



**NATIONAL BANK OF SERBIA**  
**BANK SUPERVISION DEPARTMENT**

**ANALYSIS OF FINANCIAL LESSORS' RESPONSES  
TO THE QUESTIONNAIRE ON ACTIVITIES  
REGARDING AML/CFT RISK MANAGEMENT  
JANUARY–SEPTEMBER 2015**

Belgrade, March 2016

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## **1. Key findings**

Financial lessors' exposure to the ML/FT risk is low, considering that the balance sheet total of all financial lessors equalled RSD 56.9 bln or 1.89% of the balance sheet total of the banking sector as at 30 September 2015, that their organisational network is underdeveloped, their scope of activities narrow (financial leasing, re-lease and sale of returned lease assets), and particularly that they are prohibited from carrying out payment operations, deposit operations, credit operations (credit approval and collection) and loan approval.

The analysis of lessors' responses to the NBS's Questionnaire indicates low exposure to ML/FT risk during the observed period, given that:

- the obligations of financial lessors under the law and secondary legislation on the prevention of money laundering and terrorism financing are set out in detail in their general acts;
- financial lessors are mindful not only of the risks to which they may be exposed, but also of the risk to which their parent company and the group of companies to which they belong may be exposed. It should be noted that parent companies of all financial lessors owned directly or indirectly by a foreign entity are based in countries which apply high AML/CFT standards;
- all financial lessors adopted internal acts establishing the requirement to apply "Know Your Client" rules and principles;
- according to analysed data, all financial lessors pay due attention to training, particularly of front-office staff or staff engaged in transaction activities;
- all financial lessors conducted internal control of AML/CFT measures and actions and took measures to remedy detected irregularities during the reporting period;
- all financial lessors prepared lists of indicators of suspicious transactions pursuant to Article 23 of the Rulebook on Methodology for Implementing Requirements in Compliance with the Law on the Prevention of Money Laundering and Terrorism Financing (RS Official Gazette, Nos 7/210 and 41/2011) (hereinafter: Rulebook). In their lists, all lessors included all indicators published by the APML on its website, while a number of them even expanded the list.

The fact that lessors took general CDD actions and measures even in cases when simplified actions and measures could be taken (the percentage of clients assessed as low-risk was higher than the percentage of simplified measures and actions taken during the reporting period) indicates that most financial lessors did not properly understand the purpose of client classification. Namely, the main objective of client classification is adequate and optimal allocation of human resources.

Although the ML/FT risk is low in the financial leasing sector, it should by no means be ignored, particularly given the relatively small number of employees in the sector.

As obligors under the Law on the Prevention of Money Laundering and Terrorism Financing (hereinafter: Law), financial lessors are responsible for taking all actions and measures envisaged by the Law and secondary legislation to detect and prevent money laundering and terrorism financing that could ensue from financial leasing activities.

## **2. Introductory note**

In 2010, the NBS established the practice of off-site monitoring of financial lessors' activities regarding AML/CFT risk management. This monitoring is carried out twice a year on the basis of data submitted by financial lessors to the NBS, in the form of completed questionnaires (hereinafter: Questionnaires).

The analysis of the Questionnaires aims to:

- provide an overview of the current state of affairs in the process of identifying, measuring and managing ML/FT risk regarding financial leasing activities,
- promote adequate implementation of established rules and principles of the KYC procedure,
- ensure off-site monitoring of development of the AML/CFT risk management system by financial lessors,
- detect any weaknesses and timely inform financial lessors of potential risk exposure.

The questions in the Questionnaire are sorted into four sections:

Section I: General data on lessors

Section II: Lessors' activity

Section III: Lessees

Section IV: Employee training

As the analysis is based on data submitted to the NBS rather than collected directly on the premises of financial lessors, certain inconsistencies are possible, which is why these data serve for analytical purposes only.

All lessors operating in the financial leasing market of the Republic of Serbia submitted their responses to the Questionnaire for the January–September 2015 period (hereinafter: reporting period).

### **3. General data on financial lessors**

A total of sixteen financial lessors operated in the Republic of Serbia during the reporting period. Nine lessors were in 100% or majority ownership of foreign legal entities, six lessors were in 100% or majority ownership of domestic entities (of which five were owned by domestic banks in foreign ownership), while one lessor was jointly owned by a domestic bank in foreign ownership and a foreign legal entity, each holding a 50% stake. Most lessors owned directly or indirectly by foreign entities (through domestic banks) properly understood and implemented AML/CFT risk management standards, policies and procedures in effect in the country in which their owners are based. All foreign credit/financial institutions – direct and indirect owners of domestic lessors are based in the EU.

Of all lessors, only five operated through branches (11 branches in total) during the reporting period.

### **4. Financial lessors' activity**

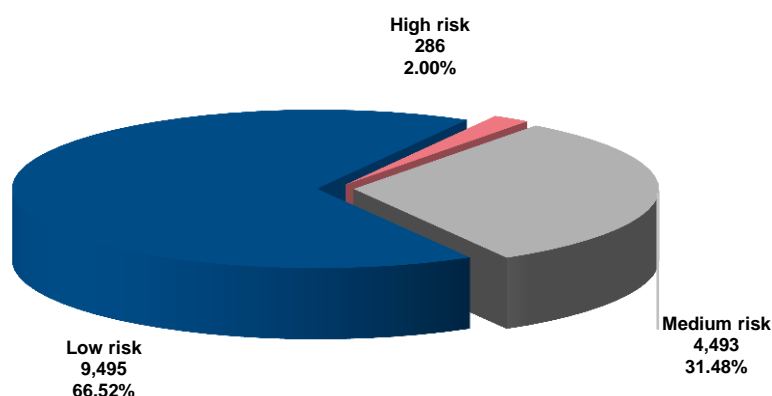
Based on adopted internal acts on AML/CFT risk management, all financial lessors prepared an AML/CFT risk analysis pursuant to the Decision on the Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing (RS Official Gazette, Nos 46/2009 and 104/2009) issued by the NBS.

On the basis of data on client classification by degree of exposure to ML/FT risk, the majority of clients were assessed as low-risk (66.52%), 31.48% as medium-risk, and only 2% as high-risk (Chart 1).

Such high percentage of clients classified as low-risk comes as a result of the provision under Article 5a of the Rulebook which allows obligors to assess client risk based on an analysis conducted in line with their own criteria.

**Chart 1 Lessees by degree of risk**

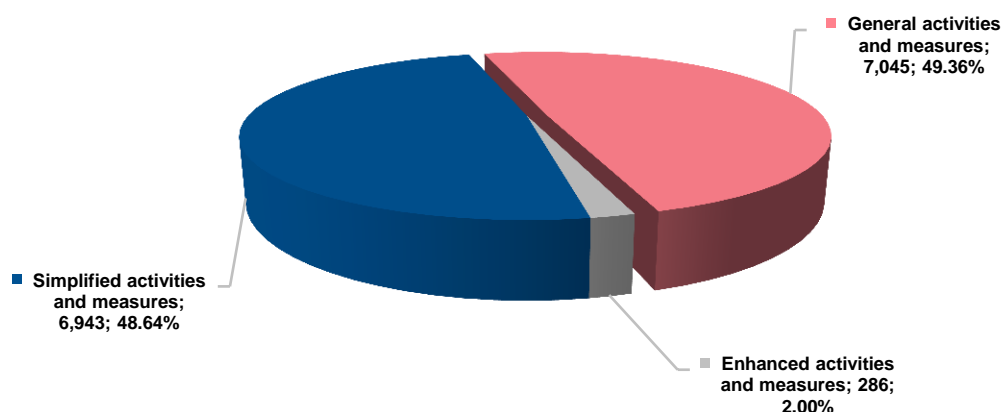
(as at 30 September 2015)



Pursuant to the Law, lessors are required to take general, simplified and enhanced CDD actions and measures. The analysis of Questionnaire responses shows that, though 9,495 clients of the total of 14,274 were classified as low-risk, lessors took simplified CDD actions and measures in respect of 6,493 clients only. General CDD actions and measures were taken in respect of 7,045 clients, and enhanced in respect of 286 clients.

**Chart 2 Lessees by taken CDD actions and measures**

(as at 30 September 2015)



As Chart 2 shows, lessors took general actions and measures in respect of 49.36% of all clients, regardless of whether they were classified as low- or medium-risk, simplified actions and measures in respect of 48.64%, and enhanced in respect of 2% of all clients, at overall financial leasing sector level. This suggests inadequate understanding of the purpose of client classification by degree of ML/FT risk exposure. In their responses, all lessors stated that their internal acts define the frequency of client monitoring on the basis of client risk level, which may also indicate inadequate resource allocation. Namely, general actions and measures envisage more frequent client monitoring than in the case of simplified actions and measures which should be applied to low-risk clients.

In the reporting period, all sixteen lessors carried out internal control of AML/CFT-related activities. Three lessors detected irregularities and took measures to rectify them.

According to Questionnaire responses, all lessors terminate their business relationship with clients if they are not able to take CDD actions and measures. In the January–September 2015 period, two lessors refused to cooperate with one client each because they were not able to take CDD actions and measures.

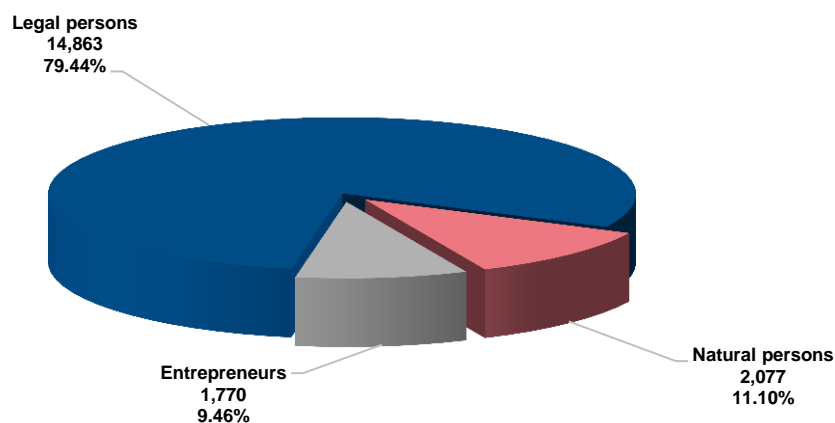
According to Questionnaire responses, two lessors entrusted some of the CDD actions and measures to a third party.

During the reporting period, fifteen lessors accepted a third-party guarantee for a lessee, judging that there is a clear connection between the lessee and the guarantor – solidary obligor. The total number of lease agreements secured by guarantee was 2,808, and lessors were able to establish a clear connection between the lessee and the guarantor.

## 5. Lessees

In the reporting period, lessors concluded 18,710 lease agreements, of which 14,863 with legal persons, 2,077 with natural persons and 1,770 with entrepreneurs.

**Chart 3.1 Lessees by number and structure of concluded lease agreements**  
(as at 30 September 2015)

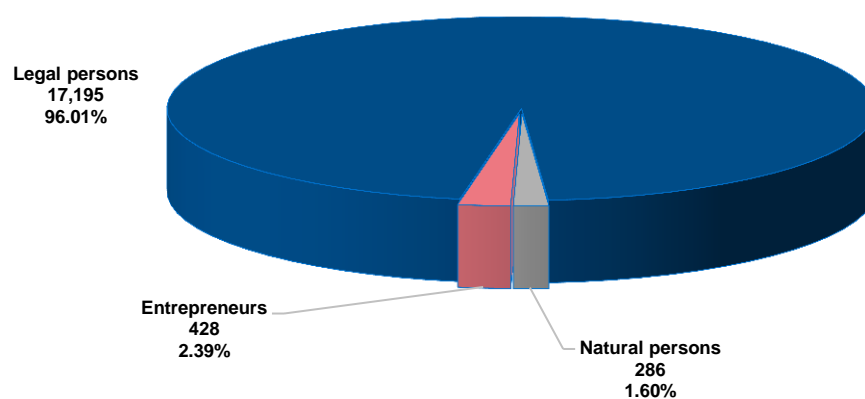


In the reporting period, lessors concluded 17,909 supply agreements, of which 17,195 with legal persons, 428 with entrepreneurs and 286 with natural persons.



**Chart 3.2 Lessees by number and structure of concluded supply agreements**

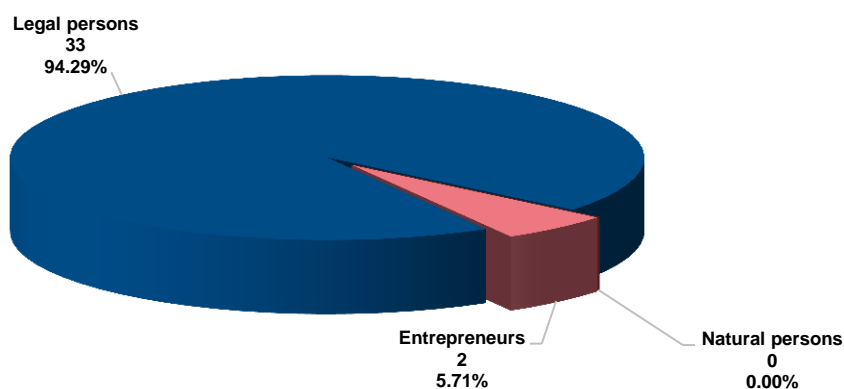
(as at 30 September 2015)



In the reporting period, lessors concluded 35 contracts on re-leasing of returned lease assets, of which 33 with legal persons and two with entrepreneurs.

**Chart 3.3 Lessees by number and structure of concluded agreements on re-leasing of returned assets**

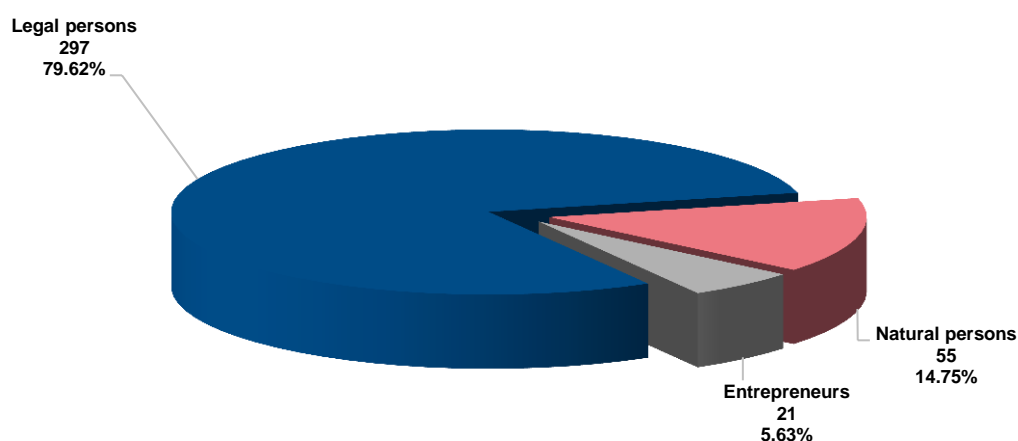
(as at 30 September 2015)



In the reporting period, lessors concluded 373 agreements on sale of returned lease assets, of which 297 with legal persons, 55 with natural persons and 21 with entrepreneurs.

**Chart 3.4 Lessees by number and structure of concluded agreements on sale of returned lease assets**

(as at 30 September 2015)



## 6. Employee training

As at 30 September 2015, the financial leasing sector employed a total of 428 persons. All lessors prepared annual programmes of professional education, training and development for employees engaged in the detection and prevention of money laundering and terrorism financing. Employee training is carried out in accordance with the annual plan and programme. Twelve lessors organise training once a year, or more often in case of changes to legislation, while four lessors organise training twice a year. Training is most often held by compliance officers and their deputies, through presentations in training centres, lectures and online presentations, group and individual consultations, face-to-face training, submission of documents informing employees on changes to the Law, PowerPoint presentations, in-house portals and individual training. AML/CFT knowledge testing is carried out once a year, and tests are stored in paper or electronic form for five years.

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