NATIONAL BANK OF SERBIA

AML SUPERVISION CENTRE

ANALYSIS OF RESPONSES TO THE QUESTIONNAIRE ON BANKS’ ACTIVITIES REGARDING ML/TF RISK MANAGEMENT FOR 2020

Belgrade, June 2021

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 published at least once a year. In accordance with the Law on the Prevention of Money Laundering and Terrorism Financing (RS Official Gazette, Nos 113/2017, 91/2019 and 153/2020 – hereinafter: the Law), the Decision on Guidelines for the Application of the Provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the National Bank of Serbia (RS Official Gazette, Nos 13/2018, 103/2018, 57/2019 and 137/2020 and 49/2021) and the conducted National Money Laundering Risk Assessment in 2018 a new Questionnaire was prepared in order to adequately update the analysis and conduct regular supervisory assessment of 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 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:

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

The analysis is based on data for the period January–December 2020 which banks submitted to the NBS on a semi-annual basis.

The observed period was marked by the Covid-19 pandemic, which changed the manner and conditions of banks' operation. Namely, in order to mitigate the impact of Covid-19 virus on safety and health of their employees and following the recommendations of the Serbian Government, the majority of banks allowed for a significant number of their employees to perform their regular work obligations from home. Also, due to these circumstances and at the initiative of the Association of Serbian Banks, the NBS agreed to change, i.e. extend the period for banks' reporting, i.e. sending responses to the Questionnaire and report submission deadline, so the banks submitted their responses to the Questionnaire on the semi-annual instead on the quarterly basis.

In the period under review, 26 banks operated in the Serbian banking sector, an unchanged number since 31/12/2019.

CONTENTS:

I. Key findings

Based on the analysis of the inherent risk of exposure to the ML/TF risk, i.e. quantitative and qualitative data and information from the Questionnaire, as well as data and information related to the management and control of this risk, the overall conclusion is that banks have medium exposure to the ML/TF risk, as in the previously analysed periods.

Banks are exposed to the ML/TF risk due to the size of the sector and the branched-out network, the number and type of clients, as well as the number of performed transactions. Namely, as at 31/12/2020, 26 banks established business relations with clients at a total of 1,748 locations, while cash transactions could be executed at a total of 3,369 locations in Serbia. Compared to the data from the past year, the number of locations at which a bank could establish business relations with clients edged down, while the number of locations at which cash transactions could be executed increased.

The total number of clients in the banking sector rose relative to the previously analysed year, measuring at end-2020 over 12 million, of which around 11.3 million were natural persons (91,711 non-residents), 397,647 legal persons (5,799 non-resident legal persons) and 412,005 entrepreneurs. According to the data provided, in the observed period, over 723 million non-cash and over 127 million cash transactions were executed. Compared to the year before, one can observe the higher number of non-cash and lower number of cash transactions, as expected in the pandemic conditions.

The key findings based on the analysis of the data provided in the Questionnaire, regarding the indicators of the factors of exposure to the inherent ML/TF risk in the observed period are the following:

- Compared to the previously analysed year (as at 31 December 2019), the total number of banks remained unchanged, and the total number of clients in the banking sector increased by slightly over 2%;
- The total number of employees in the banking sector edged down by 453, and the number of employees directly engaged in client- and transaction-related operations by 356;
- In 2020 there were no significant changes in the composition of clients by risk level, residence and CDD actions and measures applied;
- The number of high-risk clients in the period observed increased by 18,395 compared to the previously analysed period;
- Compared to the previously analysed year (as at 31 December 2019), the number of executed cash transactions decreased by over 37.6 million, and the number of non-cash transactions increased by almost 150 million;
- At the same time, the number of executed inflows/outflows with high-risk countries increased, while that number decreased for off-shore countries;
- Compared to the previously analysed year, the total value of loans secured by a 100% deposit rose by over EUR 29 mn and stood at over EUR 152 mn at 31 December 2020;
- Only two banks declared that they established 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;
- In the analysed period, nineteen banks established a total of 186 loro correspondent relationships (a decrease of 9 from 31 December 2019);

- Five banks responded positively, stating that they closed a total of 11 loro accounts and citing as the reason the cessation of operation i.e. closing of a legal person, client's request to close an account and integration with another bank.

Based on the presented indicators of the factors of exposure to the inherent ML/TF risk, banks, which play the most important role in the financial system, represent the most sensitive part of the financial sector in terms of exposure to the ML/TF risk.

However, the observations obtained from the analysis of data and information regarding the measures taken by banks to adequately manage and control the ML/TF risk in the observed period, indicate that this risk was significantly reduced, 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;
- 25 out of 26 banks use some of the software for tracking transactions and clients to detect suspicious transactions and individuals, while one bank is in the process of final testing before putting the software to work;
- 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.);
- 23 out of 26 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 the analysed period, one bank had two cases of a client who is a designated person (a person who tried to establish a business relation or any other person with whom it has or had a business or other similar relation);
- 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 23 out of 26 banks, the AML/CTF area is covered by the report of the external auditor;
- In 2020, all banks performed an AML/CFT-related internal control;
- Of the 23 banks which identified irregularities in the course of internal control, 16 banks took and implemented measures to remove such irregularities within the set deadline, while in seven banks the deadline has not yet expired in the moment this analysis was made;
- In 2020, twenty-two banks performed an AML/CFT-related internal audit. In one bank the internal audit was underway at the time it was responding to the Questionnaire, while in three banks the last internal audit was conducted in the second half of 2019;
- 19 banks terminated the business relationship with 65,892 clients (of which one bank with 50,250 clients) because it was impossible to carry out CDD. This is 67,564 clients less than at 31 December 2019;
- Fourteen banks refused the offer to establish a business relation and/or execute a transaction due to the impossibility to take CDD actions and measures in 12,735 cases;
- In the period 01/01/2020 – 31/12/2020, a total of 13,057 banking sector employees successfully completed the training.

II. General bank data

As at 31 December 2020, there were 26 banks licenced by the NBS in the Republic of Serbia. According to the submitted responses, banks established business relations with clients at 2,303 locations. Seven banks can establish a business relation at up to 10 locations, seven banks at 11 to 50 locations, six banks at 51 to 100 locations, five banks at 101 to 200 locations, while only one bank can establish a business relation at over 200 locations.

At banking sector level, cash transactions can be made at a total of 3,369 locations. Seven banks have up to 10 such locations, five banks between 11 and 50 locations, nine banks between 51 and 100, two banks between 101 and 200, and three banks over 200 such locations.

Total banking sector employment at 31 December 2020 was 22,631 persons, while the number of employees directly engaged in client- and transaction-related operations was 13,351 (around 59% of the total number of employees). Based on the analysis, there was a decrease in the total employment by 453 relative to 31 December 2019, and in the number of employees directly engaged in client- and transaction-related operations by 356.

At banking sector level, the average number of clients per employee directly engaged in client- and transaction-related operations was 913, while the average number of transactions per employee in the period January–December 2020 was 37,612, up by 5,573 transactions compared to the same period in 2019. In relation to the previously observed period, client burden increased, i.e. the average number of clients per bank employee increased by around 21.

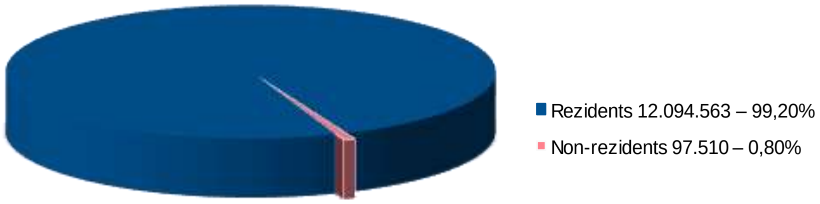
III. Clients

As at 31/12/2020 the total number of clients at the banking sector level came at 12,192,073, up by 2.12%, or 253,527 clients in absolute amount relative to 31 December 2019.

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.

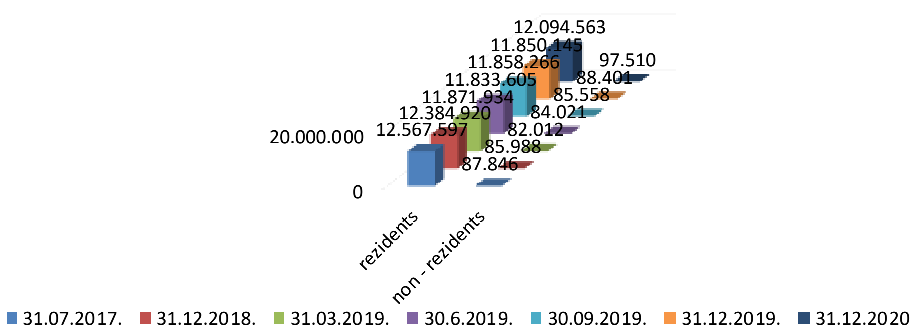
Chart 1 shows the absolute and relative share of resident and non-resident clients in the overall banking sector as at 31/12/2020, whereas Chart 1a shows the composition of the number of clients by residence from 31 July 2017 until the period under review.

Chart 1. **Composition of clients by residence as at 31 December 2020**



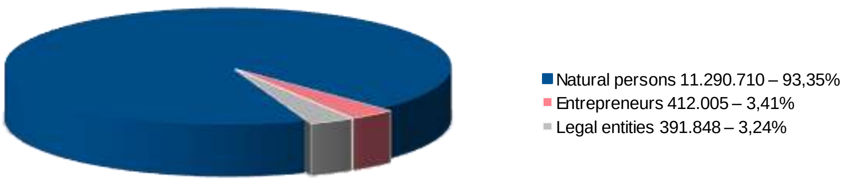
Same as in the previously analysed periods, there were no significant changes in the composition of clients by residence in the banking sector.

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



Of the total number of resident clients, natural persons were dominant (93.35%), while domestic legal persons and entrepreneurs accounted for 3.41% and 3.24%, respectively (Chart 2).

Chart 2. **Composition of resident clients as at 31 December 2020**



Compared to the status as at 31 December 2019, the composition of resident clients remained almost unchanged.

The composition of resident legal persons by legal form of organising is shown on Chart 3, while the overview of this composition by periods, from 31/12/2018 until 31/12/2020 is shown on Chart 3a.

Chart 3. **Composition of resident legal persons by legal form of organising as at 31 December 2020**

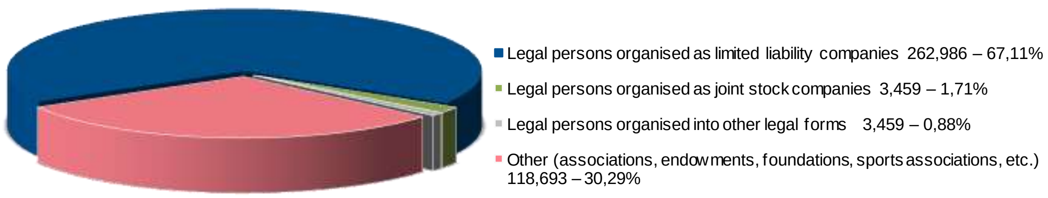
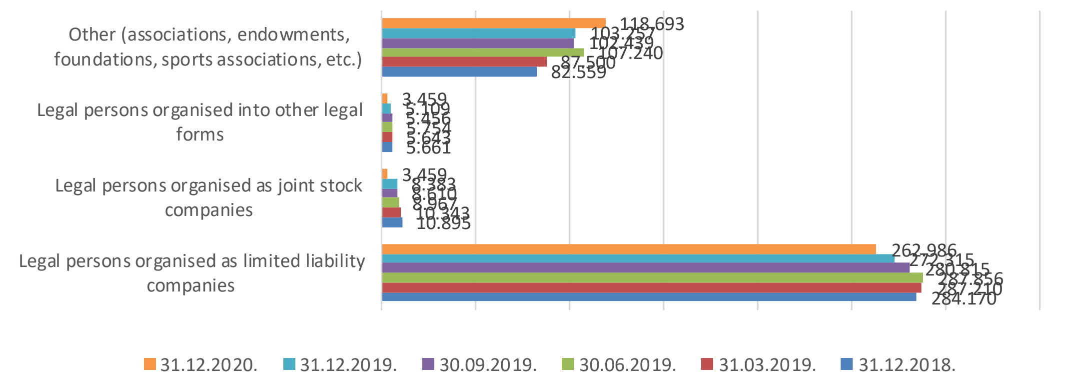


Chart 3a **Composition of resident legal persons by legal form in analysed periods**



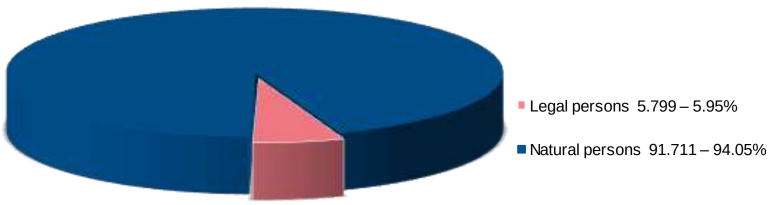
It should be noted that in the total number of resident legal persons, the dominant share belongs to limited liability companies (DOO), with the National Risk Assessment estimating this legal form to be at an elevated ML/TF risk, while the share of legal persons that are organised as joint-stock companies (AD) amounts to 1.71%.

The share of legal persons organised in other legal forms (limited partnership, partnership company) was only 0.88%, and all other forms (associations, endowments, foundations, sport associations, etc.) accounted for the remaining 30.29% or 118,693 clients.

Compared to the status as at 31 December 2019, the number of clients – limited liability companies (DOO) decreased by 9,329, and the number of joint-stock companies (AD) by 1,673, but the number of legal persons organised as associations etc. rose by 15,436. However, in 2020 the total number of legal persons residents regardless of their form of organising increased by 2,784.

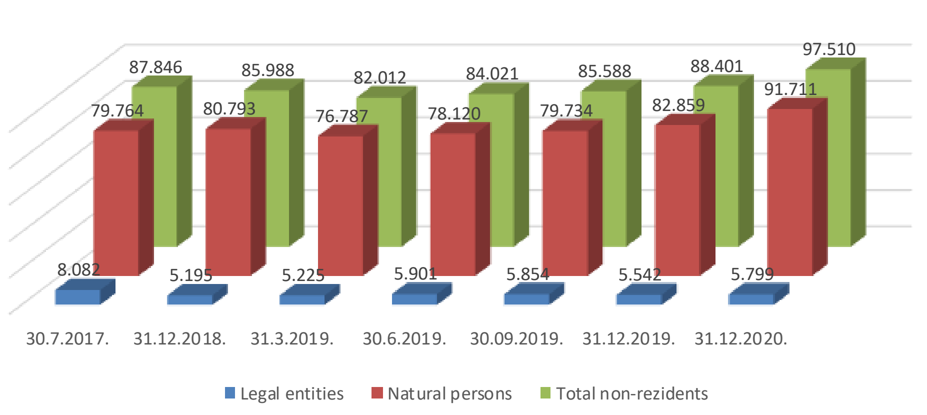
Chart 4 shows the composition of non-resident banking sector clients as at 31 December 2020, while Chart 4a shows an overview of these clients in different periods from 30/7/2017 until 31/12/2020.

Chart 4. **Composition of non-resident clients as at 31 December 2020**



The total number of clients non-residents on 31 December 2020 was 97,510. Compared to the previously analysed year (as at 31 December 2019), the total number of such clients increased by 9,109. The number of clients non-resident natural persons went up by 8,852 accounting for 94.05%, and the number of non-resident legal persons by 257 clients.

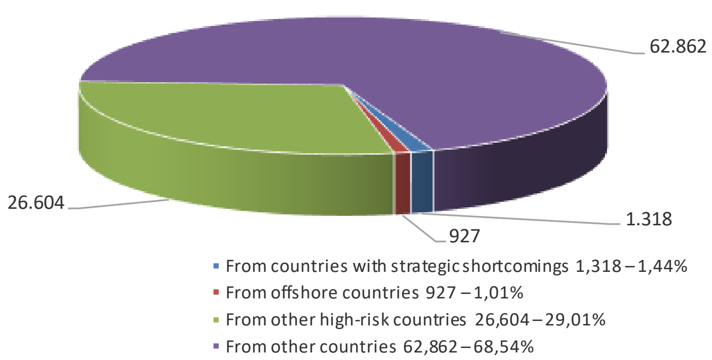
Chart 4a **Composition of non-resident clients in analysed periods**



Based on these data, it can be concluded that at the end of this period the total number of non-resident clients (natural and legal persons) was above the average for the previously analysed periods, shown in Chart 4a. It came at above 97 thousand or above 91 thousand for non-resident natural persons. As for non-resident legal persons, their number was somewhat lower than the average for the periods shown in Chart 4a. It came at slightly more than 5.9 thousand.

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. of the beneficial owner of the client.

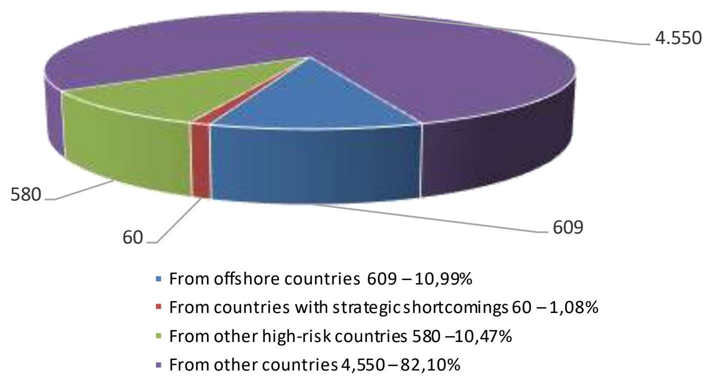
Chart 5. **Composition of non-resident natural persons from the aspect of country risk as at 31 December 2020**



The share of natural persons from high-risk countries in the total number of non-resident natural persons was 31.46%, while 1.44% of them were from countries with strategic deficiencies in the AML/CFT system. In addition, 1.01% of the 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.

It is important to note that, relative to 31 December 2019, the share of non-resident natural persons from countries with strategic deficiencies in the AML/CFT system mildly increased, while the share of those from off-shore countries edged down.

Chart 6. **Composition of non-resident legal persons from the aspect of country risk as at 31 December 2020**



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 (82.10%), followed by off-shore countries (10.99%), high-risk countries (10.47%) and countries with strategic deficiencies in the AML/CFT system (1.08%). It is important to note that, relative to 31 December 2019, the share of non-resident legal persons from high-risk and off-shore countries increased.

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).

According to the submitted data on client classification by degree of exposure to ML/TF risk, 8 banks classified over 80% of their clients in the low-risk category, while 13 banks classified the majority of their clients (over 80%) in the medium-risk category. Of the remaining five banks, one classified between 50 and 80% of its clients in the medium-risk category, while one bank, specific due to a small number of clients, classified over 34% of its clients in the high-risk category.

Chart 7. **Composition of clients by the assessed risk level as at 31 December 2020**

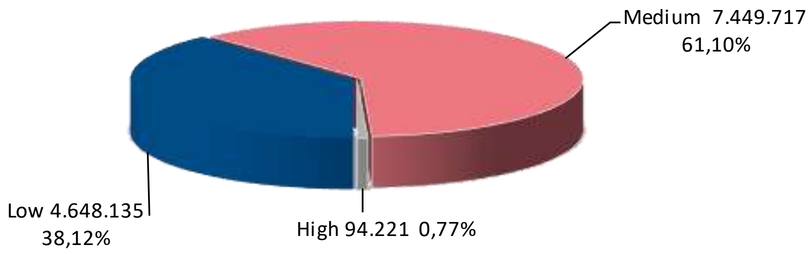
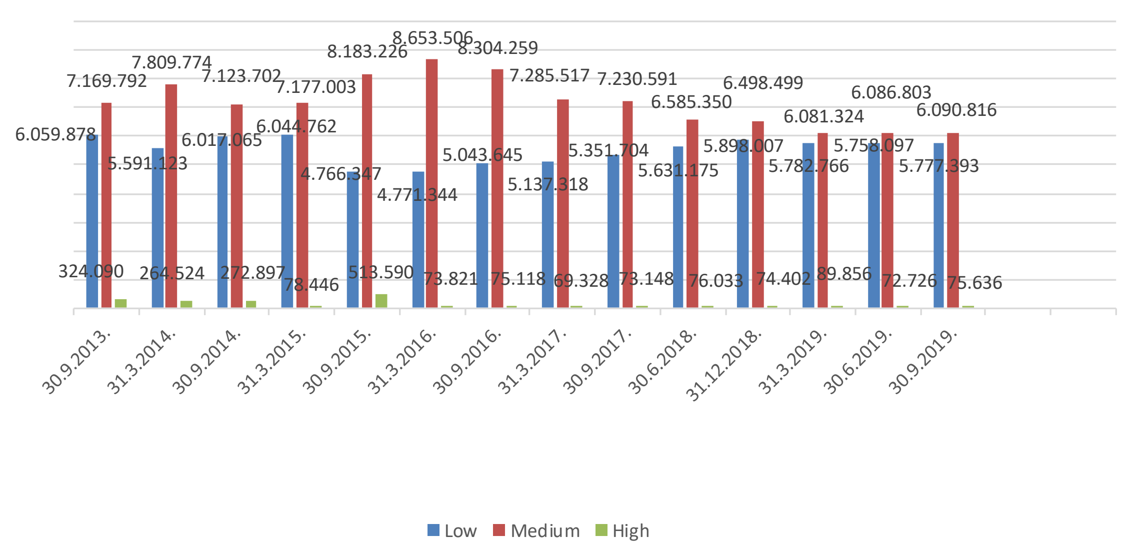


Chart 7a shows client composition by risk level as at a specific date, while Chart 7b shows the number of banking sector high-risk clients in different periods.

Chart 7a **Client composition by the assessed risk level in the banking system - as of day by periods**



Relative to the previously analysed year (2019), there were no significant changes in the composition of banking sector clients by risk level.

Chart 7b **Number of high-risk clients in the banking system - as of day by periods (number of clients)**

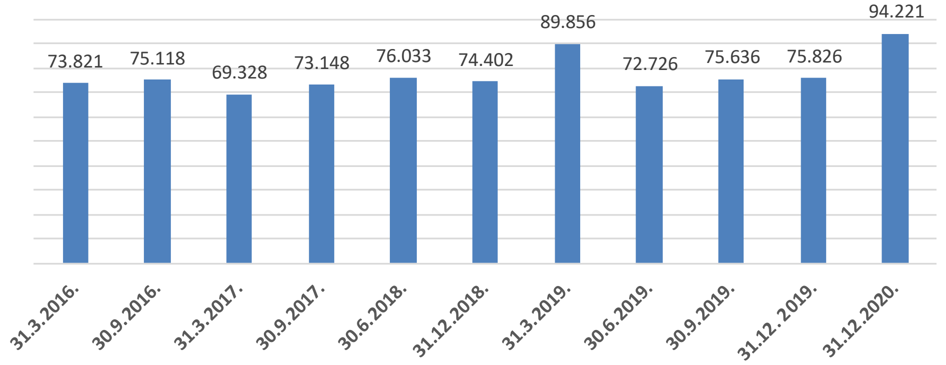
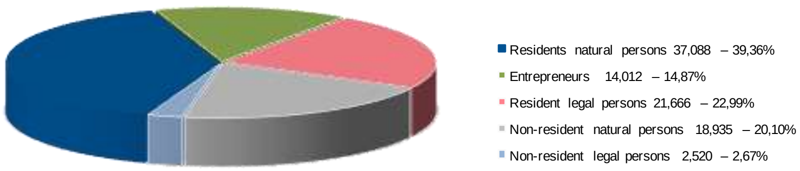


Chart 7b reveals that the number of high-risk clients in the analysed period was slightly above the average for the periods observed, amounting at slightly more than 94.2 thousand.

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

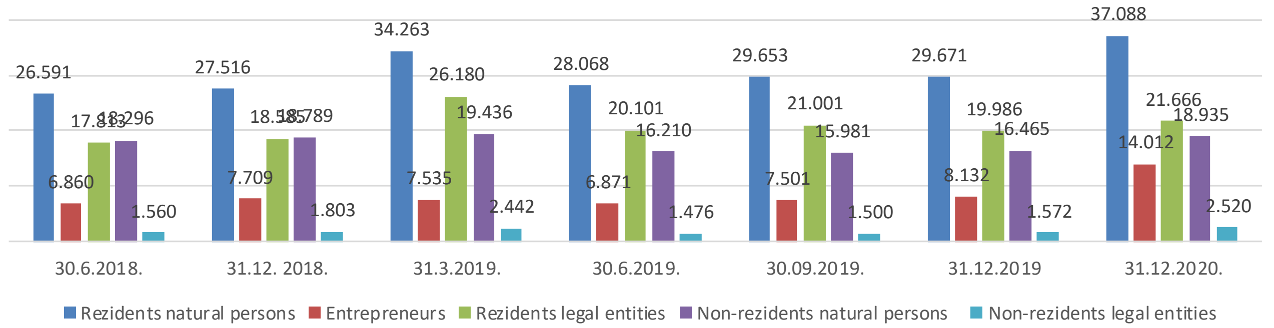
Chart 8. **Composition of high-risk clients as at 31 December 2020**



Resident natural persons have the largest share (39.36%), followed by resident legal persons (22.99%), non-resident natural persons (20.10%), entrepreneurs (14.87%) and finally non-resident legal persons with the smallest share (2.67%).

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

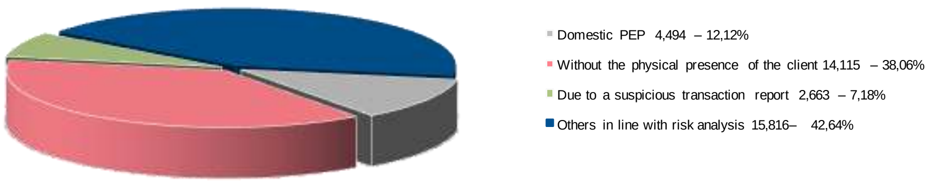
Chart 8a - **Composition of high-risk clients in the banking system - as of day by periods (number of clients)**



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

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

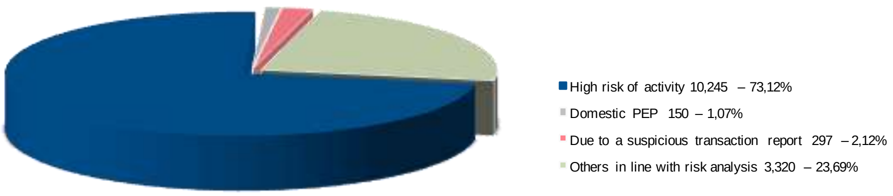
Chart 9. **Composition of high-risk clients - resident natural persons as at 31 December 2020**



In accordance with the risk analysis, banks classified 42.64% of resident natural persons in the high-risk category, with 38.06% 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 7.18%. In the composition of the high-risk resident natural persons, banks determined that 4,494 clients had the status of officials (12.12%).

Relative to 31 December 2019, there was a slight decrease in the share of resident natural persons classified as high-risk in accordance with the risk analysis, those who executed transactions reported as suspicious to the Administration and those who had the status of officials, with the increase in the share of clients not present when establishing business relations.

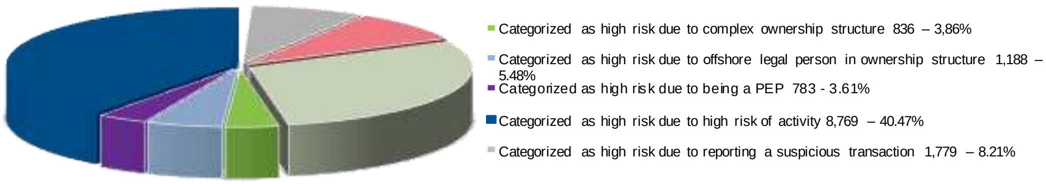
Chart 10. **Composition of high-risk clients - entrepreneurs as at 31 December 2020**



Banks classified 10,245 entrepreneurs (73.12%) in the high-risk category for ML/TF, because they performed some of the high-risk activities, 2.12% because they executed transactions reported as suspicious to the Administration, 1.07% because they had the status of officials, while the remaining 23.69% were classified as high-risk in accordance with the risk assessment.

Relative to end-2019, there was an increase in the share of entrepreneurs classified as high-risk in accordance with the risk analysis, and of those who perform some of the high-risk activities, with a slight decrease in the share of those who executed transactions reported as suspicious to the Administration and those who had the status of officials.

Chart 11. **Composition of high-risk clients - resident legal persons as at 31 December 2020**

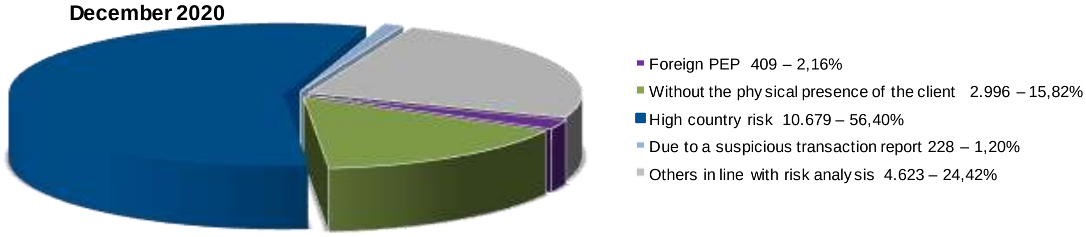


In the analysed period, banks classified 8,769 resident legal persons as high-risk because they performed some of the high-risk activities, 1,869 clients because of the country risk of its founder/beneficial owner, 1,188 clients because they had an off-shore legal person in the ownership structure, 1,779 clients because their transactions were reported as suspicious to the Administration, 783 clients because they had an official in the ownership/governance structure, 836 clients owing to a complex ownership structure, and the remaining 6,442 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 1,706), legal persons with a complex ownership structure (by 468), those whose transactions were reported as suspicious to the Administration (by 329), legal persons with an official in their ownership/governance structure (by 212). The downward trend was observed in the number of legal persons classified as high-risk due to the country risk (of the founder or beneficial owner) (by 119) and legal persons with an off-shore destination in the ownership structure (8 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 2020**

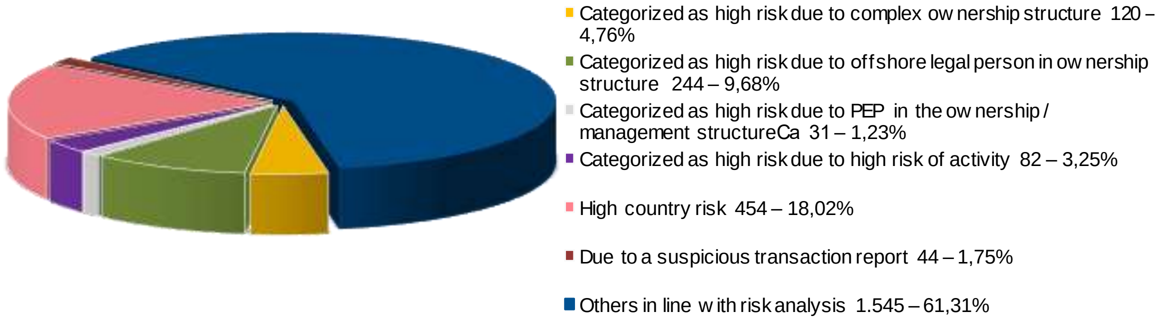


The bulk of non-resident natural persons (56.40%) were classified as high-risk, because they were from the countries for which banks assessed high ML/TF risk, 15.82% because they were not present when establishing a business relationship, while the remaining 24.42% were classified as high-risk in accordance with the banks' analysis.

In addition to the above, 1.2% 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 409 of the high-risk non-resident natural person clients had the status of officials.

Compared to the previously analysed year, the number of non-resident natural persons who were not present when establishing a business relationship increased by 1,580, of those who were classified as high-risk due to the country risk – by 888, and those classified in high-risk category due to the reporting of suspicious transaction to the Administration – by 63.

Chart 13. **Composition of high-risk clients - non-resident legal persons as at 31 December 2020**



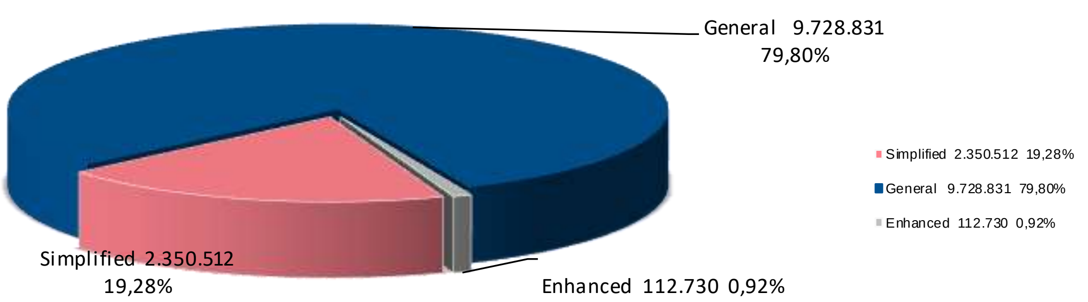
In the composition of high-risk non-resident legal persons, those classified by the banks as high-risk in accordance with the performed analysis had the largest share of 61.31%, followed by legal persons from countries assessed as bearing high ML/TF risk (18.02%) and non-resident legal persons having an off-shore element in their ownership structure (9.68%). High degree of risk stemming from the complex ownership structure was found in only 4.76% of non-resident legal persons, while 3.25% were assessed as risky due to the risk associated with the activity, 1.23% because they have an official in ownership/management structure and 1.75% because of the reporting of suspicious transactions to the Administration.

Compared to the previously analysed period, the number of non-resident legal persons with the status of officials edged up by 10, and the number of those which performed transactions reported as suspicious to the Administration dropped by 5 cases.

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 79.80% clients at banking sector level. Enhanced actions and measures were taken in respect of 0.92%, and simplified in respect of 19.28% clients, as shown in Chart 14.

Chart 14. **Composition of clients by CDD actions and measures applied as at 31 December 2020**



The table below shows a comparative overview of the number of clients by risk level and CDD actions and measures as at 31 December 2020:

Table 1. Composition of clients in the banking sector by risk level and CDD actions and measures

Level of risk	number of clients	% participation	CDD	number of clients	%participation
Low	4.648.135	38,12	simplified	2.350.512	19,28
Medium	7.449.717	61,1	general	9.728.831	79,8
High	94.221	0,77	enhanced	112.730	0,92
	12.192.073	**100**		**12.192.073**	**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 over 50% of such clients are subject at least to general CDD actions and measures. Enhanced actions and measures are applied to all clients classified as high-risk, but also to 18,509 clients classified as medium- or low-risk.

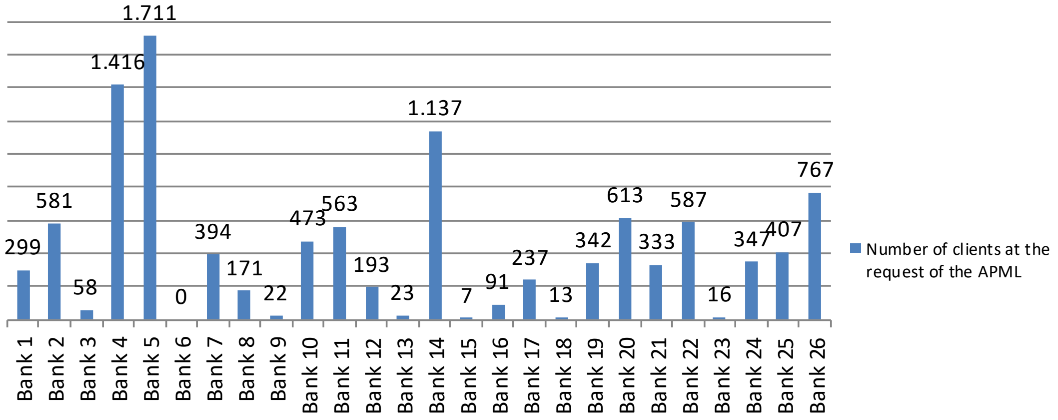
In the question from the Questionnaire about the number of cases in which the business relationship was discontinued due to the inability to apply CDD actions and measures, 19 banks responded that business relations with 65,892 clients were terminated (50,250 of clients referring to one bank). In the observed period, 14 banks refused the offer to establish a business relationship and/or execute transactions in 12,735 cases, due to the impossibility to take CDD actions and measures. Of this number of cases, 12,146 pertained to one bank only.

VI. Transactions and products

Banks executed 851,196,631 transactions in 2020.

Chart 15 shows the structure of cash and non-cash (dinar and foreign currency) transactions in the banking sector in the period January–December 2020.

Chart 15. **Overview of the number of clients for which data have been submitted to the APML in the last three years, by banks**



According to the submitted data, the largest share in the total number of transactions executed in the entire banking sector belongs to non-cash transactions in dinars – almost 83%, followed by cash transactions with the share of 15.02% and non-cash foreign transactions with the share of 2.23%.

In the same period, banks executed a total of 4,004,201 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 68% (Chart 16).

Chart 16. **Composition of executed cash and non-cash (dinar and foreign currency) transactions in the banking sector in 2020**

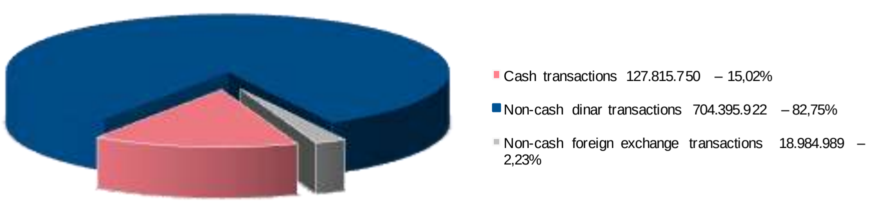
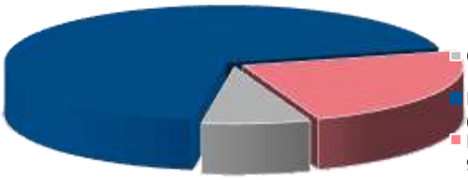


Chart 17 shows an overview of the number of cash transactions worth EUR 15,000 or more in dinar equivalent at the NBS middle exchange rate, from the aspect of whether they were performed by the clients in the bank which they have established a business relationship or not (so-called non-clients).

Chart 17. **Composition of executed cash and non-cash transactions amounting to EUR 15,000 or more in the dinar equivalent in 2020**



Of the total of 318,304 executed cash transactions worth EUR 15,000 or more in dinar equivalent at the NBS middle exchange rate, only 7,779 transactions with a share of 2.44%, were executed by persons who were not clients of the bank in which these transactions were made.

Below is an overview of the number of inflow/outflow transactions from/to high-risk countries and off-shore geographical areas executed in 2020 (Chart 18). In the analysed period, 264,927 payments were from high-risk countries and 64,295 from off-shore geographical areas, while 323,359 payments were made to high-risk countries and 33,610 to off-shore geographical areas, i.e. countries.

Chart 18 **Composition of executed cash transactions EUR 15,000 - clients and non-clients in 2020**

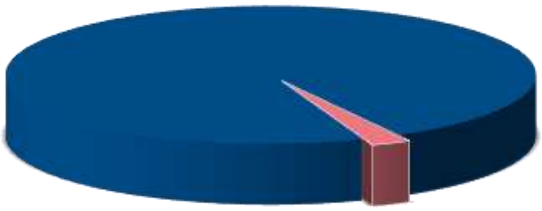


Chart 18a shows a comparative overview of the number of executed inflow and outflow transactions with high-risk countries and by analysed periods.

Relative to 31 December 2019, in the analysed period, the number of executed inflow and outflow transactions with high-risk countries increased, while decreasing for off-shore countries.

In the course of 2020, eighteen banks introduced a total of 48 new products into their business offer (most of which involved modification of existing products), mainly in the segments of lending, e-banking and video identification. According to the submitted data, only one bank declared that it did not have products assessed as bearing high- and/or medium-high ML/TF risk.

In the analysed period, 15 banks identified a high ML/TF risk for 1 – 10 products; 2 banks did the same for 11 – 30 of their products, and one bank for more than 30 products (these being different types of loans which are used by a small number of clients).

Eleven banks reported that no products from their business offer were assessed as bearing medium-high risk, twelve banks assessed 1–15 products at this level of risk; one bank declared that it had 27 medium-risk products, while the remaining two banks had more than 30 products of medium-high ML/TF risk.

As regards e-banking, nine banks assessed this product as high-risk and twelve banks assessed it as medium-high ML/TF risk. Seven banks assessed m-banking as a high-risk product, and nine banks assessed it as medium-high ML/TF risk. E-banking is used by 2,811,829 clients, m-banking by 2,386,928, and private banking by 1,044 clients. According to the data provided, in 2020, 18 out of 26 banks approved 2,832 loans worth EUR 176,047,966.78 against 100% deposit backing.

VII. Outsourcing CDD actions and measures to third parties

In the entire banking sector, only six 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 183,518 clients (data on 114,347 and 69,032 clients pertain to two banks). Relative to 31 December 2019, the number of clients for which data and documentation were obtained by third parties in accordance with the Law, decreased by 369,531.

VIII. Correspondent relationship

In the analysed period, seven banks declared that they did not establish loro correspondent relationships with banks and similar institutions with a head office in a foreign country, while the remaining nineteen banks established a total of 186 loro correspondent relations. Only two banks declared that they have established a loro correspondent relationships with banks and similar institutions with a head office in a foreign country that is on the list of countries with strategic deficiencies in the AML/CFT system and the total number of such loro correspondent relations was 9 (8 refer to one bank).

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 11 loro accounts, citing as the reason the cessation of activity, i.e. closing of a legal person, client's request to close an account and the process of integration with another bank.

Banks have nostro correspondent relations with 233 banks, while only one bank declared that it has established nostro correspondent relations with two banks with a head office in a foreign country that is on the list of countries with strategic deficiencies in the AML/CFT system.

IX. Employee training

In the banking sector, front-office jobs are carried out by a total of 13,351 employees. This is 356 persons less than on 31 December 2019, while the relative share of front-office staff in total banking sector employment is 59%, almost unchanged from the previously analysed year.

Training is most often carried out by compliance officers and their deputies, trained managers of organisational units and Compliance Division staff. A total of 17 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, five banks carried out training without direct contact with employees, by electronic means (so-called E-learning), while most banks (21) carried out training both by E-learning and in direct contact with employees (in training centres, interactive trainings, workshops using PowerPoint presentations).

The data obtained via the Questionnaire show that in the period observed, despite the Covid-19 pandemic, 13,057 employees in the banking sector successfully completed the training.

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

X. Organisational structure

As Questionnaire responses reveal, 23 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 23 banks in separate organisational units, a total of 112 employees have been assigned to AML/CFT-related tasks, including a compliance officer and his deputy.

In 2020, twelve banks reported changes regarding the compliance officer and/or his deputy, citing as the reason the termination of employment of the person who previously held that position, assigning workers on new job posts and reducing the number of compliance officer deputies. 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, 24 banks gave a negative response, while two banks declared that compliance officer deputies perform other tasks as well.

In 16 of the 26 banks (61.54 %) the AML staff or front-office staff churn rate was less than 10%, in 9 banks (34.62%) between 10 and 50%, while in only one bank it was above 50%.

According to the data provided, 25 out of 26 banks stated that they had special software for identifying suspicious transactions and persons, while in one bank such software is being introduced. Twenty-three banks use external software (Smaragd, Norcom, Asseco SEE, Aseba AML Tool etc.), while eleven banks have developed an AML software model in-house. In the previously analysed period, in-house software development was reported by only three banks. In all banks the aforementioned software recognises several interconnected cash transactions of the same client whose total value is equal to or higher than EUR 15,000, while in 23 banks it also 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.), including the list of designated persons of the Serbian Government, all 26 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 banks:

Table 2. **Number of money laundering indicators included**

Number of indicators	Number of banks
Less than 10	3
10–19	14
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 terrorist financing indicators included**

Number of indicators included in connection w ith the financing of terrorism	Number of banks
Less than 5	18
5–10	5
More than10	2

Also, 24 banks stated 413 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 involved w hich the banks themselves developed	Number of banks
Lless than 5	6
5–9	3
10–19	8
20 - 30	5
More than 40	3

In the analysed period one bank established, based on the check-ups carried out in the period 1/01/-2020-31/12/2020 that a client, a person who tried to establish a business relation or other person with whom it conducted business or had other similar relationship – turned out to be a designated person – in two cases.

Further improvement of IT solutions within existing systems can significantly impact the level of operating risks that might arise through human error, and can enable a more efficient human resource management, 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.

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

The front-office staff submitted to the compliance officer 7,962 internal reports on suspected ML risk in relation to a client or a transaction, and not a single one report on suspected TF risk. 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 612, meaning that only 7.7% of the total number of internal reports was reported to the Administration.

According to the data provided, in 2020 banks reported to the Administration a total of 280,166 cash transactions worth EUR 15,000 or more in the dinar equivalent, of which 140,339 were executed in dinars and 139,827 in a foreign currency. Also, banks declared that they reported a total of 1,083 of suspicious transactions to the Administration, of which around 50% (551 transactions) related to suspicious transactions in dinars, and other 50% in a foreign currency.

XII. Internal audit and internal control

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

In the majority of banks, internal control of the implementation of the Law is within the remit of the organisational unit in charge of internal audit, and at the same time within the remit of other organisational units such as the compliance unit, unit in charge of supervising “network” operations or the unit in charge of AML/CFT activities only.

According to Questionnaire responses, in the course of 2020 twenty-two banks conducted internal audit, in one bank the audit was underway at the time of responding to the Questionnaire, while in three banks the last internal audit took place in the second half of 2019. In three banks no omissions were identified during internal audit, while in 23 banks (including those in which the last internal audit was conducted in 2019) some omissions were detected and the deadline was set for their removal. Twelve banks removed the irregularities within the set deadline, three banks stated they removed the irregularities which they were due to correct by 31/12/2020 (with some remaining recommendations not yet due), while nine banks said the set deadline had not yet expired.

The most frequent omissions concerned non-compliance and updating of internal regulations, inadequate managing of rights of access to the tools for monitoring client behaviour, monitoring and recording of data which are being reported, irregular/incorrect updating of client data, acquaintance with suspicious transactions indicators in some branches, deficiencies in updating the lists of designated persons, deficiencies in entering ID data of clients natural persons, deficiencies in the process of establishing a business relationship with clients legal persons and deficiencies in the procedure of entering ID data of clients legal persons, deficiencies in the process of monitoring business activities of clients in the course of a business relationship, deficiencies related to the risk of potential operating errors and omissions in client assessment, identifying and keeping the database of officials; risk assessment of bank products and services, training plan for the compliance officer and his deputy for the current year, imprecise/inadequate descriptions and competences for performing certain actions and measures in banks’ procedures regulating AML/CFT, incomplete Questionnaire for assessment of ML/TF risk in the segment of activity codes for legal persons carrying enhanced ML/TF risk and enhanced risk in case of provision of bank's services outside of its premises, untimely though correct classification of the level of client risk, deviations in the process of monitoring client's business activities, documentation deficiencies in the account opening stage related to the entry of complete and adequate data in the bank's system, missing information about the CDD measures and deficiencies regarding the quality of data in the system, omissions in the process of managing inactive accounts, missing controls of the documentation about the origin of assets and property, deficiencies in managing alerts which concern possible suspicious transactions, unclear process of discontinued business cooperation with clients due to AML deficiencies etc.

When asked on whether the external audit report covered the AML/CFT area, 23 banks responded affirmatively.

In 24 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 periodical reports (monthly, quarterly, semi-annual or annual).

According to the submitted responses to the Questionnaire in the period since the start of the year, until 31 December 2020, all banks carried out internal control in AML/CFT field.

All banks which identified omissions in internal control during 2020 (23 banks) set the deadlines for the removal of identified irregularities. Sixteen of them managed to remove the irregularities within the set timeframe, while for 7 banks the deadline is still running (banks which carried out the control in the last quarter of 2020).

The most frequent findings of the control concern the following omissions: non-compliance of procedures, conducting PEP and EMBARGO screening, inadequate assignment of AML rating in video identification tool, inadequate updating of documentation in accordance with the level of risk and changes in the Business Registers Agency, application of enhanced CDD, incorrect rating of client risk, obtaining PEP statements, untimely updating of documentation, failing to conduct timely re-classification, incomplete documentation in client files, inadequately prepared official notes, smaller omissions in filling in and completing KYC forms, failing to obtain proof on the origin of money or obtaining inadequate proofs on the origin of money for transactions exceeding EUR 15,000, technical omissions in files of clients legal persons, verifying the copy of the document by the signature of the responsible employee who had inspected the original document; inadequately completed application forms in client files, incomplete electronic files etc.

In the analysed period, nine banks stated that they were conducting 13 disciplinary procedures due to issues with employees' integrity (participation in fraud, theft, corruption etc.), while five banks reported 22 AML/CFT cases against the bank or bank employees (17 cases referring to one bank). Compared to the situation on 31 December 2019, the number of disciplinary procedures concerning employees' integrity decreased by 17 and the number of AML/CFT procedures against a bank or employees in a bank dropped by four cases.

* * *