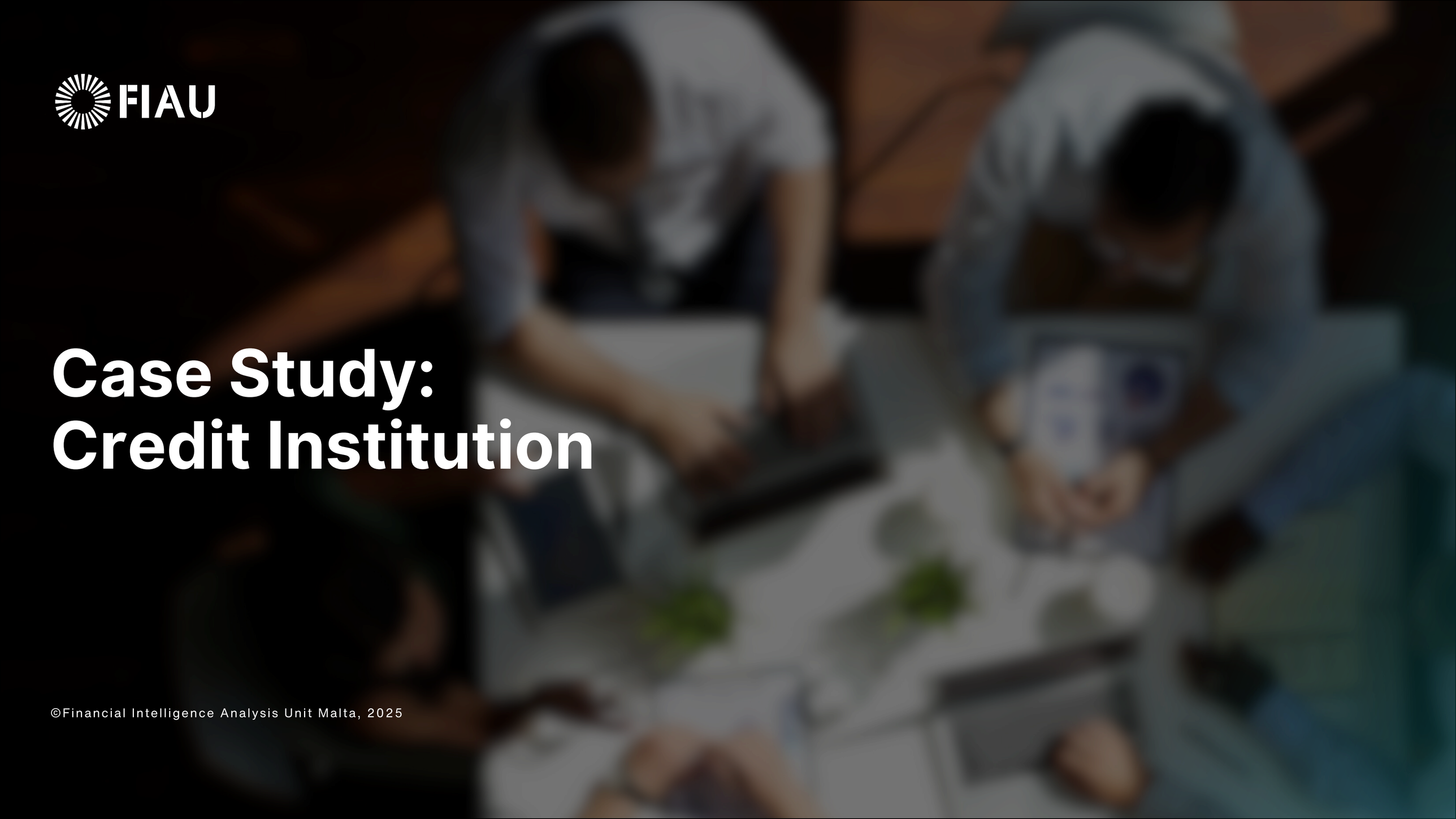


Case Study: Credit Institution

CASE STUDY 1: CREDIT INSTITUTIONS

Follow Up Directive

Obligation	Failures	Follow-Up Directive Issued
Customer Due Diligence	• Delayed collection of verification documents. • Issues with BO/Controlling Person verification for corporate customers. • Incomplete ID and verification of agents/authorised signatories. • Timing gaps in conducting CDD measures.	• Bank is to ensure that all missing documentation has now been obtained and maintained. • Sample of customer files to be requested to ensure that the timing of the collection of these documents is being adhered to.
Enhanced Due Diligence	• Files reviewed did not have adequate enhanced due diligence (EDD) measures carried out, particularly in relation to the collection of supporting documentation to verify the source of wealth (SoW) and source of funds (SoF).	• Bank is to obtain an independent verification of the SoW of the customers found in breach. • Bank is to ensure AML/CFT procedures are further enhanced to provide additional guidance for SOF/SOW collection.

CASE STUDY 1: CREDIT INSTITUTIONS

Follow Up Directive

Obligation	Failures	Follow-Up Directive Issued

Transaction Monitoring	• Bank failed to adequately monitor whether transactions are in line with the business and risk profile of the customer.
	• No or insufficient information or documentation was held on file by the Bank on some selected transactions of one client file.
	• High-monetary thresholds were being applied within the transaction monitoring system.
	• The Bank lacked comprehensive measures for it to be able to conduct pre-transaction monitoring;
	  ○ The time taken to conclude investigations for one of the files sampled;
	  ○ No link between the alerted transaction and supporting documentation for one of the files.
		The bank is requested to provide:
		• Updated documentation pertaining to updates made to revised rules and thresholds per customer segment that are currently in place.
		• Information on how the effectiveness of these updated rules and thresholds were tested.
		• Information and Documentation on how alerted transactions are investigated (Including checks performed, reasons for discounting alerts, and escalation procedures in place).
		• Details on the Bank's current pre-transaction monitoring procedures, including any updates made after the compliance examination.

CREDIT INSTITUTION: OVERVIEW

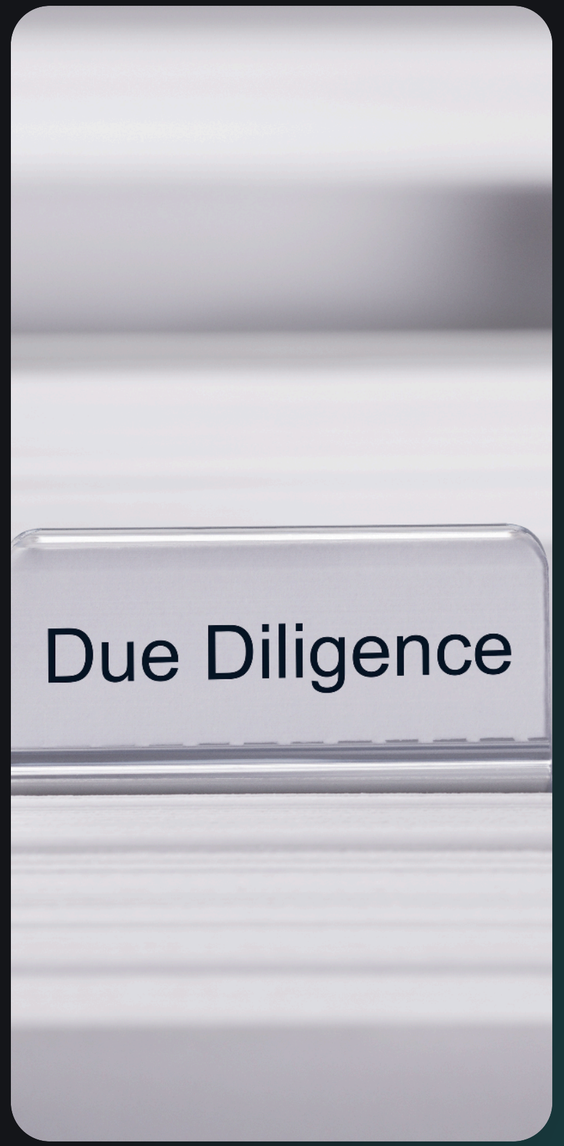
- Meetings Held: 6
- Action Plan: Endorsed

No.	Breach Category	Brief Explanation of Breach	Officer responsible for Remedial Action	Remedial Action undertaken so far
0 (Example)	*Customer Risk Assessment (CRA)*	*Subject Person's CRAs did not take into consideration all four risk risk factors when assessing the risk rating assigned to customers*	*John Borg*	*The Subject Person has implemented a system which considers all four risk factors to assess its customers. Any customers onboarded post 1 January 2020 consider all four risk factors when risk scoring the client .*
1				
2				
3				
4				
5				
6				

Additional Remedial Action planned to be undertaken	Documentary Evidence Provided?	Name of Documentary Evidence	Expected Date of Completion	Additional Remarks
The Subject Person shall be going through all customers onboarded pre 1 January 2020, and updating their CRA to reflect all four risk factors	*Yes*	*Annex A - Customer Risk Assessment Methodology* *Annex B - CRA File. 123*	*30/06/2020*	*The Subject Person shall be assessing their CRA methodology annually thus ensuring all risk factors and weightings assigned are adequate.*

CREDIT INSTITUTION: CUSTOMER DUE DILIGENCE (CDD)

Breach Description	Phase 1	Phase 2
Customer Due Diligence	• Missing documentation was successfully collected, (evidenced attached with the Action Plan) • Plan set with Corrective Actions team to tackle backlog.	• No files selected had missing ID&V documentation



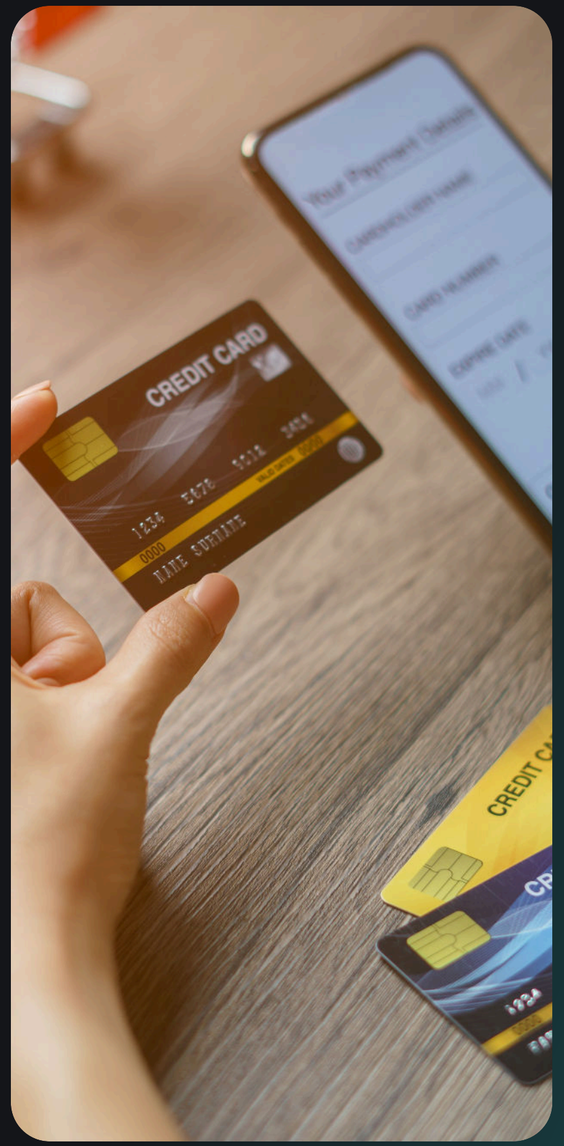
CREDIT INSTITUTION: ENHANCED DUE DILIGENCE (EDD)

Breach Description	Phase 1	Phase 2

Enhanced Due Diligence	• The Bank revised its policies to require more rigorous measures for establishing SOW for High Risk customers and PEPs.
	• AML policy was further enhanced to mandate the use of independent, multi-source information and risk-based verification.
		File reviews conducted revealed the following:
		• The Bank's EDD measures are robust and include enhanced ongoing monitoring.
		• AML/CFT controls were set to be proportionate against the respective customer risk.
		• Extensive EDD measures carried out on HR situations such as:
		  ○ Annual reviews on HR customers
		  ○ Supporting documents are obtained to substantiate transactions.
		  ○ Audit trail depicting an analysis of transactions and supporting documentation collected

CREDIT INSTITUTION: TRANSACTION MONITORING

Breach Description	Phase 1	Phase 2
Transaction Monitoring	The Addition of new alerts such as: • Real time monitoring for card transactions and internet banking payments. • Real time screening against Sanction lists, Terrorist groups and internal blacklists. • Implementation of machine learning and AI system which predicts customer behaviour propensity for ML for Post TM	File reviews conducted evidenced: • Pre transaction monitoring was effective, evidenced and risk based. • Screening was conducted and documented, with supporting documentation attached. • Post TM was sufficiently monitored with customer transaction anomalies clearly documented. • Detected anomalies were escalated to a team for further investigation



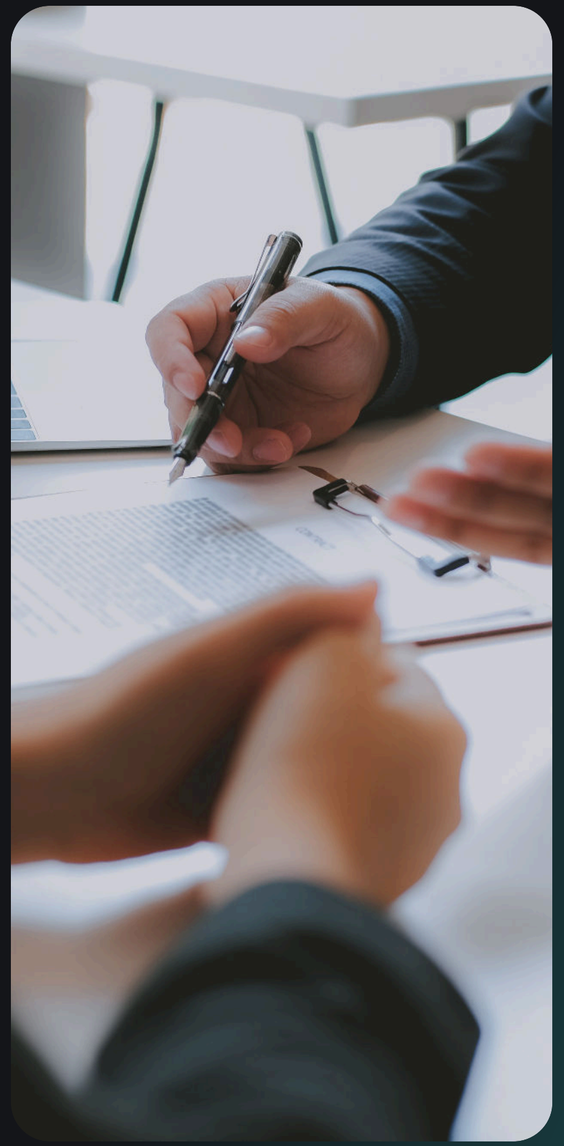
CREDIT INSTITUTION: CONCLUSION OF DIRECTIVE

Additional recommended actions:

- EDD – The Committee reminded the Bank to ensure that all EDD measures taken are risk-based and proportionate to the ML/FT risk presented.
- TM – Ensure there are sufficient resources to maintain all updated systems and review the reports generated by the updated systems.

Closure Status:

- Closed with Recommendations



Case Study 2: Fund Administrator

CASE STUDY 2: FUND ADMINISTRATOR

Remediation Directive

Obligation	Failures	Remediation Directive Issued
Business Risk Assessment	BRA methodology was deemed inadequate due to: • Lack of a breakdown of risk scenarios or vulnerabilities. • Lacked detail on how numerous these risk factors are for the Company (Likelihood). • Risk factors highlighted were generic and not specific to the business activities of the Company. ○ Risks highlighted within the Company's BRA were not focused on the funds themselves, rather natural persons and entities within the fund's structure.	• The Company was required to provide a documented update of the BRA methodology which must include risk factors that are specific to the customers of the Company.

CASE STUDY 2: FUND ADMINISTRATOR

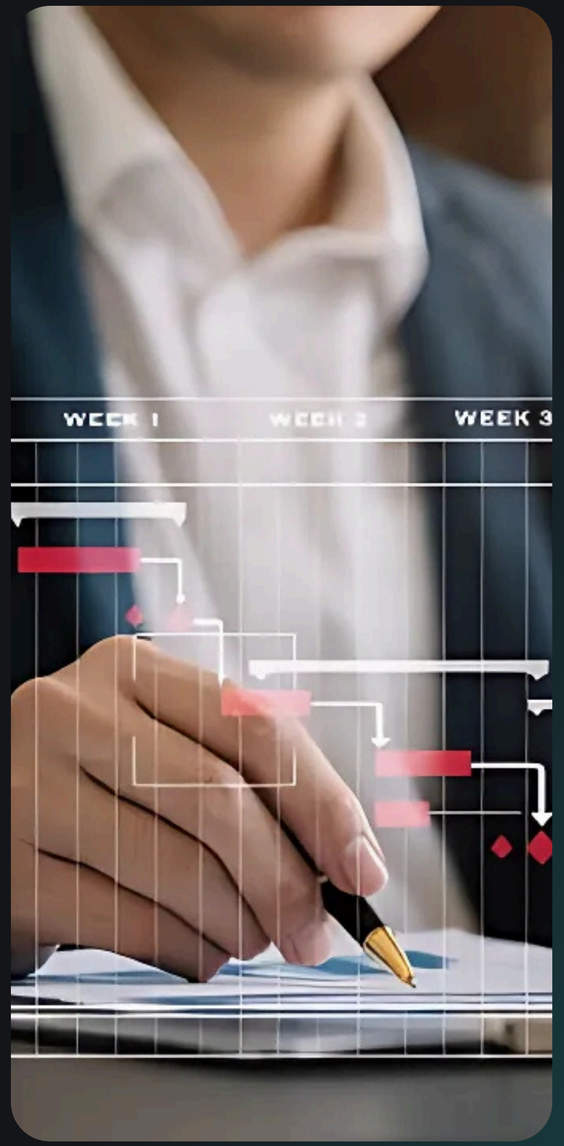
Remediation Directive

Obligation	Failures	Remediation Directive Issued
Customer Risk Assessment – Jurisdiction Risk Assessment	• JRA lacked a thorough methodology and failed to demonstrate a clear understanding of how specific risk factors influence scoring and controls. • Lacked independent country reports outlining distinct risk drivers (e.g., financial crime vs. drug trafficking).	• The Company is to provide a documented report of the prevalent risks applicable to the jurisdictions that the Company's customers are linked to

FUND ADMINISTRATOR: BUSINESS RISK ASSESSMENT (BRA)

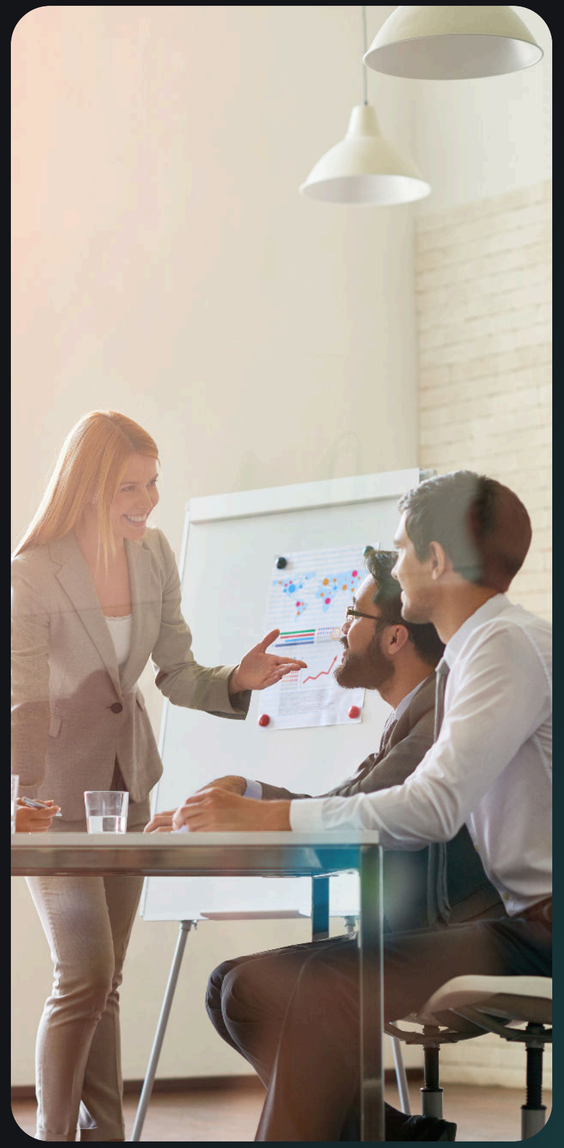
Due to the nature of the breaches issued, Phase 2 was not required for the completion of this Directive.

Breach Description	Phase 1
Business Risk Assessment	BRA updated to include business-specific risk factors: • Type of fund and assets • Fund licence status and listing • Fund customer types and thresholds • Jurisdictions of assets and fund origins • Investment and transaction monitoring • Includes control measures and rationale for inherent risk assessment. • Clarifies risk factors and considerations used in the evaluation.



FUND ADMINISTRATOR: CUSTOMER RISK ASSESSMENT (CRA) & JURISDICTION RISK ASSESSMENT (JRA)

Breach Description	Phase 1
Customer Risk Assessment – Jurisdiction Risk Assessment	• Updated JRA methodology provided, outlining how the newly acquired software operates. • Tool uses 300+ data sources (jurisdiction-dependent) to assess and score jurisdictions. • Provides a comprehensive risk breakdown including source references behind each score. • Methodology is automatically revised at least three times per year. • JRA tool is integrated with the CRA tool, ensuring simultaneous updates across both systems.



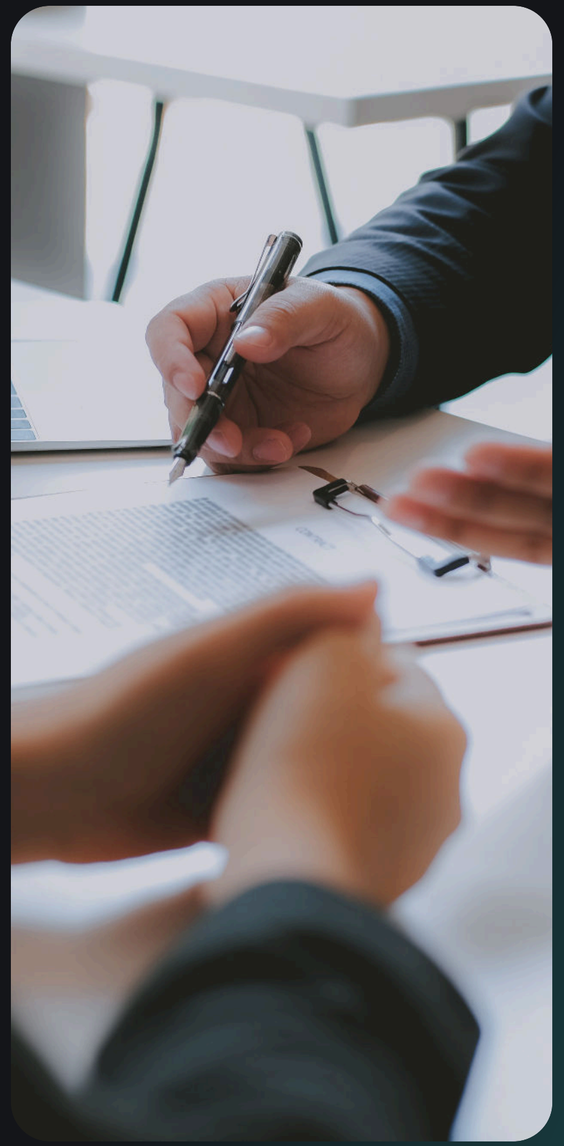
KEY TAKEAWAYS

Cooperation & Collaboration:

- Sharing documentation and information in a timely, clear, and concise manner.
- Responding proactively to identified breaches to minimise risk.
- Communicating with integrity while focusing on practical outcomes.
- Be realistic and transparent when setting timelines or expectations.

Future Compliance:

- Using the Directive as an opportunity to reassess and strengthen the compliance framework.
- Maintaining a risk-based approach to compliance and decision-making.
- Building adaptable processes that respond to evolving regulatory demands.



Thank you!

fiaumalta.org