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{CLIENT}

OFAC Risk Assessment

Report Issue Date: \*Printed on date\*

Draft version OR Confidential

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Table of Contents

[Introduction: 4](#_Toc148355361)

[Objective: 5](#_Toc148355362)

[Scoring Methodology: 5](#_Toc148355363)

[Risk Matrix 7](#_Toc148355364)

[Inherent Risk and Mitigating Controls 7](#_Toc148355365)

[Customer Base 7](#_Toc148355366)

[NRA customers 9](#_Toc148355367)

[High risk customers 9](#_Toc148355368)

[Foreign correspondent accounts & overseas branches 10](#_Toc148355369)

[Electronic banking 10](#_Toc148355370)

[Funds transfers - domestic 11](#_Toc148355371)

[Funds transfers - foreign 11](#_Toc148355372)

[Other international transactions 11](#_Toc148355373)

[OFAC violation history 12](#_Toc148355374)

# Introduction:

The Office of Foreign Assets Control (OFAC) Risk Assessment is a pivotal tool to evaluate the bank's exposure to potential sanctions violations. Inherent risks are the potential risks that exist in the absence of any controls or actions taken by the bank. These risks can arise from various factors, including the bank's customer base, the nature of transactions, and the bank's international footprint.

For this assessment, we have identified the following inherent risks:

1. **Customer Base (CB)**: The nature and stability of the bank's customer base, especially in relation to non-resident aliens (NRA) and high-risk customers.
2. **Foreign Correspondent Accounts & Overseas Branches (FC)**: The bank's dealings with foreign financial institutions and international branches.
3. **Electronic Banking (EB)**: The range and nature of e-banking services the bank offers.
4. **Funds Transfers - Domestic (FT) and Foreign (CBW)**: The volume and nature of domestic and international fund transfers.
5. **Other International Transactions (LC)**: Other types of international transactions, such as trade finance and cross-border ACH.
6. **OFAC Violation History (OFAC)**: The bank's historical compliance with OFAC regulations and any past violations.

To address these inherent risks, the bank has implemented a series of mitigating controls:

1. **OFAC Screening (CB-1, HR-1, FC, EB-1, FT-1, OFAC-1, CBW-1)**: Automated systems for screening accounts, transactions, and electronic banking activities against the OFAC database.
2. **OFAC Disposition (CB-2)**: Procedures for handling potential matches to OFAC-sanctioned entities or individuals.
3. **OFAC Filter Sensitivity (CB-3)**: Regular testing of the OFAC filter's sensitivity settings.
4. **OFAC List Updates (CB-4)**: Ensuring that OFAC lists are current and updated in the system.
5. **Policies & Procedures (CB-6)**: Comprehensive and updated OFAC policies and procedures.
6. **Blocked/Seized Assets & Rejected Transactions (CB-7)**: Procedures for blocking or seizing assets and rejecting transactions as per OFAC regulations.
7. **3rd Party Vendor Reliance (CB-8)**: Due diligence and management of third parties performing OFAC screening.

The Bank Secrecy Act (BSA) Risk Assessment (RA) is a crucial component of a financial institution's anti-money laundering (AML) program. It provides a structured methodology to evaluate the potential risks associated with various banking activities, products, services, and customer types. By identifying and categorizing these risks, institutions can better allocate resources, implement appropriate controls, and ensure compliance with regulatory requirements.

The inherent risk assessment is the initial step in the BSA RA process. It focuses on identifying potential risks without considering the mitigating controls in place. The assessment evaluates various risk categories, such as customer base, international accounts, electronic banking, and more, and classifies them into three risk levels: Low, Moderate, and High. Each risk category is further defined by specific criteria determining its risk level.

# Objective:

The primary objective of the OFAC Risk Assessment is to provide a structured approach to evaluate the bank's potential exposure to sanctions violations. By identifying inherent risks and evaluating the strength of the mitigating controls in place, the assessment aims to:

1. Ensure that the bank clearly understands its risk profile in relation to OFAC regulations.
2. Confirm that the bank's sanctions compliance program is tailored to effectively manage and mitigate its specific risks.
3. Highlight areas where additional controls or enhancements may be needed.
4. Assist in prioritizing resources and efforts in the most risk-sensitive areas.
5. Ensure compliance with OFAC regulations and demonstrate the bank's commitment to preventing sanctions violations.

By conducting this assessment, the bank reaffirms its dedication to adhering to international sanctions, ensuring the safety and soundness of its operations, and upholding its reputation in the financial industry.

The tables in this extract offer a detailed breakdown of various risk categories, criteria, and classification into risk levels. This assessment will serve as a foundation for the next step, evaluating the mitigating controls.

# Scoring Methodology:

The scoring methodology for the assessment table is designed to provide a comprehensive and objective evaluation of {CLIENT}'s banking services across various categories. The methodology is based on a systematic approach that considers the inherent risks associated with each category and the effectiveness of the mitigating controls in place. Here's a breakdown of the methodology:

**Understanding the Categories:**

* Each category represents a specific area or process within the bank's operations.
* The unique and control codes serve as identifiers to ensure clarity and consistency in the assessment process.

**Evaluation Criteria:**

* For each category, specific criteria have been defined for ratings of "Strong (3)", "Adequate (2)", and "Weak (1)".
* These criteria are based on industry best practices, regulatory guidelines, and the bank's internal policies.

**Scoring Mechanism:**

* **Strong (3):** This rating is awarded when the bank meets the highest standards set for the category. It indicates that the bank has robust processes that align with best practices and regulatory requirements.
* **Adequate (2):** This rating is given when the bank meets the basic requirements for the category but may have areas for improvement. It suggests that while the bank is compliant, there's potential for enhancing the processes.
* **Weak (1):** This rating is assigned when the bank fails to meet the minimum requirements for the category. It highlights areas of concern that need immediate attention.

**Comments and Documentation:**

* The "Comments" section allows the assessor to provide specific feedback, highlight areas of concern, or commend the bank for its practices.
* The "Document(s)" section is crucial for validation. It requires the bank to provide evidence supporting its practices, ensuring transparency and accountability.

**Calculation of Residual Risk:**

* The inherent risk associated with each category is weighed against the effectiveness of the mitigating controls.
* The logic provided in the table determines the residual risk, ensuring a systematic approach to risk assessment.

**Final Assessment:**

* Once all categories have been evaluated, an overall score is calculated for the bank.
* This score provides a snapshot of the bank's risk profile and the effectiveness of its controls.
* The bank can then use this score to prioritize areas for improvement and develop action plans.

**Conclusion:**

The assessment table and scoring methodology provide a structured and objective framework for evaluating {CLIENT}'s banking services. By adhering to this methodology, the bank can maintain high standards, remain compliant with regulations, and continuously strive for improvement.

# Risk Matrix

{Insert Risk Matrix here}

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **J. WALLACE BANK** | | | | | | | | | |
| **BSA/AML RISK MATRIX** | | | | | | | | | |
| **As of February 11, 1979** | | | | | | | | | |
| Code | Row in FFIEC Appendix J | Category # |  |  |  |  |  |  |  |
| Category | Inherent Risk | | Mitigating Controls | | Residual Risk | |
| CB | - | 1 | Customer Base | High | 6 | Weak | - | - | - |
| NRA | - | 2 | NRA customers | High | 6 | 3 | - | - | - |
| HR | - | 3 | High risk customers | High | 6 | Weak | - | - | - |
| FC | - | 4 | Foreign correspondent accounts & overseas branches | High | 6 | Weak | - | - | - |
| EB | - | 5 | Electronic banking | High | 6 | Weak | - | - | - |
| FT | - | 6 | Funds transfers - domestic | High | 6 | Weak | - | - | - |
| CBW | - | 7 | Funds transfers - foreign | High | 6 | Weak | - | - | - |
| LC | - | 8 | Other international transactions | High | 6 | #DIV/0! | #### | #DIV/0! | #### |
| OFAC | - | 9 | OFAC violation history | High | 6 | Weak | - | - | - |

# Inherent Risk and Mitigating Controls

{Insert OFAC RA here}

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Risk Category** | | **Low Risk** | **Moderate Risk** | **High Risk** | **Inherent Risk** | Inherent Risk Score | Mitigating Control | Mitigating Control Score | Residual Risk | Category # | Row in FFIEC Appendix M |
| **CB** | Customer Base | | Stable, well-known customer base in a localized environment. | Customer base changing due to branching, merger, or acquisition in the domestic market. | A large, fluctuating client base in an international environment. | **High** | 3 | Weak | 100.00% | 3 | 1 |  |
|  | **#** | **Category** | **Strong (3)** | **Adequate (2)** | **Weak (1)** | **Score** | **Comments:** | | | **Document(s)** | | |
| Average Score | **CB-1** | OFAC Screening | The bank has an automated system in place for screening all accounts (loans and deposits against the OFAC database, and rigorous procedures to require an initial screen as part of account opening and regular, on-going screens of all accounts and transactions | The bank has an automated system in place for screening all accounts against the OFAC database, but procedures are not well defined and/or regular, on-going screens of all accounts and transactions may not take place. | The bank has at most an inadequate automated system in place that may not screen all accounts against the OFAC database, or it may have inadequate procedures for the regular, on-going screening of all accounts and transactions. | **1** |  | | |  | | |
| Average Score | **CB-2** | OFAC Disposition | The bank has rigorous procedures for the dispositions of potential matches to the lists detailing known or suspected terrorists or terrorist organizations, including for escalating responsibility to qualified persons and for contacting authorities before proceeding in questionable cases. Audit and other reviews show no deviations from established procedures. | The bank has less rigorous procedures for the dispositions of potential matches to the lists detailing known or suspected terrorists or terrorist organizations, including for escalating responsibility to qualified persons and for contacting authorities before proceeding in questionable cases. Audit and other reviews show a few deviations from established procedures. | The bank lacks rigorous procedures for the dispositions of potential matches to the lists detailing known or suspected terrorists or terrorist organizations, including for escalating responsibility to qualified persons and for contacting authorities before proceeding in questionable cases. Audit and other reviews show several deviations from established procedures. | **3** |  | | |  | | |
| Average Score | **CB-3** | OFAC Filter Sensitivity | The OFAC filter's sensitivity is set to an appropriate level, which is tested regularly. | The OFAC filter's sensitivity is set to an acceptable level but additional testing may improve efficiency and effectiveness. | The OFAC filter's sensitivity is not set to an appropriate level or has not been tested. | **1** |  | | |  | | |
| Average Score | **CB-4** | OFAC List Updates | OFAC lists are current in the system and there is evidence of successful completion. | OFAC lists are current in the system, however, there is no evidence of successful completion. | OFAC lists are not updated regularly. | **1** |  | | |  | | |
| Average Score | **CB-6** | Policies & Procedures | OFAC & Policy Procedures are thorough, detailed and updated as necessary. | OFAC Policy & Procedures are adequate however, need to be updated to reflect current practices. | OFAC Policy & Procedures do not exist or are significantly incomplete. | **1** |  | | |  | | |
| Average Score | **CB-7** | Blocked/Seized Assets & Rejected Transactions | The bank has robust written procedures to comply with OFAC regulations requiring the blocking/ seizing of accounts / assets or rejecting transactions of OFAC-sanctioned countries, entities or individuals, and it provides regular training to operational personnel, as well as a history of no exceptions. | The bank has less robust written procedures to comply with OFAC regulations requiring the blocking / seizing of accounts; assets or rejecting transactions of OFAC-sanctioned countries, entities or individuals, and it provides only sporadic training to operational personnel but has a history of no exceptions. | The bank lacks adequate written procedures to comply with OFAC regulations requiring the blocking / seizing of accounts / assets or rejecting transactions of OFAC-sanctioned countries, entities or individuals, and provides little training to operational personnel, and may have a history of one or more exceptions. | **1** |  | | |  | | |
| Average Score | **CB-8** | 3rd Party Vendor Reliance | The bank does not rely on third parties to perform OFAC screenings. | The bank does rely on third parties to perform OFAC screening but performs due diligence and maintains adequate procedures for managing the service. | The bank relies on third parties to perform OFAC screening and has not performed adequate due diligence on those parties. | **1** |  | | |  | | |
| **NRA** | NRA customers |  | The institution does not have any NRA accounts | Moderate level of NRA accounts from lower- risk geographies | Significant number of NRA accounts from higher-risk geographies | **High** | 3 | 3 | 1 | 3 | 2 |  |
| Average Score | **NRA-1** | Opening Accounts | The bank does not open any accounts or allow transactions to take place prior to subjecting the names of the customers, account signers and other persons associated with the account to OFAC screening | The bank allows accounts to be opened before completing OFAC screening but limits transactions until the screening is completed | The bank does allow accounts to be opened before completing OFAC screening and does not effectively limit transactions until the screening is completed | **1** |  | | |  | | |
| **HR** | High risk customers | | Few high-risk customers; these may include nonresident aliens, foreign customers (including accounts with U.S. powers of attorney) and foreign commercial customers. | A moderate number of high-risk customers. | A large number of high-risk customers, or the institution has not developed a Customer Risk-weighting Process | **High** | 3 | Weak | 1 | 3 | 3 |  |
| Average Score | **HR-1** | Screening | The bank has an automated system in place for screening transactions of high risk customers against the OFAC databases and procedures require an initial screen as part of account opening and regular, on-going screens of all accounts. | OFAC screening is conducted but not on a consistent basis. | OFAC screening is not conduct or conducted sporadically. | **1** |  | | |  | | |
| **FC** | Foreign correspondent accounts & overseas branches | | No overseas branches and no correspondent accounts with foreign financial institutions. | One overseas branch or small number of correspondent accounts with foreign financial institutions. | Multiple overseas branches or multiple correspondent accounts with foreign financial institutions.. | **High** | 3 | Weak | 1 | 3 | 4 |  |
| Average Score | **FC-1** | Foreign correspondent accounts and overseas branches | The bank's transactions with foreign correspondent accounts and overseas branches are automatically subject to automated OFAC screening | The bank's transactions with foreign correspondent accounts and overseas branches are automatically subject to automated OFAC screening but procedures are not well defined and/or regular, on-going screens of all transactions may not take place. | The bank's transactions with foreign correspondent accounts and overseas branches are not automatically subject to automated OFAC screening or procedures are inadequate for screening of all transactions. | **1** |  | | |  | | |
| **EB** | Electronic banking | | No electronic banking (e-banking) services offered, or website is purely informational or non-transactional. | The institution offers limited e-banking products and services. | The institution offers a wide array of e-banking products and services (i.e., account transfers, e-bill payment, or accounts opened via the Internet). | **High** | 3 | Weak | 1 | 3 | 5 |  |
| Average Score | **EB-1** | Screening | The bank has an automated system in place for screening electronic banking transactions against the OFAC database and robust procedures for follow up of possible matches | The bank has an automated system in place for screening electronic banking transaction against the OFAC database, but procedures are not well defined and/or regular, on-going screens of all accounts may not take place. | The bank does not have an automated system in place for screening electronic banking transaction against the OFAC database. | **1** |  | | |  | | |
| **FT** | Funds transfers - domestic | | Limited number of funds transfers for customers and non-customers, limited third-party transactions,. | A moderate number of funds transfers, mostly for customers. | A high number of customer and non-customer funds transfers | **High** | 3 | Weak | 1 | 3 | 6 |  |
| Average Score | **FT-1** | Screening | The bank has an automated system in place for screening domestic wires against the OFAC database. | The bank has an automated system in place for screening domestic wires against the OFAC database but procedures are not well defined and/or regular, on-going screens of all accounts may not take place. | The bank does not have an automated system in place for screening domestic wires against the OFAC database. | **1** |  | | |  | | |
| **CBW** | Funds transfers - foreign | | No international funds transfers or bulk shipments of currency. | Possibly, a few international funds transfers from personal or business accounts, but no bulk shipments of currency | Many international funds transfers and/or bulk shipments of currency. | **High** | 3 | Weak | 1 | 3 | 7 |  |
| Average Score | **CBW-1** | Screening | The bank has an automated system in place for screening cross-border wires against the OFAC database. | The bank has an automated system in place for screening cross-border wires against the OFAC database but procedures are not well defined and/or regular, on-going screens of all accounts may not take place. | The bank does not have an automated system in place for screening cross-border wires against the OFAC database. | **1** |  | | |  | | |
| **LC** | Other international transactions | | No other types of international transactions, such as trade finance, cross-border ACH, and management of sovereign debt. The financial institution is in compliance with the IAT (International ACH Transactions) policy. | Limited other types of international transactions. The financial institution is in compliance with the IAT policy. | A high number of other types of international transactions. The financial institution is not in compliance with the IAT policy. | **High** | 3 | #DIV/0! | #DIV/0! | Residual Risk Level not found | 8 |  |
| Average Score | **None Provided** |  |  |  |  |  |  | | |  | | |
| **OFAC** | OFAC violation history | | No history of OFAC actions. No evidence of apparent violation or circumstances that might lead to a violation. | A small number of recent actions (i.e., actions within the last five years) by OFAC, including notice letters, or civil money penalties, with evidence that the financial institution addressed the issues and is not at risk of similar violations in the future. | Multiple recent actions by OFAC, where the financial institution has not addressed the issues, thus leading to an increased risk of the financial institution undertaking similar violations in the future. | **High** | 3 | Weak | 1 | 3 | 9 |  |
| Average Score | **OFAC-1** | Screening | The financial institution has an automated system in place for screening wires against the OFAC database. | The financial institution has an automated system in place for screening wires against the OFAC database but procedures are not well defined and/or regular, on-going screens of all accounts may not take place. | The financial institution does not have an automated system in place for screening wires against the OFAC database. | **1** |  | | |  | | |

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