NATIONAL BANK OF SERBIA

AML SUPERVISION CENTRE

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

2022

Belgrade, March 2023

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/responses from the Questionnaire on Banks’ ML/TF Risk Management Activities (hereinafter: Questionnaire) is published at least once a year. The analysis of this Questionnaire was prepared in order to assess the role and significance of the banking sector in the entire ML/TF system, considering that banks, due to their importance for the financial system, have a special place in this system. This Analysis 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 analysing the state-of-play in terms of identifying, measuring and managing 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 2022 which banks submitted to the NBS.

In the period under review, 21 banks operated in the Serbian banking sector, three banks less from 31 December 2021.

CONTENTS:

I Key findings

Based on the analysis of the 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 particularly 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 2022, 21 banks established business relations with clients at a total of 1,656 locations, while cash transactions could be executed at a total of 3,108 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 up, while the number of locations at which cash transactions could be executed edged down.

The total number of clients in the banking sector measured over 11 million at end-2022, of which around 10.2 million were natural persons (113,917 non-residents), around 374 thousand were legal persons (4,473 non-resident legal persons) and over 407 thousand were entrepreneurs. The total number of clients declined by 6.95%, or by 835,956 clients in absolute terms relative to the previous year, as a result of closing of inactive accounts, accounts of deceased persons and clients who did not want to continue cooperation after one-off monetary assistance by the state.

According to the submitted data, over 796 million non-cash and over 127 million cash transactions were executed in the observed period. Relative to the year before, the number of both types of transactions decreased.

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 2021), the total number of banks decreased, as did the total number of banking sector clients:
- The total number of employees in the banking sector edged down by 656, and the number of employees directly engaged in client- and transaction-related operations – by 558;
- In 2022 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 (over 25%), non-resident natural persons (around 23%), entrepreneurs (almost 10%) and finally non-resident legal persons with the smallest share (less than 2%), in proportion to their total number.
- Enhanced actions and measures are applied to all clients classified as high-risk, but for safety reasons, also to over 29 thousand clients classified as medium or low-risk;
- Compared to the previously analysed year, the total value of loans secured by a 100% deposit increased by around EUR 23 mn and stood at over EUR 104 mn at 31 December 2022;
- As at 31 December 2022, business relations were established with 16,166 clients through video identification, up by 5,023 clients from the previously analysed year;
- Only one bank declared that it 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 2022, sixteen banks established a total of 174 loro correspondent relationships (a decrease by nine from 31 December 2021);

- Three banks stated that they closed a total 11 loro accounts, citing as the reason closing of a bank, merger by acquisition and inactive accounts, lack of profitability for keeping account 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.);
- 16 out of 21 banks have a special organisational unit which deals exclusively with implementing the Law, whereas in five banks these tasks are performed by other organisational units;
- In the analysed period, none of the banks identified 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 18 banks, the AML/CFT area is covered by the external auditor report;
- In 2022, all banks performed an AML/CFT-related internal control;
- In 2022, fifteen banks performed an AML/CFT-related internal audit, in four banks the last internal audit was conducted in 2021, while in two banks the last internal audit was conducted in 2020;
- Sixteen banks terminated business relations with over 57 thousand clients (of which 1 bank with over 37 thousand clients and another bank with over 16 thousand clients) because it was impossible to carry out CDD, up by over 33 thousand terminated business relations from the previously analysed year;
- Fifteen 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 9,000 thousand cases;
- In the period 1 January 2022 to 31 December 2022, over 40 thousand banking sector employees successfully completed the training.

II General bank data

As at 31 December 2022, there were 21 banks licenced by the NBS in the Republic of Serbia. According to the submitted responses, banks established business relations with clients at 1,656 locations. Seven banks can establish a business relation at up to 10 locations, two banks at 11 to 50 locations, six banks at 51 to 100 locations, four banks at 101 to 200 locations, while two banks can establish a business relation at over 200 locations.

At banking sector level, cash transactions can be made at a total of 3,108 locations. Seven banks have up to 10 such locations, two 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.

As at 31 December 2022, business relations were established with 16,166 clients through video identification procedure (more than 90% of these clients pertaining to one bank only). Relative to the previously analysed period, the total number of clients whose identities have been established and verified through video identification increased by 5,023. Also, all 1,605 entrepreneurs and all 169 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 2,742 cases, due to the circumstances which could not have been eliminated.

Total banking sector employment as at 31 December 2022 was 21,712 persons, while the number of employees directly engaged in client- and transaction-related operations was 12,677 (around 58% of the total number of employees). Based on the analysis, total employment decreased by 656 persons relative to 31 December 2021, while the number of employees directly engaged in client- and transaction-related operations fell by 558.

At banking sector level, the average number of clients per employee directly engaged in client- and transaction-related operations was 882, while the average number of transactions per employee in the period January–December 2022 was 42,550, up by 486 compared to the same period in 2021. In relation to the previously observed period, the client burden decreased, i.e. the average number of clients per bank employee fell by around 26.

III Clients

As at 31 December 2022, the total number of clients at the banking sector level came at 11,188,444, down by 6.95% or 835,956 clients in absolute amount relative to 31 December 2021. According to the explanation of one bank, this was mostly a result of closing of inactive accounts, accounts of deceased persons and clients who did not want to continue cooperation after one-off monetary assistance by the state.

Based on the data obtained from the banks, Charts 1–6 show the composition of clients by residence, the 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 2022, whereas Chart 1a shows the composition of the number of clients by residence from 31 July 2017 until the period under review.

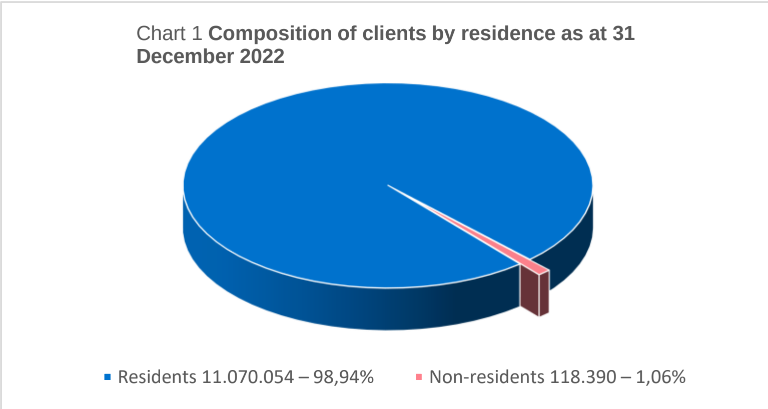


Chart 1 **Composition of clients by residence as at 31 December 2022**

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

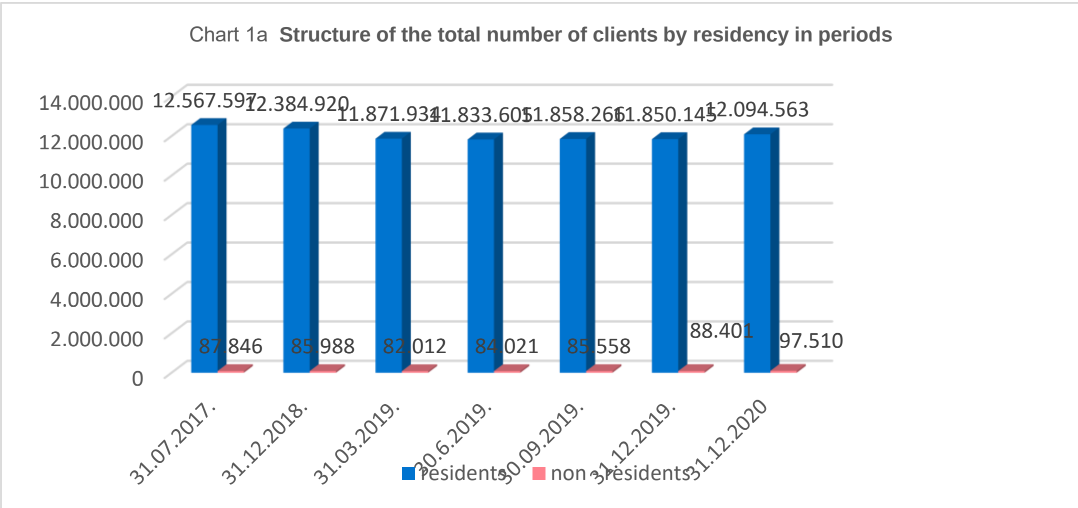


Chart 1a **Structure of the total number of clients by residency in periods**

Of the total number of resident clients, natural persons were still dominant (92.93%), while resident legal persons and entrepreneurs accounted for 3.38% and 3.68%, respectively (Chart 2).

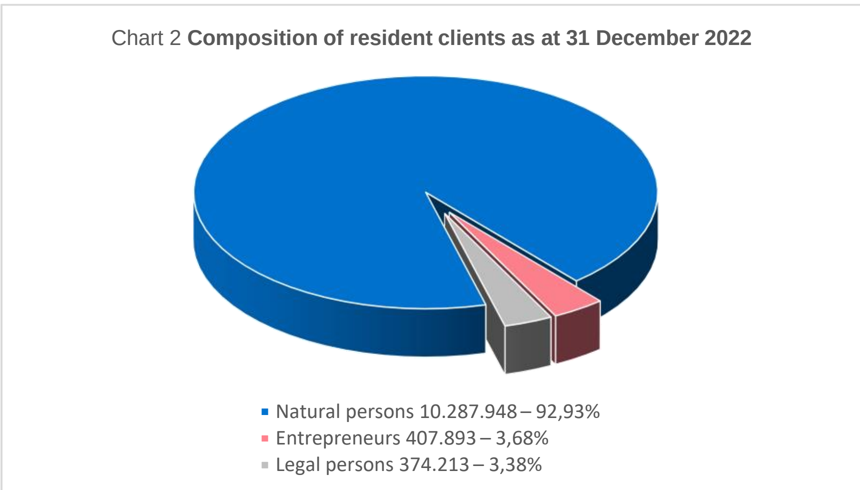


Chart 2 **Composition of resident clients as at 31 December 2022**

Compared to 31 December 2021, the composition of resident clients remained almost unchanged, with a mild decrease in the share of natural persons and increase in the share of entrepreneurs.

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 2022 is shown on Chart 3a.

Chart 3 **Composition of resident legal persons by legal form of organisation as at 31 December 2022**

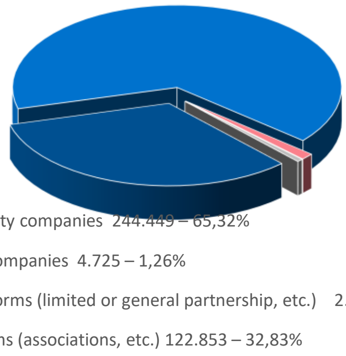
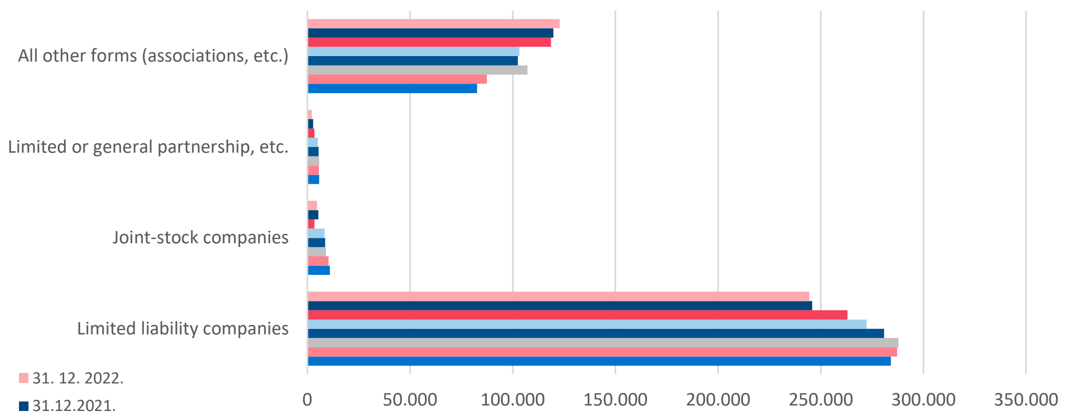


Chart 3a **Composition of resident legal persons by legal form in analysed periods**

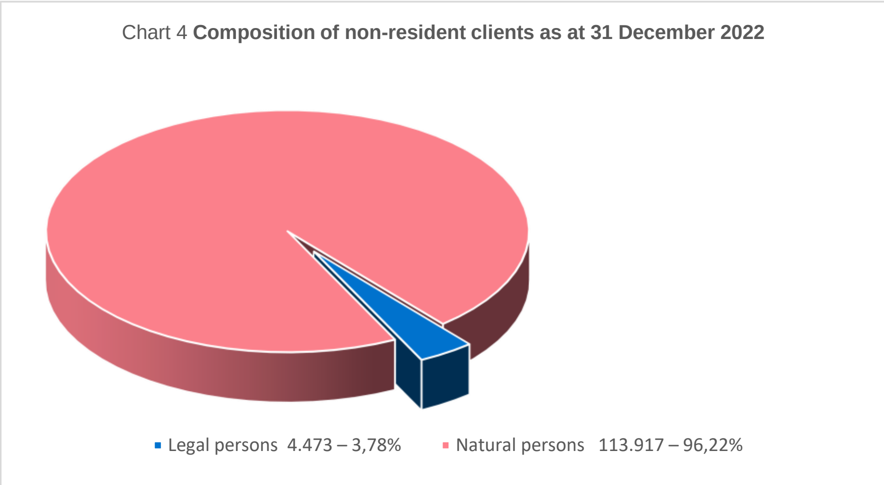


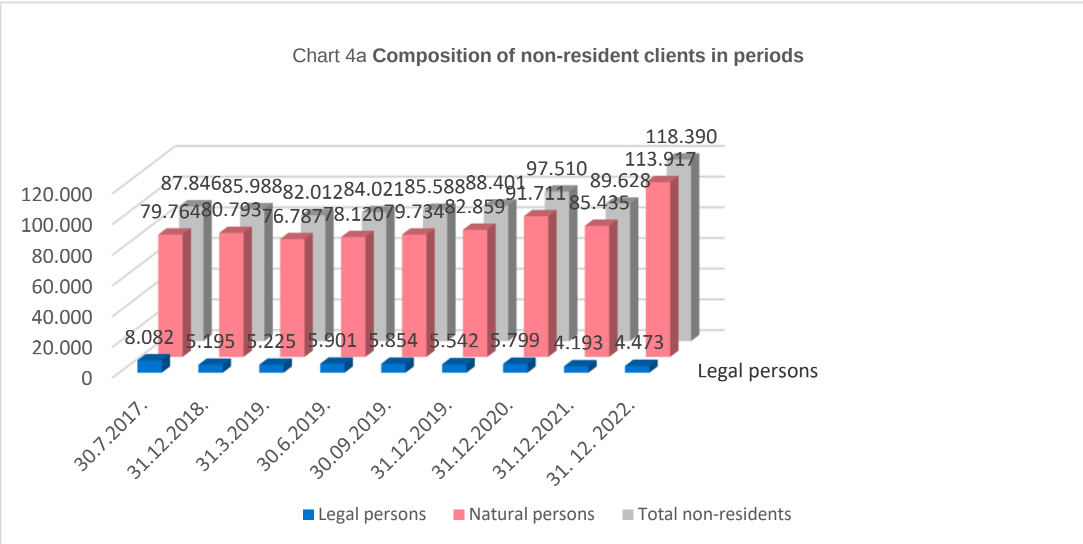
It should be noted that the bulk of resident legal persons are limited liability companies (DOO), which the National Risk Assessment estimates as being at an elevated ML/TF risk, while the share of legal persons that are organised as joint-stock companies (AD) amounts to 1.26%.

The share of legal persons organised in other legal forms (limited partnership, partnership company) was only 0.58%, and all other forms (associations, endowments, foundations, sport associations, etc.) accounted for the remaining 32.83% or 122,853 clients.

Compared to 31 December 2021, the number of clients – limited liability companies decreased by 1,434, joint-stock companies by 563, and the number of companies organised in other legal forms (limited partnership, partnership company) – by 580. The number of legal persons organised as associations and similar increased by 3,131. In 2022 the total number of resident legal persons, regardless of their form of organisation, increased by 554.

Chart 4 shows the composition of non-resident banking sector clients as at 31 December 2022, while Chart 4a shows an overview of these clients in periods from 30 July 2017 until 31 December 2022.





The total number of non-resident clients as at 31 December 2022 was 118,390. Compared to the previously analysed year (as at 31 December 2021), the total number of such clients went up by 28,762. The number of non-resident natural persons went up by 28,482, mainly as a result of the arrival of many Russian and Ukraine citizens to Serbia due to the current geopolitical events.

Based on these data, it can be concluded that at the end of this period the total number of non-resident clients (especially natural persons) increased from the previous years.

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.

Chart 5 **Composition of non-resident natural persons by country's risk profile as at 31 December 2022**

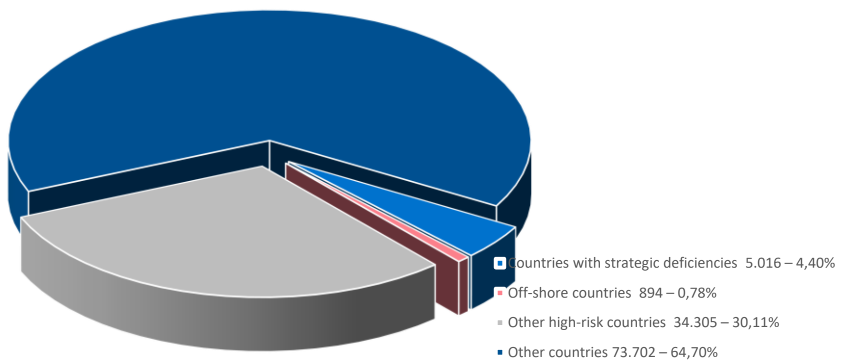
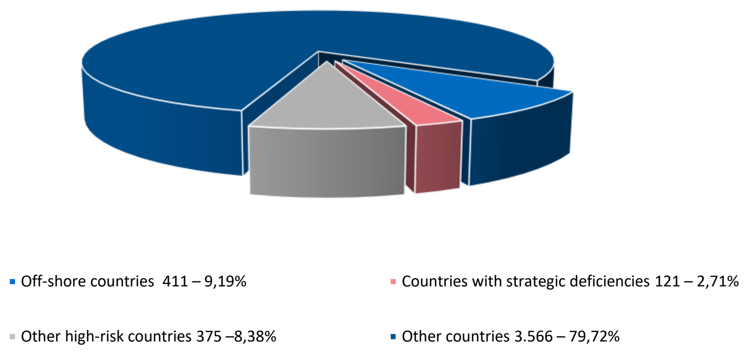


Chart 6 **Composition of non-resident legal persons by country's risk profile as at 31 December 2022**



The share of natural persons from high-risk countries in the total number of non-resident natural persons was 30.11%, while 4.4% of them were from countries with strategic deficiencies in the AML/CFT system. In addition, a 0.78% 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. Compared to the previous period, the share of non-resident natural persons from countries with strategic deficiencies in the AML/CFT system recorded an increase, while those from off-shore countries decreased.

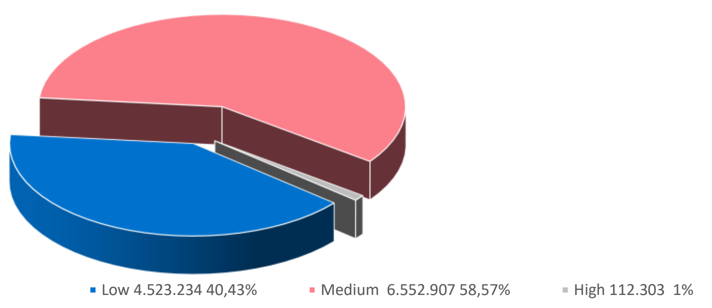
As with non-resident natural persons, the dominant share in the composition of non-resident legal persons belongs to legal persons from other countries which do not have an elevated ML/TF risk (79.72%), followed by persons from off-shore countries (9.19%), high-risk countries (8.38%) and countries with strategic deficiencies in the AML/CFT system (2.71%). Relative to the previous period, the share of non-resident legal persons from off-shore countries and from countries which do not have an elevated ML/TF risk increased mildly.

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).

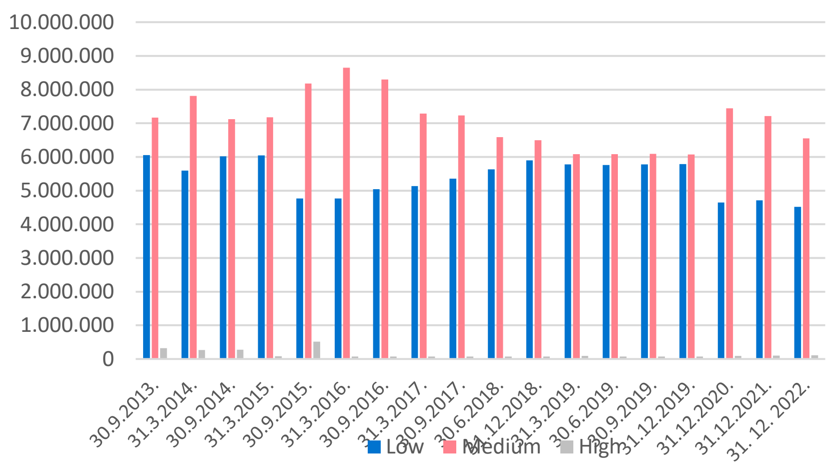
Chart 7 **Composition of clients by the assessed risk level as at 31 December 2022**

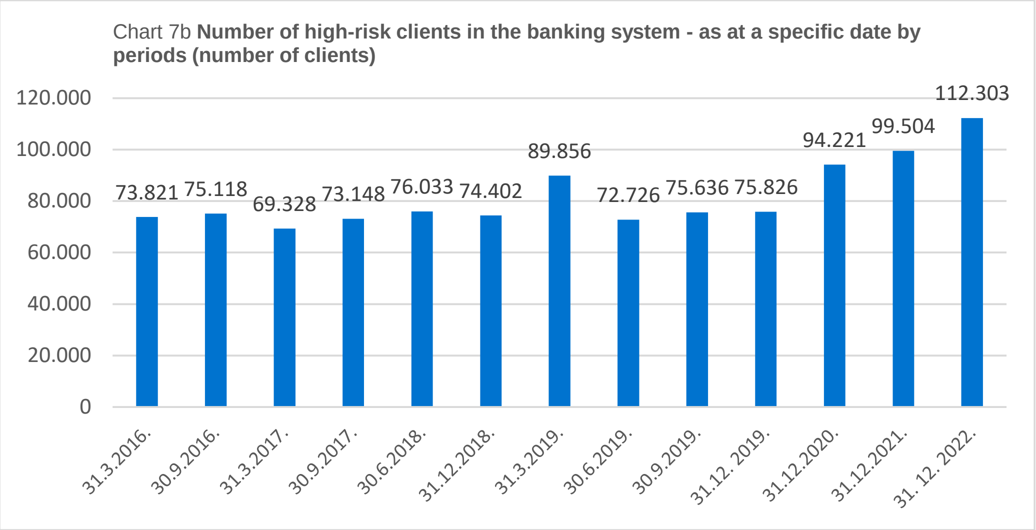


According to the submitted data on client classification by degree of ML/TF risk exposure, seven banks classified over 80% of their clients in the low-risk category, while ten banks classified the majority of their clients (over 80%) in the medium-risk category. Nineteen banks classified below 10% of their clients in the high-risk category.

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.

Chart 7a **Composition of clients by the assessed risk level in the banking system - as at a specific date by periods**

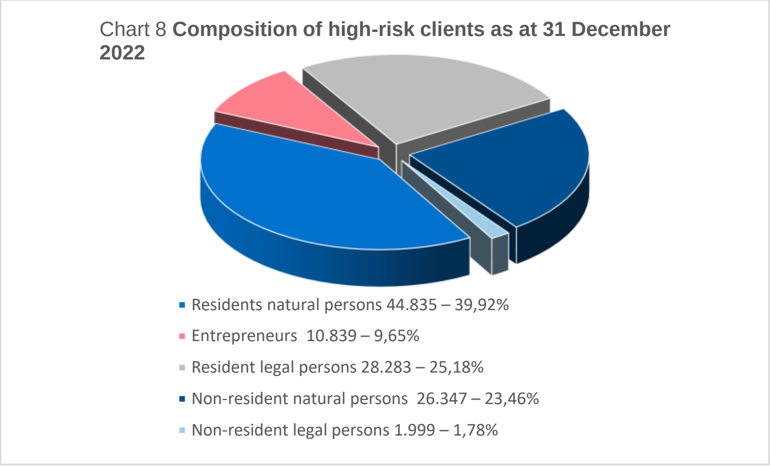




Relative to the previously analysed year (2021), there were no significant changes in the composition of banking sector clients by risk level.

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 112 thousand.

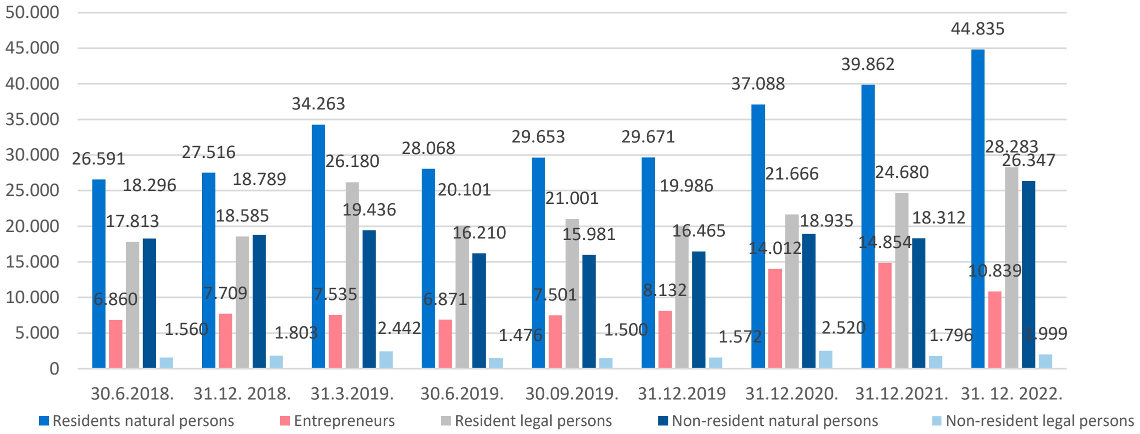
Chart 8 shows the composition of clients classified in the high-risk category.



Resident natural persons have the largest share (39.92%), followed by resident legal persons (25.18%), non-resident natural persons (23.46%), entrepreneurs (9.65%) and finally non-resident legal persons with the smallest share (1.78%).

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

Chart 8a **Composition of high-risk clients in the banking system, as at a specific date by periods (number of clients)**



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 2022**

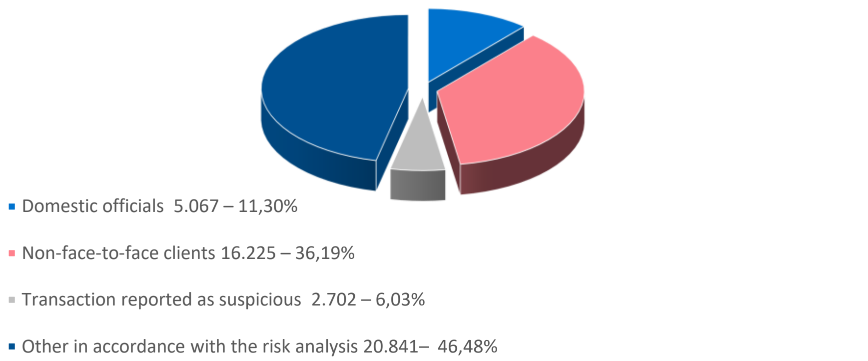


Chart 10 **Composition of high-risk clients - entrepreneurs as at 31 December 2022**

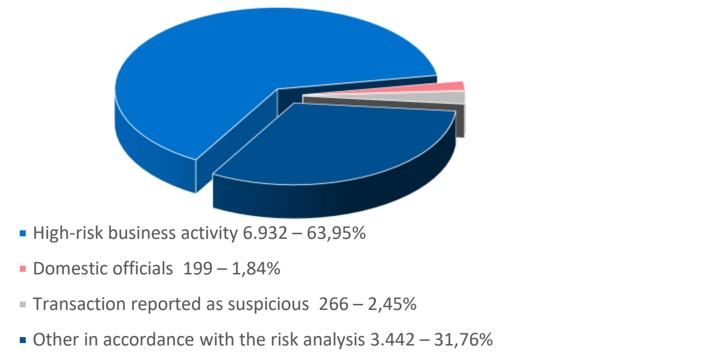
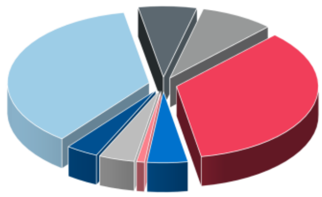


Chart 11 **Composition of high-risk clients - resident legal persons as at 31 December 2022**



In accordance with the risk analysis, banks classified 46.48% of resident natural persons in the high-risk category, with 36.19% 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 6.03%. In the composition of the high-risk resident natural persons, banks determined that 5,067 clients had the status of officials (11.3%).

Relative to 31 December 2021, there was an increase in the share of resident natural persons classified as high-risk in accordance with the risk analysis, a mild increase in clients who executed transactions reported as suspicious to the Administration, an increase in clients who had the status of officials, and the share of clients not present when establishing business relations.

Banks classified 6,932 entrepreneurs (63.95%) in the high-risk category for ML/TF, because they engaged in some of the high-risk activities, 2.45% because they executed transactions reported as suspicious to the Administration, 1.84% because they had the status of officials, while the remaining 31.76% were classified as high-risk in accordance with the risk assessment.

Relative to end-2021, there was an increase in the share of entrepreneurs classified as high-risk in accordance with the risk analysis, those who executed transactions reported as suspicious to the Administration, and those who had the status of officials, while the share of entrepreneurs who perform some of the high-risk activities edged down.

In the analysed period, banks classified 10,351 resident legal persons as high-risk because they performed some of the high-risk activities, 2,369 clients because of the country risk of its founder/beneficial owner, 1,886 clients because their transactions were reported as suspicious to the Administration, 1,156 clients because they had an off-shore legal person in the ownership structure, 1,045 clients because they had an official in the ownership/governance structure, 1,309 clients owing to a complex ownership structure, only 1% or 256 clients because they established a business relation through their authorised persons without being physically present, and the remaining 9,911 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 1,120), legal persons with a complex ownership structure (by 122) and legal persons classified as high-risk due to the country risk (of the founder or beneficial owner) (by 142). Also, compared to the previously analysed year, there was a fall in the number of legal persons whose transactions were reported as suspicious to the Administration (by 24), legal persons with an official in their ownership/governance structure (by 545), and legal persons with an offshore element in their ownership structure (599 cases).

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

Chart 12 **Composition of high-risk clients - non-resident natural persons as at 31 December 2022**

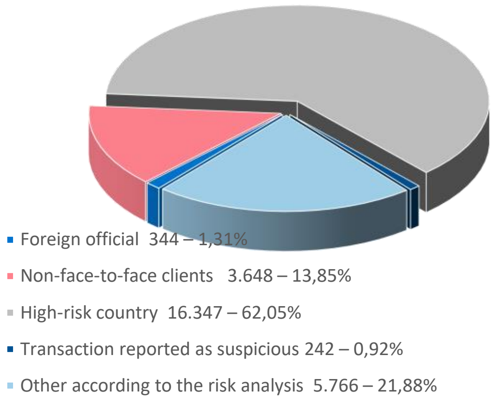
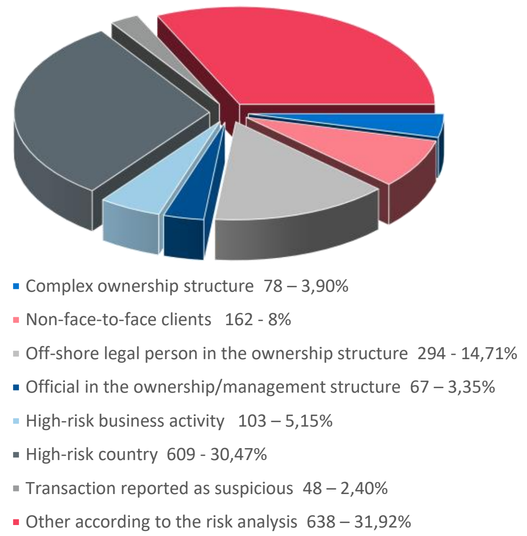


Chart 13 **Composition of high-risk clients - non-resident legal persons as at 31 December 2022**



The bulk of non-resident natural persons (62.05%) were classified as high-risk, because they were from the countries for which banks assessed high ML/TF risk, 13.85% because they were not present when establishing a business relationship, while the remaining 21.88% were classified as high-risk in accordance with the banks' analysis.

In addition to the above, 0.92% 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 344 of the 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 434, the number of those who were classified as high-risk due to the country risk – by 6,165, and those classified in high-risk category due to the reporting of suspicious transaction to the Administration – by 19. The number of foreign officials went down by 113 from the previously analysed year.

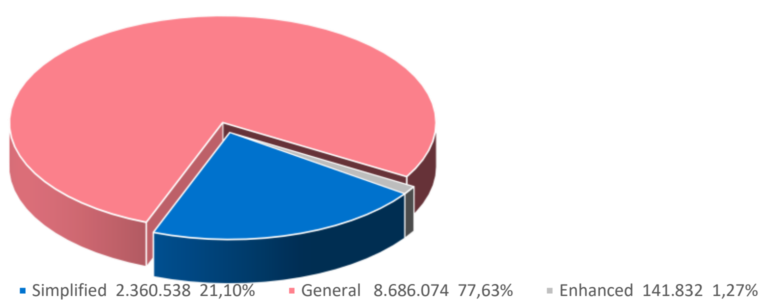
In the composition of high-risk non-resident legal persons, those classified as high-risk in accordance with the performed analysis had the largest share of 31.92%, followed by those classified by the banks as high-risk due to the country risk (30.47%). Non-resident legal persons having an off-shore element in their ownership structure had 14.71% share. A high degree of risk stemming from their activity was found in only 5.15% of non-resident legal persons, while 3.9% were assessed as risky due to the complex ownership structure, 3.35% because they have an official in ownership/management structure and 2.4% 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 11, and the number of those having an off-shore element in their ownership structure by 36. The number of non-resident legal persons performing some of the high-risk activities went up by 13, of those from countries assessed as bearing a high ML/TF risk by 6, and of those classified as high-risk in accordance with the performed analysis by 122. Relative to the previously analysed year, the number of non-resident legal persons classified as high-risk due to the suspicious transactions reported to the Administration dropped by 8.

V Client composition by CDD actions and measures

Pursuant to the Law, banks apply general, simplified or enhanced CDD actions and measures. In the analysed period, general actions and measures were taken in respect of 77.63% of clients at banking sector level. Enhanced actions and measures were taken in respect of 1.27%, and simplified in respect of 21.1% clients, as shown in Chart 14.

Chart 14 **Composition of clients by CDD actions and measures as at 31 December 2022**



The table below shows a comparative overview of the number of clients by risk level and CDD actions and measures as at 31 December 2022:

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	4.523.234	40,43	Simplified	2.360.538	21,1
Medium	6.552.907	58,57	General	8.686.074	77,63
High	112.303	1	Enhanced	141.832	1,27
	11.188.444	**100**		**11.188.444**	**100**

Based on the analysis of the 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 29,529 clients classified as medium- or low-risk.

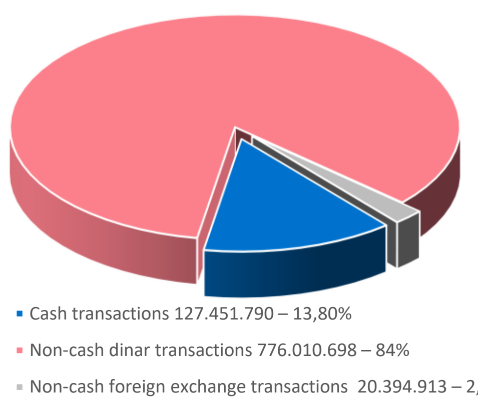
In the question from the Questionnaire about the number of cases in which a business relation was discontinued due to the inability to apply CDD actions and measures, 16 banks responded that business relations with 57,752 clients were terminated (37,900 of clients pertaining to one bank and 16,762 to another bank), up by 33,221 from the previously analysed year. In the observed period, 15 banks refused the offer to establish a business relation and/or execute transactions in 9,096 cases, due to the impossibility to take CDD actions and measures. Of this number of cases, 8,076 pertained to one bank only.

VI Transactions and products

In the observed period, banks executed 923,857,401 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 2022.

Chart 15 **Composition of executed cash and non-cash transactions (dinar and foreign currency) in the banking sector in 2022**



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 – 84%, followed by cash transactions with the share of 13.8%, and non-cash foreign transactions with the share of 2.21%.

In the same period, banks executed a total of 4,984,543 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 64% (Chart 16).

Chart 16 **Composition of executed cash and non-cash transactions amounting to EUR 15,000 or more in the dinar equivalent in 2022**

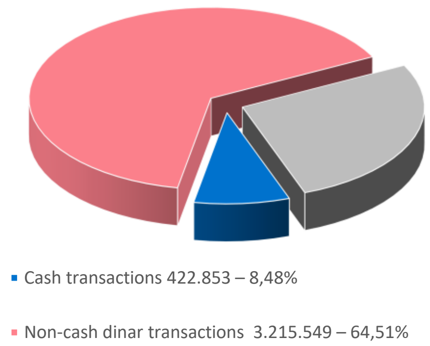
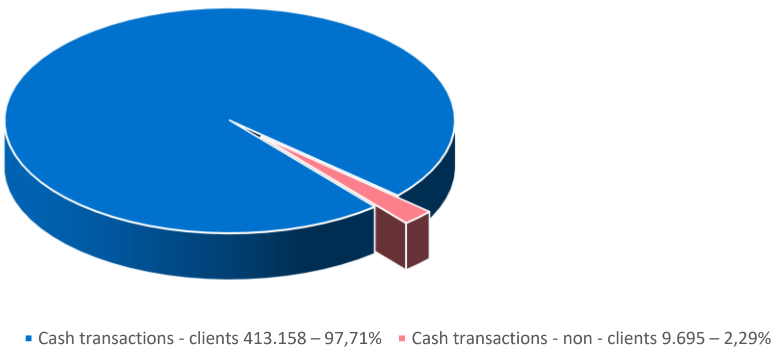


Chart 17 shows an overview of the number of cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, from the aspect of whether they were performed by the clients in the bank with which they have established a business relationship or not (so-called non-clients).

Chart 17 **Composition of executed cash transactions amounting to EUR 15,000 - clients and non-clients in 2022**



Of the total of 422,853 executed cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, only 9,695 transactions with a share of 2.29% were executed by persons who were not clients of the bank in which these transactions were made.

In the course of 2022, banks continued to inform the NBS about introducing new products into their business offer. In the observed period, after submitting completed documentation, 11 banks expanded their list of products by 42 new products.

As regards e-banking, seven banks assessed this product as a high-risk product, and eight banks assessed it as medium-high ML/TF risk. Five banks assessed m-banking as high-risk, and five banks assessed it as medium-high ML/TF risk. E-banking is used by 2,361,097 clients, m-banking by 1,983,692, and private banking by 2,207 clients. According to the data provided, in 2022, 16 out of 21 banks approved 2,196 loans worth EUR 104,743,061.85 against 100% deposit backing. Although as at 31 December 2022, the total number of approved loans secured by a 100% deposit decreased by 511 y-o-y, the total value of these loans rose by EUR 23,668,945.42.

VII Outsourcing CDD actions and measures to third parties

In the entire banking sector, only five 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 147,617 clients (data on 83,014 of these clients pertain to one bank only and 63,856 to another bank). Relative to 31 December 2021, the number of clients, for which data and documentation were obtained by third parties in accordance with the Law, increased by 26,203.

VIII Correspondent relationship

In the analysed period, five 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 sixteen banks established a total of 174 loro correspondent relations. Only one bank declared that it has established a loro correspondent relationship with a bank and 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 and the total number of such loro correspondent relations was 8.

Asked whether there were cases of closing loro accounts in the period for which this analysis was carried out, three banks responded positively, stating they closed a total of 11 loro accounts, citing as the reason closing of a bank, merger by acquisition and inactive account, lack of profitability for account keeping and client's request to close an account.

Banks have nostro correspondent relations with 226 banks, while three banks declared that they have established nostro correspondent relations 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 12,677 employees. This is 558 persons less from 31 December 2021, while the relative share of front-office staff in total banking sector employment is slightly more than 58%, 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 14 banks stated that training for front-office staff is organised once a year, four banks organise these trainings twice a year, while three banks do so three or more times a year.

According to the data provided, one bank carried out training only in direct contact, another bank without direct contact with employees, by electronic means (so-called E-learning), while most banks

(19) carried out training both by E-learning and in direct contact with employees (in training centres, interactive trainings, workshops using PowerPoint presentations).

The data obtained show that in the period observed, 46,841 employees in the banking sector successfully completed the training.

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

X Organisational structure

As Questionnaire responses reveal, 16 banks have a special organisational unit which deals exclusively with implementing the Law, whereas in five banks these tasks are performed by other organisational units. In 16 banks in separate organisational units, a total of 117 employees have been assigned to AML/CFT-related tasks, including a compliance officer and his deputy.

In 2022, six banks reported changes regarding 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 on new job posts. All banks declared that they had reported such changes 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, 17 banks gave a negative response, while four banks declared that compliance officer deputies perform other tasks as well.

In 11 banks (more than 50% of the banking sector), the AML staff or front-office staff churn rate was less than 10%, while in the remaining ten banks it was between 10% and 50%, significantly more relative to the previous period.

According to the data provided, all banks stated that they had a special software for identifying suspicious transactions and persons. Almost all banks use some of the external software (Siron AML, Norcom, Asseco SEE, Aseba AML Tool, etc.), while some of them 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 18 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, one bank responded negatively. In the analysed period, none of the banks identified 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 carries out, or a person with whom a business relation was previously established);

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	10
20–29	6
30-37	2

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 included	Number of banks
Fewer than 5	14
5–10	4
More than 10	3

Also, 19 banks stated 217 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	5
5–9	1
10–19	8
20 - 30	5

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 413 internal reports on suspected ML risk in relation to a client or a transaction, which is as much as 110 internal reports less relative to the previously analysed year, and none on suspected TF risk. However, the number of internal reports that bank staff sent to the compliance officer based on which data were not submitted to the Administration amounted to 206, meaning that almost 50% of the total number of internal reports was reported to the Administration.

According to the data provided, in 2022 banks reported to the Administration a total of 427,857 cash transactions worth EUR 15,000 or more in the dinar equivalent, of which 218,520 were executed in dinars and 209,337 in a foreign currency. Also, banks declared that they reported a total of 856 of suspicious transactions to the Administration, of which around 60% (521 transactions) related to suspicious transactions in dinars, and around 40% to suspicious transactions in a foreign currency. Relative to the previous period, the number of reports on suspicious transaction/clients submitted to the Administration recorded a considerable drop (around 30%).

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 2022 fifteen banks conducted internal audit, in one bank the audit was underway at the time of responding to the Questionnaire, in four banks the last internal audit took place in 2021 and in two banks in 2020. In one bank no omissions were identified during internal audit, while in 20 banks (including those in which the last internal audit was conducted in 2021 and 2020) some omissions were detected and the deadline was set for their removal. Eight 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 is still running, while eleven banks said the set deadline had not yet expired.

When asked whether the External Auditor's Report included the ML/TF area, 18 banks gave the affirmative answer.

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 end-December 2021, all banks carried out AM/CFT-related internal control.

Nineteen banks identified omissions in internal control during 2022, and all of them 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 inadequate entry of the client's risk assessment into the bank's information system, incomplete documentation in client files and inadequate updating of documentation, i.e. monitoring of the client's operations during the duration of the business relationship.

In the analysed period, three banks stated that they were conducting eight disciplinary procedures due to issues with employees' integrity (participation in fraud, theft, corruption, etc.). Compared to 31 December 2021, the number of disciplinary procedures due to such issues decreased significantly (by 15 cases). In the question about the number of proceedings against a bank or employees in respect of ML/TF, only one bank declared that there was a court proceeding in progress in respect of the economic offence of a bank's responsible person; namely, the mentioned proceeding is from the previous period, while the NBS, in accordance with the law, submitted reports.

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