



National Bank of Serbia

AML SUPERVISION CENTRE

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

2023

November 2024

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

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

- 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.

The analysis of data and information on ML/TF risk management in the banking sector reveals that banks manage this risk adequately, though their exposure to it is considerable.

This analysis is based on data submitted by banks to the NBS for the period January–December 2023.

In the period under review, 20 banks operated in the Serbian banking sector, which is one bank less than on 31 December 2022.

CONTENTS:

I Key findings.....	5
II General bank data.....	7
III Clients	8
IV Client composition by the assessed risk level	13
V Client composition by CDD actions and measures.....	19
VI Transactions and products.....	21
VII Outsourcing CDD actions and measures to third parties.....	25
VIII Correspondent relationship	25
IX Employee training.....	26
X Organisational structure.....	27
XI Reporting to the AML/CFT compliance officer and to the Administration	30
XII Internal audit and internal control.....	31

I Key findings

Based on the analysis of quantitative and qualitative data and information from the Questionnaire, 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.

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 2022), the total number of banks decreased, as did the number of locations where a business relationship can be established and the number of locations where cash transactions can be performed;
- The total number of employees in the banking sector edged down by 65;
- The number of employees directly engaged in client- and transaction-related operations fell by 1,377;
- The total number of banking sector clients went down by 3.24% or 362,231 persons in the absolute amount, coming at over 10.82 mn at end-2023, of which the number of resident clients was over 10.69 mn (of which 9.8 mn were resident natural persons, around 369 thousand – resident legal persons and over 428 thousand – entrepreneurs), while the number of non-residents was around 134 thousand (around 130 thousand – non-resident natural persons and 4 thousand – non-resident legal persons);
- Relative to the previously analysed period, the client burden (average number of clients per bank employee) increased;
- As at 31 December 2023, business relations were established with 26,365 clients through video identification, up by 10,199 clients from the previously analysed year;
- In 2023, the identity of 31 clients was established and verified based on a qualified electronic client certificate;
- In 2023, there were no major changes in the composition of clients by risk level, residence and CDD actions and measures applied;
- Enhanced actions and measures are applied to all clients classified as high-risk, but for safety reasons, also to over 41 thousand clients classified as medium or low-risk;
- According to the submitted data, over 868 million non-cash and over 129 million cash transactions were executed in the observed period. Relative to the year before, the number of both types of transactions increased;
- Relative to the year before, the total value of loans secured by a 100% deposit increased by around EUR 21 mn, coming at over EUR 125 mn as at 31 December 2023;

- As at 31 December 2023, 16 banks established loro correspondent relationships with: EU-based banks – 13 banks, non-EU based banks – 14 banks, while four banks stated they have not established loro correspondent relationships. Banks have a total of 179 concluded contracts referring to 86 EU banks and 81 non-EU banks;
- Five banks stated that they closed a total of 16 loro accounts, citing as the reason the closing of a bank, merger by acquisition and inactive accounts, unprofitability of keeping the account and client's request to close an account.

Based on the presented indicators of inherent ML/TF risk exposure factors, banks, as key players in the financial system, represent the most sensitive part of the financial sector in terms of 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 an 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.);
- 17 out of 20 banks have a special organisational unit which deals exclusively with implementing the Law on the Prevention of Money Laundering and the Financing of Terrorism (hereinafter: the Law), whereas in three 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 regulations 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 relationship or whose transaction it carries out, or a person with whom a business relationship 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's report;
- In 2023, 15 banks conducted internal audit;
- In the observed period, all banks performed an AML/CFT-related internal control;

- In the 1 January – 31 December 2023 period, 18 banks terminated business relationships with 152,403 clients (three banks stand out with 70,920, 49,861 and 19,800 terminated business relationships), of which 13 banks had 81,093 cases relating to the termination of a business relationship because it was impossible to carry out the actions and measures referred to in Article 7, paragraph 1, items 1-5 of the Law, 12 banks terminated business relationships with 368 clients because the client was unacceptable due to the level of ML/TF risk, while the remaining 70,938 cases in nine banks refer to the termination of a business relationship for other reasons;
- In the observed period, 19 banks refused to establish a business relationship and/or execute a transaction in a total of 3,117 cases (more than 50% of cases refer to a single bank), 13 banks refused to establish a business relationship/execute a transaction in 617 cases because it was impossible to carry out the actions and measures referred to in Article 7, paragraph 1, items 1-5 of the Law, 15 banks refused to establish a business relationship/execute a transaction in 1,814 cases because the client was unacceptable due to the level of ML/TF risk, while 10 banks refused to establish business relationships/execute transactions in 686 cases due to other reasons;
- In the period from 1 April 2018 to 31 December 2023, over 60 thousand banking sector employees successfully completed training.

II General bank data

As at 31 December 2023, there were 20 banks licenced by the NBS in the Republic of Serbia. According to the submitted responses, banks established business relationships with clients at 1,450 locations. Six banks can establish a business relationship at up to 10 locations, three banks at 11 to 50 locations, four banks at 51 to 100 locations, five banks at 101 to 200 locations, while one bank can establish a business relationship at over 200 locations.

At banking sector level, cash transactions can be made at a total of 1,577 locations. Eight banks have up to 10 such locations, one bank between 11 and 50 locations, five banks between 51 and 100, four banks between 101 and 200, and two banks over 200 such locations.

Total banking sector employment as at 31 December 2023 was 21,647 persons, while the number of employees directly engaged in client- and transaction-related operations was 11,300 (around 52% of the total number of employees). Based on the analysis, total employment decreased by 65 persons relative to 31 December 2022, while the number of employees directly engaged in client- and transaction-related operations fell by 1,377.

At banking sector level, the average number of clients per employee directly engaged in client- and transaction-related operations was around 985, while the average number of transactions per employee in the period January–December 2023 was 46,094, up by 3,544 compared to the same period in 2022. In

relation to the previously observed period, the client burden increased, i.e. the average number of clients per bank employee rose by around 76.

III Clients

As at 31 December 2023, the total number of clients at the banking sector level came at 10,826,213, down by 3.24% or 362,231 clients in the absolute amount relative to 31 December 2022.

In the 1 January – 31 December 2023 period, business relationships were terminated with a total of 152,403 clients (three banks stand out with 70,920, 49,861 and 19,800 terminated business relationships). In response to the question from the Questionnaire about the number of cases when a business relationship was terminated because it was impossible to apply CDD actions and measures, 13 banks responded that business relationships were terminated with 81,093 clients. In the observed period, 12 banks terminated 368 business relationships because of an unacceptable ML/TF risk level of a client. In nine banks, business relationships were terminated in 70,938 cases due to other reasons: cryptocurrencies; risk of sanctions; inclusion of new persons in the OFAC list; lack of economic justification for doing business in the Republic of Serbia; reputational risk; impossibility to carry out transactions – incomplete documentation; refusal to execute a transaction due to payment code 312 (re-export); sanction measures; write-off of expired receivables from financial service consumers in line with NBS communication; frozen FX savings accounts were not migrated to the new information system of the bank but a new application was created where all clients were migrated with balances which they had in the old information system at the time of migration; suspicion of fraud; communication by another bank; account abuse; termination of a business relationship because it is impossible to establish contact with the client in order to renew cooperation; sanctioned persons; off-shore persons; unacceptable clients in line with the high-risk client acceptance policy; negative information; transfer of money from the accounts of legal persons to the accounts of natural persons which are withdrawn in cash immediately and/or within a short time period upon receipt; client's operations depart from the activity and turnover announced by the client; avoidance of transactions subject to reporting to the Administration.

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). In 2023, six banks established and verified the identity of 28,803 clients (over 78% more than last year) through video-identification, i.e. using means of distance communication without requiring the physical presence of the person whose identity is verified by the bank. This figure includes 2,165 entrepreneurs (compared to 1,605 in 2022) and 273 representatives of clients who are legal persons (169 in 2022), whose identities were established and verified through video identification by a single bank, which accounts for over 83% of clients whose identity was established in this way. In the observed period, the video identification procedure was discontinued in 3,614 cases due to circumstances which could not have been eliminated. No banks

established/verified the identity of a client based on an ID document not issued by government authorities of the Republic of Serbia through video identification.

In the observed period, the identity of 31 clients was established and verified based on the qualified electronic certificate of the client.

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 2023. Like in the previously analysed periods, there were no major changes in the composition of clients by residence in the banking sector.

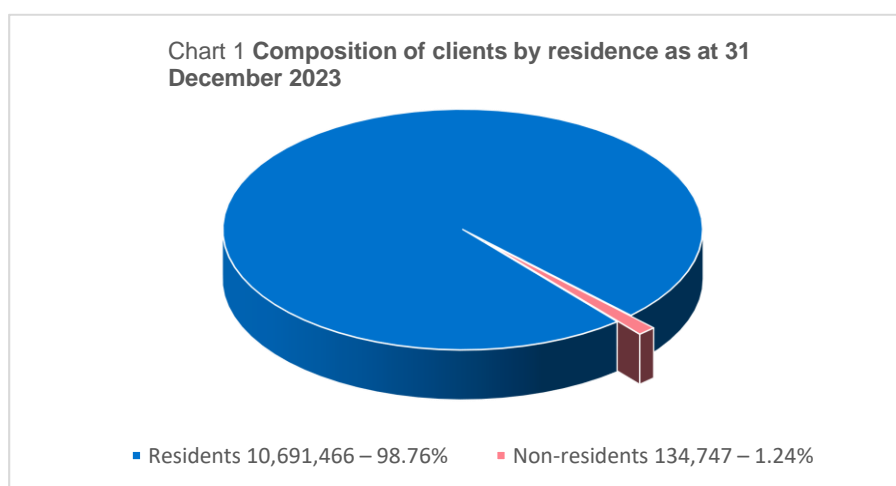
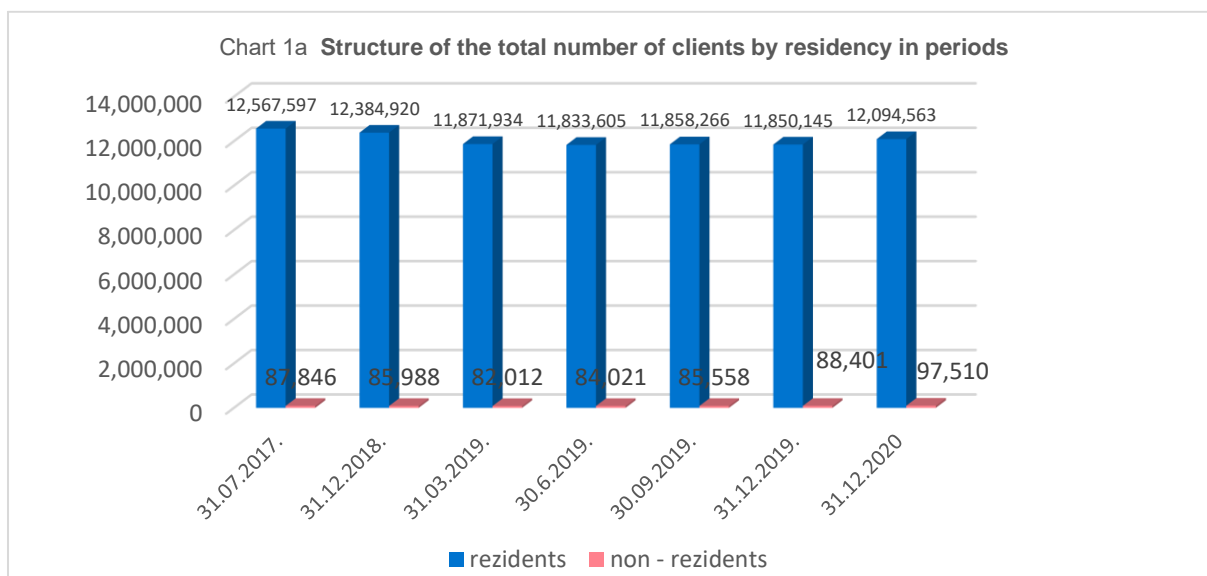
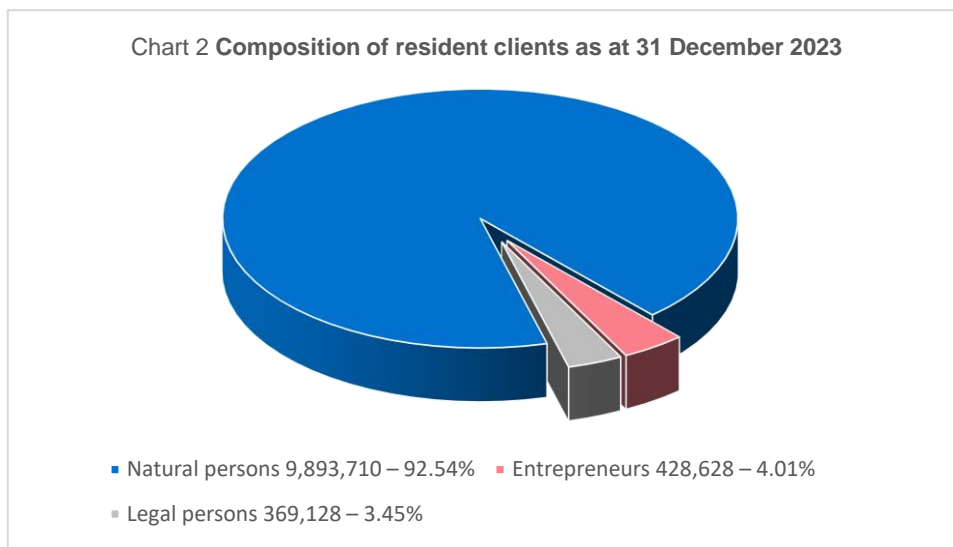


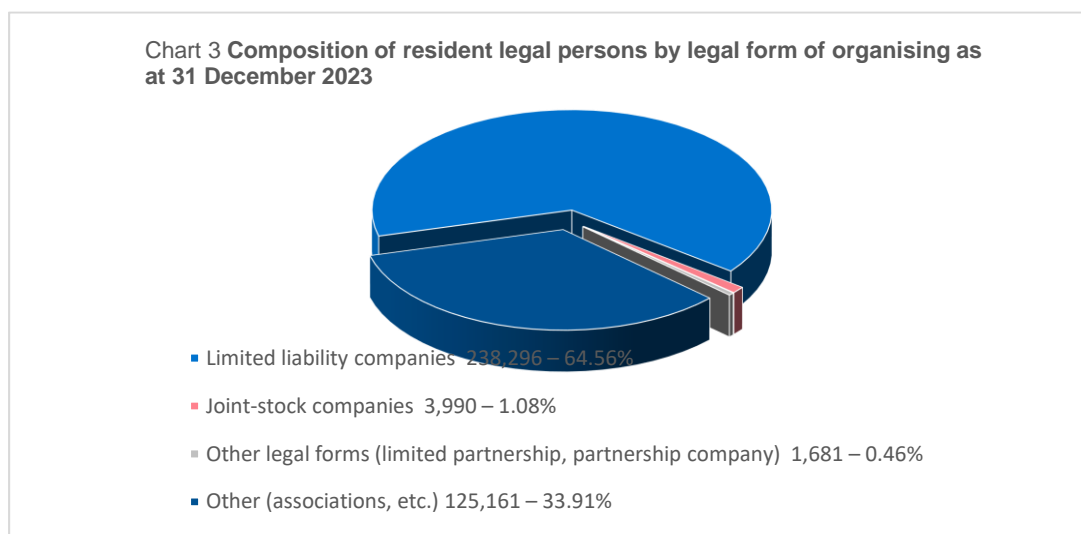
Chart 1a shows the composition of the number of clients by residence from 31 July 2017 until the period under review.



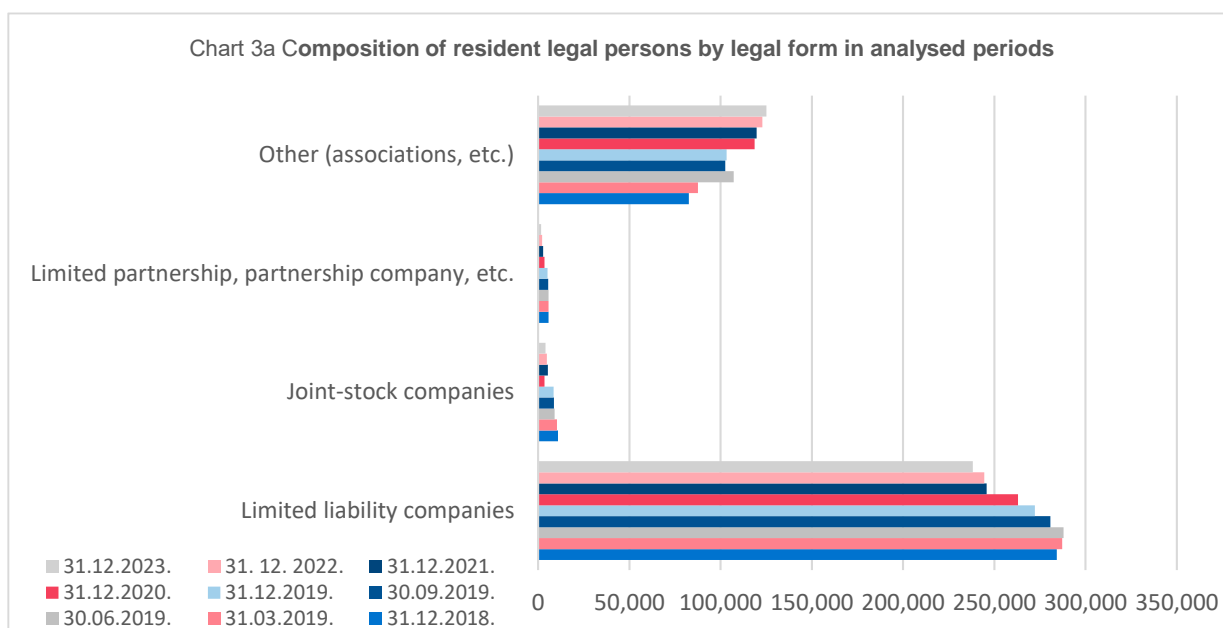
Of the total number of resident clients, natural persons were still dominant (92.54%), while resident legal persons and entrepreneurs accounted for 3.45% and 4.01%, respectively (Chart 2).



Compared to 31 December 2022, the composition of resident clients remained almost unchanged, with a mild decrease in the share of natural and legal 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 2019 until 31 December 2023 is shown on Chart 3a.



As in the previous analysed periods, the bulk of resident legal persons are limited liability companies (DOO), making up 64.56%, 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) amounted to 1.08%.

The share of legal persons organised in other legal forms (limited partnership, partnership company) was only 0.46%, that of non-profit organisations – 20.83% or 76,901, and all other forms (associations, endowments, foundations, sport associations, etc.) accounted for the remaining 13.07% or 48,260 clients.

Compared to 31 December 2022, the number of clients – limited liability companies decreased by 6,153, joint-stock companies by 735, and the number of companies organised in other legal forms (limited partnership, partnership company) – by 505. The number of legal persons organised in the form of associations, etc. rose by 2,308.

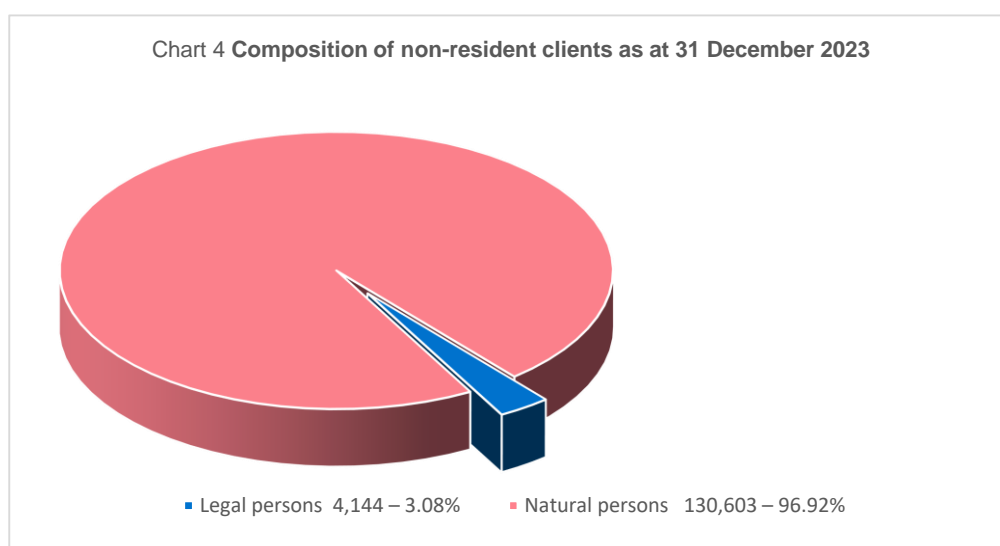
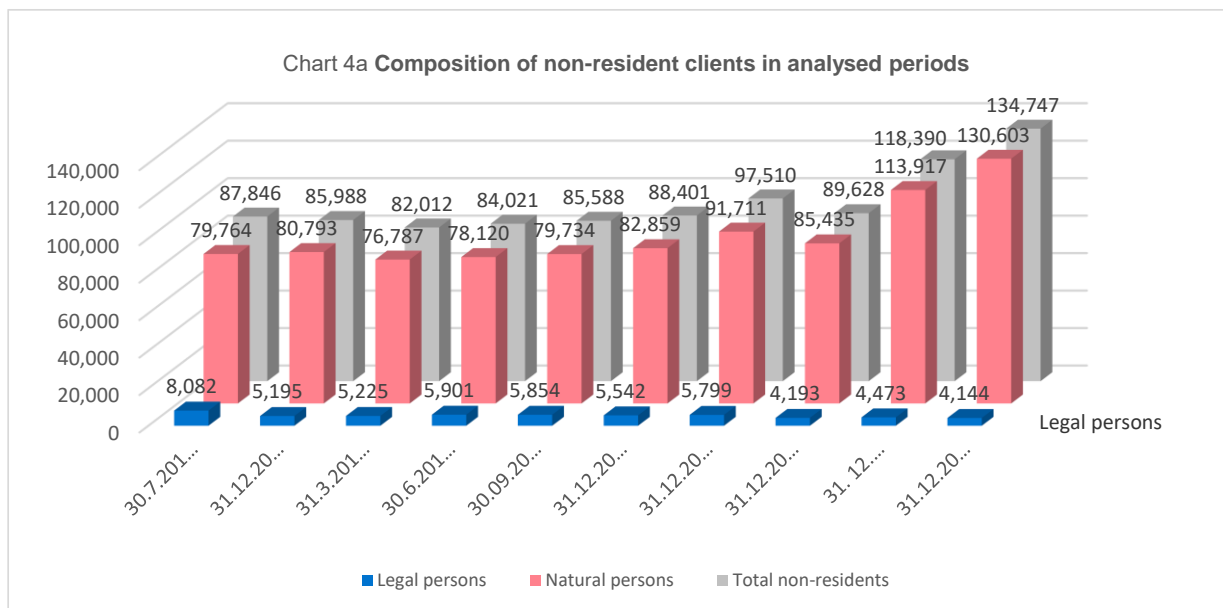
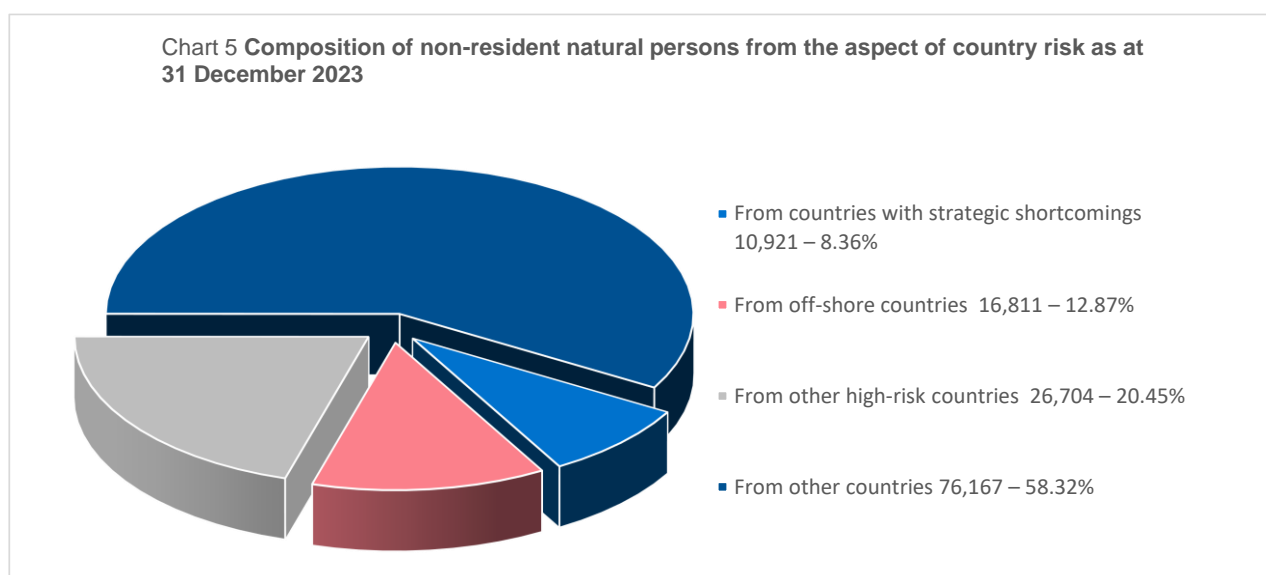


Chart 4 shows the composition of non-resident banking sector clients as at 31 December 2023, while Chart 4a shows an overview of these clients in periods from 31 December 2018 until 31 December 2023.



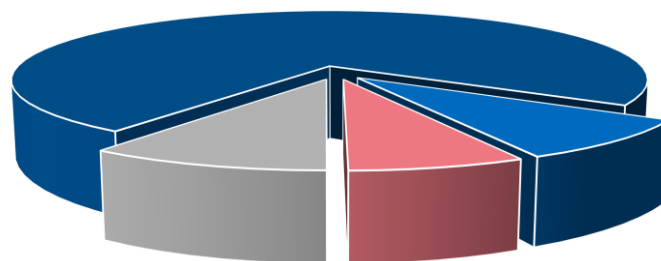
The total number of non-resident clients as at 31 December 2023 was 134,747. Compared to the previously analysed year (as at 31 December 2022), the total number of such clients went up by 16,357. The number of non-resident natural persons went up by 16,686, mainly as a result of the arrival of many Russian and Ukrainian citizens to Serbia due to the current geopolitical events. The number of non-resident legal persons decreased by 329.

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 6 Composition of non-resident legal persons from the aspect of country risk as at 31 December 2023



- From off-shore countries 368 – 8.88%
- From countries with strategic shortcomings 295 – 7.12%
- From other high-risk countries 405 – 9.77%
- From other countries 3,076 – 74.23%

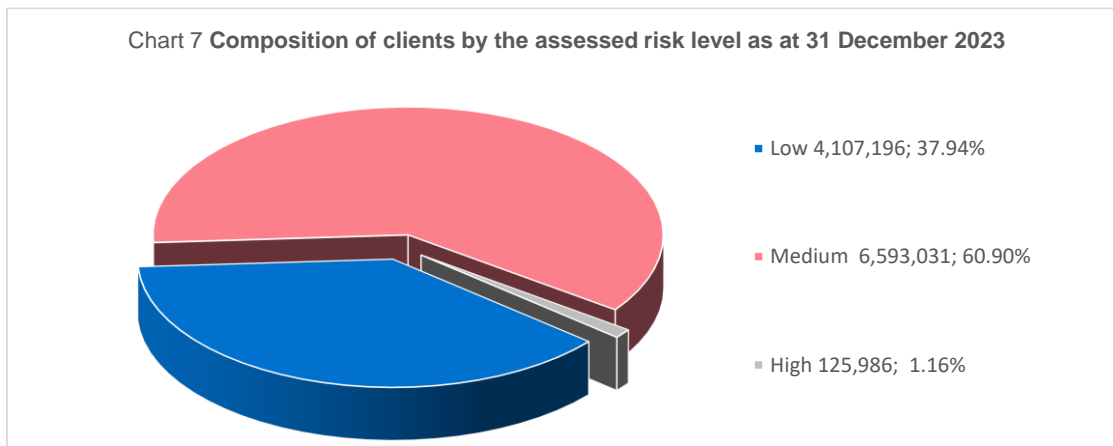
The share of natural persons from high-risk countries in the total number of non-resident natural persons was 20.45%, while 8.36% of them were from countries with strategic deficiencies in the AML/CFT system. In addition, a 12.87% share relates to non-resident natural persons from off-shore countries, 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 and from off-shore countries recorded an increase.

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 (74.23%), followed by legal persons from high risk-countries (9.77%), off-shore countries (8.88%), and countries with strategic deficiencies in the AML/CFT system (7.12%). The total number of non-resident legal persons whose ownership structure includes persons from high-risk countries was 530, and the total number of legal persons whose ownership structure includes an off-shore legal person was 217. In the observed period, 36 non-resident legal persons had a trust in their ownership structure, while 485 non-resident legal persons had residents in their ownership structure.

IV Client composition by the assessed risk level

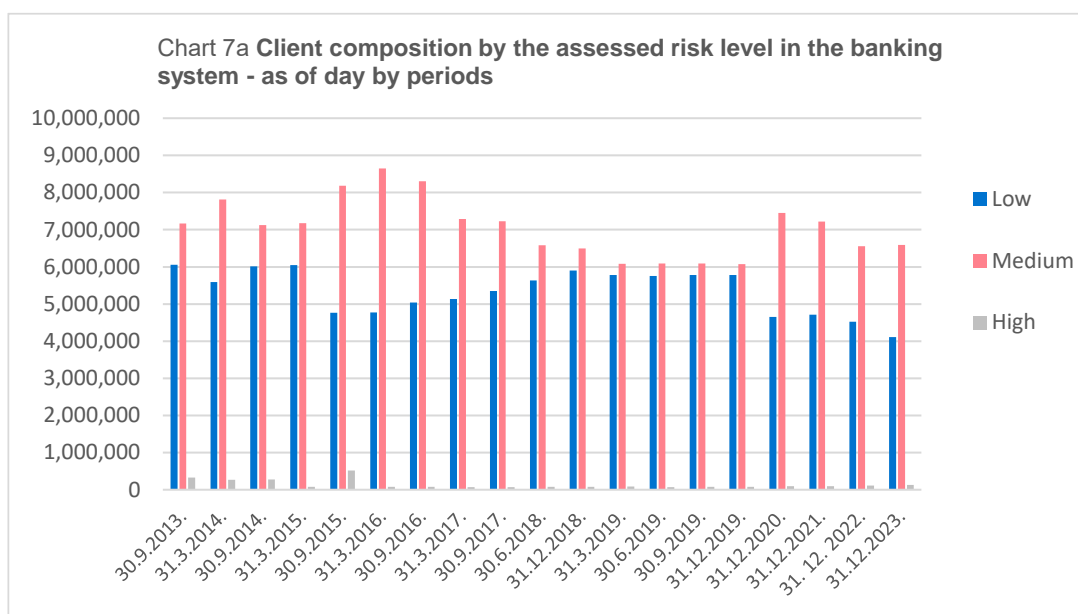
In accordance with the Law and the Decision, all banks had the obligation to prepare a risk analysis for each group or type of client, and/or business relation, and/or services offered by the obligor as part of their activities and/or transactions, taking into account the results of the National Money 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, banks classified the majority of their clients (over 60.90%) in the medium-risk category, 37.94% of their clients in the low-risk category and only 1.16% 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.



Relative to the previously analysed year (2022), 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 125 thousand.

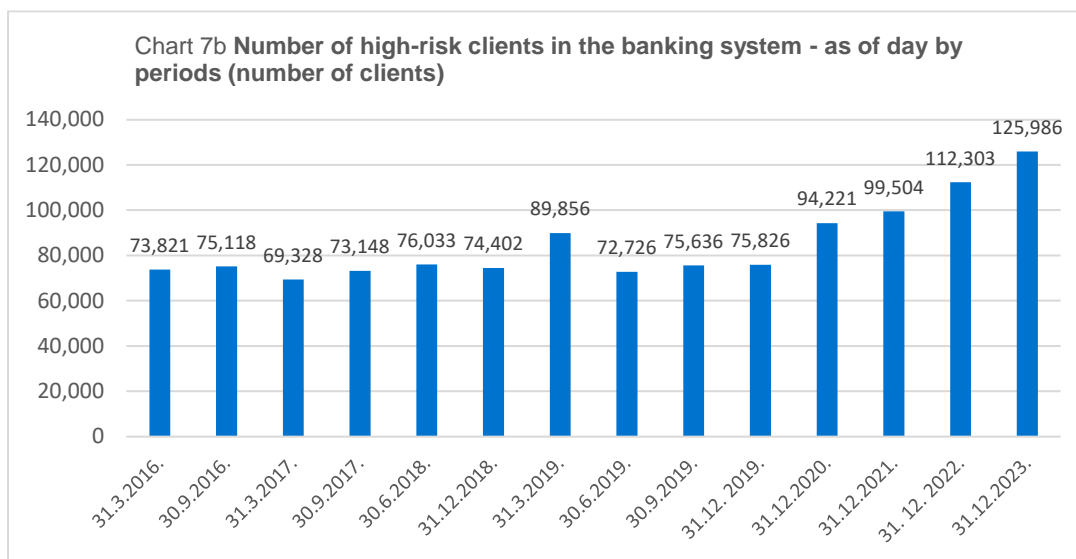
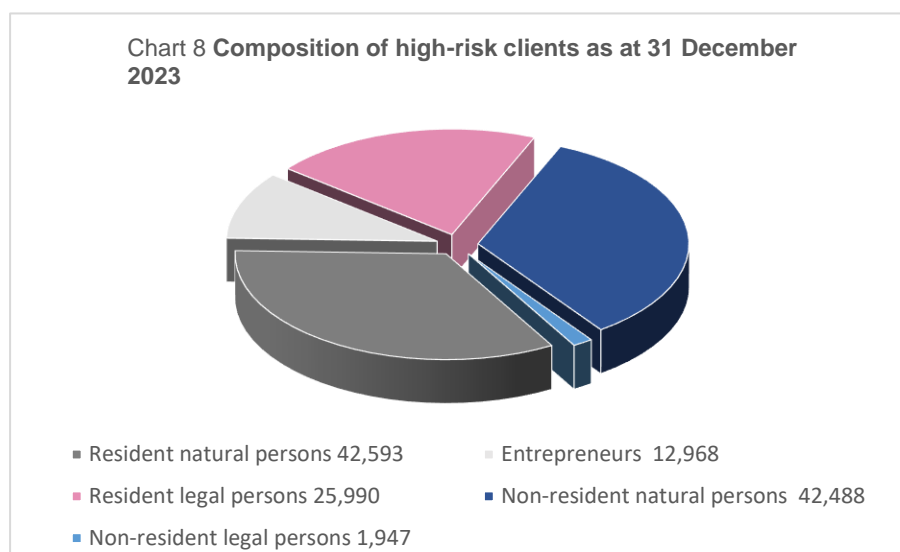


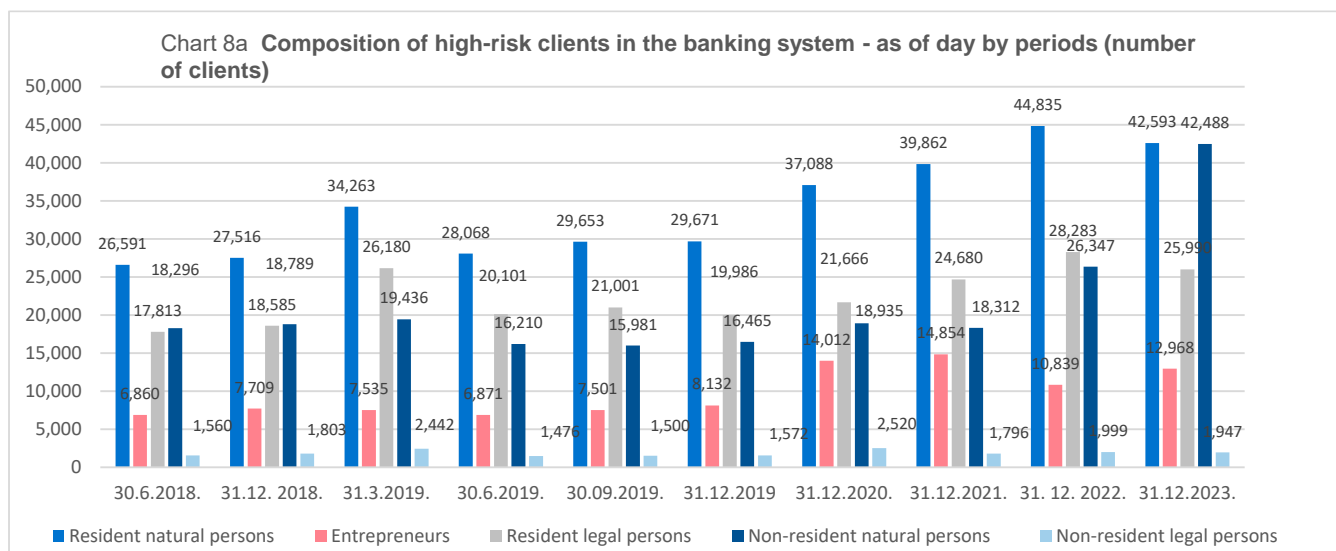
Chart 8 shows the composition of clients classified in the high-risk category.



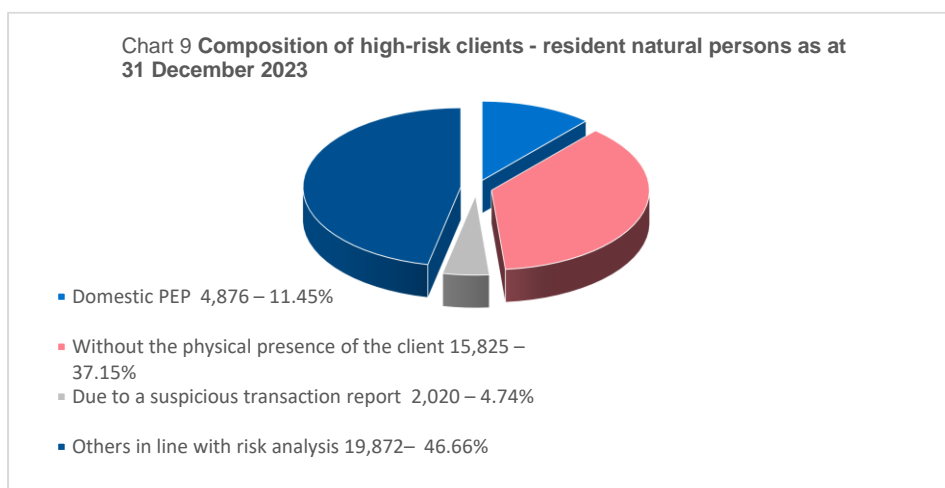
Resident natural persons have the largest share, followed by non-resident natural persons, resident legal persons and entrepreneurs, and finally non-resident legal persons.

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 second place belongs to non-resident natural persons, whose number increased significantly relative to the previous analysed period. Entrepreneurs are in the third place, while non-resident legal persons come last, as in the previously analysed periods.

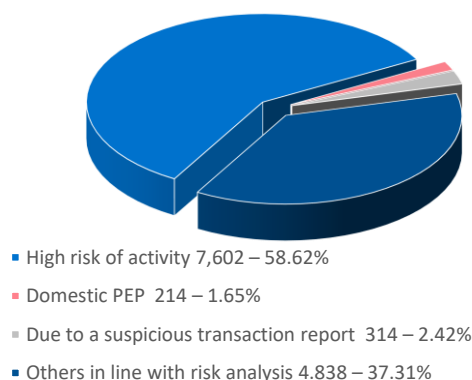


Charts 9, 10 and 11 show the composition of resident natural persons, legal persons and entrepreneurs by basis for classification into high ML/TF risk category.



In accordance with the risk analysis, banks classified 46.66% of resident natural persons in the high-risk category, with 37.15% of these clients thus classified because they were not present when establishing the business relationship. 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 4.74%. In the composition of high-risk resident natural persons, banks determined that 4,876 clients had the status of officials (PEP) (11.45%). The number of all of the above categories decreased relative to 31 December 2022.

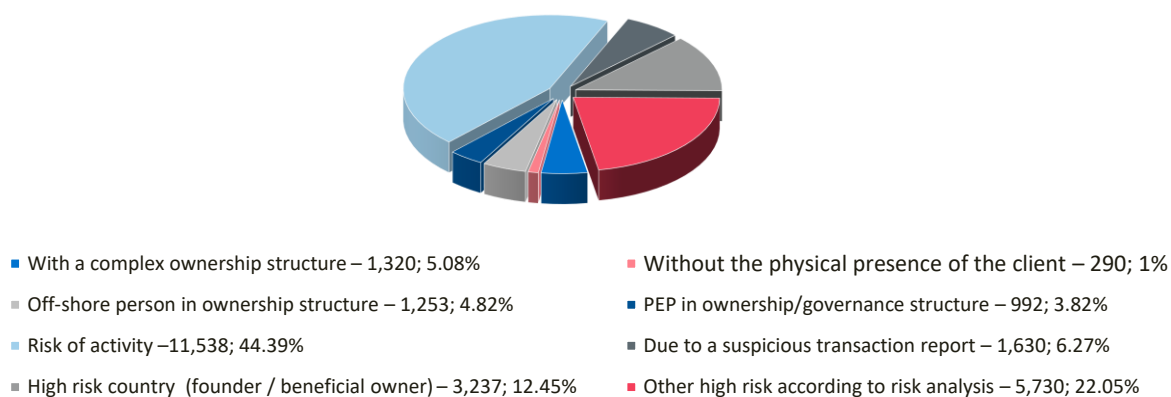
Chart 10 Composition of high-risk clients - entrepreneurs as at 31 December 2023



Banks classified 7,602 entrepreneurs (58.62%) in the high-risk category for ML/TF, because they engaged in some of the high-risk activities, 2.42% because they executed transactions reported as suspicious to the Administration, 1.65% because they had the status of officials, while the remaining 37.31% were classified as high-risk in accordance with the risk assessment.

Relative to end-2022, there was an increase in the share of entrepreneurs classified as high-risk because of the risk involved their activity and of those who had the status of officials, while the share of entrepreneurs classified as high-risk based on the risk analysis declined.

Chart 11 Composition of high-risk clients - resident legal persons as at 31 December 2023



In the analysed period, banks classified as high-risk: 11,538 resident legal persons because they performed some of the high-risk activities, 3,237 clients because of the country risk of their founder/beneficial owner, 1,630 clients because their transactions were reported as suspicious to the Administration, 1,253 clients because they had an off-shore legal person in their ownership structure, 992 clients because they had an official in their ownership/governance structure, 1,320 clients owing to a complex ownership structure, only 1.12% or 290 clients because they established a business relationship

through their authorised persons without being physically present, and the remaining 5,730 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 1,187), legal persons with a complex ownership structure (by 11) and legal persons classified as high-risk due to the country risk (of the founder or beneficial owner) (by 868). 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 256), and an increase in the number of persons with an offshore element in their ownership structure (97 cases).

Charts 12 and 13 show the composition of 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 2023**

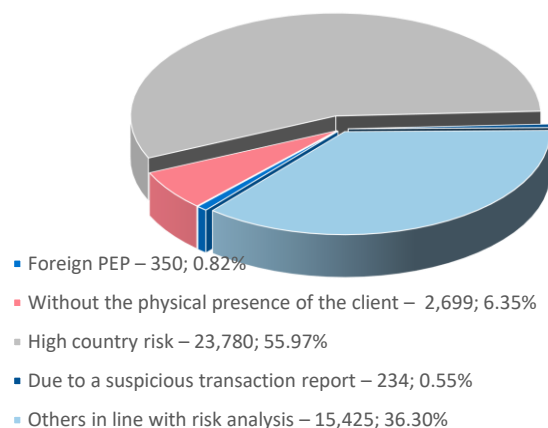
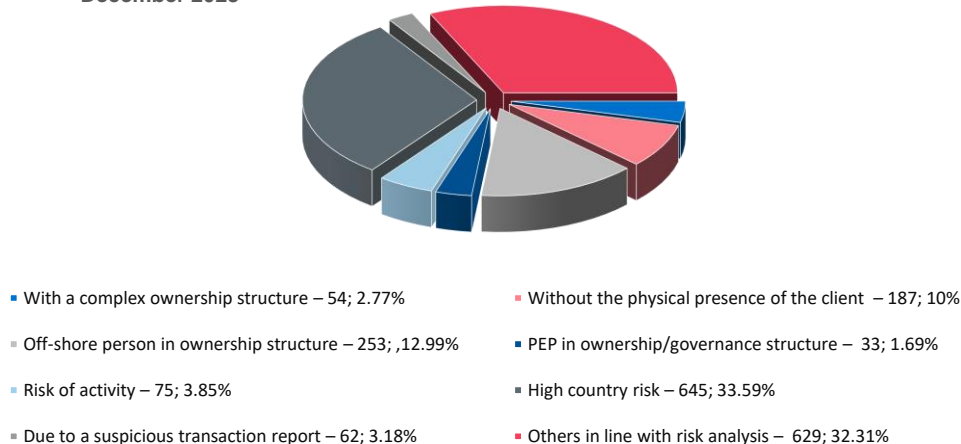


Chart 13 **Composition of high-risk clients - non-resident legal persons as at 31 December 2023**



The bulk of non-resident natural persons (55.97%) were classified as high-risk because they were from the countries for which banks assessed a high ML/TF risk, 6.35% because they were not present when establishing a business relationship, while the remaining 36.30% were classified as high-risk in accordance with the banks' analysis.

In addition to the above, 0.55% 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 350 of the high-risk non-resident natural persons had the status of officials.

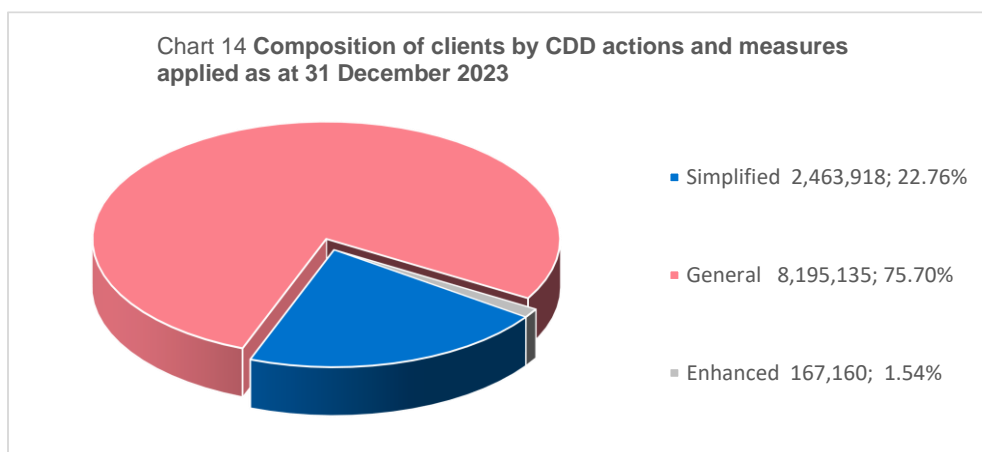
Compared to the previously analysed year, the number of non-resident natural persons classified as high-risk due to high country risk rose by 7,433, as did the number of those classified in the high-risk category on other grounds, based on the risk analysis (by 9,659). The number of non-resident natural persons classified as high-risk due to the reporting of suspicious transaction to the Administration decreased by eight, as did the number of non-resident natural persons who were not present when establishing a business relationship – by 949. The number of foreign officials rose by four from the previously analysed year.

In the composition of high-risk non-resident legal persons, those classified as high-risk due to high country risk had the largest share of 33.59%, followed by those classified as high-risk in accordance with the performed risk analysis (32.31%). Non-resident legal persons having an off-shore element in their ownership structure had a 12.99% share. A high degree of risk stemming from their activity was found in only 3.85% of non-resident legal persons, while 2.77% were assessed as risky due to the complex ownership structure, 1.69% because they have an official in their ownership/management structure and 3.18% 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 down by 34, of those having an off-shore element in their ownership structure – by 41, of non-resident legal persons performing some of the high-risk activities – by 28, and of those from countries assessed as bearing a high ML/TF risk – by seven. The number of non-resident legal persons classified as high country risk increased by 45 and of those classified as high-risk due to suspicious transactions reported to the Administration dropped by 14.

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 75.70% of clients at banking sector level. Enhanced actions and measures were taken in respect of 1.54%, and simplified in respect of 22.76% 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 2023:

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	4,107,196	37.93	Simplified	2,463,918	22.75
Medium	6,593,031	60.89	General	8,195,135	75.69
High	125,986	1.16	Enhanced	167,160	1.54
	10,826,213	100		10,826,213	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 40% 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 41,174 clients classified as medium- or low-risk.

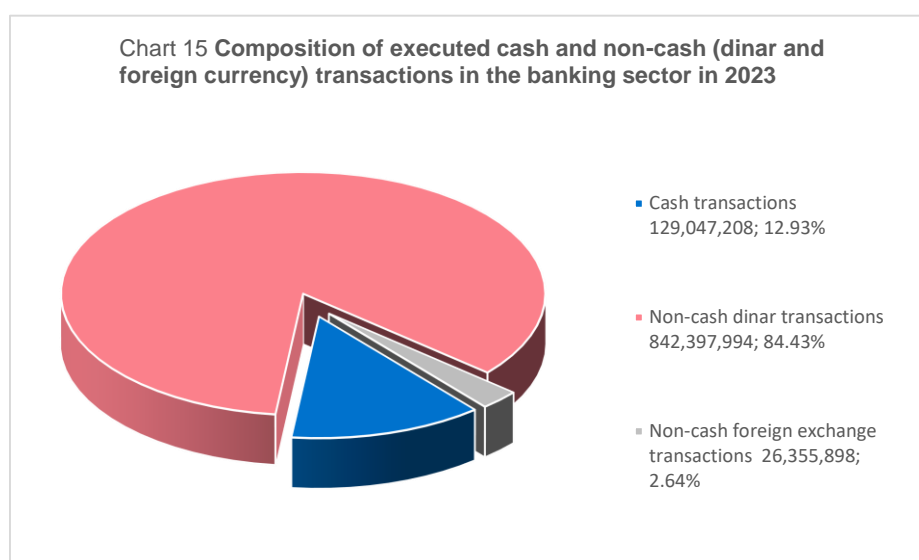
In the observed period, 19 banks refused to establish a business relationship and/or execute a transaction in a total of 3,117 cases (more than 50% of cases refer to a single bank), 13 banks refused to establish a business relationship/execute a transaction in 617 cases because it was impossible to carry out the actions and measures referred to in Article 7, paragraph 1, items 1-5 of the Law, 15 banks refused to establish a business relationship/execute a transaction in 1,814 cases because the client was unacceptable due to the level of ML/TF risk, while 10 banks refused to establish business relationships/execute transactions in 686 cases due to other reasons, such: the bank recognised a walk-in client transaction in respect of a person engaged in digital asset provision services, but the transaction was not executed because the bank does not cooperate with persons providing the above services; there was suspicion regarding the client's business activity and data on the beneficial owner; there was doubt that the beneficial owner of the client was fictitious (the person is related to a large number of legal persons

through the ownership and governance structure); the bank was unable to support the client's operations – request for products which the bank does not offer, transactions in currencies which the bank cannot support, etc.; cryptocurrencies; risk of sanctions; the client's registered activity is related to recycling and secondary raw materials; the client has the citizenship of a country with which, subject to its internal acts, the bank is not allowed to establish a business relationship (Iran, North Korea, Syria and Myanmar); sanctions – a person under sanctions in the ownership structure; the client intended to engage exclusively in re-exports (imports/exports of goods from/to Russia); inflows through payment institutions where data on the sender is not available to the bank; payment of goods/services under sanctions or the potential client is on the sanctions lists; reputational risk; unknown data about the origin of funds which are to be the subject of the business relationship because the client does not intend to transfer his wages to the bank or is an unemployed person (mostly persons from Russia, but also Iran, Cuba, Syria, Belarus, Palestine); persons and goods/services under sanctions; fraudulent actions; negative information; persons related to clients which were the subject of reports or termination of business cooperation; registration of legal persons whose beneficial owners come from countries at war (Russia and Ukraine); and communications by government authorities.

VI Transactions and products

In the observed period, banks executed 997,801,100 transactions (including cash and non-cash – dinar and foreign currency), up by 73,943,699 from the previously analysed period. The total value of these transactions was EUR 1,932,251,239,150.

Chart 15 shows the structure of cash and non-cash (dinar and foreign currency) transactions in the banking sector in the period January–December 2023.



As in the previously analysed periods, and 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 – 84.43%, followed by cash transactions with the share of 12.93%, and non-cash foreign currency transactions with the share of 2.64%.

In the same period, banks executed a total of 5,422,000 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 56% (Chart 16).

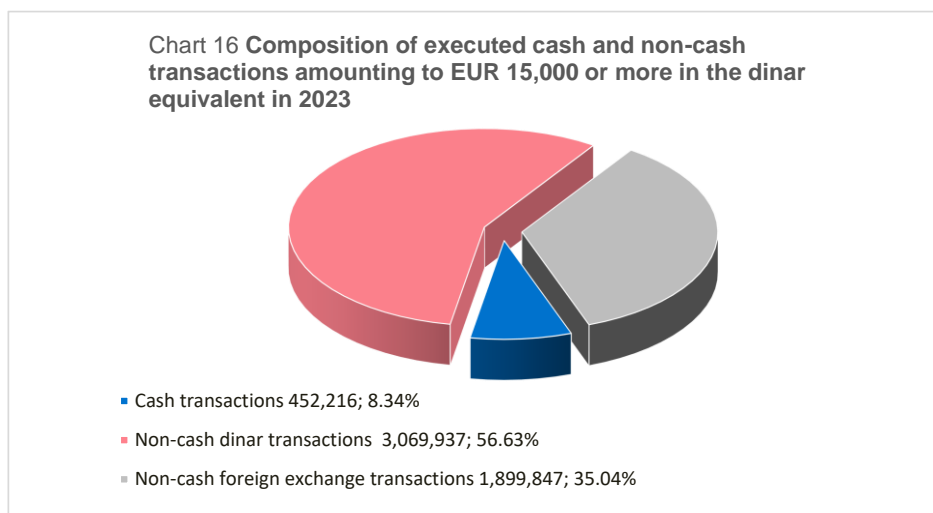
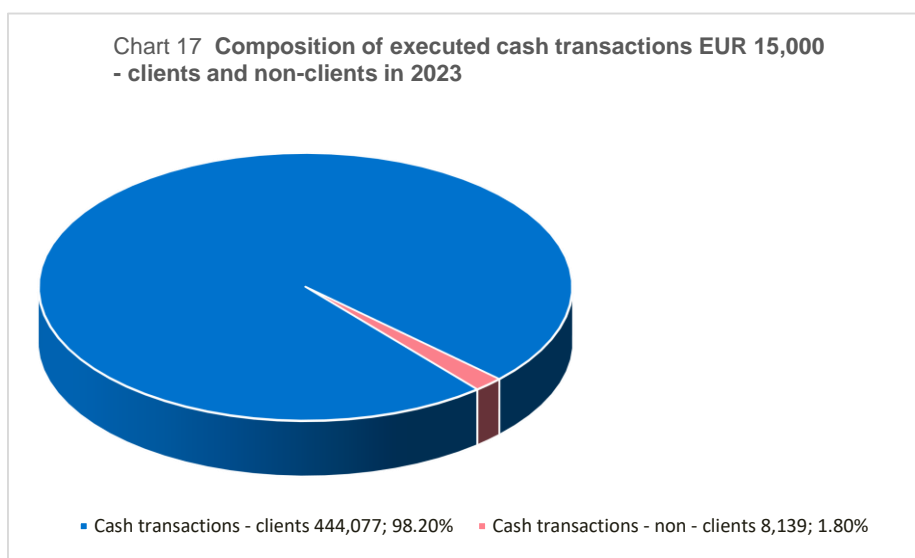


Chart 17 shows an overview of the number of cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, from the aspect of whether they were performed by the clients in the bank with which they have established a business relationship or not (so-called non-clients).



Of the total of 452,216 executed cash transactions worth EUR 15,000 or more in the dinar equivalent value at the NBS middle exchange rate, only 8,139 transactions with a share of 1.80% were executed by persons who were not clients of the bank in which these transactions were made.

Based on the answers to questions relating to clients assessed by the national assessments as being more exposed to the ML/TF risk – resident entrepreneurs, non-resident natural persons, non-resident legal persons, registered agricultural estates, non-profit organisations, resident officials, non-resident officials, clients engaged in gold trade, operators of games of chance, clients who are art traders, intermediaries in real estate trade and rental, and clients engaged in real estate investments, the following was concluded:

The total number of non-cash transactions in the 1 January – 31 December 2023 period relating to these clients was 106,098,044, which is around 12.21% of total executed non-cash transactions. The total value of these transactions was EUR 94,514,874,872, or 5.07% of the total value of non-cash transactions. The bulk of these transactions was executed by entrepreneurs, while registered agricultural estates stand out in terms of value.

There were 83 internal reports relating to suspicion of money laundering and/or terrorism financing in the 1 January – 31 December 2023 period. They all refer to reports on the suspicion of money laundering, i.e. there were no reports on the suspicion of terrorism financing.

In the 1 January – 31 December 2023 period, banks submitted to the Administration 293 reports on suspicious activities relating to these clients worth a total of 122,702,380. Relative to the total number of suspicious activities reported in this period, around 37% of the number and almost 3% of the value referred to these clients.

The most frequent reasons for reporting suspicious activities included: non-cash payments to accounts of legal persons, followed by money transfers from the accounts of legal persons to the accounts of natural persons which are withdrawn in cash immediately or within a short time upon receipt, and which have no economic or logical justification; transactions which are not consistent with the usual activities or profile of the client; suspicious origin of funds; failure to submit mandatory required documents; fictitious channels of money distribution; boiler-room and phantom companies; simulated activity in the area of secondary raw materials; loans by founders; avoidance of transactions subject to reporting to the Administration; re-export of goods, etc. Based on the above, banks should pay particular attention to these circumstances in the period ahead.

In the course of 2023, 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 24 new products.

As regards e-banking, seven banks assessed this product as a high-risk product, 12 banks assessed it as medium-high ML/TF risk, and one bank assessed it as medium-low ML/TF risk. Six banks assessed m-banking as high-risk, 11 banks assessed it as medium-high ML/TF risk, and one bank assessed it as medium-low ML/TF risk. E-banking is used by 4,029,814 clients, m-banking by 3,127,281, and private

banking by 943 clients. According to the data provided, in 2023, 15 out of 20 banks approved 2,628 loans worth EUR 125,986,253.85 against 100% deposit backing. As at 31 December 2022, the total number of approved loans secured by a 100% deposit increased by 1,074 relative to 31 December 2021, and the total value of these loans rose by EUR 19,971,981.78.

According to data collected in relation to digital assets, a total of 11 banks stated that they have enabled the performance of payment transactions related to digital assets or digital asset service providers, up by three banks relative to last year.

These transactions refer to: card transactions and domestic payment transactions related to digital assets, non-cash transactions – inflows to the accounts of natural persons from virtual currency services providers licenced by the National Bank of Serbia, transactions of purchase and sale of digital assets in smaller amounts from/to licenced companies engaged in the provision of digital asset trading services, etc.

When asked about the clients to which they enabled the performance of these transactions, banks gave very different answers. Some enabled these transactions for natural persons – residents holding the bank's cards, while some enabled them to resident legal persons only, digital asset service providers entered in the register of virtual currency services providers of the NBS and holding a valid licence of the Securities Commission and digital token services, and some banks answered that these services are allowed to all.

The most frequent jurisdictions from where these transactions are executed towards the Republic of Serbia are: United Kingdom, Republic of Ireland, Gibraltar, Lithuania, Estonia, USA, Luxembourg, Lichtenstein, Malta, Slovenia, Croatia and Germany.

A total of 107,351 transactions were performed worth EUR 76,197,930.00, RSD 2,608,567,759.00 and USD 868,425.00 (as at 31 December 2023) which, relative to the previously analysed period (as at 31 December 2022) is an increase in the number of transactions by 66.030, in the value of transactions in euros – by EUR 75,830,368, in the value of transactions in dinars – by RSD 2,076,492,159.37 and in the value of transactions in dollars – by USD 844,566.67.

Four banks stated that they provide financial services to digital asset service providers, compared to only one bank in the previously analysed period.

These services refer to: opening and maintaining dinar and FX accounts, e-banking services, execution of payment orders relating to virtual currencies in the country and abroad, and all other services not connected to digital assets from the bank's product range, and depending on the client's needs.

Six banks stated that they enable the performance of the above transactions to officials, five banks to off-shore legal persons or legal persons having an off-shore legal person in their ownership structure, as well as towards states with strategic deficiencies in their AML/CFT system. Four banks receive these transactions from countries with strategic deficiencies in their AML/CFT system, and five banks stated that they do none of the above.

Banks provide financial services only to the digital asset service providers established in the Republic of Serbia and apply enhanced CDD actions and measures. These measures include: analysis of turnover on the accounts of clients of the digital asset service provider, application of the list of indicators for recognising grounds for suspicion of money laundering or terrorism financing for virtual currency service providers, actively keeping track of publicly available news and information about participants in transactions (including banks of end-users of funds if they are not direct correspondents of the bank), funds for the purchase of tokens are accepted only in the country from domestic investors, and payment is made by transfer from current accounts (implemented KYC) and not by direct crediting of cash to the client's account.

The key sources of information for banks on high ML/TF risk indicators in payment transactions relating to digital assets and payment transactions of digital asset service providers include: National Risk Assessment of the Republic of Serbia, List of Indicators for Digital Asset Service Providers, 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, information obtained from government authorities, ACAMS training, publicly available information on the internet (e.g. Risk-Based Approach to Virtual Assets-FATF etc.).

When establishing a business relationship with a legal person, banks verify whether that person intends to provide digital asset services, in the following way: based on a questionnaire/request to open an account to be completed by the client when establishing business cooperation, by searching the legal person in the register of virtual currency service providers of the NBS.

VII Outsourcing CDD actions and measures to third parties

In the entire banking sector, only four 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 605,645 clients (data on 536,678 of these clients pertain to one bank only). Relative to 31 December 2022, the number of clients, for which data and documentation were obtained by third parties in accordance with the Law, increased by 458,028.

VIII Correspondent relationship

In the analysed period, four banks declared that they did not establish loro correspondent relationships with banks and similar institutions with a head office in a foreign country. The remaining sixteen banks established a total of 179 loro correspondent relationships (five more than at 31 December 2022), relating to 86 EU banks and 81 non-EU banks.

These 16 banks established loro correspondent relationships with EU banks (13 banks) and non-EU banks (14 banks).

Four banks stated that they established loro correspondent relationships with a total of ten banks with head offices in a foreign country included in the list of countries with strategic deficiencies in their AML/CFT systems.

Asked whether there were cases of closing loro accounts in the period for which this analysis was carried out, five banks responded positively, stating they closed a total of 16 loro accounts, citing as the reason the closing of a bank, merger by acquisition and inactive account, unprofitability of keeping the account and client's request to close an account.

Banks have nostro correspondent relationships with 210 banks, while five banks declared that they have established nostro correspondent relationships with eight banks with a head office in a foreign country included in 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 11,300 employees. This is 1,377 persons less from 31 December 2022, while the relative share of front-office staff in total banking sector employment is slightly more than 52%, which is a decrease from the previously analysed year (when it measured slightly more than 58%).

All banks stated that the training covered the relevant provisions of AML/CFT regulations and the regulations governing the freezing of assets with the aim of preventing terrorism and proliferation of weapons of mass destruction. Two banks stated that the training did not cover the relevant provisions of the regulations governing the protection of personal data.

Training is most often carried out by compliance officers and their deputies, trained managers of organisational units and employees of the Department for the Prevention of Money Laundering. This is carried out through workshops and e-learning. A total of 13 banks stated that training for front-office staff is organised once a year, three banks organise these trainings twice a year, while four banks do so three or more times a year.

According to the data provided, one bank carried out training only in direct contact, while other banks did so 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 from 1 April 2018 to 31 December 2023, 65,887 employees in the banking sector successfully completed the training.

All banks stated 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, 17 banks have a special organisational unit which deals exclusively with implementing the Law, whereas in three banks these tasks are performed by other organisational units. In 17 banks in separate organisational units, a total of 136 employees have been assigned to AML/CFT-related tasks, including a compliance officer and his deputy.

In 2023, 14 banks reported changes of employees acting as compliance officers and/or their deputies, citing as the reason the termination of employment of the person who previously held that position, and assignment to a new job. 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, 16 banks gave a negative response, while four banks declared that the compliance officer deputies perform other tasks as well.

In seven banks, the AML staff or front-office staff churn rate was less than 10%, in 11 banks (55% of the banks) it was between 10% and 50%, and in two banks it was over 50%.

In the submitted Questionnaires, the banks state the following as reasons for such fluctuation: increase in the workload of the AML department; expected fluctuation in line with the trend from previous years; natural fluctuation (transfer to another employer); maternity leave; termination of employment due to retirement; change of compliance officer and his deputy; change of front-office staff and the increase in their number; employees leaving the bank through voluntary pension programmes; increase in the number of employees resulting from filling in vacant/missing positions, etc.

According to the submitted data, all banks stated that they have a special software for identifying suspicious transactions and persons. Almost all banks use some external software (Siron AML, Norcom, Asseco SEE, Aseba AML Tool, etc.), while some of them have developed an in-house AML software model. 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 or more. In 18 banks, it also classifies clients according to the level of the ML/TF risk (identical as in the previously observed period).

When asked whether the bank has established procedures for fulfilling obligations in accordance with regulations on freezing of assets with the aim of preventing terrorism and proliferation of weapons of mass destruction, and also whether they 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 said provisions, all bank responded positively.

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 relationship

or whose transaction it carries out, or a person with whom a business relationship was previously established).

Banks also declared the number of indicators they included in the software which they selected from the List for identifying 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 ML-related suspicious transactions published on the Administration's website were included in the software solutions of banks:

Table 2 Number of ML-related indicators included

Number of indicators for banks	Number of banks
Fewer than 10	4
10–19	10
20–29	4
30–37	2

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

Table 3 Number of TF-related indicators included

Number of TF-related indicators	Number of banks
Fewer than 5	15
5–10	2
More than 10	3

In addition to the above, 17 banks stated 212 other scenarios, which they included in their software for the recognition of suspicious transactions and/or persons.

Table 4 shows the number of banks depending on how many of own scenarios were included in the software:

Table 4 Number of own scenarios included

Number of scenarios included developed by the banks themselves	Number of banks
Fewer than 5	6
5-9	2
10-19	9
20-30	3

All banks answered affirmatively when asked whether they had an effective and adequate transaction monitoring system. Banks specified that they monitor the following transactions in real time: FX transactions at home and abroad; FX payments from bank clients' accounts (especially to countries considered off-shore destinations, transactions to countries that do not apply AML/CFT standards, as well as FX payment transactions made with high-risk countries); FX inflows and outflows with reference codes 302, 404, 540, 541 and 770 with a view to monitoring transactions relating to digital assets; transactions in which a new bank product is approved to an existing high-risk client; all transactions and verifying whether the participants in the transactions are persons on international and domestic lists of designated persons, as well as whether payments are made to countries against which the Republic of Serbia applies sanctions; non-cash FX transactions that have been stopped based on the sanctions and terrorist lists; cash transactions exceeding limits; large non-cash transactions; interconnected transactions; cash payments and withdrawals made at the bank counter, etc. Real-time transaction monitoring is performed in most banks in an automated and combined manner, i.e. it is automated and manual.

The circumstances that indicate high risk, which banks apply when determining transactions to be monitored in real time, mainly relate to: transactions carried out by persons on international sanctions lists and domestic designated persons lists; transactions whose participants originate from off-shore countries, high-risk countries or countries that do not apply AML/CFT standards; transactions carried out by persons engaged in the purchase and sale of secondary raw materials, as well as those who are classified as high risk when establishing cooperation with the bank; transactions carried out by non-residents, political parties, private investment funds, foreign legal persons, etc.; unusual transaction amount, reference code and similar. Most banks state that all transactions can be subject to ex-post monitoring and that such monitoring is usually performed daily, but also semi-monthly, monthly, quarterly and semi-annually.

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 300 internal reports on suspected ML risk in relation to a client or a transaction, down by 113 internal reports from the previously analysed year, and no reports 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 166, meaning that notifications were prepared and forwarded to the Administration based on slightly less than 45% of the total number of submitted internal reports. Banks declared that in 2023 they reported a total of 791 of suspicious transactions to the Administration.

Banks state that the most common reasons for reporting suspicious activities are as follows: suspicious transactions related to waste and scrap management; transactions lacking economic justification; frequent cash withdrawals; negative information; suspicious origin of funds; unusual activities compared to the client's regular business; failure to submit mandatory required documents necessary for executing a transaction; inability to obtain information about the origin of assets used in the transaction; attempt to execute transactions based on false business documents and attempts to withdraw money from companies and related parties; suspicion regarding the beneficial owner; money transfers from the accounts of legal persons to the accounts of natural persons which are withdrawn in cash immediately or within a short time upon receipt, and which have no economic or logical justification; cash deposits and repeated identical statements about the basis of the deposit which are suspected of being untrue, as well as suspicion about the origin of the money deposited; transactions based on trade in services (e.g. consulting, marketing, accounting, brokerage services, etc.) for which it is difficult to determine the market prices and which are inconsistent with the client's expected or usual activity; use of natural persons' accounts for business activities; boiler-room and phantom companies; loans; concealing the beneficial owner; false business documentation; avoidance of transactions subject to reporting to the Administration; gambling and betting; liquidity loans by founders; misuse of accounts or business entities; unregistered activities; real estate trade; re-export; avoiding material cost justification; payment cards; trade in high-value goods, etc.

Circumstances which, according to the knowledge of banks, in the observed period led to the increase in the AML/CFT risk (the so-called emerging risks) refer to: clients – domestic legal persons whose founders are from areas at war (Israel, Russia, Ukraine), as well as founders from former Soviet republics and Baltic states (Moldova, Latvia, Lithuania, etc.); activity code 4677 – Wholesale trade in waste and scrap, which are engaged in the purchase of secondary raw materials based on false documents; a great number of requests for opening natural persons' accounts, students from countries with terrorist activities or countries supporting terrorism; certain legal and natural persons registered under activity code 4799 – Other retail trade not in stores, stalls and markets, intending to trade in digital assets (cryptocurrencies);

a client is a legal person whose account is transit, involving fast movement of funds by means of high-value transactions, especially if the transactions lack clear economic justification; a client is a newly established legal person or a legal person that has existed for a longer period but without significant business activity, and in a short period carries out business on a very significant scale in terms of the transaction amounts, frequency and participants; a client is a legal person whose registered headquarters are at an address that is suspected of being false; a client and/or members of the governance and ownership structure or beneficial owners appear in a negative context related to criminal activities, including ML/TF crimes; transactions relating to digital assets; re-export; carrying out activities not registered with the Business Registers Agency, and not reported when establishing cooperation; business relationships (transactions) between legal persons with completely unrelated activity codes, without observed economic justification; significant inflow of non-residents; non-cash transfers from own accounts from countries of domicile to the Republic of Serbia.

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 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 2023 fifteen banks conducted internal audit, in four banks the audit was ongoing at the time of responding to the Questionnaire, and in one bank the last internal audit took place in 2022.

As reported in the Questionnaire, in 14 banks omissions were identified during internal audit, and the deadlines were set for their removal. Five banks removed the irregularities within the set deadline, while other banks said the set deadline had not yet expired. The most common omissions identified by internal audit relate to the need to improve internal documents, i.e. align internal rules with the rules of the Group, omissions in data relating to the classification and reclassification of clients in the system, omissions in client identification, outdated client data and inadequate process in case of expired identification document, minor deficiencies in the KYC process, etc. 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 submitted responses to the Questionnaire, as at 31 December 2023, all banks carried out AML/CFT-related internal control.

Eighteen banks identified omissions in internal control during 2023, and all of them set the deadline for the removal of identified irregularities. Six of them managed to remove the irregularities within the set timeframe, while for 12 banks the deadline is still running.

The most frequent omissions concern incomplete documentation in client files, failure to implement reclassification within the stipulated timeframe, inadequate entry of data about the beneficial owner and inadequate updating of documentation.

In the analysed period, five banks stated that they were conducting ten disciplinary procedures due to issues with employees' integrity (participation in fraud, theft, corruption, etc.). Compared to 31 December 2022, the number of disciplinary procedures due to issues of employee integrity increased (by 3 cases). In the question about the number of proceedings against a bank or employees in respect of ML/TF, as in the previous reporting periods, 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, when the NBS submitted economic offence reports, in accordance with the law.

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