*

Luxury consumer goods: *Prior to 2022, a Russian retail company purchased luxury consumer goods directly from European Union manufacturers. Since 2022, however, the company has established an intermediary company in Türkiye, which it owns indirectly through two holding companies registered in the United Arab Emirates and Cyprus. When placing orders for luxury goods with EU manufacturers, the Turkish intermediary provides assurances that the goods* *will not be shipped to Russia. Following receipt of the goods, however, the Turkish intermediary forwards them on to the original retail company in Russia — the sole current owner of which was found to be the spouse of the sanctioned senior Russian government official.*

Typology 3.

As Western countries have expanded the scope of their sanctions measures, sanctioned states have increasingly turned to cryptocurrency and new payment systems in order to sustain normal, stable foreign trade and preserve their capacity to raise capital. Russia and Iran, in particular, have been developing new payment mechanisms with BRICS countries — including central bank digital currency (CBDC) arrangements — in order to reduce their reliance on traditional banking networks and the U.S. dollar.

Figure 9. BRICS Payment and Settlement System



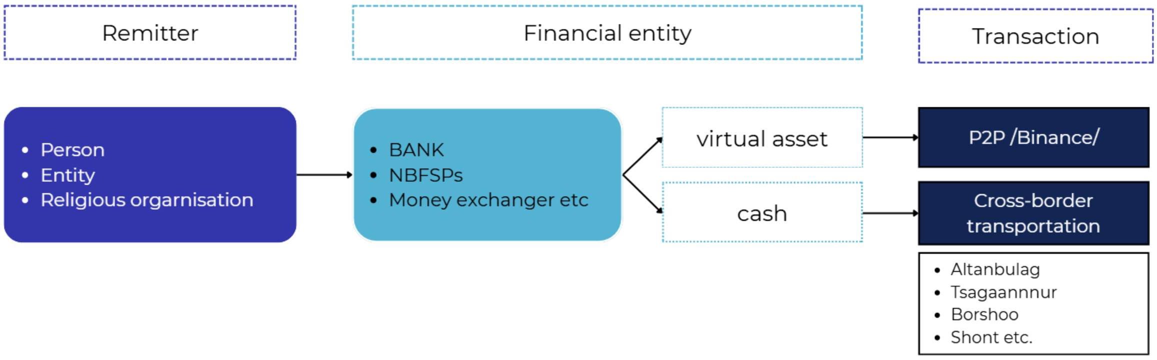
Source: (BRICS pay, 2021)

Under this arrangement, when BRICS member states conduct CBDC-based transactions with one another, payment is routed through conversion into an NSRB token (a stablecoin). Whereas Russia had previously prohibited cryptocurrency domestically, the intensification of Western sanctions measures has led it to enact legislation permitting international settlements to be conducted using crypto assets. Russia has since concluded trade agreements with China and India providing for settlement in stablecoins or central bank digital currencies (CBDCs) as substitutes for the U.S. dollar. The figure below further illustrates exchanges providing services to sanctioned Russian banks[7].

[7] Chainalysis. (2025). *The 2025 Crypto Crime Report*. 91. https://www.antiriciclaggiocompliance.it/app/uploads/2025/03/The-2025-Crypto-Crime-Report-Chainalysis.pdf

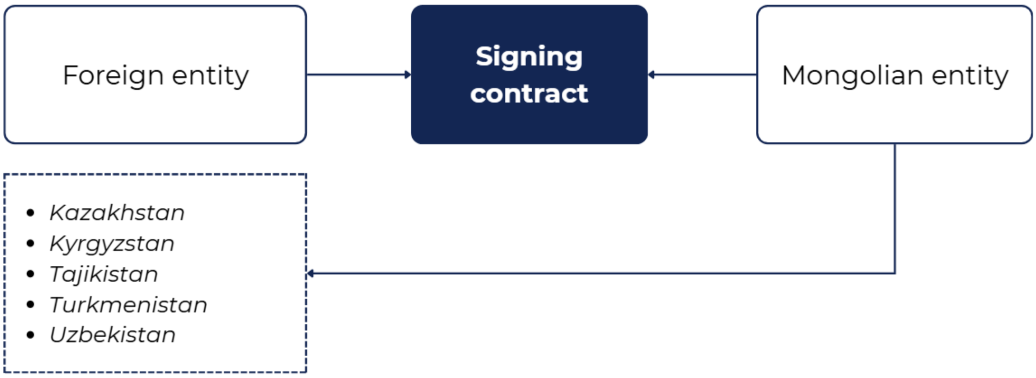
5.2. Typologies of Economic Sanctions Evasion in Mongolia

Typology 1. Evasion of Sanctions Through the Use of Financial Institutions



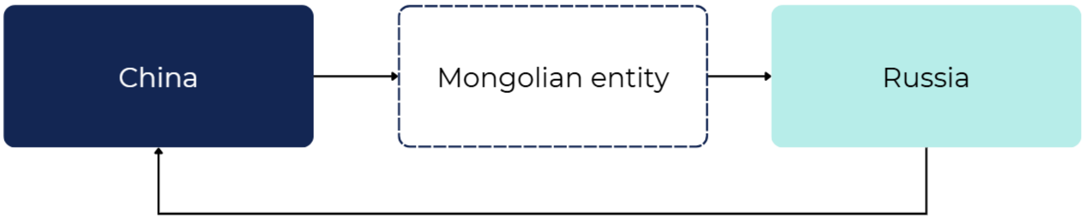
For the purpose of evading financial sanctions, foreign legal entities are placing funds within Mongolia's financial sector by using financial service providers and individuals operating in Mongolia — including by routing entity-level transactions through personal accounts — and subsequently converting these funds into internationally transferable virtual assets through virtual asset service providers (VASPs). In addition, high-fee cash withdrawal transactions are being conducted from accounts held at border-crossing aimags and soums.

Typology 2. Evasion of Sanctions Through the Use of Mongolian Legal Entities



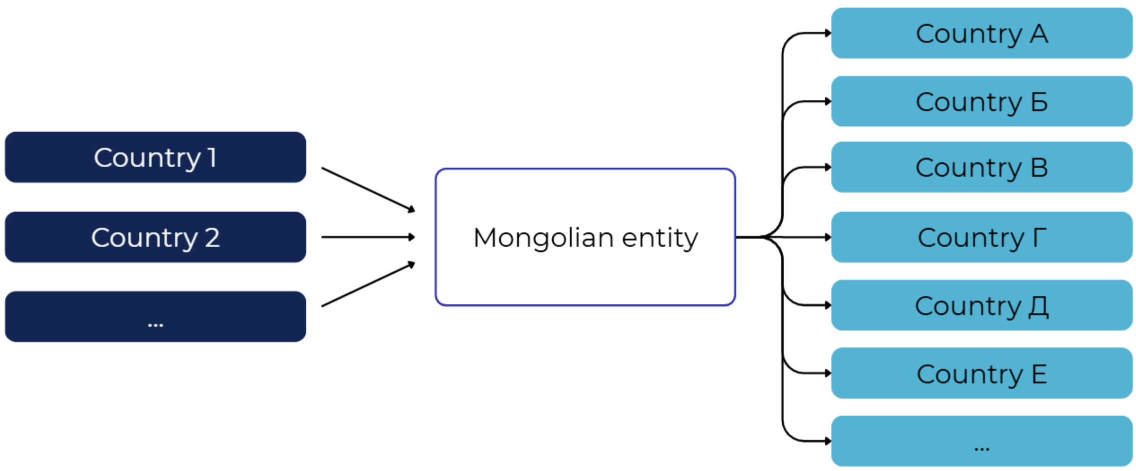
For the purpose of evading sanctions imposed on the Russian Federation, legal entities — typically established in Central Asian countries maintaining friendly relations with Russia — are entering into agreements with legal entities operating in Mongolia (functioning as front companies) and cooperating with them to execute payments on their behalf.

Typology 3. Evasion of Sanctions Through Re-Export



Legal entities operating in Mongolia are facilitating sanctions evasion through re-export arrangements and executing the associated payment settlements.

Typology 4. *Receipt of Economically unreasonable High-Value Transfers from Foreign Countries, Followed by Onward Transfer to Other Foreign Jurisdictions*



In addition to the above, foreign legal entities may be evading sanctions by making high-value transfers to Mongolian legal entities that are inconsistent with the entity's stated business activity and lack economic justification, with the incoming funds subsequently forwarded to other foreign jurisdictions. In such cases, the onward transfer is typically made either in the full amount received or in an amount slightly below it.

COMMON RED FLAG INDICATORS POTENTIALLY OBSERVABLE IN MONGOLIA:

The following are common red flag indicators that may arise when Mongolian legal entities or individuals are exploited in connection with the sanctions evasion typologies described above:

- Use, as a front company, of a legal entity that conducts no identifiable business activity or that operated only briefly in the past;
- Use of a legal entity with an otherwise normal or legitimate business activity as a front company to conduct payments inconsistent with its stated line of business;
- Use of financial institutions or legal entities engaged in financial activity (including related/connected individuals);
- Execution of payment settlements through virtual asset service providers;
- Sanctions evasion through the purchase/sale of internationally transferable virtual assets, using individuals or legal entities that conduct virtual asset trading on a regular basis as a cover;
- Regular cash withdrawal transactions from commercial bank accounts held in regions located at border crossings, disregarding the associated transaction fees;
- Contracts or arrangements entered into between a Mongolian legal entity and a foreign legal entity that are inconsistent with the Mongolian entity's stated line of business;
- Receipt of high-value transfers from abroad that are economically unjustified and inconsistent with the recipient's business activity, followed shortly thereafter by the transfer's division and onward remittance to multiple foreign countries, with the stated purpose of such transfers (e.g., invoice payment, consulting fees) being vague or unclear;

- Information stated in contracts concluded with foreign legal entities that is inconsistent, implausible, or falsified;
- Products specified in sale/purchase contracts with foreign legal entities that may constitute dual-use goods;
- Establishment of business relationships with legal entities in countries that support or cooperate with sanctioned states;
- Use of Mongolian legal entities to conduct fraudulent re-export transactions;
- Difficulty in establishing the ultimate beneficial owner (UBO) of a legal entity;
- Use of multiple variant or misleadingly translated versions of a legal entity's name;
- Purchase of goods by a buyer that is inconsistent with the buyer's stated business activity;
- Sudden high-value currency transactions by previously dormant customers;
- Structuring of transactions below reporting thresholds to evade financial monitoring/controls;
- Payments made through third parties, or using cryptocurrency or cash;
- Registration of the legal entity in a jurisdiction with a prior history of sanctions violations.

VI. RED FLAG INDICATORS

Reporting entities can protect themselves against sanctions-related risk by identifying, addressing, and taking preventive measures against the following red flag indicators associated with sanctioned countries, entities, individuals, and their associated counterparties. There are many types of indicators potentially associated with the evasion of economic sanctions; the most common are set out below.

6.1 Indicators Related to the Import and Export of Goods

Method	*Red Flag Indicator*
Use of freight forwarding/logistics companies to conceal the beneficial owner, holder, or end user	• The freight forwarding company is registered as the end user of the goods in question • The client or purchaser declines to provide information on the end use of the goods • The delivery date is unspecified, or the delivery address is unusual or remote • The receiving party's business activity is inconsistent with the nature of the goods
Sourcing components from multiple suppliers to conceal the true nature of the purchase	• The same type of product is procured from multiple sources in order to conceal actual need or intended use • The specifications or technical characteristics of the goods are inconsistent with the purchaser's business activity • The goods are inconsistent with the technological development level of the recipient country (e.g., shipment of semiconductor manufacturing equipment to a country with no electronics manufacturing base) • The counterparty declines standard accompanying services such as assembly, installation, or maintenance
Mislabelling of import/export transactions	• The declared price, quantity, or description of the goods is inconsistent with reality • The value of the goods is deliberately overstated or understated • The nature of the goods is deliberately misrepresented, or false information is provided regarding the destination
Use of third-country transit points	• Goods received at a freight forwarding hub are subsequently redirected onward to a sanctioned country

6.2 Red flags related to know your customer

Method	*Red Flag Indicator*
Use of front companies	• Use of a domestically or internationally registered company as a front to conceal information about individuals or the end user • The entity has an unusually complex ownership or organizational structure • The entity has an unusual name, presents itself as a legitimate business, but has no discernible online presence • The entity is registered in a country with a prior history of sanctions violations
Use of excessively complex transaction structures	• Financial flows are routed through third countries to conceal the ultimate beneficial owner and destination of goods • The addresses of parties involved in the transaction are inconsistent with their stated business activity
Use of trusted professionals or intermediaries to retain control	• Use of professional intermediaries — lawyers, accountants, trust service providers, nominees — to conceal actual control over assets • Refusal to provide detailed information in response to sanctions-related inquiries; communication conducted only through an intermediary
Alteration of beneficial ownership	• Transfer of company ownership to named individuals before or after sanctions designation, structured to keep each holder's stake below 50% • The customer's financial profile is inconsistent with the assets held • Retention of control over assets through long-term loan arrangements
False names, subsidiary companies, nominee owners	• Registration of the company under an altered or translated name • Ownership information registered in an offshore jurisdiction
Use of related persons	• Transfer of a sanctioned person's assets through relatives or connected individuals • Transfer of shares or assets to family members at below-market value, with continued use of the assets prior to designation • Use of financial institutions in jurisdictions with friendly relations and weak regulatory oversight, in place of standard banking channels

Concealment of assets through real estate	• Purchasing high-value real estate using funds of unclear or unknown source. • Conducting cash transactions at values deviating from market prices • Payments made through foreign bank accounts, where the purchaser is a different party and the funds originate from a third party, among other indicators.
"Special-purpose projects," FSS/FSB certification	Special-purpose projects are often potentially linked to Russian military end use. Accordingly: • Particular attention should be paid to transactions involving companies holding certification from Russia's Federal Security Service (FSB)

6.3 Indicators Related to the Financial System

Method	*Red flag indicator*
Common methods of exploiting the financial system	Sanctioned persons exploit banking and financial systems through various means for the purpose of sanctions evasion, including: • Sudden increase in transaction/order volume: Transactions that are disproportionately large relative to actual need, or that recur with unusual frequency • Mismatch between ordered goods and stated business activity: Purchase of goods inconsistent with the purchaser's line of business • Discrepancy between the country of registration of the financial institution/company and the location of service delivery: The company is registered in one country, while its financial services are provided through another jurisdiction that maintains friendly relations with a sanctioned state and has weak regulatory oversight • Transactions involving investment funds in East Asia or the Middle East: Funds originating from these regions are treated as elevated risk, given the possibility that certain countries there may support Russian policy • Sudden foreign currency transactions: Sudden high-value currency transactions, particularly by previously dormant customers, constitute grounds for suspicion
Concealment of assets and funds	A common method of sanctions evasion involves concealing the actual flow of funds through multiple layers. Examples include:

	● Recurring transactions inconsistent with normal business activity; contracts with the same counterparty concluded under inconsistent terms ● Structuring of transaction amounts below reporting thresholds to evade financial monitoring/controls Payments made through third parties, or using cryptocurrency or cash ● Execution of complex transactions through front companies ● Transactions conducted from jurisdictions with weak regulatory oversight ● Inconsistencies in documentation — discrepancies or gaps between financial, shipping, and trade-related documents ● Heavy involvement of dealers in jewelry, art, precious stones, or gold — sectors frequently exploited for asset concealment ● Transactions involving large amounts of cash, or conducted in rarely used currencies ● Sudden sale or transfer of high-value assets
Use of virtual assets where SWIFT access is unavailable	● Transactions originating from IP addresses located in neighboring countries ● Transactions involving cryptocurrency addresses associated with sanctioned persons ● Transactions involving counterparties linked to mixing services or ransomware-associated crypto addresses

VII. PREVENTIVE MEASURES

1. Implementing Customer Due Diligence (CDD)

To prevent the provision of services to sanctioned or high-risk persons, reporting entities must implement customer due diligence procedures. This includes maintaining customer files, requiring and verifying beneficial ownership information for legal entities and trust service providers, and confirming that customer transactions are consistent with the stated business purpose and nature of the customer's activity.

2. Assessing Customer Risk

Assessing the risk posed by legal entities and other customers registered in high-risk jurisdictions, and subjecting them to ongoing monitoring, constitutes an effective preventive measure. In doing so, factors such as the source of funds, related and associated parties, and the nature of transactions should be taken into account. Note: this list is illustrative and not exhaustive.

3. Conducting Sanctions List Screening

Reporting entities must screen customers, their affiliated entities, and both the transaction counterparty and remitting party against sanctions lists issued by the UN Security Council and other competent authorities.

4. Implementing Transaction Monitoring

Effective monitoring — conducted either in real time or at regular intervals — should be applied to sudden high-value or suspicious transactions, unusual cross-border payments, transactions structured to fall below reporting thresholds, and transactions received from or sent to sanctioned persons.

5 Remain Alert to Potential Indicators of Sanctions Evasion in the Course of Operations

Where any of the red flag indicators described in Chapter VI are identified, the reporting entity is obligated either to decline to provide the service or to report the matter to the competent authority.

6. Submitting Suspicious Activity/Transaction Reports

If suspicious actions or activities are detected, they are obliged to report this to the Financial Information Unit and the General Intelligence Agency within the time period specified by law.

7. Maintain Internal Controls and Ongoing Staff Capacity Building

Employees should receive regular training on combating money laundering and sanctions evasion, and should be kept informed of the latest relevant trends and developments.

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