NATIONAL BANK OF SERBIA

AML SUPERVISION CENTRE

ANALYSIS OF RESPONSES TO THE QUESTIONNAIRE ON BANKS' ACTIVITIES REGARDING ML/TF RISK MANAGEMENT FOR 2018

Belgrade, March 2019

Introductory note

Within bank supervision, the National Bank of Serbia (NBS) carries out off-site monitoring and analysis of the ML/TF risk management activities of banks. The analysis of data from the Questionnaire on Banks' Activities regarding ML/TF Risk Management (hereinafter: Questionnaire) is carried out at least once a year. In accordance with the new Law on the Prevention of Money Laundering and Terrorism Financing (RS Official Gazette, No 113/2017 - hereinafter: the Law), the NBS Decision on the Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing (RS Official Gazette, Nos 13/2018 and 103/2018), and the National Money Laundering and Terrorism Financing Risk Assessment carried out in 2018, a new Questionnaire was created for the purposes of updating these analyses, as well as for regular supervisory assessment of the ML/TF risk in banks. The updating of the Questionnaire was aimed at further improving the risk-based approach in supervising banks' activities in the area of ML/TF risk management.

Questions in the Questionnaire are sorted into twelve 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: Corporate governance (in the information system relating to the ML/TF risk)
Part IX: Employee training
Part X: Organisational structure
Part XI: Reporting to the AML/CTF compliance officer
Part XII: Internal audit and internal control

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

- analysing the state-of-play in terms of identifying, measuring and managing ML/TF risk in the entire banking system at annual level 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 was carried out based on data for January–December 2018, submitted by banks to the NBS. Though they may exhibit certain inconsistencies, the presented data are used chiefly for analytical purposes.

Compared to the analyses carried out in previous years and periods, and due to changes in the structure of data submitted by banks through the new Questionnaire, it was not possible to compare and monitor the trends of individual results obtained by this analysis.

In the period covered by the analysis, 28 banks operated in Serbia's banking sector, but this number decreased in the last quarter of the year to 27 amid a merger by acquisition of one bank.

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I Key findings

Based on the analysis, the overall conclusion is that, as in the previously analysed period, banks have medium exposure 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, banks are exposed to the ML/TF risk. Namely, as at 31 December 2018, 27 banks established business relations with clients at a total of 2,335 locations, while cash transactions could be executed at a total of 4,382 locations in Serbia. The total number of clients in the banking sector on the said date was over 12.4 million, of which around 11.7 million were natural persons (80,793 non-residents), 388,473 legal persons (5,195 non-resident legal persons) and 359,789 entrepreneurs. In the observed period, over 332 million cashless and over 100 million cash transactions were executed.

The key findings based on the analysis of the data provided in the Questionnaire, regarding the implementation of measures for the ML/TF risk management and control in the observed period are, inter alia, the following:

- 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 use some of the commercial databases for filtering clients and transactions against embargo lists and the so-called blacklists (OFAC, UN, EU, etc.)
- 26 out of 27 banks use software for tracking transactions and clients to detect suspicious transactions and individuals, while one bank is in the process of introducing the software;
- in 21 out of 27 banks, the AML/CTF area is covered by the report of the external auditor;
- all banks carried out internal control in 2018 (irregularities were identified in 25 banks);
- 18 banks took and implemented measures to eliminate identified irregularities, while in 7 banks this deadline has not yet expired;
- 18 banks terminated the business relationship with 64,719 clients (of which 1 bank with 59,229 clients) because it was impossible to carry out CDD;
- over 78% of all employees in the banking sector successfully completed their training in 2018.

II General bank data

As at 31 December 2018, 27 banks in Serbia held an operating licence issued by the NBS. According to the submitted responses, banks established business relations with clients at a total of 2,335 locations within the business network of the entire banking sector consisting of 946 branches, 575 branch offices, 13 regional centres and three offices for housing loans. Six banks can establish business relationships at up to 10 locations, six banks at 11–50 locations, eight banks at 51–100 locations, five banks at 101–200 locations, and two banks at over 200 locations.

At banking sector level, a cash transaction can be made at a total of 4,382 locations. Six banks have up to 10 such locations, five banks between 11 and 50 locations, nine banks between 51 and 100, three banks between 101 and 200, and four banks over 200 such locations.

Total banking sector employment as at 31 December 2018 was 22,846 persons, while the number of employees directly engaged in client- and transaction-related operations was 13,406 (58.68% of the total number of employees). The analysis of employment data reveals a continuation of the staffing reduction trend, with total employment at end-December 2018 down by 498 persons relative to end-September 2017.

At banking sector level, the average number of clients per employee directly engaged in client- and transaction-related operations was 930, while the average number of transactions per employee was 33,540 in the January–December 2018 period. The average number of clients per bank employee rose by 85 relative to the same data as at 30 September 2017. This means that the trend of increasing employee workload, observed in the previous years, continued in the period under review.

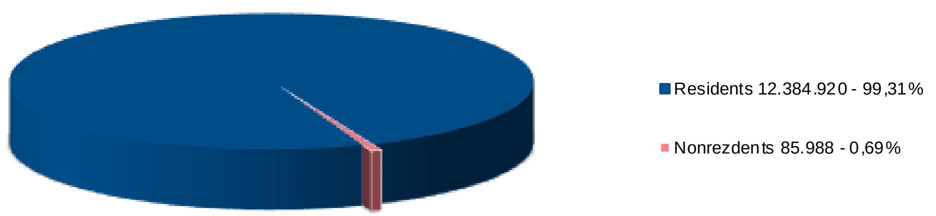
III Clients

As at 31 December 2018, the total number of clients at the banking sector level came at 12,470,908, down by 184,535 in absolute amount relative to the previously analysed period (end-September 2017).

Based on the data obtained from the Questionnaire, Charts 1–6 show the composition of clients by residence, the legal form of organising resident legal persons, as well as 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 2018.

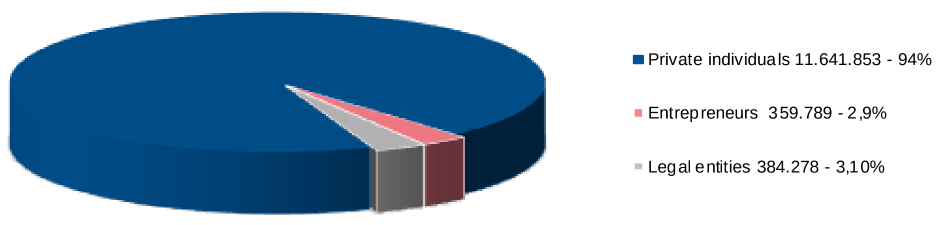
Chart 1. **Composition of clients by residence as at December 31,2018**



Relative to the previously analysed period, there were no changes in the composition of clients by residence in the banking sector.

Of the total number of resident clients, natural persons were dominant (93.97%), while domestic legal persons and entrepreneurs accounted for 3.10% and 2.93%, respectively (Chart 2).

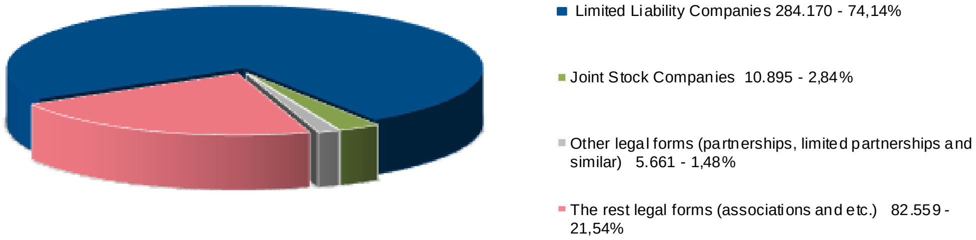
Chart 2. **Composition of clients resident as at December 31,2018**



Relative to the previously analysed period, the composition of resident clients remained almost unchanged, with the share of entrepreneurs mildly increasing by 0.1% and that of resident legal persons decreasing by the same percentage.

Chart 3 shows the composition of resident legal persons by legal form of organising.

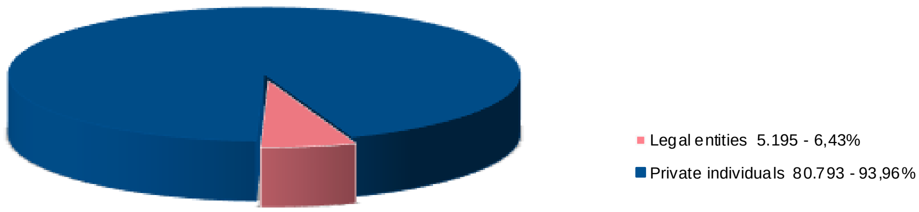
Chart 3. **Composition of resident legal entities by legal form of organization**



It should be noted that in the total number of resident legal persons, the dominant share belongs to limited liability companies (DOO), with the National Risk Assessment estimating this legal form to be at an elevated ML/TF risk, while the share of legal persons that are organised as joint-stock companies (AD) amounts to 2.84%. The share of legal persons organised in other legal forms (limited partnership, partnership company) is only 1.48%, while all other forms (associations, foundations, sport associations, etc.) account for the remaining 21.54% or 82,599 clients.

Chart 4 shows the composition of non-resident clients in the banking sector as at 31 December 2018.

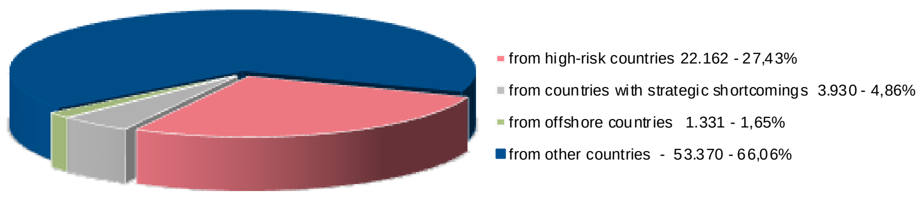
Chart 4. **Composition of non-resident clients as at Decembar 31,2018,**



The total number of non-resident clients in the analysed period was 85,988. Relative to the previously analysed period (as at 30 September 2017), the number of non-resident natural persons increased by 1,029, accounting for the share of 93.96%. However, the number of non-resident legal persons decreased significantly – by 2,887 relative to the previously analysed period.

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, i.e. by the beneficial owner of the client.

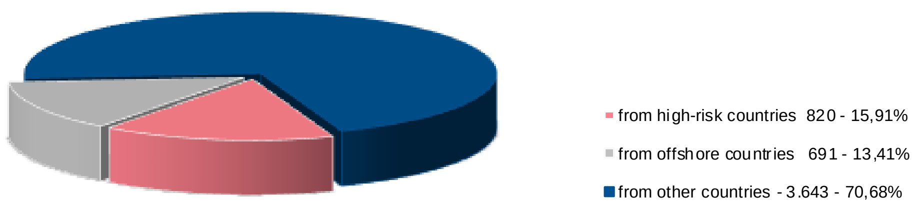
Chart 5. **Composition of non-resident private individuals by country's risk level as at December 31,2018**



The share of natural persons from high-risk countries in the total number of non-resident natural persons was 27.43%, while 4.86% of them were from the countries with strategic deficiencies in the AML/CTF system. In addition, 1.65% of the share relates to non-resident natural persons from offshore countries, while natural persons from other countries which do not have a high or elevated ML/TF risk hold a dominant share.

As with non-resident natural persons, the dominant share in the composition of non-resident legal persons (70.68%) belongs to legal persons from other countries which do not have an elevated ML/TF risk. It is followed by non-resident legal persons from high-risk countries with a share of 15.91% and legal persons from offshore countries with a share of 13.41%.

Chart 6. **Composition of non-resident legal entities by country's risk level as at December 31,2018**

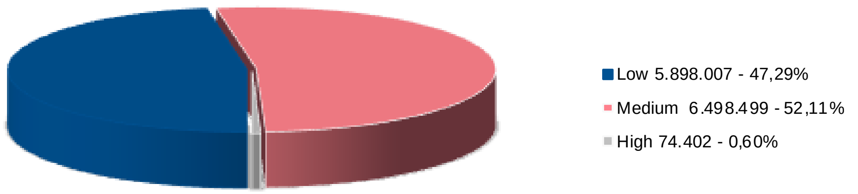


IV Client composition by the assessed risk level

In accordance with the Law and the NBS Decision on the Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing, all banks have an obligation to prepare the risk analysis for each group or type of client, and/or business relation, and/or services offered by the obligor within 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).

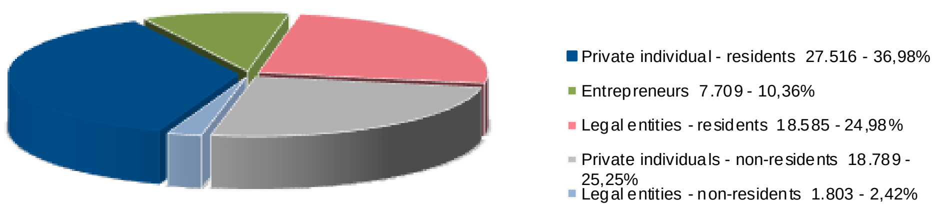
Chart 7.**Composition of clients by degree of risk level as at December 31, 2018**



According to the submitted data on client classification by degree of exposure to ML/TF risk, 11 banks classified over 80% of their clients in the low-risk category, while 13 classified the majority of their clients (over 80%) in the medium-risk category. Of the remaining three banks, two banks classified between 50% and 60% of their clients in the high-risk category, while one bank, specific due to a small number of clients, classified over 92% of its clients in the high-risk category.

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

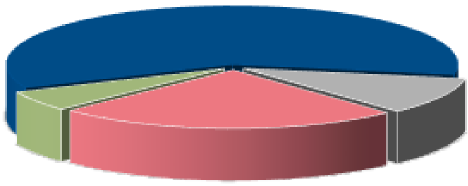
Chart 8. **Composition of high - risk clients as at December 31,2018**



Natural persons have the largest share (36.98%), followed by non-resident natural persons (25.25%), resident legal persons (24.98%), entrepreneurs (10.36%) and finally non-resident legal persons with the smallest share (2.42%).

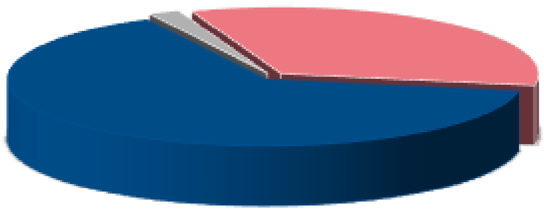
Charts 9, 10 and 11 show the composition of the resident natural persons, legal persons and entrepreneurs by the basis for classification into high ML/TF risk category.

Chart 9. **Composition of high - risk clients resident private individuals as at December 31,2018**



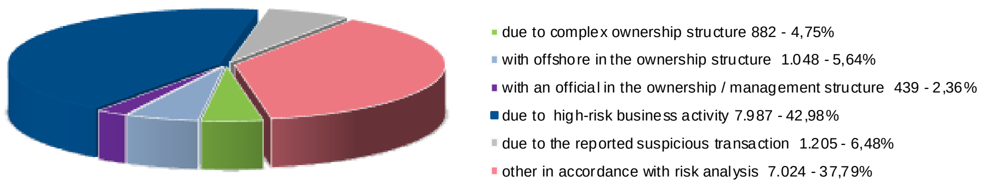
In accordance with the risk analysis, banks classified 59.31% of resident natural persons in the high-risk category, with 24.75% of these clients thus classified because they were not present when establishing business relationship. The share of clients classified as high-risk because they executed transactions reported as suspicious to the Administration for the Prevention of Money Laundering (hereinafter: the Administration) was 5.64%. In the composition of the high-risk resident natural persons, banks determined that 2,832 clients had the status of officials (10.29%).

Chart 10. **Composition of high - risk clients resident Entrepreneurs as at December 31,2018**



Banks classified 4,979 entrepreneurs (64.63%) in the high-risk category for ML/TF, because they performed some of the high-risk activities, 1.95% because they executed transactions reported as suspicious to the Administration, while the remaining 33.43% were classified as high-risk in accordance with the risk assessment.

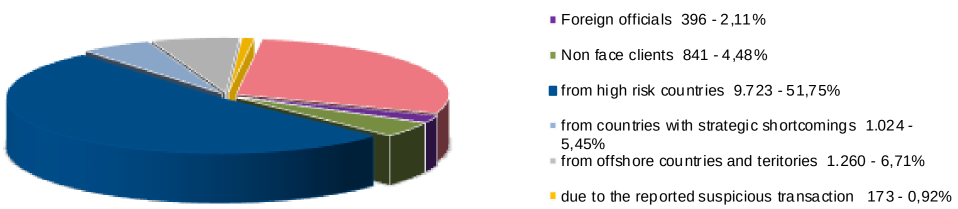
Chart 11. **Composition of high - risk clients resident legal entities as at December 31,2018**



In the analysed period, banks classified 7,987 resident legal persons as high-risk because they performed some of the high-risk activities, 1,048 clients because they had an offshore legal person in the ownership structure, 1,025 clients because their transactions were reported as suspicious to the Administration, 882 clients owing to a complex ownership structure, and the remaining 7,024 were classified as high-risk in accordance with the banks' analysis.

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

Chart 12. **Composition of high - risk clients non-resident private individuals as at December 31,2018**

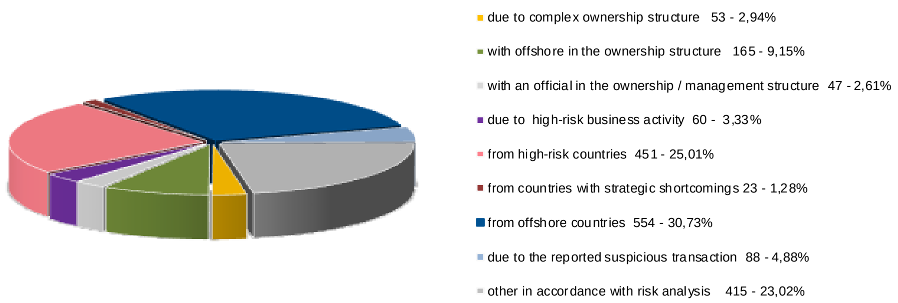


The bulk of non-resident natural persons (51.75%) were classified as high-risk, because they were from the countries for which banks assessed high ML/TF risk. Banks assessed 5.45% of these clients as high-risk because they were from the countries with strategic deficiencies, 4.48% because they were not present when establishing business relationship, and 6.71% because they were from the countries considered to be offshore destinations, i.e. states.

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 396 of the high-risk non-resident natural person clients had the status of officials.

Chart 13. **Composition of high - risk clients non-resident legal entities as at December 31,2018**

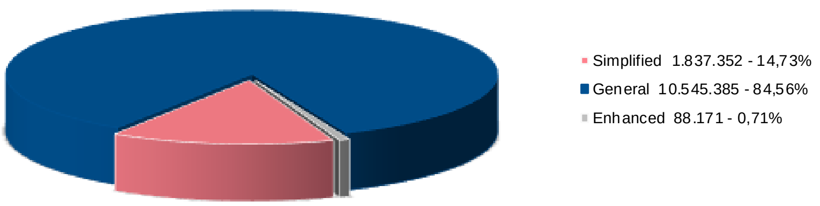


In the composition of high-risk non-resident legal persons, offshore legal persons had the largest share of 30.73%, followed by legal persons from countries for which banks assessed high ML/TF risk (25.01%), as well as 23.02% of those classified by the banks as high-risk in accordance with the performed analysis. Banks assessed only 2.94% of non-resident legal persons as high-risk due to the complex ownership structure, 2.61% because they had an official in the ownership/governance structure and 4.88% due to the reporting of suspicious transactions to the Administration.

V Client composition by CDD actions and measures

Pursuant to the Law, banks are required to apply general, simplified or enhanced CDD actions and measures. In the analysed period, general actions and measures were taken in respect of 84.56% of clients at banking sector level. Enhanced actions and measures were taken in respect of 0.71% and simplified in respect of 14.73% of clients, as shown in Chart 14.

Chart 14. **Composition of clients by CDD actions and measures applied as at December 31,2018**



The table below shows a comparative overview of the number of clients by risk level and CDD actions and measures as at 31 December 2018.

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

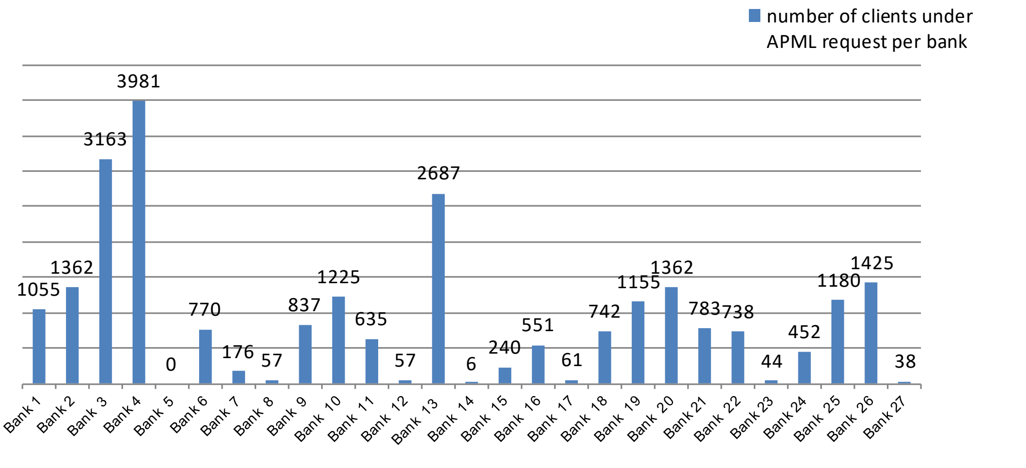
Risk level	No of clients	% share	Applied measures	No of clients	%share
Low	5,898,007	47.29	Simplified	1,837,352	14.73
Medium	6,498,499	52.11	General	10,545,385	84.56
High	74,402	0.60	Enhanced	88,171	0.71
	12,470,908	**100**		**12,470,908**	**100**

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 31.15% of such clients are subject to general CDD actions and measures. Enhanced actions and measures are applied to all clients classified as high-risk, but also to 13,769 clients classified as medium- or low-risk.

In the question from the Questionnaire about the number of cases in which the business relationship was discontinued due to the inability to apply CDD actions and measures, 18 banks responded that business relations with 59,229 clients were terminated. In the observed period, 18 banks refused the offer to establish a business relationship and/or execute transactions in 4,391 cases due to the impossibility to take CDD actions and measures. Of this number of cases, 4,166 pertained to one bank only.

Chart 15 gives an overview of the number of clients on which in the last three years banks submitted data to the Administration at its request.

Chart 15. **Overview of number of clients on which in the last three years banks submitted data to the Administration at its request**



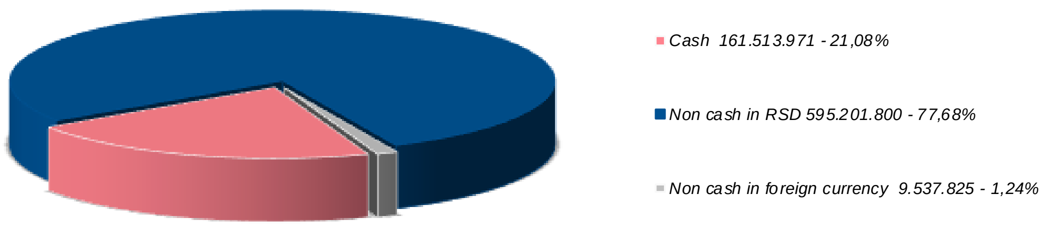
The analysis has shown that most of the clients for which data were submitted to the Administration were the clients of banks occupying leading positions by the number of clients in the banking sector.

VI Transactions and products

Banks executed 766,253,596 transactions in 2018.

Chart 16 shows the structure of cash and cashless (dinar and foreign currency) transactions in the banking sector in the period January–December 2018.

Chart 16. **Composition of cash and non cash transactions (executed in RSD and foreign currencies) in the banking system in period January–December 2018**



According to the submitted data, the largest share in the total number of transactions executed in the entire banking sector belongs to non-cash transactions in dinars - almost 78%. It is followed by cash transactions with the share of 21.08% in total executed transactions.

In 2018, banks executed a total of 4,537,921 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 – almost 72%.

Chart 17. **Composition of cash and non cash transactions in the ammount of 15000 euro or more (executed in RSD and foreign currencies) in the banking system in period January–December 2018**

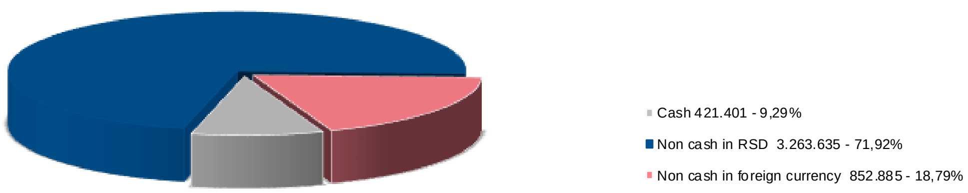
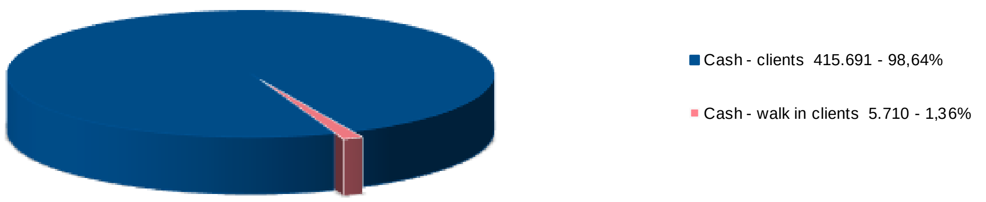


Chart 18 shows a comparative overview of the number of cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, from the aspect of whether they were performed by the clients in the bank with which they have established a business relationship or not (so-called non-clients).

Out of a total of 421,701 executed cash transactions worth EUR 15,000 or more in the dinar equivalent at the NBS middle exchange rate, only 5,710 transactions with a share of 1.36% were executed by persons who were not clients of the bank in which these transactions were made.

Chart 18. **Composition of executed cash transaction in the ammount of and over 15.000 euros executed by client and walk in clients in period January-December 2018**

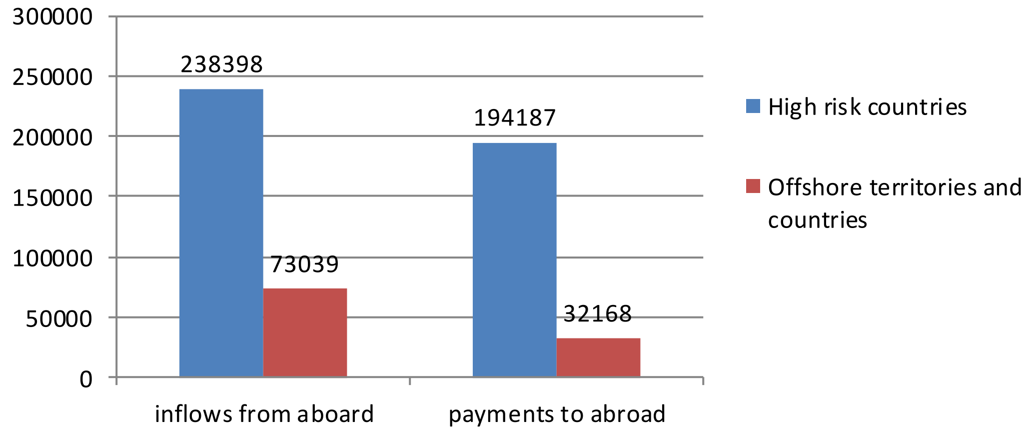


Below is an overview of the number of payments from high-risk countries and offshore geographical areas in 2018. At the same time, 194,187 payments were made to high-risk countries, as well as 32,168 payments to offshore geographical areas, i.e. countries.

In the course of 2018, ten banks introduced a total of 54 new products into their business offer. In their responses to the Questionnaire, three banks stated that they did not have products that were assessed as high- and/or medium-high ML/TF risk.

In the analysed period, 12 banks identified a high ML/TF risk for 1–10 products; four banks did this for 11–30 of their products, and two banks for more than 30 products.

Chart 19. **Overview of the number of executed inflow transactions from and number of payments to high-risk and offshore countries in 2018**



Seventeen banks reported no products from their business offer were assessed as medium-high risk, seven banks assessed 1–10 products at this level of risk; one bank declared that it had 15 medium-risk products, while the remaining two banks had more than 30 products of medium-high ML/TF risk.

As regards electronic and mobile banking, nine banks assessed these products as high-risk, and five banks assessed them as medium-high ML/TF risk. E-banking is used by 1,401,746 clients, mobile banking by 1,043,476, and private banking by only 222,941 clients. According to the data provided, during 2018, 20 out of 27 banks approved 10,849 loans worth EUR 69,564,742.87 against 100% deposit backing.

VII Outsourcing CDD actions and measures to third parties

In the entire banking sector, only seven banks used the possibility to outsource some of the CDD actions and measures to third persons, in accordance with the Law, and thus obtained data and documentation for 532,309 clients (426,444 of these clients pertaining to one bank only). Relative to the previously analysed period, the number of clients, for which data and documentation were obtained by third parties in accordance with the Law, increased by 133,029.

VIII Correspondent relationship

In the analysed period, seven banks declared that they did not establish correspondent relationships with banks and similar institutions with a head office in a foreign country, while the remaining twenty banks established a total of 178 loro correspondent relations. All 27 banks declared that they did not establish 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/CTF system.

Asked whether there were cases of closing loro accounts in the period for which this analysis was carried out, only four banks responded positively, stating they closed a total of 12 loro accounts, citing as the reason a small volume of turnover, i.e. inactivity. Banks have nostro correspondent relations with 235 banks, while three banks declared that they have established nostro correspondent relations with five banks with a head office in a foreign country that is on the list of countries with strategic deficiencies in the AML/CTF system.

IX Corporate governance (in the information system relating to the ML/TF risk)

According to the data provided, 26 out of 27 banks stated that they have special software for identifying suspicious transactions and persons, which also recognises transactions in the amount of EUR 15,000 or more in the dinar equivalent, while one bank said it was in the process of introducing such software. Twenty-three banks use external software (Smaragd, Norcom, Asseco SEE, Aseba AML Tool, etc.), while three banks have developed AML software in-house. In 21 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, and classifies clients according to the level of the ML/TF risk.

Asked whether the software allows filtering of clients and transactions by embargo and so-called blacklists (the UN Security Council list, the EU lists and the OFAC lists, etc.), all 27 banks responded positively.

Banks also listed the indicators included in the software which they selected from the List of indicators for recognising suspicious transactions or persons and the List of indicators relating to terrorism financing published on the Administration's website.

The table below shows how many indicators for recognising suspicious transactions relating to money laundering published on the Administration's website were included in the software solutions of 26 banks.

Table 2 **Number of included indicators relating to money laundering**

Number of included indicators for banks	Number of banks
Fewer than 10	5
10–19	13
20–29	7
30–37	1

According to Questionnaire responses, indicators for recognising FT-related suspicious transactions are included in the software of 26 banks, as follows:

Table 3 **Number of included indicators relating to terrorism financing**

Number of included FT-related indicators	Number of banks
Fewer than 5	18
5-10	7
More than 10	1

Also, 22 banks reported 476 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 included developed by banks	Number of banks
Fewer than 5	2
5-9	3
10-19	10
20 to 30	3
50	4

Further improvement of IT solutions within existing systems can have an important impact on the level of operating risks that might arise through human error, and can enable a more efficient human resource management (especially in conditions of a reduced staff numbers), by enabling employees to dedicate more attention to improving the quality of analysis of the clients' business, i.e. transactions which the banking system singles out based on the programmed parameters – indicators and scenarios.

X Employee training

In the banking sector, front-office jobs are carried out by a total of 13,406 employees. This is 1,563 persons less than in the previously analysed period (as at 30 September 2017), while the relative share of front-office staff in total banking sector employment is 58.68%.

Training is most often carried out by compliance officers and their deputies, trained managers of organisational units and Compliance Division staff. A total of 18 banks stated that training for front-office staff is organised once a year, five banks organise these trainings twice a year, while four banks do so three or more times a year. According to the data provided, in two banks training is carried out in direct contact with employees (in training centres, interactive trainings, workshops using PowerPoint presentations), two banks carry out training without direct contact with employees – by electronic means (so-called E-learning), while most banks (23) carry out training in both ways.

As at 31 December 2018, 17,902 employees, of whom 13,406 front-office staff, successfully completed the training, accounting for over 78% of the total number of employees in the banking sector.

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.

XI Organisational structure

As Questionnaire responses reveal, 22 banks have a special organisational unit which deals exclusively with the implementation of the Law, whereas in five banks these tasks are performed by organisational units that have other mandates too. In 22 banks in separate organisational units, a total of 100 employees have been assigned to AML/CTF-related tasks, including a compliance officer and his deputy.

When asked if the bank submitted to the Administration data on the personal name and job title of the compliance officer and his deputy, as well as the data on the personal name and job title of the member of the top management responsible for the implementation of the Law, all banks replied affirmatively.

When asked if the compliance officer and his deputy who engage in AML-related activities on a daily basis in accordance with the Law, perform other tasks too, 22 banks gave a negative response, while five banks declared that the compliance officer and his deputy perform other tasks as well.

In five of the 27 banks (18.5 %), the AML staff or front-office staff churn rate was between 10% and 50%, while in all other banks it was below 10%.

XII Reporting to the AML/CTF compliance officer

The front-office staff submitted to the compliance officer 4,591 internal reports on suspected ML risk in relation to a client or its transaction. In the analysed period, there were two internal reports in which the suspicion related to terrorism financing. However, based on the opinion and decision of the compliance officer, these reports were not submitted to the Administration as suspicious. The number of internal reports submitted by bank staff to the compliance officer increased by 1,227 in absolute terms (by 26.7%) from the previously analysed period. However, the number of internal reports that bank staff sent to the compliance officer and based on which data were not submitted to the Administration, amounted to 4,439, meaning that only 3.35% of the total number of internal reports was reported to the Administration.

XIII 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/CTF activities only.

According to Questionnaire responses, internal audit plans of 24 banks envisage AML/CTF-related audit of their operations in 2018. In the last year, 24 banks performed an internal audit of that part of their operations. Of the remaining three banks, one bank carried out an internal audit in 2015, one in 2016 and one in 2017.

In the process of internal audit of a part of operations which is AML/CTF-related, 23 banks identified irregularities, while in the case of one bank, the audit report has not yet been drafted.

The most commonly identified irregularities include: incorrectly performed client classification by the degree of exposure to the ML/TF risk, incompletely or incorrectly entered data on clients in the bank system, failure to re-assess the ML risk with the defined deadlines, inadequate entering of data on the ownership structure of legal persons, inadequate quality of data on the number of clients and ML risk in the quarterly AML report, shortcomings or mutual inconsistencies of internal documents regulating different business processes, omissions in systemic solutions regarding the risk level monitoring, failure to define clearly all segments of the AML risk assessment methodology, failure to establish a blacklist block in the system for transactions carried out through e-banking and m-banking, failure to implement trainings envisaged by the plan and programme, etc.

Of all banks which identified irregularities in the course of internal audit, 23 set deadlines for their removal, 15 removed the irregularities within the set deadline, while in eight banks the deadline has not yet expired.

When asked whether the External Auditor's Report included the ML/TF area, 21 banks gave the affirmative answer.

In the analysis period, all banks conducted internal control of AML/CTF activities. Irregularities were detected in 25 banks.

In 25 banks, a compliance officer/compliance officer deputy participates in the implementation of internal control and reports on the results of the control to the bank's management periodically (monthly, quarterly, semi-annually or annually).

Most frequently, internal control findings related to the following:

- inadequate or incomplete documentation at the time of client identification for the purpose of establishing a business relationship or performing a transaction,

- outdated client records in the bank's system,

- incorrect client classification by degree of ML/TF risk exposure,

- omissions in identifying or verifying identification of resident and non-resident natural persons, officials and legal persons,

- incorrect certification of the copies of the personal documents of clients – natural persons and beneficial owners of legal persons,
- the system's inability to fully monitor the ML/TF risk.

All banks which detected irregularities in the course of internal controls set a deadline for the removal of such irregularities, and 18 took measures to remove them, while in seven banks the deadline has not yet expired.

In the analysed period, four banks stated they are conducting a total of nine disciplinary procedures due to problems with employee integrity (participation in fraud, theft, corruption, etc.), while three banks reported that proceedings are conducted against the bank or employees in respect of ML/TF.

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Finally, it should be noted that the analysis of the data submitted in the Questionnaire for January–December 2018 revealed that a certain number of banks did not provide some data in the required format, i.e. the value of some data was not expressed in the currency required. Therefore, it is necessary that banks pay due attention when completing the Questionnaire in the future.