NATIONAL BANK OF SERBIA

ADMINISTRATION FOR SUPERVISION OF FINANCIAL INSTITUTIONS

BANK SUPERVISION DEPARTMENT

Special Supervision Division

ANALYSIS OF BANKS' RESPONSES TO THE QUESTIONNAIRE ON ACTIVITIES REGARDING AML/CFT RISK MANAGEMENT APRIL–SEPTEMBER 2016

Belgrade, December 2016

INTRODUCTORY NOTE

To enhance supervision efforts, in 2006 the National Bank of Serbia established the practice of off-site monitoring and analysis of banks' activities regarding AML/CFT risk management. The analysis is carried out twice a year on the basis of data submitted by banks in the form of replies to the Questionnaire on Banks' Activities Regarding AML/CFT Risk Management (hereinafter: Questionnaire).

The Questionnaire covers the following periods: from April to September of the current year and from October of the current to March of the next year.

The analysis of the Questionnaire aims to:

- provide an overview of the state of affairs in the process of identifying, measuring and managing AML/CFT risk in the overall banking system in the most recent six-month period,
- promote the implementation of the established rules and principles of the "Know Your Client" procedure,
- ensure off-site monitoring of the development of the AML/CFT risk management in the overall banking system,
- detect any weaknesses and timely inform banks of potential risk exposure.

The questions in the Questionnaire are sorted into seven sections:

Section I: General bank data

Section II: Bank's activity

Section III: Clients

Section IV: Transactions

Section V: Reporting to the Administration for the Prevention of Money Laundering (Administration)

Section VI: Employee training

Section VII: Internal audit and internal control

The analysis is based on data for the April–September 2016 period submitted by banks to the NBS in the form of the Questionnaire responses. The presented data may, therefore, exhibit certain inconsistencies and are mostly analytical in nature. Before the analysis, data are checked for calculation and logical errors. During the analysis, four banks were asked to correct the submitted data where calculation and logical errors were detected.

Twenty-nine banks operating in Serbia in the period covered by the Questionnaire submitted their responses within the set deadline, while one bank was several days late.

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1. Key findings

The analysis of responses to the Questionnaire for the April–September 2016 period indicates that, unlike in the previous period, there was a drop in the number of banks which did not perform logical tests of data accuracy before submitting the responses to the NBS (40% of banks in the previous period and 13.33% in the analysis period). The majority of irregularities concerned the discrepancy between the total number of clients relative to the total number of clients as disclosed in breakdowns by resident status.

The overall conclusion is that banks had medium exposure to the AML/CFT risk in the analysis period. The key findings are as follows:

- all banks set up their own AML/CFT risk management systems (in line with their size, number of clients, range of products offered to clients, etc.), applying an AML/CFT risk assessment approach and taking into account the findings of the National Money Laundering Risk Assessment;

- of the 13,423,022 clients in the entire banking sector, 61.85% were classified as medium-risk, 37.60% as low-risk and 0.55% as high-risk in terms of money laundering;

- the number of business relationships terminated due to the impossibility to take CDD actions and measures decreased by 47.1% to 16,689 in the analysis period;

- the number of offers to establish a business relationship and/or execute a transaction which were refused due to the impossibility to take CDD actions and measures decreased by 458, or by 33.1%, indicating that banks use this legal requirement as an instrument of AML/CFT risk management;

- 29 of the 30 banks use some type of software solution to monitor transactions and clients, as well as to detect suspicious transactions and clients. Most banks implemented one or more indicators of the Administration for the Prevention of Money Laundering (hereinafter: Administration) for identifying ML and/or FT transactions, while 24 banks developed their own set of indicators for identifying suspicious transactions and clients. Banks, therefore, went even beyond legal requirements in an effort to ensure more effective and better quality AML/CFT risk management;

- in their internal acts, all banks defined the transaction monitoring frequency depending on the assessed risk level, particularly for the highest-risk clients, and the duration of monitoring of connected cash transactions;

- further improvement of IT solutions within current systems may help diminish operational risks resulting from human error and lead to more effective human resources management (especially in the event of staffing reductions), by enabling employees to focus on improving the quality of analysis of clients' activities and/or transactions selected by the bank's system on the basis of programmed parameters – indicators.

- all banks prepared lists of FT-related individuals and entities, drawing from the lists of the UN Security Council, EU and OFAC;

- at end-September 2016, 99.31% of all clients were residents and 0.69% non-residents;

- the number of cash transactions executed in the overall banking sector declined by 2.44% from the prior period;

- the number of transactions with clients from high-risk and offshore destinations declined by 12.31% from the prior period due to an 0.56% decrease in the total number of banking sector clients, and the overall number of executed cashless transactions in the analysis period;

- in view of the fact that ML, and in particular FT risk management, is gaining significance both globally and at home, the function of compliance officers and their deputies in all obligors, banks in particular, needs to be strengthened further;

- the number of suspicious transactions reported to the Administration increased by 9.43% (72 transactions) from the prior period; two banks did not report any suspicious transactions;

- fewer banks resorted to temporary suspension of transactions (from five banks in the prior period to four), while the number of suspended transactions dropped from ten to five in the analysis period;

- despite a decrease in total employment in the banking sector, the number of employees in direct contact with clients and their transactions rose by 195 in the analysis period relative to the prior period;

- all banks regulated the internal controls system by their internal acts, while 27 banks set out the AML/CFT controls in their internal audit plans for 2016;

- in the current year, 26 banks conducted internal audit of this segment of bank's operations, while one bank is still in the process of conducting it. Of the remaining three banks, two completed internal audit in 2015 and one in September 2014;
- in the course of the audit, irregularities were identified by 26 banks of which 21 banks removed the detected irregularities within the set deadlines, while the deadline has not expired yet for four banks;

- in 24 banks, the authorised person reported to the Executive Board on internal audit findings, while in 20 banks the findings were reported to the Managing Board;

- 29 banks envisaged internal AML/CFT controls in their internal controls plan;

- 28 banks conducted AML/CFT controls, and one bank is still in the process of conducting it;

- 25 banks identified irregularities; 21 banks removed the irregularities within the set deadlines, while the deadline has not expired yet for the remaining four banks;

- all banks pay due attention to training, primarily of front-office staff or the staff executing transactions. However, the analysis points out the need for further training in a number of banks, primarily of staff within the business network who report to compliance officers on clients and transactions suspected of ML and/or FT, as only 2% of all internal reports filed with the Administration were in the form of reports on suspicious transactions.

The following findings should also be highlighted as they may, directly or indirectly, affect the quality of AML/CFT risk management:

- as the number of locations where it is possible to establish a business relationship with a client increased by 11 from the prior period, while the number of locations where cash transactions can be made decreased by 242, it may be concluded that new technology is increasingly used for performing cash transactions;

- total employment in the banking sector fell by 178 relative to end-March 2016, and by 390, or 1.6%, relative to the same period in 2015;

- the proportion of banks with the turnover of front office staff of between 10% and 50% increased from 20% to 23.3% in the analysis period, indicating the likelihood of additional ML/FT risk exposure;

- the number of cases in respect of which seven banks outsourced CDD actions and measures to a third person increased by 100,506 from the prior period. This leads us to conclude that banks using this option ought to be particularly alert when managing potential risk exposure in this segment of their operations;

- the number of clients who established a business relationship without being physically present rose by 525 from the prior analysis period, and the number of foreign official clients increased by eight to a total of 693 as at 30 September 2016, indicating the rise in the number of clients that require increased CDD actions and measures to be taken;

- the total number of natural persons – non-resident bank clients decreased by 133 from the prior period. Despite this reduction, however, there was an increase in the share of non-resident natural persons from high-risk countries in the total number of natural persons – non-residents (from 17.38 % in the prior period to 19.88% in the analysis period);

- the number of non-resident legal persons increased by 992 in absolute terms, with a slight increase in the number of non-resident legal persons from high-risk countries – from 10.987% to 12.51%;

- 77.8% of total suspicious transactions was reported to the Administration by a single bank.

2. General data on banks

As at 30 September 2016, there were 30 banks licenced by the NBS in the Republic of Serbia. According to Questionnaire responses, banks have a wide organisational network and establish business relationships with clients at a total of 2,907 locations, or 11 locations more than in the prior analysis period. Four banks can establish business relationships at up to 10 locations, 11 banks at between 11 and 50 locations, nine banks at between 51 and 100 locations, four banks at between 101 and 200 locations, and two banks at over 200 locations (of which one bank – at 1,120 locations).

At sector level, a cash transaction can be made at a total of 3,258 locations (down by 242 locations from the prior period). Five banks have up to 10 such locations, nine banks between 11 and 50 locations, 11 banks perform cash transactions at between 51 to 100 locations, two banks have between 101 and 200 such locations, and three banks over 200 locations.

Total banking sector employment as at 30 September 2016 was 24,015 persons, while the number of employees directly engaged in client- and transaction-related operations was 14,928 (62.2%). The analysis of staffing levels reveals a continuation of the staffing reduction trend, with total employment down by 178 persons relative to end-March 2016, or by 390 (1.6%) relative to the same period in 2015.

At banking sector level, the average number of clients per employee directly engaged in client- and transaction-related operations was 900, while the number of cashless and cash transactions per employee was 25,746[1] in the April–September 2016 period. The number of bank clients per employee decreased by 16 from the prior period, and the number of cashless and cash transactions per employee by 1,388 from the prior analysis period. This means that, in the analysis period, employee workload decreased from the prior period due to a reduction in the total number of cash and cashless transactions carried out, but also due to a rise in the number of employees directly engaged in client- and transaction-related operations relative to the total number of employees.

In seven of the 30 banks (23.33%), the turnover of AML or front-office staff was between 10% and 50%, while in one bank it was 50%, which can also indicate the possibility of additional ML/FT risk exposure.

As the number of AML or front-office staff declined by 23.33%, banks need to further upgrade or automatize to the largest possible extent their processes and the established AML/CFT system in order to enable higher-quality implementation of actions and measures for detecting and preventing money laundering and terrorism financing, and adequate AML/CFT risk management.

3. Compliance officer function

As Questionnaire responses reveal, 25 banks have a special organisational unit which deals exclusively with implementing the Law on the Prevention of Money Laundering and Terrorism Financing (hereinafter: the Law), whereas in five banks these tasks are performed by other business units. In nine banks, the compliance officer/his deputy and other staff in charge of AML/CFT activities are tasked to

[1] The amount concerns the number of transactions excluding e-banking transactions as the latter are performed without direct engagement of bank employees.

perform on a daily basis other duties as well, in addition to activities relating to the implementation of the provisions of the Law.

The compliance officer is in a managing position in only eight banks, while in 22 banks this is not the case.

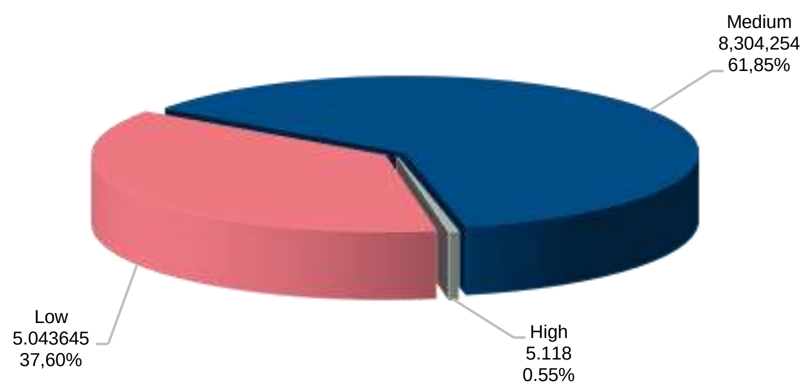
All banks made sure that compliance officers and their deputies cooperate with other organisational units by regulating this cooperation in their internal acts.

In view of the increasing significance of the ML, and in particular of the FT risk worldwide, the strengthening of the function of compliance officer and his deputy should be an imperative for the domestic banking sector as well.

4. Activity of banks

In accordance with the NBS Decision on the Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing (RS Official Gazette, Nos 46/2009 and 104/2009), all banks prepared risk analyses and assessment of exposure to the ML/FT risk, taking into consideration the findings of the National Money Laundering Risk Assessment. Depending on the assessment of client exposure to the ML/FT risk, banks classified their clients as low-, medium- or high-risk, as shown in Chart 1.

Chart 1 **Banking sector clients by degree of risk as at September 2016**



According to submitted data on client classification by degree of exposure to the ML/FT risk, 11 banks classified over 80% of their clients in the low-risk category, while 13 classified the majority of their clients (over 80%) in the medium-risk category.

Questionnaire responses show that, despite classifying 5,043,645 of the 13,423,022 clients in the low-risk category, banks took simplified CDD actions and measures in respect of 934,164 clients only, which is broadly the same as in the prior period.

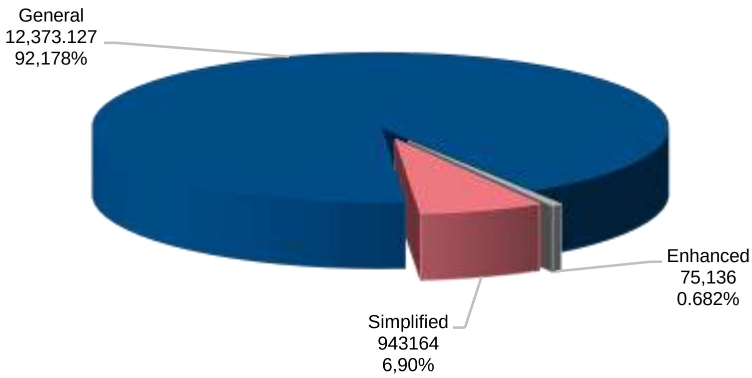
The table below shows a comparative overview of clients by the risk level and by CDD actions and measures:

Table **Structure of banking sector clients by risk level and actions and measures applied**

Risk level	No of clients	% share	Applied measures	No of clients	% share
Low	5,043,645	37.60	Simplified	934,164	6.960
Medium	8,304,259	61.85	General	12.373,127	92.178
High	75,118	0.55	Enhanced	75,130	0.682
	13,423,022	**100**		**13 423,022**	**100**

Pursuant to the Law, banks are required to take general, simplified or enhanced CDD actions and measures. Based on Questionnaire responses, in the analysis period, general actions and measures were taken in respect of 92.178% clients at banking sector level. Enhanced actions and measures were taken in respect of 0.682%, and simplified – in respect of 6.960% clients, as shown in Chart 2.

Chart 2 **Banking sector clients by CDD actions and measures as at September 2016**



Of the total number of cases where simplified CDD actions and measures were taken, in just two banks simplified CDD actions and measures were taken in respect of 827,920 clients, while all other banks took these measures in respect of 115,244 clients. Questionnaire responses also show that 13 banks took simplified CDD actions and measures in respect of low-risk clients, five banks did not take these measures at all, while 12 banks took them in respect of only a small proportion of low-risk clients.

In their responses, all banks stated that their internal acts define monitoring intervals on the basis of client risk level.

Banks stated that they terminated a business relationship with a client if they were not able to take CDD actions and measures. According to Questionnaire responses, in the April–September 2016 period, 14 banks terminated business relationships with 16,689 clients for the above reason. Of this, only one bank did so with 16,177 clients or 96.93%, and the remaining 13 banks terminated their business relationships with

512 clients. In the analysis period, 16 banks did not report a single case of terminating a business relationship. Nine banks refused the offer to establish a business relationship and/or execute a transaction in 925 cases, due to the impossibility to take CDD actions and measures. Of this number of cases, 886 pertain to one bank only.

Nine banks outsourced individual CDD actions and measures to a third person and obtained data and documentation on 279,043 clients (of which 278,940 were clients of two of these banks). All banks stated that they kept official written record of the assessment of grounds to suspect money laundering or terrorism financing in respect of all cases in which they refused the offer to establish a business relationship or execute a transaction for the above reasons.

All banks replied that they received no applications to open anonymous accounts, coded or bearer savings passbooks, etc. aiming to conceal the identity of the client.

Information systems of all banks have the capacity to detect multiple connected cash transactions of the same client amounting to a total of EUR 15,000 or more.

All banks confirmed that their internal acts define the frequency for monitoring transactions performed by clients classified as highest-risk, as well as intervals for monitoring connected cash transactions. According to the submitted responses, 12 banks monitor connected transactions for at least one day, eight banks for a week, two banks for a fortnight, five banks for up to 30 days, one bank for three months, one for six months, one for a year, while one bank monitors connected transactions for a longer period of time, depending on the risk level. When preparing their own lists of individuals and entities designated as related to terrorism financing, all banks stated that they mostly drew on the lists produced by the UN Security Council, EU and OFAC.

In Questionnaire responses, 29 banks stated they use special software solutions for identifying suspicious transactions and persons, and only one bank replied it did not use any such software. Banks also listed the indicators included in the software which they selected from the List of indicators for recognising suspicious transactions or persons and the List of indicators relating to terrorism financing published on the Administration's website.

The table below shows how many indicators for recognising suspicious transactions relating to money laundering published on the Administration's website were included in the software solutions of 24 banks:

Table **Number of included indicators relating to money laundering**

Number of included indicators for banks	Number of banks
Fewer than 10	6
10–19	11
20–29	5
30–37	2

According to Questionnaire responses, indicators for recognising FT-related suspicious transactions are included in the software of 24 banks, as follows:

Table **Number of included indicators relating to terrorism financing**

Number of included FT-related indicators	Number of banks
Fewer than 5	11
5–10	11
More than 10	2

Also, 24 banks stated 248 other indicators (from their own indicator lists) which they included in their software for the recognition of suspicious transactions and/or persons.

The table below shows the number of banks applying their own indicators:

Table **Number of included indicators developed by banks**

Number of included indicators developed by banks	Number of banks
Fewer than 5	8
5–9	5
10–19	9
20–25	0
50	2

Other indicators included in software solutions of banks are most often indicators identified from experience in monitoring client transactions and operations which can be expressed in the programming language and, as such, implemented in the information system. This shows that banks are increasingly active in raising the quality of AML/CFT activities, going even beyond regulatory requirements in order to upgrade their ML/FT risk management.

To efficiently manage the ML/FT risk, all banks should continue enhancing their system for monitoring transactions and clients in order to ensure timely risk identification and assessment, and take appropriate actions and measures in respect of their clients.

5. Internal audit and internal controls

According to Questionnaire responses, all banks regulated the internal controls system in their internal acts.

In the majority of banks, internal control of implementation of the Law is within the remit of the organisational unit in charge of internal audit, and at the same time of other organisational units such as the compliance unit, unit in charge of supervising "network" operations or the unit in charge of AML/CFT activities only.

According to Questionnaire responses, internal audit plans of 27 banks envisage AML/CFT-related audit of their operations in 2016. During the past year, 26 banks carried out audit of this segment of their operations, while one bank is still in the process of conducting the audit. Of the remaining three banks, two conducted internal audit in 2015, and one in September 2014.

In the course of the audit of AML/CFT-related activities of the bank, 26 banks identified omissions in the bank's procedures, while one bank was unable to respond to the above question, as the audit procedure was still under way.

The most commonly identified irregularities were: incomplete client files, outdated client data, incorrect client classification by exposure to the ML/FT risk, incomplete client data entries in the bank's system or data that cannot be accessed by other employees of the bank, outdated lists of risky countries, deficiencies or non-compliance of internal acts pertaining to different business processes, inadequate systemic solutions in terms of risk level monitoring, etc.

All banks which identified irregularities in the course of internal audit (26 banks) set deadlines for their removal; of this number, 21 banks removed the irregularities within the set deadline, one bank failed to do so, while in four banks the deadline has not yet expired.

With regard to notifying the bank's Executive and Managing Boards on AML/CFT-related internal audit findings, the compliance officer informed the Executive Board of its findings in 24 banks, whereas the Managing Board was notified of the findings in 20 banks.

In the analysis period, 28 banks conducted internal control of AML/CFT activities. Irregularities were detected in 25 banks. Most frequently, internal control findings related to:

- inadequate or incomplete documentation at the time of client identification for the purpose of establishing a business relationship or performing a transaction,
- outdated client records in the bank's system,
- incorrect client classification by degree of ML/FT risk exposure,
- system's inability to fully monitor the ML/FT risk.

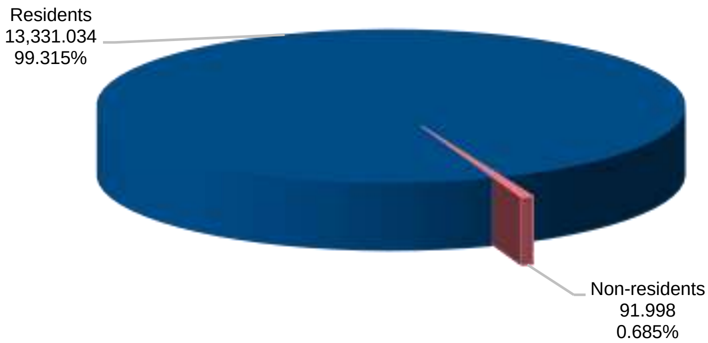
All banks which detected irregularities in the course of internal controls set a deadline for the removal of such irregularities, and 21 took measures to remove them. In 24 banks, the compliance officer notified the bank's Executive Board on AML/CFT findings of internal control, while in 20 banks the compliance officer notified the bank's Managing Board of the findings.

6. Clients

Charts 3 to 5 show the composition of banking sector clients based on the Questionnaire data.

Chart 3 shows the absolute and relative percentage of residents versus non-residents in the overall banking sector in September 2016.

Chart 3 **Banking sector clients in September 2016**



Relative to the prior period, the proportion of resident versus non-resident clients increased significantly in favour of residents; at end-September 2016, residents accounted for 99.315% and non-residents for 0.685% of total clients.

As in the prior period, natural persons were dominant among resident clients with a share of around 94.5%, while domestic legal persons and entrepreneurs accounted for 2.925% and 2.61% respectively, mildly decreasing their share in the total number of resident clients – as shown in Chart 4 below.

Chart 4 **Resident banking sector clients in September 2016**

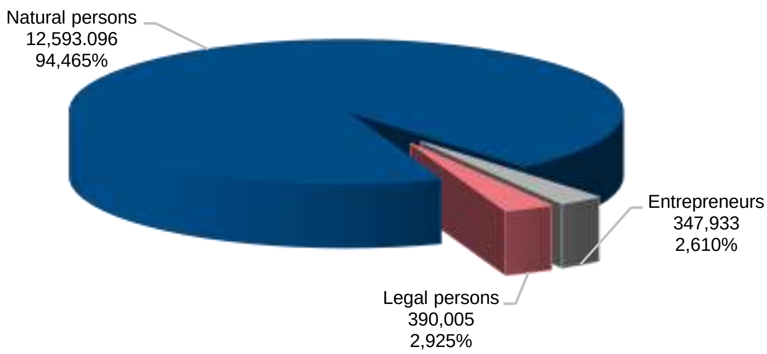


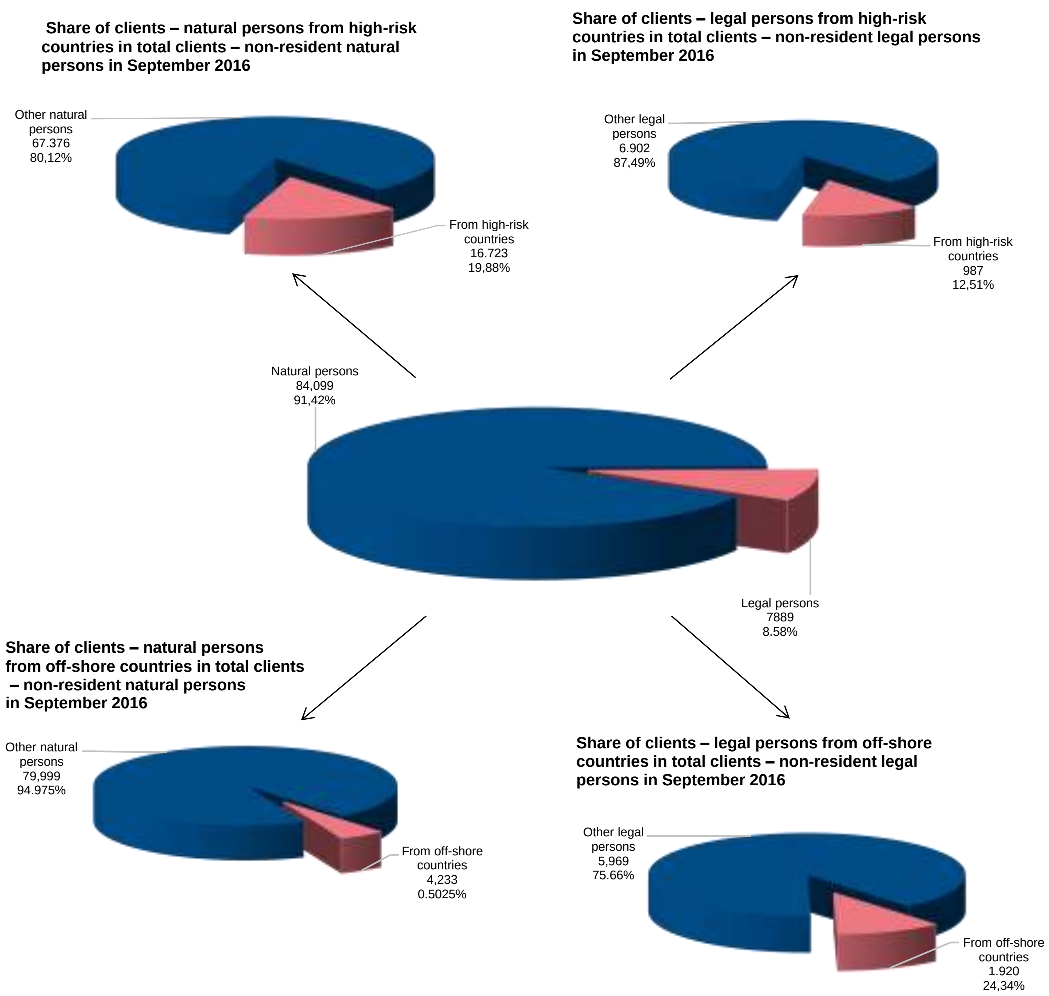
Chart 5 shows the structure of non-resident banking sector clients, and the share of clients – natural and legal persons from high-risk countries and offshore countries and territories in the total number of non-resident clients.

The number of clients – non-resident natural persons declined by 133 to 84,099 persons, and the number of non-resident legal persons declined by 992 from the prior period and equalled 7,889 on 30 September 2016.

The number of non-resident natural persons from high-risk countries decreased relative to the previous analysis period, though their share in the total number of non-resident clients rose to 19.88% due to a decline in the total number of non-resident natural persons. The same goes for the number of non-resident legal persons from high-risk countries where their share in the total number of non-resident clients edged up from 10.978% in the previous analysis period to 12.51% in the period of this analysis.

Chart 5 also shows the share of clients from offshore countries in total non-resident clients. Offshore destinations are countries and/or territories applying double taxation policies which are very advantageous for companies that do not operate in those countries, but have a registered head office there while doing business in their local market. Despite the decline in the total number of non-resident natural persons in the analysis period, the number of natural persons from offshore countries rose from 3,781 to 4,233 persons, while in the total number of non-resident legal persons, the number of legal persons from offshore countries perked up from 1,093 to 1,138 – as shown in Chart 5 below.

Chart 5 **Non-resident banking sector clients in September 2016**



The number of clients who established a business relationship without being physically present rose from 4,592 as at 31 March 2016 to 5,117, while the number of clients who are foreign officials equalled 693 as at 30 September 2016, an increase of eight such officials from 31 March 2016.

7. Transactions

In the observed period, banks performed 300,676,445 cashless transactions, or around 2.44% less than in the prior period. The number of cash transactions performed at banking sector level was 83,893,740, or around 8.38% less than in the prior period. The share of cash transactions in total transactions decreased marginally from the prior period to 21.815% (compared to 22.904% in the prior period).

The number of cashless transactions performed by e-banking was 57,382,897 in the analysis period, broadly unchanged from the prior period.

Chart 6 shows the structure of performed cash and cashless transactions in the banking sector in the April–October 2016 period, while Chart 6a gives an overview of cashless (excluding e-banking transactions) and cash transactions in the period from H1 2010 until and including the period under review.

Chart 6 **Structure of transactions performed in the banking system in the April-October 2016 period**

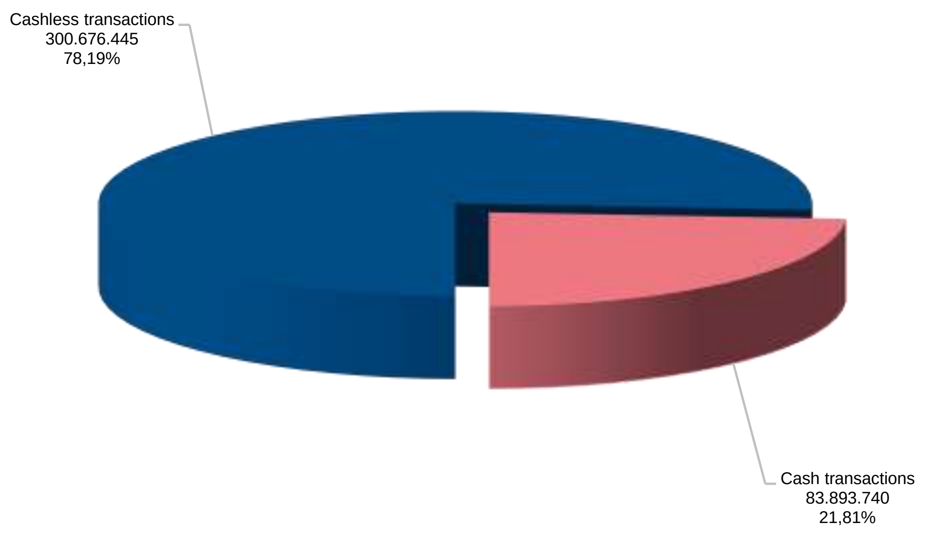
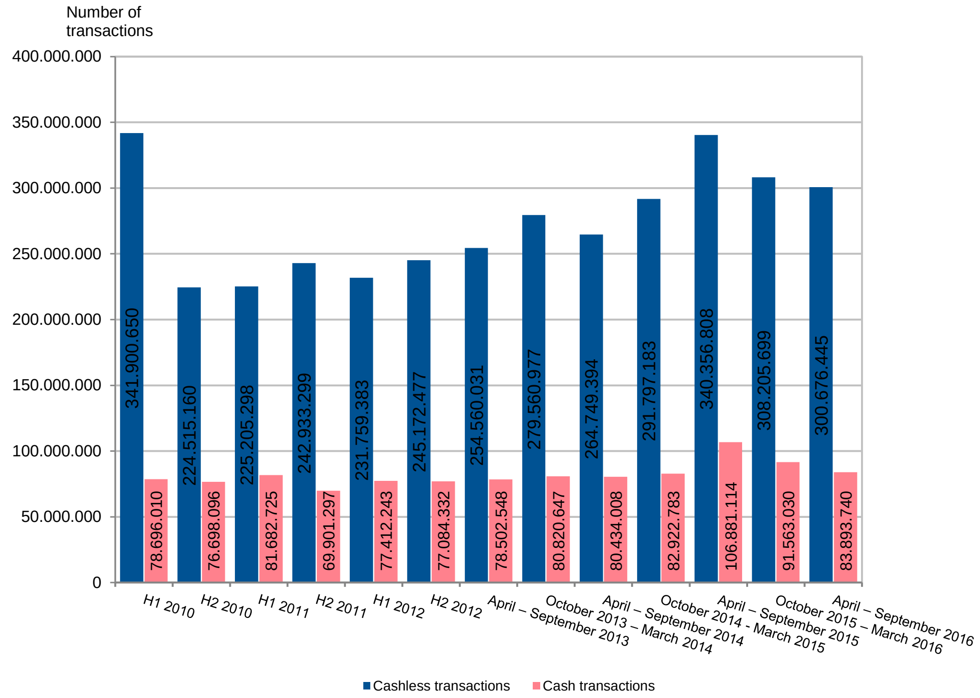


Chart 6a **Structure of transactions performed in the banking sector by period**

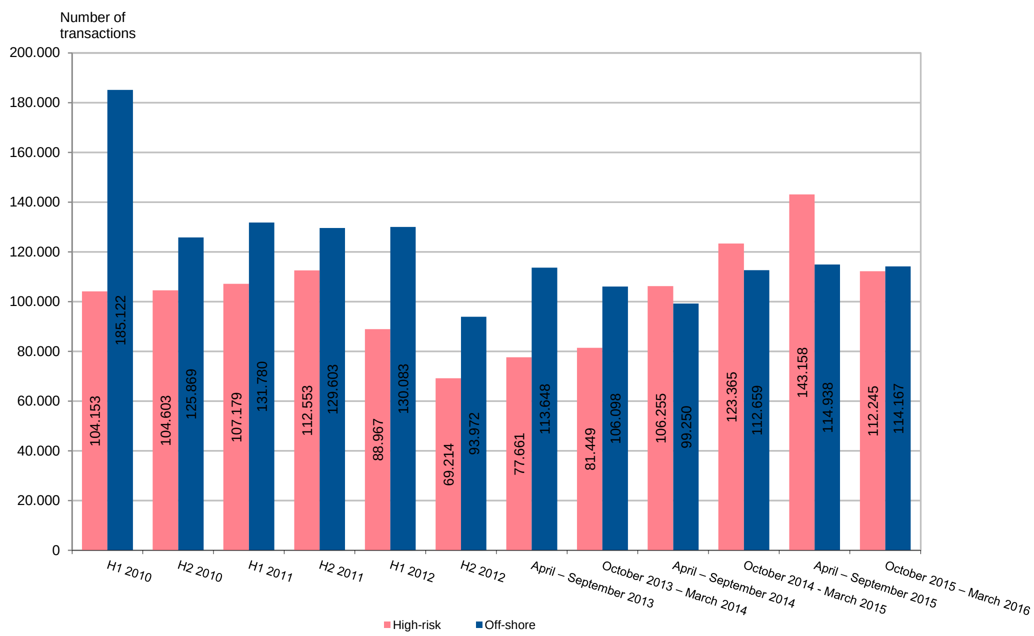


Banks performed 183,655 cash transactions of the value of the RSD equivalent of EUR 15,000 or more at the middle exchange rate of the NBS, which is approximately 0.22% of the 83,893,740 total cash transactions made.

The number of such cash transactions decreased by 23,475 from the prior period.

The number of transactions with clients from high-risk geographical areas was 112,245, or 30,913 transactions fewer than in the prior period, while the number of transactions with clients from offshore geographical areas was 114,167, down by 771 transactions from the prior period, as shown in Chart 7.

Chart 7 **Movement in the number of transactions with clients from high-risk and offshore areas by period**

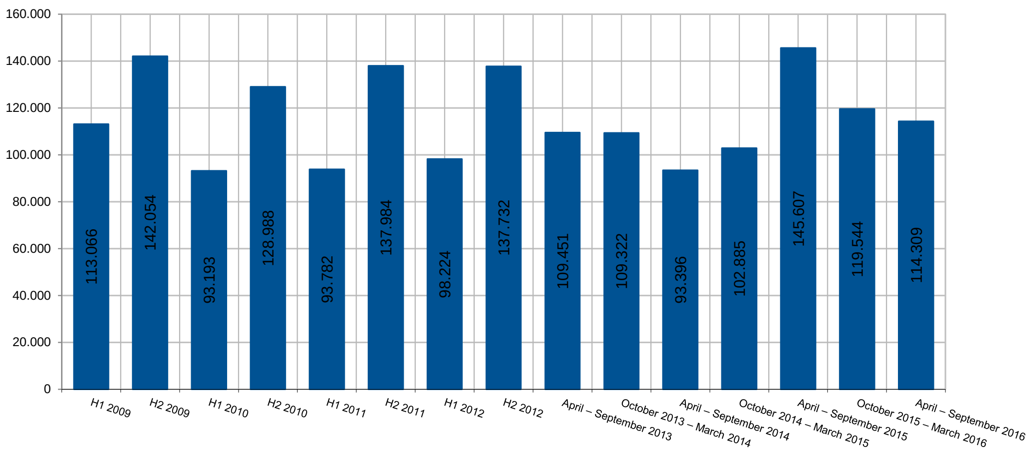


8. Reporting to the Administration

According to Questionnaire responses, the number of reported cash transactions of the value of the RSD equivalent of EUR 15,000 or more at the NBS middle exchange rate as at the transaction date came at 114,309 (Chart 8), while the total number of registered cash transactions of the same value was 183,655. The number of reported cash transactions of the value of EUR 15,000 or more decreased by 4.37% from the prior period.

Reported cash transactions of the value of the RSD equivalent of EUR 15,000 or more accounted for around 62% of all registered cash transactions of that value, down by 4% from the prior period. In absolute terms, the number of cash transactions in the RSD equivalent of EUR 15,000 or more which were not reported to the Administration was 69,346. This should include transactions which banks, according to regulations, are not required to report to the Administration, and which relate to transactions of clients – public enterprises, direct and indirect budget beneficiaries, clients to which simplified CDD measures apply in accordance with the Law and cash transactions involving money transfers from one client account to another, if these accounts are held with one and the same bank, conversion of a client's account balance into another currency, where the money stays in the account with the same bank, placing account balances on fixed term deposit accounts or its renewal. For this reason, the number of transactions reported to the Administration is much lower than the total number of registered cash transactions of the value of the RSD equivalent of EUR 15,000 or more.

Chart 8 **Number of cash transactions worth ≥ EUR 15,000 reported to the Administration for the Prevention of Money Laundering by period**

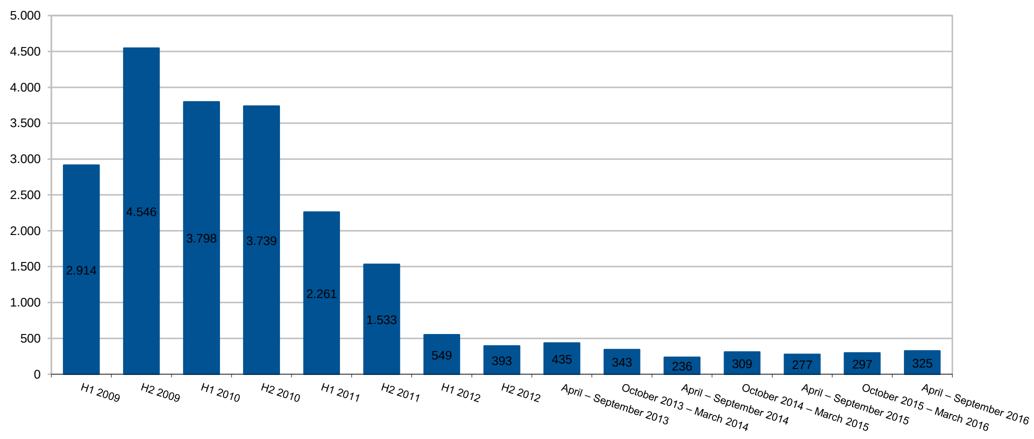


In the analysis period, the Administration received reports on 325 transactions (one bank alone reported 72 transactions) designated as suspicious on the basis of indicators for identifying suspicious transactions (hereinafter: suspicious transactions), which is roughly 9.43% more relative to the results from the prior Questionnaire (Chart 9). In this period, the number of reports on suspicious transactions filed with the Administration increased by 28.

In the period under review, two banks did not report any suspicious transactions (four in the prior period), six banks reported up to five suspicious transactions, 12 banks reported five to 10 transactions, six banks – 10 to 20 transactions, and four banks reported more than 20 such transactions, with one of these banks reporting 72 suspicious transactions.

In the analysis period, four banks used the legal option to temporarily suspend the execution of five transactions. Of this, one bank temporarily suspended the execution of two transactions, while the remaining three temporarily suspended one transaction each. Unlike in the prior period, when five banks temporarily suspended the execution of 10 transactions, in the analysis period banks used this legal option less often.

Chart 9 **Number of suspicious transactions filed with the Administration for the Prevention of Money Laundering by period**



According to Questionnaire responses, front-office staff submitted to the compliance officer 4,201 internal reports on suspected ML risk in relation to a client or a transaction. There were no internal reports on suspected terrorism financing in the analysis period. The number of internal reports submitted by bank staff to the compliance officer increased by 2,938 in absolute terms, or 27.31% from the prior period, but the reliability of these internal reports is questionable. Namely, as the Questionnaire responses show, of all internal reports on suspected money laundering submitted by bank staff to the compliance officer, 4,117 (or 98%) were not submitted to the Administration. To be more precise, on the basis of 4,201 internal reports on suspected money laundering, compliance officers filed with the Administration only 84 reports on suspicious transactions, which makes up around 2% of the total number of submitted internal reports.

The relatively small percentage of suspicious transactions reported by compliance officers on the basis of internal reports submitted by front-office staff (2%) reveals a need for improving the quality of staff training in this particular segment of bank operations.

9. Employee training

According to Questionnaire responses, front-office jobs are carried out by a total of 14,928 employees. This is 195 persons more than in the prior period, which indicates a break in the earlier downward trend in front-office staffing levels in the banking system as a whole.

All banks drew up their programme of annual professional education, training and development of employees engaged in the detection and prevention of money laundering and terrorism financing and adjusted it to the different job positions within the bank.

Banks carry out employee training according to their annual plan and programme. The majority of banks organise such training at least once a year or an as-needed basis, at the time of hiring new staff or in case of changes in legal and internal regulations. Training is most often carried out by compliance officers and their deputies, trained managers of organisational units and Compliance Division staff. Typically, training is done online, or through presentations in training centres, interactive trainings, PowerPoint presentations, local network publications, external seminars, lectures, learning about new money laundering and terrorism financing trends and techniques. On the banks' intranet pages, employees can access all guidelines and legal regulations pertaining to this segment of activity, while e-mails are also used as needed in order to inform organisational units about their AML/CFT-related obligations.

In 27 banks, all front-office staff and employees executing transactions have already completed their annual training plans, while in three banks the plans will be carried out by the year's end. Upon the completion of training, all banks test the knowledge of their staff and keep the tests scores in the manner and for the duration regulated by law.

According to Questionnaire responses, employees in all banks were aware of the consequence of the failure to apply laws and follow procedures and to act upon control findings.

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