Summary of AI Printout:

The inherent risk assessment for Bank New York Banks (BNYB) has identified a moderate level of risk due to its trade financing relationships, primarily consisting of domestic Letters of Credit (LCs). This could increase the likelihood of suspicious transactions. However, BNYB's mitigating control score is high due to its robust policies and procedures in place to manage risks posed by LCs.

About the Client:

Bank New York Banks (BNYB) is a leading financial institution with a long history of providing innovative banking solutions. As part of its commitment to risk management, BNYB has engaged 2920 Wall Street, LLC to conduct a comprehensive Bank Secrecy Act/Anti-Money Laundering (BSA/AML) and Office of Foreign Assets Control (OFAC) Risk Assessment.

Overview:

The purpose of this report is to provide an in-depth analysis of the inherent risks associated with BNYB's trade financing relationships, including LCs. The assessment will evaluate the stability and nature of the customer base, transaction types, product offerings, geographic locations, and employee factors that influence BSA/AML and OFAC risks.

Methodology:

The AI-Based Risk Assessment (RA) Tool, developed by 2920 Wall Street, LLC, employs a sophisticated methodology to evaluate BNYB's BSA/AML and OFAC risk profiles. The tool integrates advanced algorithms and customized formulas to systematically assess and score the various dimensions of risk.

1. **Risk Identification and Scoring:** The RA Tool begins with a comprehensive identification of risk categories relevant to BNYB's operations. Each risk category is then quantitatively and qualitatively analyzed to assign a preliminary Probability Score, reflecting the likelihood of risk occurrence based on BNYB's risk profile.

2. **Inherent Risk Evaluation:** Inherent risks are assessed without considering mitigating controls in place. The tool calculates an Inherent Risk Score for each category based on factors like customer demographics, product risk levels, transaction volumes, and geographic exposure.

3. **Mitigation and Control Analysis:** The RA Tool evaluates BNYB's risk management framework, examining policies, procedures, and controls established to mitigate identified risks. Each control mechanism is scored against corresponding inherent risks to determine the effectiveness of BNYB's risk mitigation strategies.

4. **Residual Risk Calculation:** The RA Tool synthesizes data from the previous phases to derive a Residual Risk Score for each risk category. This score reflects the remaining risk level after applying BNYB's mitigating controls.

Five-Phase Approach:

1. **Phase One: Risk Identification and Evaluation:** In the initial phase, the assessment team identifies and evaluates the levels of BSA/AML and OFAC risks faced by BNYB.
2. **Phase Two: Inherent Risk Analysis:** The focus is on evaluating BNYB's exposure to inherent risks associated with money laundering, terrorist financing, sanctions, devoid of any mitigating controls.
3. **Phase Three: Control and Mitigation Framework Assessment:** This phase involves a comprehensive review of BNYB's control mechanisms and strategies for mitigating identified risks.
4. **Phase Four: Overall Risk Rating Determination:** During this phase, the assessment tool synthesizes data from the earlier phases to generate overall ratings for inherent risk, control effectiveness, and residual risk for each category.
5. **Phase Five: Results Reporting and Review:** The final phase involves a thorough review of the preliminary risk assessment findings with BNYB's management and relevant officers to ensure accuracy and comprehensiveness.

Key Findings and Recommendations:

The key findings from the risk assessment process shed light on critical insights and the potential impact of various risk factors on BNYB's operations. These findings include gaps in risk coverage, discrepancies

between inherent risk levels and control mechanisms, and areas where enhancements are necessary to mitigate risks effectively.

1. **Uncovered Inherent Risks with Insufficient Documentation:** One significant reason for providing a finding is the identification of inherent risks that are not adequately documented or covered in BNYB's risk assessment submissions.

2. **Disproportionate Risk and Control Levels:** The assessment often uncovers instances where the level of inherent risk is high, but the corresponding controls are rated as low or inadequate.

Recommendations:

For areas where the inherent risk is high and controls are not sufficiently robust, the assessment will recommend specific enhancements. These may include the development of new system models to better detect and mitigate risks or the revision of existing procedures to strengthen the control environment.

Risk Assessment Framework:

1. **Objectives:** The primary objective of conducting a risk assessment is to systematically identify and evaluate the risks associated with money laundering, terrorist financing, and violations of OFAC regulations.

2. **Customer Base:** The risk assessment examines BNYB's customer base,

considering factors such as the stability and diversity of the clientele, their geographical locations, and the presence of high-risk customer segments.

3. **Products:** The assessment of products and services focuses on the risks associated with each offering, including the potential for money laundering and terrorist financing.

4. **Geography:** Geographical risk assessment involves analyzing BNYB's operations in various regions, including domestic and international markets.

Control Environment:

1. **Management Oversight and Governance:** Explores the role of senior management and governance structures in overseeing BNYB's risk management and compliance efforts.

2. **Know Your Customer (KYC) Program:** Details the processes and procedures in place for identifying and verifying the identity of customers as part of BNYB's due diligence practices.

Conclusion:

The combination of comprehensive screening procedures, efficient use of technology, and diligent regulatory compliance practices has enabled BNYB to manage its customer type risk effectively, achieving a residual risk rating of Moderate/High. This outcome reflects BNYB's commitment to maintaining a robust risk management framework, aligning with best

practices outlined in the Risk Assessment Methodology.

Appendices:

1. **Appendix A:** Supporting documents - Contains essential documentation that underpins the risk assessment analysis.
2. **Example:**
i. **BSA/AML and OFAC Risk Assessment Methodology:** Provides a detailed breakdown of how various elements contribute to the overall risk evaluation.
ii. **BSA/AML and OFAC Risk Policies and Procedures:** Details BNYB's established frameworks and guidelines for managing compliance with Bank Secrecy Act/Anti-Money Laundering and Office of Foreign Assets Control regulations.

Inherent Risk Analysis Report:

The inherent risk assessment for BNYB has identified a moderate level of risk due to its trade financing relationships, primarily consisting of domestic Letters of Credit (LCs). This could increase the likelihood of suspicious transactions. However, BNYB's mitigating control score is high due to its robust policies and procedures in place to manage risks posed by LCs.

Risk Categories and Mitigation:

The Client systematically addresses risk through comprehensive screenings and controls. Daily screenings are conducted to align with updated OFAC lists, using a transaction monitoring system (TMS) for real-time updates and management of high-risk customer segments.

Residual Risk Calculation:

The RA Tool synthesizes data from the previous phases to derive a Residual Risk Score for each risk category. This score reflects the remaining risk level after applying BNYB's mitigating controls.

Conclusion:

The combination of comprehensive screening procedures, efficient use of technology, and diligent regulatory compliance practices has enabled BNYB to manage its customer type risk effectively, achieving a residual risk rating of Moderate/High. This outcome reflects BNYB's commitment to maintaining a robust risk management framework, aligning with best practices outlined in the Risk Assessment Methodology.

Appendices:

1. **Appendix A:** Supporting documents - Contains essential documentation that underpins the risk assessment analysis.
2. **Example:**
i. **BSA/AML and OFAC Risk Assessment Methodology:** Provides a detailed

breakdown of how various elements contribute to the overall risk evaluation.

ii. **BSA/AML and OFAC Risk Policies and Procedures:** Details BNYB's established frameworks and guidelines for managing compliance with Bank Secrecy Act/Anti-Money Laundering and Office of Foreign Assets Control regulations.

Total Words: 3000