



NATIONAL BANK OF SERBIA

AML SUPERVISION CENTRE

**ANALYSIS OF RESPONSES TO THE QUESTIONNAIRE ON
BANKS' ML/TF RISK MANAGEMENT ACTIVITIES
2021**

Belgrade, May 2022

Introductory note

Within bank supervision, the National Bank of Serbia (NBS) carries out off-site monitoring and analysis of the banks' ML/TF risk management activities. The analysis of data from the Questionnaire on Banks' ML/TF Risk Management Activities (hereinafter: Questionnaire) is published at least once a year. In accordance with the Law on the Prevention of Money Laundering and Terrorism Financing (RS Official Gazette, Nos 113/2017, 91/2019 and 153/2020 – hereinafter: the Law), Decision on Guidelines for the Application of the Provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the National Bank of Serbia (RS Official Gazette, Nos 13/2018, 103/2018, 57/2019 and 137/2020 and 49/2021 – hereinafter: the Decision) and National Money Laundering Risk Assessment, National Terrorism Financing Risk Assessment, National Weapons of Mass Destruction Proliferation Financing Risk Assessment, and National Money Laundering and Terrorism Financing Risk Assessment in the Digital Assets Sector carried out in 2021, a new Questionnaire was prepared in order to adequately update the analysis and conduct regular supervisory assessment of the ML/TF risk in banks. The updating of the Questionnaire was aimed at further improving the risk-based approach to supervising banks' ML/TF risk management activities.

Questions in the Questionnaire are sorted into eleven groups:

Part I: General bank data

Part II: Clients

Part III: Client composition by the assessed risk level

Part IV: Client composition by CDD actions and measures

Part V: Transactions and products

Part VI: Outsourcing CDD actions and measures to third parties

Part VII: Correspondent relationship

Part VIII: Employee training

Part IX: Organisational structure

Part X: Reporting to the AML/CTF compliance officer and to the Administration for the Prevention of Money Laundering;

Part XI: Internal audit and internal control

In addition, the NBS gathered and analysed data regarding the implementation of the Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person through Means of Electronic Communication (RS Official Gazette, Nos 15/2019, 84/2020 and 49/2021) – video identification procedure.

The key objectives of the analysis of data from the Questionnaire:

- regular analysis of the state-of-play in terms of identifying, measuring and managing the ML/TF risk in the entire banking system for the purpose of timely identification of areas that may indicate an increase in exposure to the ML/TF risk;
- off-site monitoring of the efficiency and adequacy of the established ML/TF risk management system in the entire banking system and identification of possible deficiencies in the risk management system;

- timely alerting banks to potential exposure to the ML/TF risk.

This analysis is based on data for the period January–December 2021 which banks submitted to the NBS.

The observed period, as the previous one, was marked by the Covid-19 pandemic, which changed the manner and conditions of banks' operation. Namely, to mitigate the impact of the Covid-19 virus on the safety and health of their employees, and in line with the recommendations of the Serbian Government, most banks allowed their employees to do their regular work from home, and in some cases, downsized the operations of individual branches and cut the working hours. In these circumstances, there was concern that the reduced number of front-office staff could reflect on failures in CDD actions and measures. However, banks organised their work by carrying out most of their transactions through e-/m-banking and acted with undiminished due care at the time of establishing business relations. Without any disruptions whatsoever, authorised persons accessed all necessary applications by connecting through VPN, including the software for tracking suspicious transactions.

In the period under review, 24 banks operated in the Serbian banking sector, two banks less from 31 December 2020.

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I Key findings

Based on the analysis of the inherent ML/TF risk exposure, i.e. quantitative and qualitative data and information from the Questionnaire, as well as data and information related to the management and control of this risk, the overall conclusion is that banks had medium exposure to the ML/TF risk in this and in the previously analysed periods. This was also the conclusion of the National Money Laundering Risk Assessment and the National Terrorism Financing Risk Assessment.

Banks are exposed to the ML/TF risk due to the size of the sector and the branched-out network, the number and type of clients, as well as the number of performed transactions. Namely, as at 31 December 2021, 24 banks established business relations with clients at a total of 1,561 locations, while cash transactions could be executed at a total of 3,280 locations in Serbia. Compared to the data from the previous year, the number of locations at which a bank could establish business relations with clients edged down, as did the number of locations at which cash transactions could be executed.

The total number of clients in the banking sector stayed almost unchanged relative to the previously analysed year, measuring over 12 million at end-2021, of which around 11.2 million were natural persons (85,435 non-residents), almost 378 thousand were legal persons (4,193 non-resident legal persons) and over 396 thousand were entrepreneurs. According to the submitted data, over 810 million non-cash and over 139 million cash transactions were executed in the observed period. Relative to the year before which was marked by the start of the Covid-19 pandemic, the number of both types of transactions went up, returning to levels typical for the pre-pandemic period.

The key findings which were obtained by analysing the collected data and which refer to indicators of inherent ML/TF risk exposure factors in the observed period include, inter alia:

- Compared to the previously analysed year (as at 31 December 2020), the total number of banks decreased, and the total number of banking sector clients remained relatively unchanged;
- The total number of employees in the banking sector edged down by 263, and the number of employees directly engaged in client- and transaction-related operations – by 116;
- In 2021 there were no significant changes in the composition of clients by risk level, residence and CDD actions and measures applied;
- In the composition of high-risk clients, resident natural persons accounted for the dominant share (over 40%), followed by resident legal persons (almost 25%), non-resident natural persons (around 18%), entrepreneurs (around 15%) and finally non-resident legal persons with the smallest share (less than 2%).
- Enhanced actions and measures are applied to all clients classified as high-risk, but for safety reasons, also to over 234 thousand clients classified as medium or low-risk;
- Compared to the previously analysed year, the total value of loans secured by a 100% deposit fell by over EUR 94 mn and stood at over EUR 81 mn at 31 December 2021;
- As at 31 December 2021, five banks submitted the notification and complete documents proving that they fulfilled the conditions for implementing the video identification procedure and established business relations with 11,143 clients in this manner;
- As in the previously analysed period, only two banks declared that they established a loro correspondent relationship with a bank or another similar institution with a head office in a foreign country that is on the list of countries with strategic deficiencies in the AML/CFT system;
- As at 31 December 2021, seventeen banks established a total of 183 loro correspondent relationships (a decrease by three from 31 December 2020);

- Four banks stated that they closed a total of 7 loro accounts, citing as the reason the business policy of the bank, closing of a foreign bank as a separate entity and client's request to close an account.

Based on the presented indicators of the inherent ML/TF risk exposure factors, banks, as the key players in the financial system, represent the most sensitive part of the financial sector in terms of the ML/TF risk exposure.

However, conclusions obtained from analysing the data and information on measures taken by banks to adequately manage and control the ML/TF risk in the observed period indicate that this risk has greatly diminished, inter alia, in the following ways:

- All banks set up their own ML/TF risk management systems applying a ML/TF risk assessment approach and taking into account the findings of the National Money Laundering Risk Assessment;
- All banks stated that they have a special software for detecting suspicious transactions and persons;
- All banks use some of the commercial databases for filtering clients and transactions against embargo lists and the so-called blacklists (OFAC, UN, EU, etc.)
- 20 out of 24 banks have a special organisational unit which deals exclusively with implementing the Law, whereas in four banks these tasks are performed by other organisational units;
- In the analysed period, two banks identified a total of three cases of a client who is a designated person within the meaning of the provisions on the freezing of assets with the aim of preventing terrorism and proliferation of weapons of mass destruction (a person with whom it establishes a business relation or whose transaction it carries out, or a person with whom a business relation was previously established);
- All banks stated that they prescribed procedures for internal reporting of violations of the provisions of the law through a special and anonymous communication channel;
- In 22 out of 24 banks, the AML/CFT area is covered by the external auditor report;
- In 2021, all banks performed an AML/CFT-related internal control;
- In 2021, nineteen banks performed an AML/CFT-related internal audit, while in three banks the last internal audit was conducted in 2020;
- Sixteen banks terminated business relations with over 24 thousand clients (of which 1 bank with over 23 thousand clients) because it was impossible to carry out CDD;
- Fourteen banks refused the offer to establish a business relation and/or execute a transaction due to the impossibility to take CDD actions and measures in over 11 thousand cases;
- In the period 1 January 2021 to 31 December 2021, over 13 thousand banking sector employees successfully completed the training.

II General bank data

As at 31 December 2021, there were 24 banks licenced by the NBS in the Republic of Serbia. According to the submitted responses, banks established business relations with clients at 1,561 locations. Seven banks can establish a business relation at up to 10 locations, seven banks at 11 to 50 locations, five banks at 51 to 100 locations, four banks at 101 to 200 locations, while only one bank can establish a business relation at over 200 locations.

At banking sector level, cash transactions can be made at a total of 3,280 locations. Seven banks have up to 10 such locations, five banks between 11 and 50 locations, seven banks between 51 and 100, three banks between 101 and 200, and two banks over 200 such locations.

Since banks expressed great interest in establishing and verifying their clients' identity without the need for clients to come in person to the banks' business premises, the NBS issued a special Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person through Means of Electronic Communication (RS Official Gazette, Nos 15/2019, 84/2020 and 49/2021), regulating the procedure for establishing and verifying the identity of a natural person (a client who is a natural person, its legal representative, a client who is an entrepreneur, as well as a natural person representing a client who is a legal person) using electronic means of communication, i.e. real-time video connections (video identification process). In order to preserve the security of the video identification procedure and minimise the ML/TF risk, the NBS prescribed special conditions for conducting the video identification procedure subject to which banks intending to offer this type of product/service to their clients must meet the prescribed organisational, personnel and technical requirements (special training for employees who will conduct this procedure, appropriate facilities, technical solutions that meet the prescribed criteria). A bank intending to offer the video identification option to its clients is required to notify the NBS at least 30 days before implementing that option and submit the documents proving that the prescribed conditions for carrying out the video identification procedure have been met. Only after the NBS determines that these conditions have been met may the bank offer the video identification option to its clients. As at 31 December 2021, five banks submitted the notification and complete documents proving that they meet the conditions for implementing the video identification procedure and established business relations with 11,143 clients in this manner (more than 80% of these clients pertaining to one bank only). Also, all 411 entrepreneurs and all 30 representatives of clients who are legal entities, whose identities have been established and verified through video identification, are clients of a single bank. In the analysed period, the video identification procedure was discontinued in 685 cases due to the circumstances which could not be removed.

Total banking sector employment as at 31 December 2021 was 22,368 persons, while the number of employees directly engaged in client- and transaction-related operations was 13,235 (around 59% of the total number of employees). Based on the analysis, total employment decreased by 263 persons relative to 31 December 2020, while the number of employees directly engaged in client- and transaction-related operations fell by 116.

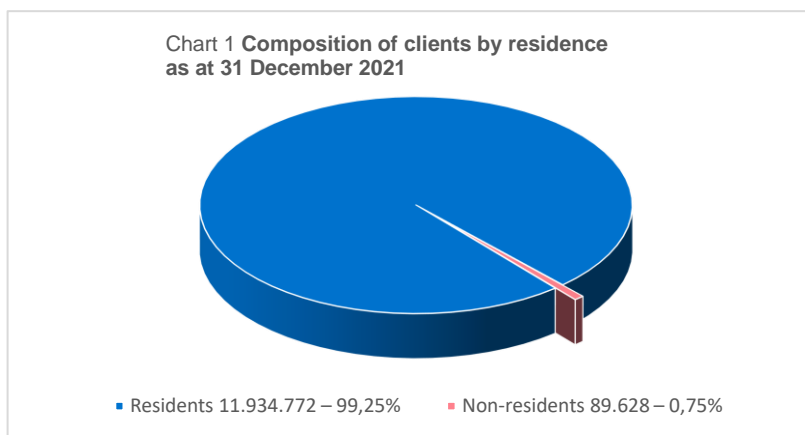
At banking sector level, the average number of clients per employee directly engaged in client- and transaction-related operations was 908, while the average number of transactions per employee in the January–December 2021 period was 42,064, up by 4,452 compared to the same period in 2020. In relation to the previously observed period, the client burden decreased, i.e. the average number of clients per bank employee fell by around 21.

III Clients

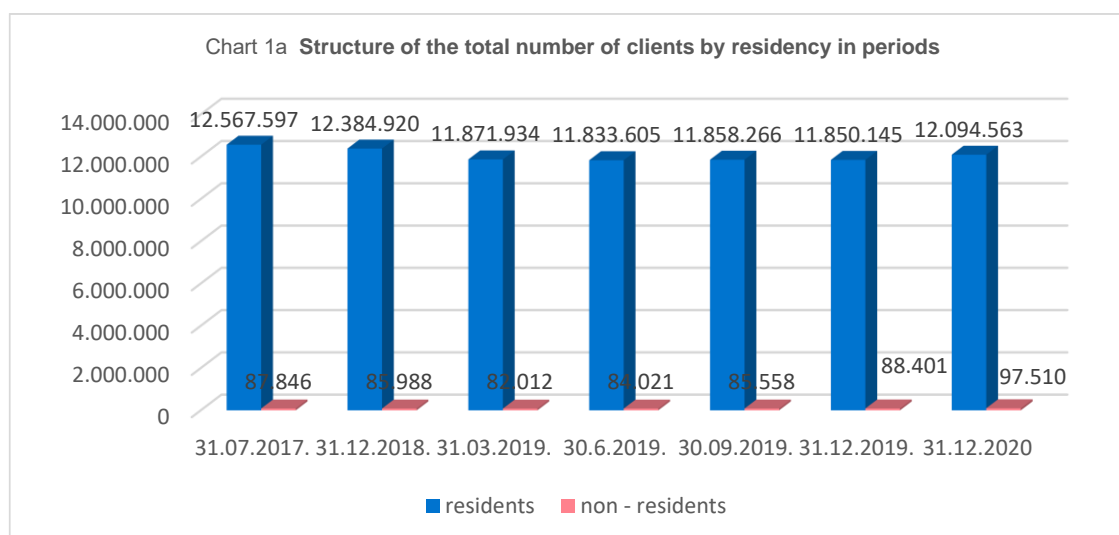
As at 31 December 2021, the total number of clients at the banking sector level came at 12,024,400, down by 1.4% or 167,673 clients in absolute amount relative to 31 December 2020.

Based on the data obtained from the banks, Charts 1–6 show the composition of clients by residence, legal form of organisation of resident legal persons, and the composition of non-residents in the banking sector by their country risk profile.

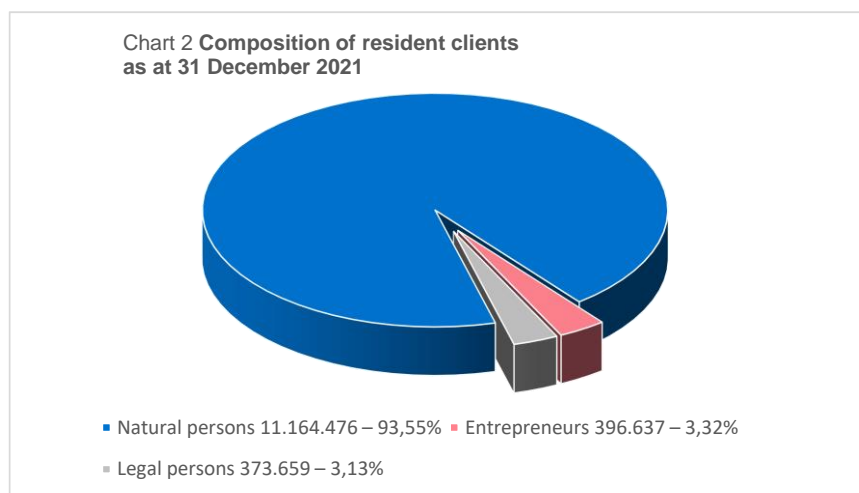
Chart 1 shows the absolute and relative share of resident and non-resident clients in the overall banking sector as at 31 December 2021, whereas Chart 1a shows the composition of the number of clients by residence from 31 July 2017 until and including the period under review.



Like in the previously analysed periods, there were no significant changes in the composition of clients by residence in the banking sector.

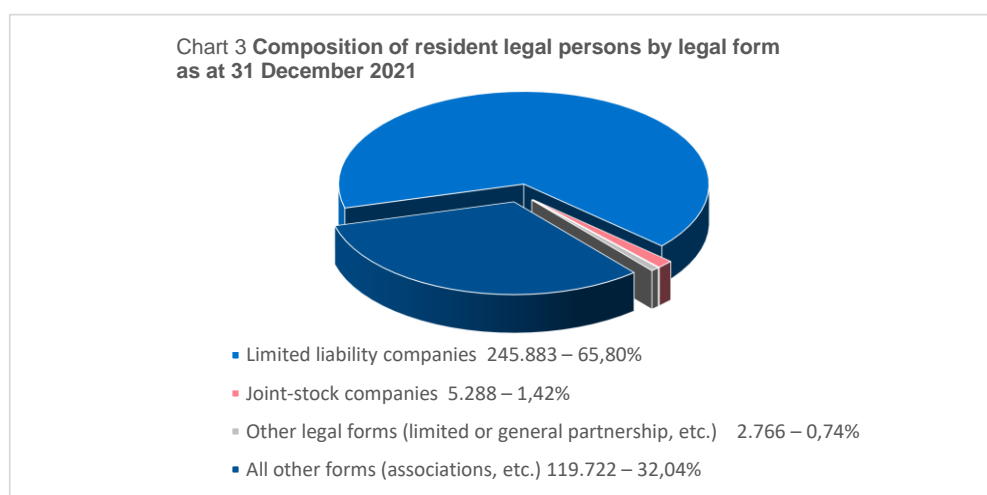


Of the total number of resident clients, natural persons were dominant (93.55%), while resident legal persons and entrepreneurs accounted for 3.32% and 3.13%, respectively (Chart 2).



Compared to 31 December 2020, the composition of resident clients remained almost unchanged.

The composition of resident legal persons by legal form of organisation is shown on Chart 3, while the overview of this composition by periods, from 31 December 2018 until 31 December 2021 is shown on Chart 3a.



It should be noted that the bulk of resident legal persons are limited liability companies (DOO), which the National Risk Assessment estimates as being at an elevated ML/TF risk, while the share of legal persons that are organised as joint-stock companies (AD) amounts to 1.42%.

The share of legal persons organised in other legal forms (limited partnership, partnership company) was only 0.74%, and all other forms (associations, endowments, foundations, sport associations, etc.) accounted for the remaining 32.04% or 119,722 clients.

Compared to 31 December 2020, the number of clients – limited liability companies decreased by 17,103 and the number of companies organised in other legal forms (limited partnership, partnership company) – by 693. The number of joint-stock companies increased by 1,829 and the number of legal persons organised as associations and similar – by 1,029. In 2021 the total number of resident legal persons, regardless of their form of organisation, decreased by 18,189.

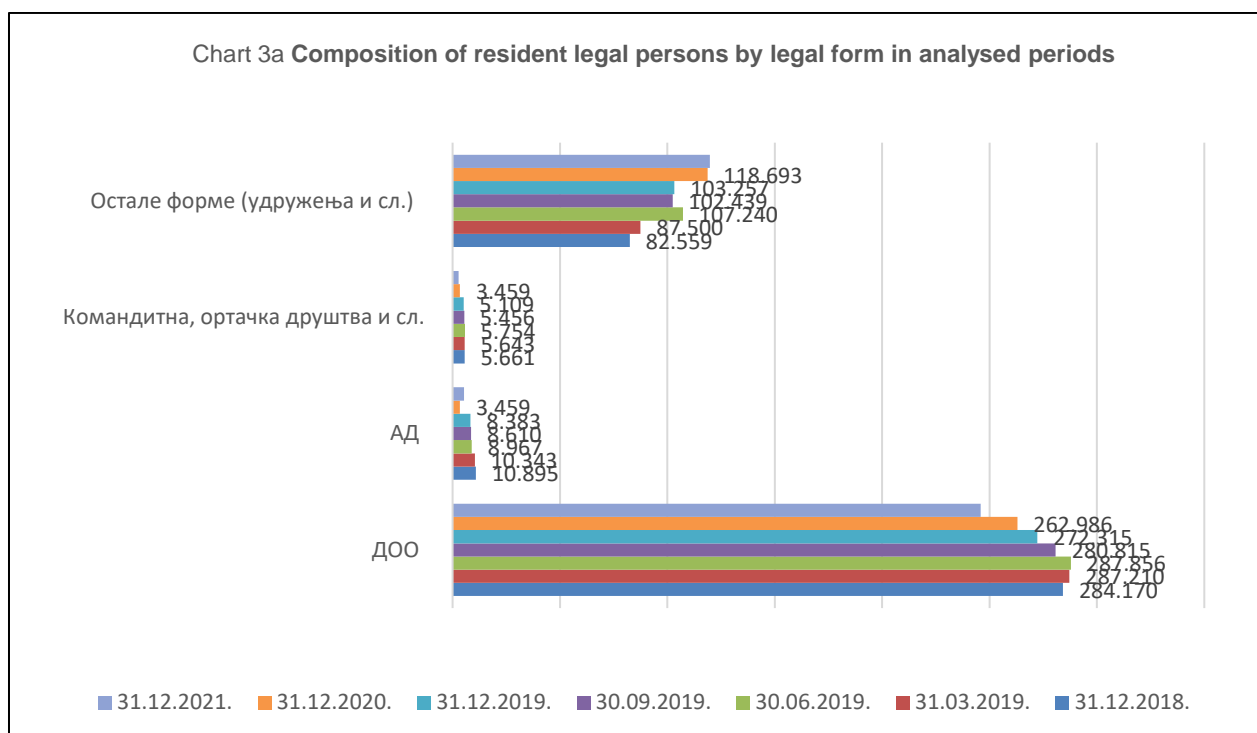
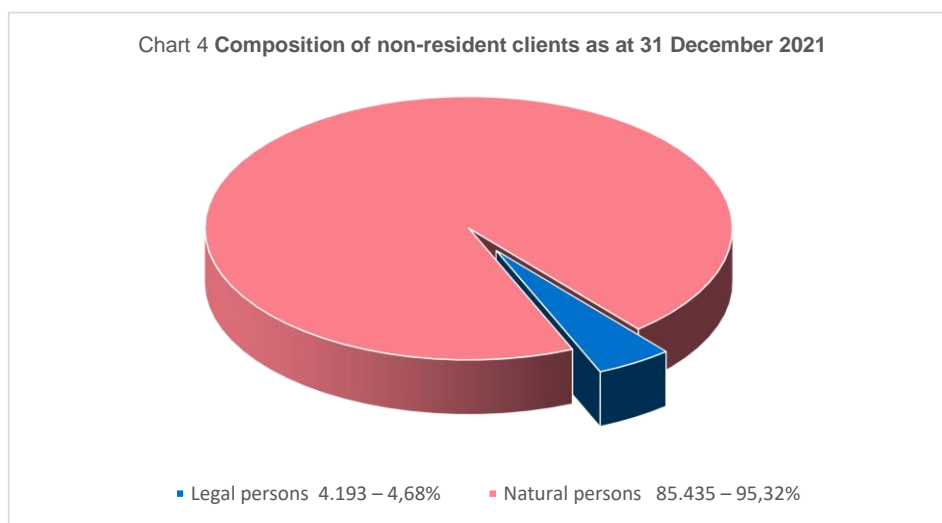
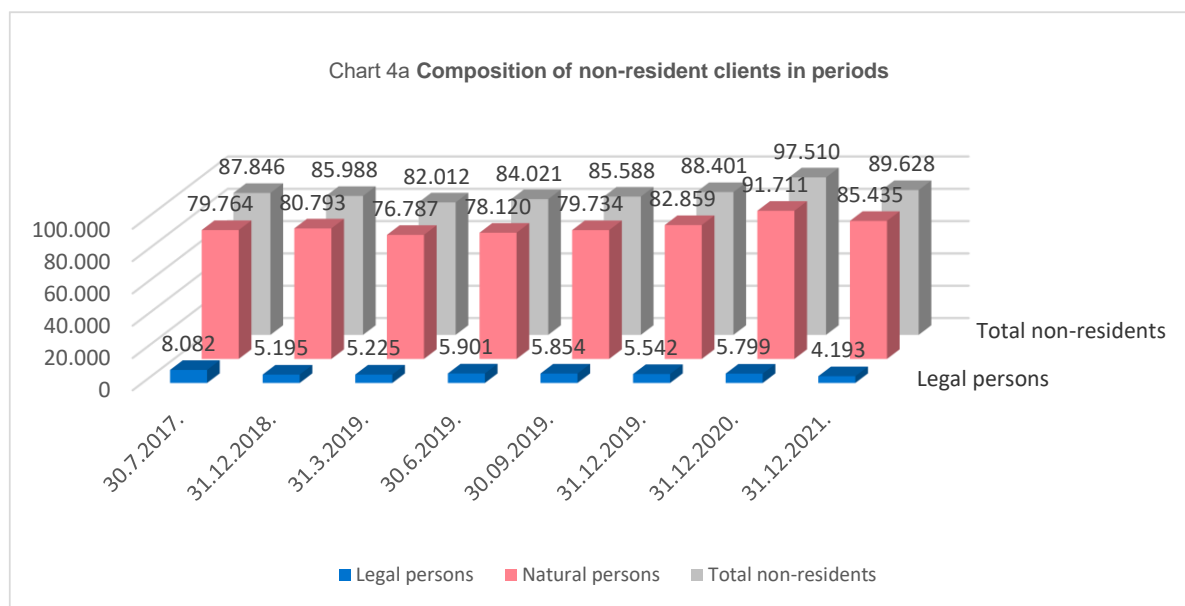


Chart 4 shows the composition of non-resident banking sector clients as at 31 December 2021, while Chart 4a shows an overview of these clients in periods from 30 July 2017 until 31 December 2021.

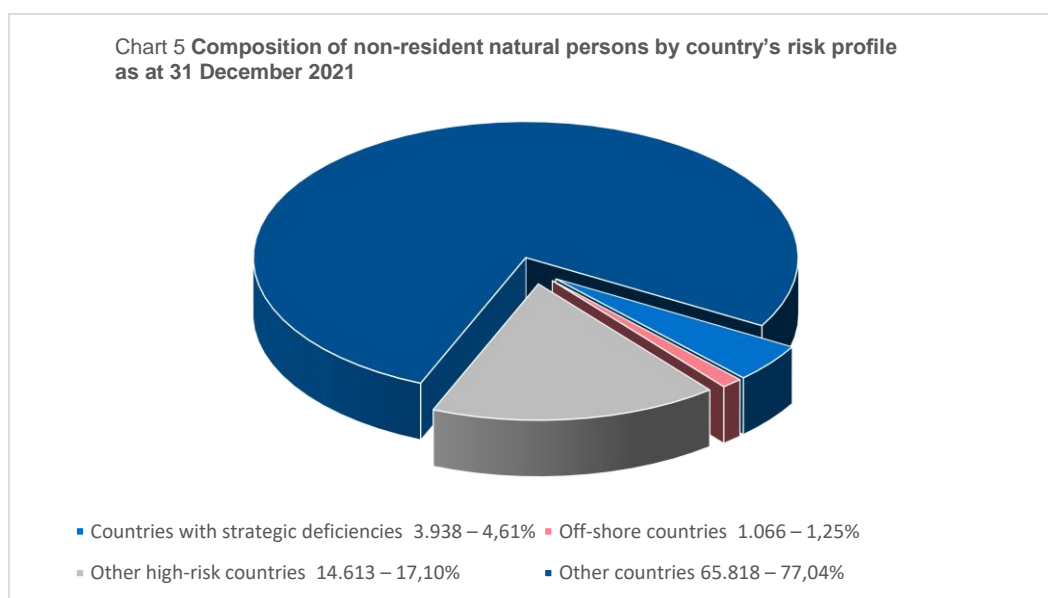


The total number of non-resident clients as at 31 December 2021 was 89,628. Compared to the previously analysed year (as at 31 December 2020), the total number of such clients declined by 7,882. The number of non-resident natural persons went down by 6,276, and the number of non-resident legal persons by 1,606.



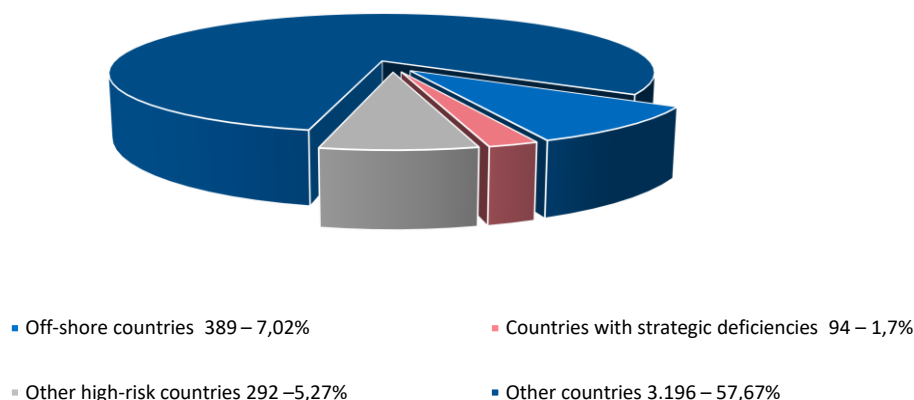
Based on these data, it can be concluded that at the end of this period the total number of non-resident clients (natural and legal persons) remained the same on average as in the previous years (before 2020, when the number of non-resident clients was above the average for the analysed periods shown in Chart 4a, it came at above 97 thousand). As for non-resident legal persons, their number was somewhat lower than the average for the periods shown in Chart 4a.

Charts 5 and 6 show the composition of non-resident natural and legal persons by the country risk profile, client's permanent and temporary residence, and the beneficial owner of the client.



The share of natural persons from high-risk countries in the total number of non-resident natural persons was 17.1%, while 4.61% of them were from countries with strategic deficiencies in the AML/CFT system. In addition, a 1.25% share relates to non-resident natural persons from off-shore countries, while natural persons from other countries which do not have a high or elevated ML/TF risk hold a dominant share.

Chart 6 **Composition of non-resident legal persons by country's risk profile as at 31 December 2021**



As with non-resident natural persons, the dominant share in the composition of non-resident legal persons belongs to legal persons from other countries which do not have an elevated ML/TF risk (57.67%), followed by persons from off-shore countries (7.02%), high-risk countries (5.27%) and countries with strategic deficiencies in the AML/CFT system (1.7%). It is important to note that, relative to 31 December 2020, the share of non-resident legal persons from high-risk and off-shore countries decreased.

IV Client composition by the assessed risk level

In accordance with the Law and the Decision, all banks had the obligation to prepare a risk analysis for each group or type of client, and/or business relation, and/or services offered by the obligor as part of their activities and/or transactions, taking into account the results of the National Money Laundering Risk Assessment.

Depending on the results of the analysis, banks classified their clients into the following risk categories: low-, medium- and high-risk (Chart 7).

According to the submitted data on client classification by degree of ML/TF risk exposure, eight banks classified over 80% of their clients in the low-risk category, while twelve banks classified the majority of their clients (over 80%) in the medium-risk category. All banks except one, which is specific due to a small number of clients, classified below 10% of their clients in the high-risk category.

Chart 7 **Composition of clients by the assessed risk level as at 31 December 2021**

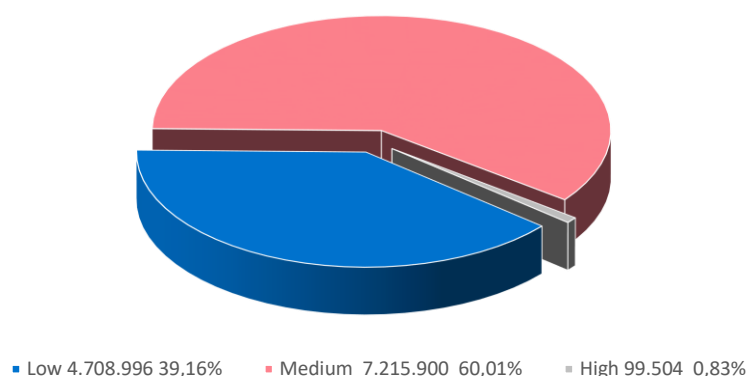
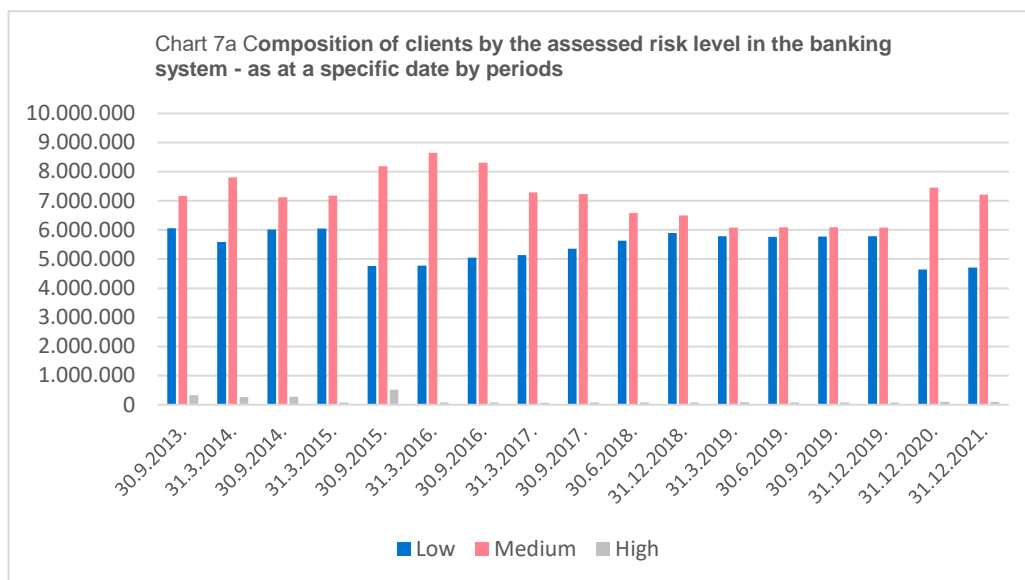
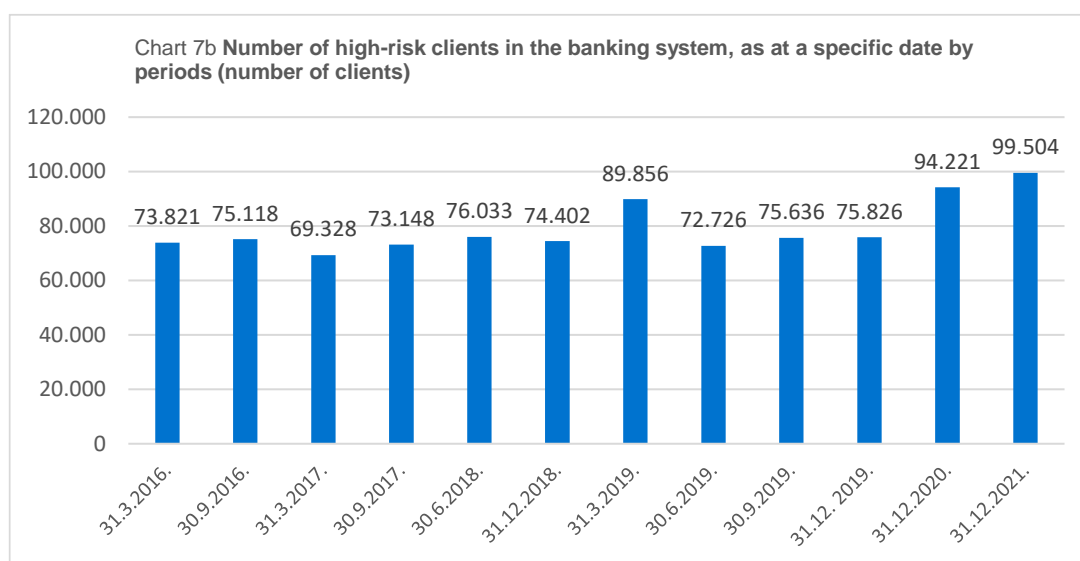


Chart 7a shows client composition by risk level as at a specific date, while Chart 7b shows the number of banking sector high-risk clients in different periods.

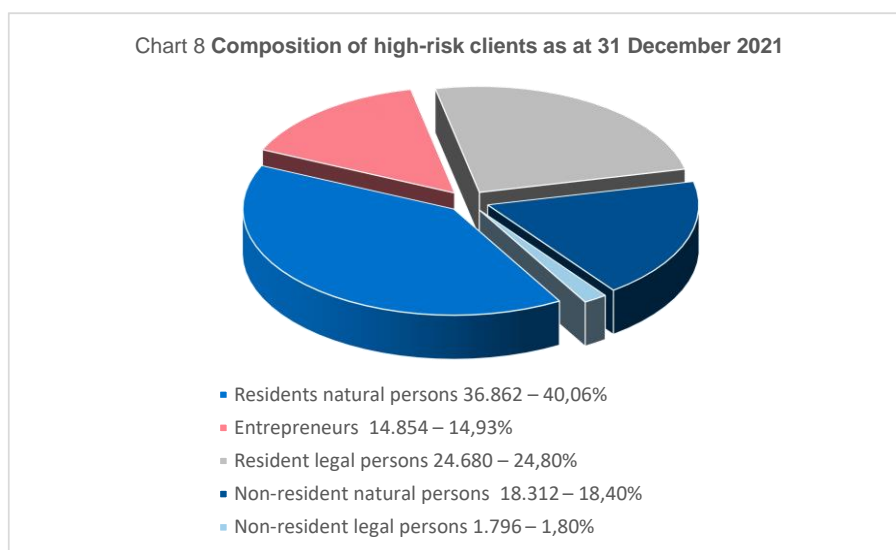


Relative to the previously analysed year (2020), there were no significant changes in the composition of banking sector clients by risk level.



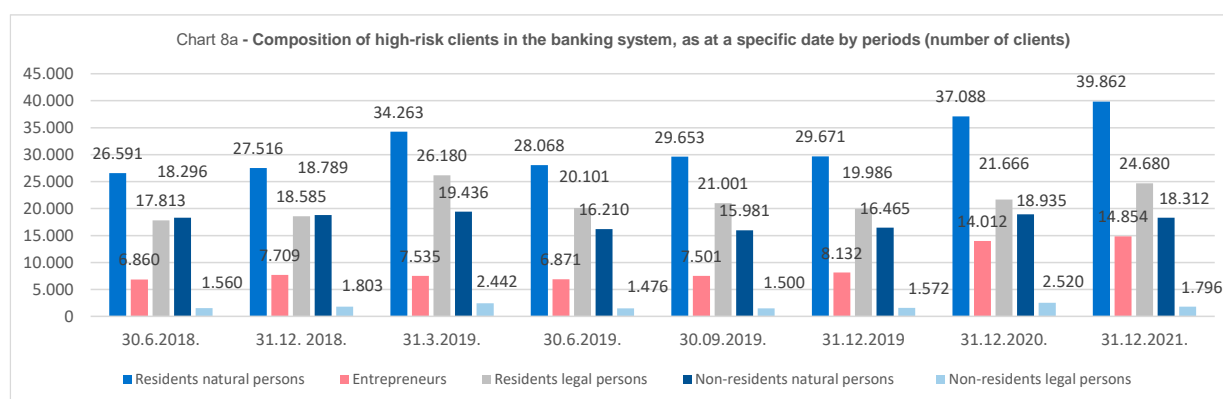
The data from Chart 7b reveal that the number of high-risk clients in the analysed period was above the average for the periods observed, amounting to slightly more than 99 thousand.

Chart 8 shows the composition of clients classified in the high-risk category.



Resident natural persons have the largest share (40.06%), followed by resident legal persons (24.8%), non-resident natural persons (18.4%), entrepreneurs (14.93%) and finally non-resident legal persons with the smallest share (1.8%).

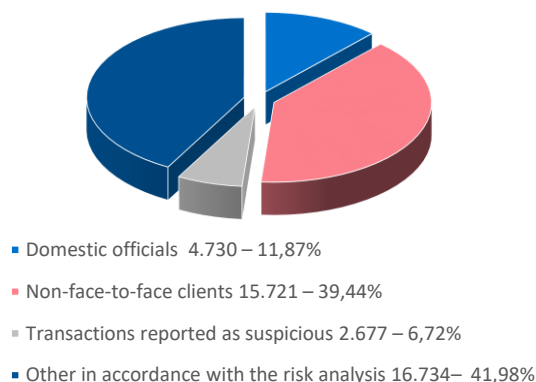
Chart 8a gives an overview of high-risk clients as at a specific date.



As in the previously analysed periods, the dominant share belongs to resident natural persons, and the smallest to non-resident legal persons, in proportion to their total number. The fourth place belongs to entrepreneurs, while resident legal persons and non-resident natural persons alternated in the second and the third place in the analysed periods, as shown in Chart 8a.

Charts 9, 10 and 11 show the composition of the resident natural persons, legal persons and entrepreneurs by basis for classification into high ML/TF risk category.

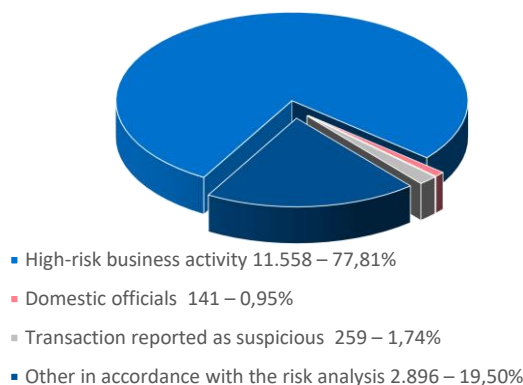
Chart 9 Composition of high-risk clients - resident natural persons as at 31 December 2021



In accordance with the risk analysis, banks classified 41.98% of resident natural persons in the high-risk category, with 39.44% of these clients thus classified because they were not present when establishing business relations. The share of clients classified as high-risk because they executed transactions reported as suspicious to the Administration for the Prevention of Money Laundering (hereinafter: the Administration) was 6.72%. In the composition of high-risk resident natural persons, banks determined that 4,730 clients had the status of officials (11.87%).

Relative to 31 December 2020, there was a slight decrease in the share of resident natural persons classified as high-risk in accordance with the risk analysis, clients who executed transactions reported as suspicious to the Administration and clients who had the status of officials, while the share of clients not present when establishing business relations increased.

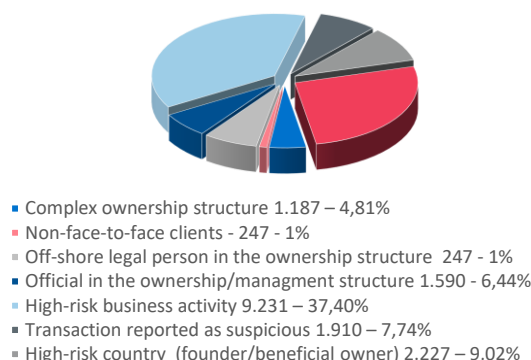
Chart 10 Composition of high-risk clients - entrepreneurs as at 31 December 2021



Banks classified 11,558 entrepreneurs (77.81%) in the high ML/TF risk category, because they engaged in some of the high-risk activities, 1.74% because they executed transactions reported as suspicious to the Administration, 0.95% because they had the status of officials, while the remaining 19.50% were classified as high-risk in accordance with the risk assessment.

Relative to end-2020, there was a decrease in the share of entrepreneurs classified as high-risk in accordance with the risk analysis and those who executed transactions reported as suspicious to the Administration. The share of entrepreneurs with the status of officials dipped slightly, while the share of those who perform some of the high-risk activities went up.

Chart 11 **Composition of high-risk clients - resident legal persons as at 31 December 2021**

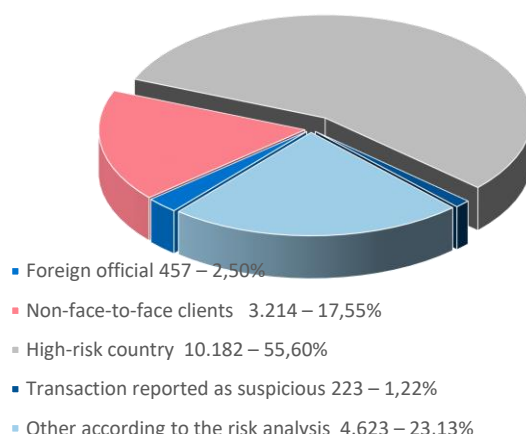


In the analysed period, banks classified 9,231 resident legal persons as high-risk because they performed some of the high-risk activities, 2,227 clients because of the country risk of its founder/beneficial owner, 1,910 clients because their transactions were reported as suspicious to the Administration, 1,755 clients because they had an off-shore legal person in the ownership structure, 1,590 clients because they had an official in the ownership/governance structure, 1,187 clients owing to a complex ownership structure, only 1% or 247 clients because they established a business relation through their authorised persons without being physically present, and the remaining 6,533 were classified as high-risk in accordance with the banks' analysis.

Compared to the previously analysed year, there was a rise in the number of legal persons which performed some of the high-risk activities (by 462), legal persons with a complex ownership structure (by 351), those whose transactions were reported as suspicious to the Administration (by 131), legal persons with an official in their ownership/governance structure (by 807), legal persons classified as high-risk due to the country risk (of the founder or beneficial owner) (by 358) and legal persons with an off-shore element in their ownership structure (567 cases).

Charts 12 and 13 show the composition of non-resident natural and legal persons by basis for classification into high ML/TF risk category.

Chart 12 **Composition of high-risk clients - non-resident natural persons as at 31 December 2021**

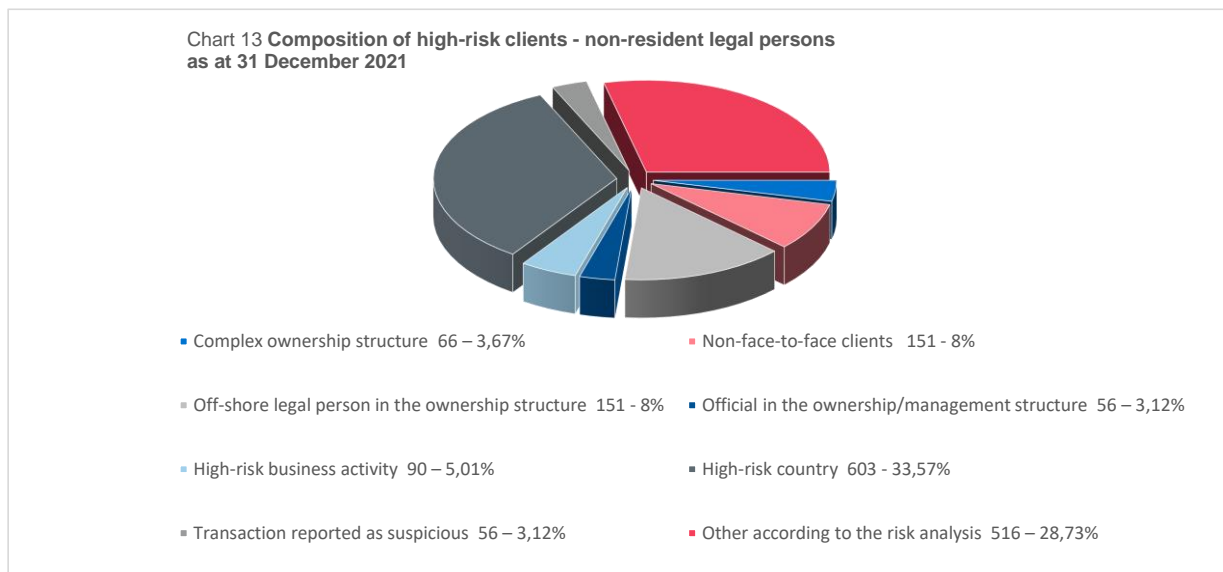


The bulk of non-resident natural persons (55.60%) were classified as high-risk, because they were from countries which banks assessed as being associated with a high ML/TF risk, 17.55% because they

were not present when establishing a business relationship, while the remaining 23.13% were classified as high-risk in accordance with the banks' analysis.

In addition to the above, 1.22% of non-resident natural persons were classified as high-risk because they executed transactions which were reported as suspicious to the Administration. Banks determined that 457 of high-risk non-resident natural persons had the status of officials.

Compared to the previously analysed year, the number of non-resident natural persons who were not present when establishing a business relationship increased by 218, with a decrease in the number of those who were classified as high-risk due to the country risk – by 497, and a slight decrease of those classified in the high-risk category due to the reporting of suspicious transaction to the Administration – by 5.



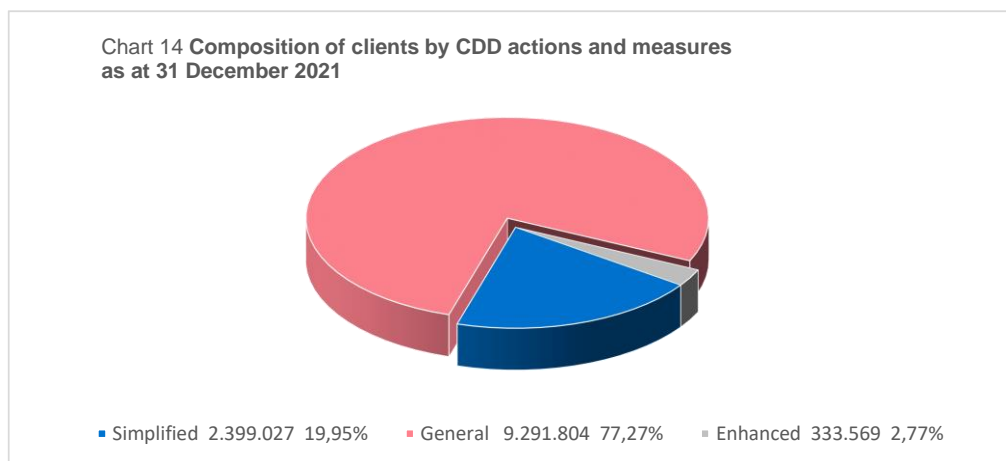
In the composition of high-risk non-resident legal persons, those classified by the banks as high-risk due to a high country risk had the largest share of 33.57%, followed by those classified as high-risk in accordance with the performed analysis (28.73%). Non-resident legal persons having an off-shore element in their ownership structure had a 14.37% share. A high degree of risk stemming from their activity was found in only 5.01% of non-resident legal persons, while 3.67% were assessed as risky due to the complex ownership structure, 3.12% because they have an official in the ownership/management structure and the same percent (3.12%) because suspicious transactions were reported to the Administration.

Compared to the previously analysed year, the number of non-resident legal persons with the status of officials edged up by 25, and the number of those having an off-shore element in their ownership structure by 14. The number of non-resident legal persons performing some of the high-risk activities went up by 8, of those from countries assessed as bearing a high ML/TF risk by 149, and of those which performed transactions reported as suspicious to the Administration by 12. Relative to the previously analysed year, the number of non-resident legal persons classified as high-risk in accordance with the performed analysis dropped by 1,029.

V Client composition by CDD actions and measures

Pursuant to the Law, banks are required to apply general, simplified or enhanced CDD actions and measures. In the analysed period, general actions and measures were taken in respect of 77.27% of clients

at banking sector level. Enhanced actions and measures were taken in respect of 2.77%, and simplified in respect of 19.95% clients, as shown in Chart 14.



The table below shows a comparative overview of the number of clients by risk level and CDD actions and measures as at 31 December 2021:

Table 1 Composition of banking sector clients by risk level and CDD actions and measures applied

Risk level	No of clients	Share in %	Applied measures	No of clients	Share in %
Low	4,708,996	39.16	Simplified	2,399,027	19.95
Medium	7,215,900	60.01	General	9,291,804	77.27
High	99,504	0.83	Enhanced	333,569	2.77
	12,024,400	100		12,024,400	100

Based on the analysis of data from the Questionnaire, it can be concluded that banks do not apply simplified actions and measures to all low-risk clients and that almost 50% of such clients are subject at least to general CDD actions and measures. Enhanced actions and measures are applied to all clients classified as high-risk, but also to 234,065 clients classified as medium- or low-risk.

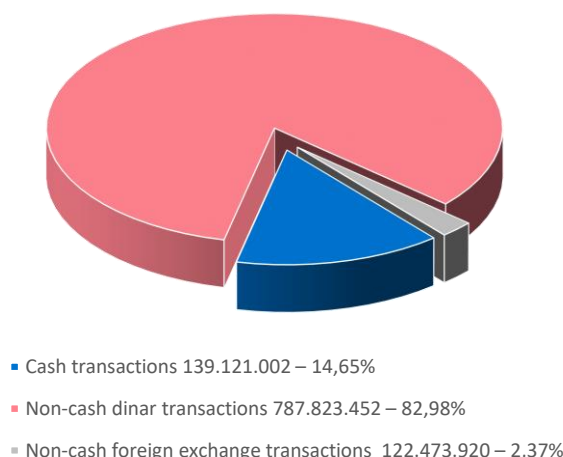
In the question from the Questionnaire about the number of cases in which a business relation was discontinued due to the inability to apply CDD actions and measures, 16 banks responded that business relations with 24,531 clients were terminated (23,375 of clients pertaining to one bank). In the observed period, 14 banks refused the offer to establish a business relation and/or execute transactions in 11,251 cases, due to the impossibility to take CDD actions and measures. Of this number of cases, 10,743 pertained to one bank only.

VI Transactions and products

In the observed period, banks executed 949,415,374 transactions.

Chart 15 shows the structure of cash and non-cash (dinar and foreign currency) transactions in the banking sector in the period January–December 2021.

Chart 15 Composition of executed cash and non-cash transactions (dinar and foreign currency) in the banking sector in 2021



According to the submitted data, the largest share in the total number of transactions executed in the entire banking sector belongs to non-cash transactions in dinars – almost 83%, followed by cash transactions with the share of 14.65%, and non-cash foreign currency transactions with the share of 2.37%.

In the same period, banks executed a total of 4,720,118 non-cash and cash transactions amounting to EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, with non-cash transactions in dinars also accounting for the largest share – over 66% (Chart 16).

Chart 16 Composition of executed cash and non-cash transactions amounting to EUR 15,000 or more in the dinar equivalent in 2021

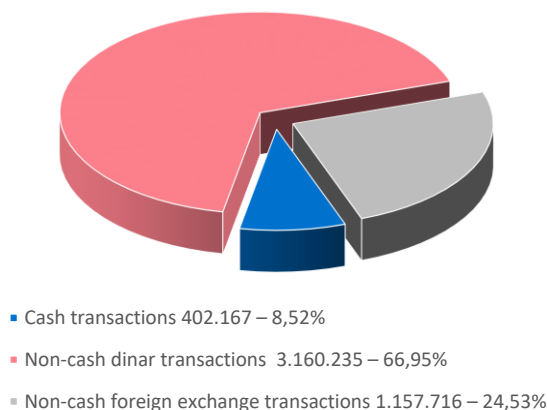
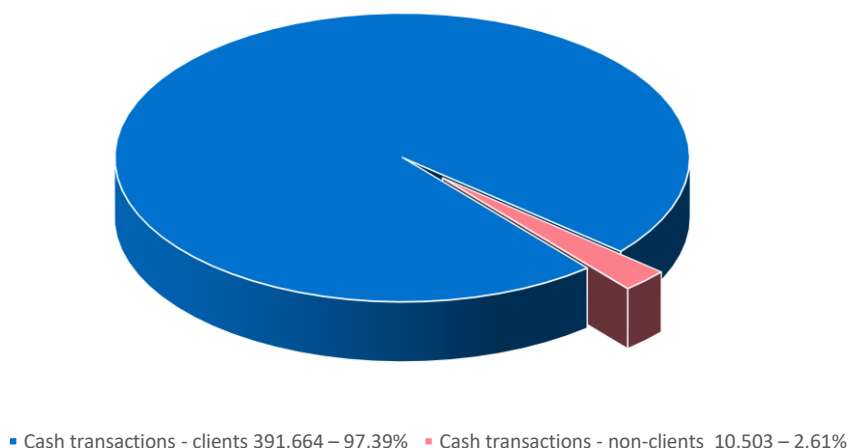


Chart 17 shows an overview of the number of cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, from the aspect of whether they were performed by the clients in the bank with which they have established a business relationship or not (so-called non-clients).

Chart 17 Composition of executed cash transactions amounting to EUR 15,000 - clients and non-clients in 2021



Of the total of 402,167 executed cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, only 10,503 transactions with a share of 2.61% were executed by persons who were not clients of the bank in which these transactions were made.

Below is an overview of the number of inflow/outflow transactions from/to high-risk countries and off-shore geographical areas executed in the banking sector in 2021 (Chart 18). In the analysed period, there were 345,305 inflows from high-risk countries and 38,764 from off-shore countries. On the other hand, in the analysed period, 378,913 payments were made to high-risk countries, as well as 38,889 payments to off-shore geographical areas, i.e. countries.

Chart 18 Composition of executed inflow/outflow transactions with high-risk and off-shore countries in 2021

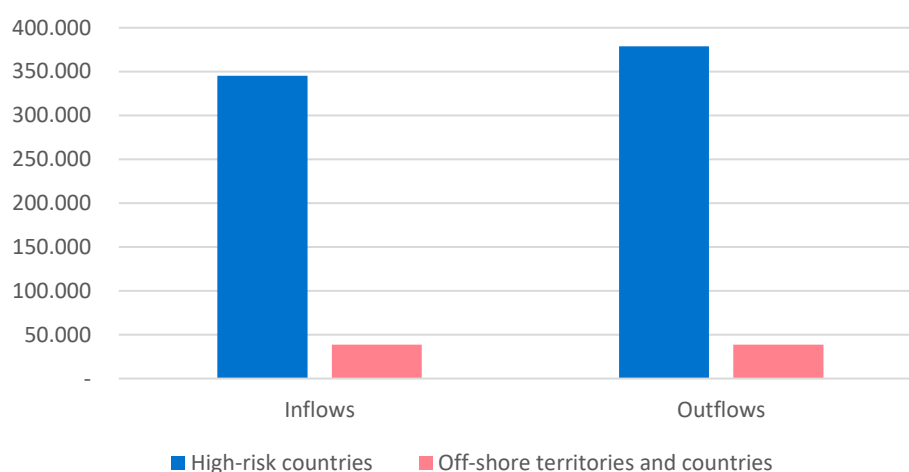
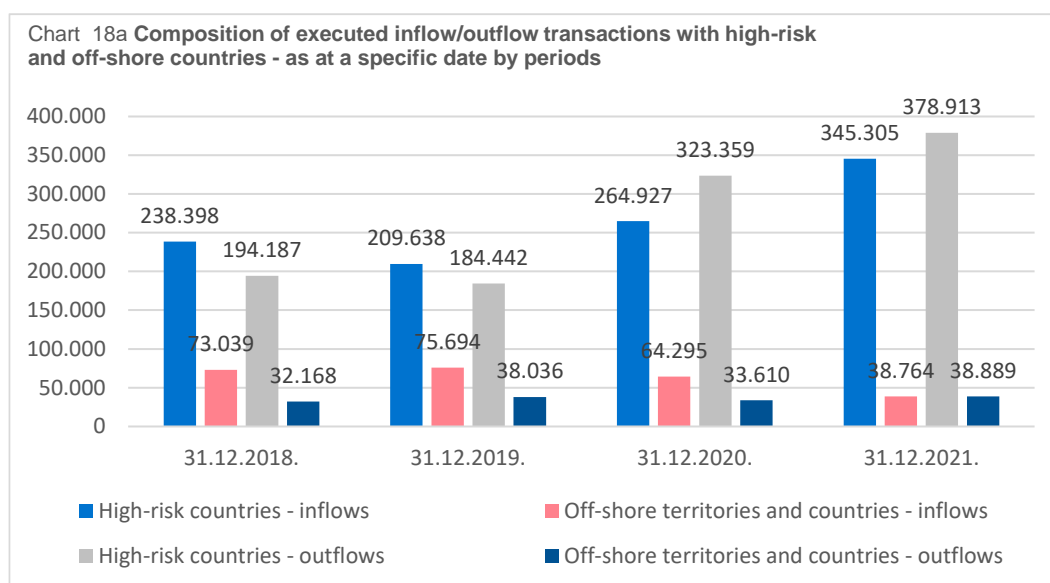


Chart 18a shows a comparative overview of the number of executed inflow and outflow transactions with high-risk countries and by analysed periods.



Relative to 31 December 2020, in the analysed period, the number of executed inflow and outflow transactions with high-risk countries increased, as did the number of outflow transactions with off-shore countries. The number of inflow transactions from off-shore countries decreased.

In the course of 2021, banks continued to inform the NBS about introducing new products into their business offer, mainly in the segment of lending, e-banking and video identification. In the observed period, after submitting complete documentation, 16 banks expanded their list of products.

As regards e-banking, eight banks assessed this product as a high-risk product, and twelve banks assessed it as medium-high ML/TF risk. Five banks assessed m-banking as high-risk, and nine banks assessed it as medium-high ML/TF risk. E-banking is used by 2,402,758 clients, m-banking by 2,100,456, and private banking by 1,308 clients. According to the data provided, in 2021, 19 out of 24 banks approved 2,707 loans worth EUR 81,074,116.43 against 100% deposit backing.

VII Outsourcing CDD actions and measures to third parties

In the entire banking sector, only three banks used the possibility to outsource some of the CDD actions and measures to third parties in the analysed period, in accordance with the Law, and thus obtained data and documentation for 121,414 clients (data on 121,282 of these clients pertain to one bank only). Relative to 31 December 2020, the number of clients for which data and documentation were obtained by third parties in accordance with the Law decreased by 62,104.

VIII Correspondent relationship

In the analysed period, six banks declared that they did not establish loro correspondent relationships with banks and similar institutions with a head office in a foreign country, while the remaining seventeen banks established a total of 183 loro correspondent relationships. Only two banks declared that they established a loro correspondent relationship with banks and similar institutions with a head office in a foreign country that is on the list of countries with strategic deficiencies in the AML/CFT system and the total number of such loro correspondent relationships was 9 (8 refer to one bank).

Asked whether there were cases that loro accounts were closed in the period of this analysis, four banks responded positively, stating they closed a total of 7 loro accounts and citing as the reason the closing of a foreign bank as a separate entity and the client's request to close an account.

Banks have nostro correspondent relationships with 218 banks, while two banks declared that they have established nostro correspondent relationships with two banks with a head office in a foreign country that is on the list of countries with strategic deficiencies in the AML/CFT system.

IX Employee training

In the banking sector, front-office jobs are carried out by a total of 13,235 employees. This is 1,166 persons less from 31 December 2020. The relative share of front-office staff in total banking sector employment is slightly more than 59%, almost unchanged from the previously analysed year.

Training is most often carried out by compliance officers and their deputies, trained managers of organisational units and Compliance Division staff. A total of 15 banks stated that training for front-office staff is organised once a year, four banks organise these trainings twice a year, while five banks do so three or more times a year.

According to the data provided, four banks carried out training without direct contact with employees, by electronic means (so-called E-learning), while most banks (20) carried out training both by E-learning and in direct contact with employees (in training centres, interactive trainings, workshops using PowerPoint presentations).

The obtained data show that 45,416 banking sector employees successfully completed the training in the observed period which, like the previous one, was also marked by the Covid-19 pandemic.

All banks stated that they informed their employees of the consequences of non-compliance with laws, procedures and findings of the ML/TF risk management control.

X Organisational structure

As Questionnaire responses reveal, 20 banks have a special organisational unit which deals exclusively with implementing the Law, whereas in four banks these tasks are performed by other organisational units. In 20 banks, a total of 125 employees have been assigned to AML/CFT-related tasks in separate organisational units, including a compliance officer and his deputy.

In 2021, eleven banks reported changes of staff employed as the compliance officer and/or his deputy, citing as the reason the termination of employment of the person who previously held that position, assigning workers to new job posts and the consequences of bank integration. All banks declared that they had reported such change to the Administration, in accordance with the Law.

When asked if the compliance officer and his deputy who engage in AML-related activities in accordance with the Law perform other tasks too, 19 banks gave a negative response, while five banks declared that compliance officer deputies perform other tasks as well.

In 13 banks (more than 54% of the banking sector), the AML staff or front-office staff churn rate was less than 10%, in nine banks (37.5%) between 10% and 50%, while in two banks it was above 50%.

According to the data provided, all banks stated that they had a special software for identifying suspicious transactions and persons. Almost all banks (21) use some of the external software (Siron AML, Norcom, Asseco SEE, Aseba AML Tool, etc.), while 12 banks have developed an AML software model in-house. In all banks the aforementioned software recognises several interconnected cash transactions of

the same client whose total value is equal to or higher than EUR 15,000, while in 21 banks it also classifies clients according to the level of the ML/TF risk.

Asked whether the banks use the software application to periodically verify whether clients with whom they had already established business relations are designated persons within the meaning of the provisions on the freezing of assets with the aim of preventing terrorism and proliferation of weapons of mass destruction, two banks responded negatively.

Banks also listed the indicators included in the software which they selected from the List of indicators for recognising suspicious transactions 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 banks:

Table 2 Number of money laundering indicators included

Number of indicators	Number of banks
Fewer than 10	3
10–19	11
20–29	7
30–37	3

According to the data provided, all banks stated that they included indicators for recognising FT-related suspicious transactions in the software, as follows:

Table 3 Number of terrorism financing indicators included

Number of FT-related indicators	Number of banks
Fewer than 5	15
5-10	5
More than 10	4

Also, 22 banks stated 346 other scenarios, which they included in their software for the recognition of suspicious transactions and/or persons.

The table below shows the number of banks adding their own scenarios to the software:

Table 4 Number of own scenarios included

Number of scenarios developed by the banks themselves	Number of banks
Fewer than 5	4
5-9	4
10-19	7
20 to 30	5
More than 40	2

In the analysed period, two banks identified a total of three cases of a client who is a designated person within the meaning of the provisions on the freezing of assets with the aim of preventing terrorism and proliferation of weapons of mass destruction (a person with whom it establishes a business relation or whose transaction it carries out, or a person with whom a business relation was previously established).

XI Reporting to the AML/CFT compliance officer and to the Administration

In the analysed period, the front-office staff submitted to the compliance officer 523 internal reports on suspected ML risk in relation to a client or a transaction, which is as much as 7,439 internal reports less relative to the previously analysed year, and none on suspected TF risk. However, the number of internal reports that the bank staff submitted to the compliance officer, but data on which were not submitted to the Administration, amounted to 229, meaning that almost 44% of the total number of internal reports was reported to the Administration.

According to the data provided, in 2021 banks reported to the Administration a total of 320,093 cash transactions worth EUR 15,000 or more in the dinar equivalent, of which 167,965 were executed in dinars and 152,128 in a foreign currency. Also, banks declared that they reported a total of 1,228 of suspicious transactions to the Administration, of which around 66% (816 transactions) related to suspicious transactions in dinars, and around 34% to suspicious transactions in a foreign currency.

XII Internal audit and internal control

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

In the majority of banks, internal control of the implementation of the Law is within the remit of the organisational unit in charge of internal audit, and at the same time within the remit 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, in the course of 2021 nineteen banks conducted internal audit, in two banks the audit was underway at the time of responding to the Questionnaire, while in three banks the last internal audit took place in 2020. In two banks no omissions were identified during internal audit, while in 22 banks (including those in which the last internal audit was conducted in 2020) some omissions were detected and the deadline was set for their removal. Nine banks removed the irregularities

within the set deadline, one bank banks stated it removed one part of the irregularities fully within the set deadline, one part partially and for one part the deadline was extended, while twelve banks said the set deadline had not yet expired.

When asked whether the external auditor's report covered the AML/CFT area, 22 banks responded affirmatively.

In all banks, the compliance officer and his deputy take part in internal control and report to the bank's management about the results of the conducted control in the form of periodic reports (monthly, quarterly, semi-annual or annual).

According to the submitted responses to the Questionnaire in the period since the start of the year until 31 December 2021, all banks carried out AM/CFT-related internal control.

Twenty banks identified omissions in internal control during 2021, and only one of them failed to set the deadline for the removal of identified irregularities. Eight of them managed to remove the irregularities within the set timeframe, while for 11 banks the deadline is still running.

The most frequent omissions concern classification and regular reclassification of clients, incomplete documentation for the account opening, irregular/incorrect updating of client data and deficiencies in the process of monitoring business activities of clients in the course of a business relation.

In the analysed period, seven banks stated that they were conducting 23 disciplinary procedures due to issues with employees' integrity (participation in fraud, theft, corruption, etc.). Compared to 31 December 2020, the number of disciplinary procedures due such issues increased by 10 cases, and the number of proceedings against a bank or employees in respect of ML/TF decreased by 18 cases. Three banks reported 4 AML/CFT cases against a bank or bank employees. All the mentioned proceedings are from the previous period, while the NBS, in accordance with the law, submitted reports.

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