February 14, 2018

Commissioner’s Letter to the Minister of Finance, Banking and Postal Services

Hon. Brenson S. Wase  
Minister of Finance, Banking  
and Postal Services  
Republic of the Marshall Islands  
Government

RE: Banking Commission Annual Report FY 2017 (October 2016 to September 2017)

Dear Honorable Minister Wase,


On behalf of the staff and management of the Banking Commission I would like to convey our sincere gratitude and appreciation for your great leadership and support.

Sincerely,

[Signature]

Sultan Korean  
Banking Commissioner
Banking Commission Team

From Left to Right: Souvenir Ned (Administration Officer), Samelda Leon (Financial Intelligence Unit Manager), Matt Muller (IT Technician), Rendy Johnny (Financial Institution Supervision Manager), Neumi N W Usumaki (Financial Sector Development Manager), Zed Zedkaia Jr. (Examiner), Sultan T. Korean (Banking Commissioner)

Banking Commission Organizational Structure
I. BACKGROUND

The Office of the Banking Commission (Commission) was established under Title 17 Chapter 1 Banking Act 1987 (the Act) to ensure the safety and soundness of the Republic of the Marshall Islands (RMI) banking sector and also deter money laundering (ML) and terrorist financing (TF) in the financial system. Pursuant to Section 104 of the Act the Commissioner of Banking reports to the Minister of Finance, Banking and Postal Services.

The Financial Institution Supervision (FIS) division is responsible for the licensing and supervision of banks, other non-bank financial institutions, and cash dealers as defined under Section 102 of the Banking Act 1987 to ensure their safety and soundness and full compliance with AML statutes and regulations. The FIS is also a member of the Regulatory Policy Review Committee (RPRC) that was just recently established in the formulation and revision of new operating policies and procedures, including new regulations and guidelines for licensed banks and other reporting entities.

In 2015, the RMI Cabinet issued a Cabinet Policy authorizing the Banking Commissioner to secure domestic banks' access to international payments and clearing systems in particular the U.S. Federal Reserve Payment System in response to the impact of global de-risking on our banking sector. Due to the importance of securing permanent access to international clearing and payment facilities for banks and financial institutions, the RMI Cabinet approved the establishment of a Financial Sector Development function of the Banking Commission. The primary objective of the Financial Sector Development (FSD) division of the Banking Commission is to assist the Banking Commissioner in the management of all activities related to financial sector development and ensure the effective implementation of key strategies under the Financial Sector Development Plan (FSDP) 2016-2020. This division will also be responsible for coordinating with key stakeholders on the revision and development of future FSDPs.

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1 the termination of correspondent banking relations by larger foreign banks in response to tougher enforcement of anti-money laundering and counter financing of terrorism laws in the U.S. and around the world. In the RMI's case, domestic banks rely heavily on the payment and settlement services offered through a U.S. bank CBR in order to continue operating as a bank using the U.S. dollar.
The Commission is the lead agency in the RMI on national anti-money laundering (AML) efforts pursuant to Part 13 of the Act. It is empowered under Section 167 of the Act to combat money laundering (ML) and terrorist financing (TF) in the RMI. Under Section 167, the Banking Commission acts as the financial intelligence unit (FIU) of the RMI. One of the key responsibilities of the Commissioner of Banking under Section 167 is to receive from banks and financial institutions certain financial reports. Financial information from such reports are analyzed and disseminated to law enforcement when there are reasonable grounds of ML activity within a bank, financial institution, or cash dealer.

II. FINANCIAL INSTITUTION SUPERVISION (FIS)

Key Responsibility: Supervision of Banks and Financial Institutions

Prudential Supervision: The Banking Commission is mandated under the Banking Act 1987 to perform effective supervision of licensed banks to ensure their safety and soundness. The Banking Commission operates within a regulatory framework allowed under the Act to conduct the following key responsibilities: (a) register and license banks, (b) conduct ongoing offsite surveillance and onsite examination of their financial performance to ensure their safety and soundness, (c) address compliance with all provisions of the Banking Act, regulations, directives, including instructions and other internal banking by laws.
Offsite surveillance tasks involve:

- the receiving of financial returns from licensed banks in accordance with requirements of the Banking Act 1987;
- using returns to extract crucial financial data and key ratios to analyze the financial performance of licensed banks on an ongoing basis;
- compile banking data extracted from regulatory returns by inputting into a spreadsheet or maintain in database for analytical purposes;
- based on the analysis the Banking Commission is able to determine whether or not a bank needs to undergo onsite examination due to its current financial state;
- financial returns are submitted weekly, monthly and quarterly by licensed banks and provide the status on the bank’s current liquidity position, capital adequacy, statement of income and balance sheets, interest rates for loans and deposits, allowance for loan loss reserves, credit risk exposures and limits in comparison with requirements of the Banking Act 1987.
"With the aim of strengthening prudential supervision of licensed banks operating in the RMI, the FIS continues to improve the effective implementation of the Offsite Bank Surveillance System”

New Developments

Offsite Bank Surveillance System (OBSS) - With the aim of strengthening prudential supervision of licensed banks operating in the RMI, the FIS continues to improve the effective implementation of the Offsite Bank Surveillance System (OBSS). The OBSS acts as an early warning system for examiners as it allows for the timely detection of emerging problems or risks in banks and the banking system as a whole. The OBSS uses a CAELS framework for both banks (Capital Adequacy-Asset Quality-Earnings-Liquidity-Sensitivity to Market Risks). Under the framework banks are required to submit financial reports to the Banking Commission on a weekly, monthly, and quarterly basis, with the exception of the Capital Adequacy Report that the foreign bank branch is not required to file with the Banking Commission. Through these financial reports, the FIS is able produce the Offsite Surveillance Monitoring Report (OSMR) each quarter for both banks. The OSMR continues to be an useful tool in assessing the financial condition of a bank and used as a basis for conducting further onsite examination by the FIS as it sees fit. The Banking Commission has commenced the production of the quarterly OSMR report for the domestic bank since 2016 and in January of 2018 the 1st OSMR for the foreign bank branch will be produced.²

Regular Production of Banking Sector Report - In order to provide regular update to the Minister of Finance, Banking, and Postal Services on banking matters in the RMI, the FIS has started producing a banking sector report that will be done every quarter. The FIS continues to stress the importance for all banks to disclose all financial returns required under the OBSS for it to continue the regular production of the banking sector report. Although faced with some challenges in trying to collect all the

² Asset quality data will be provided for quarter ending December 2017;
necessary data from banks, FIS was able to produce a sector assessment on banks’ financial condition as of the end of Fiscal Year (FY) 2017 based on existing data. Going forward the FIS will continue to work with banks to submit all the required financial reports in particular the report on Asset Quality from foreign bank branch.

**Offsite Surveillance Linked with Onsite Examination Process**

The Banking Commission uses the CAMELS framework (Capital Adequacy-Asset Quality- Management Performance-Earnings Performance-Liquidity-Sensitivity to Market Risks) to conduct onsite examination of the domestic bank. Onsite examination tasks using the CAMELS framework involve the following tasks:

- **CAMEL Examination** - a key examination that provides a clear picture into a bank’s overall safety and soundness broken down into these key elements: Capital Adequacy, Asset Quality (mostly loans), Management Quality, Earnings, and Liquidity;
- **Review of a bank's compliance** with applicable statutes, directives, guidelines, and regulations set by the Banking Commission.

**Prudential Onsite Examination**

The Banking Commission uses the CAMELS framework (Capital Adequacy-Asset Quality- Management Performance-Earnings Performance-Liquidity-Sensitivity to Market Risks) to conduct onsite examination of the domestic bank. Onsite examination tasks using the CAMELS framework involve the following tasks:

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New Developments

Prudential Onsite Examinations - The following entity was examined using the CAMELS framework in February of 2017. This was a follow through onsite examination resulting from the domestic bank's offsite surveillance report in 2016:

- Bank of Marshall Islands - follow up is to be scheduled in FY 18 or 19 to ensure that BOMI has addressed issues in last report and applied corrective measures.

Implementation of the SOSA and ROCA Frameworks - There is an ongoing review of new supervisory frameworks for branches of foreign banks that are licensed to operate in the RMI. The Banking Commission is currently reviewing the applicability of the Strength of Support Assessment (SOSA) and Risk Management-Operational Control-Compliance-Asset Quality (ROCA) Frameworks for branches of foreign banks. The SOSA and ROCA frameworks were developed by the U.S. Federal Reserve as tools for supervising branches of foreign banks operating in the U.S. Existing manuals produced by the Federal Reserve to undertake SOSA and ROCA examinations are currently reviewed by the Banking Commission for future use. The plan is to tailor manuals to suit the RMI context based on size, scale, and complexity of institutions supervised. The existing CAMELS framework is an important component of the new SOSA framework and will be incorporated once revision is done.

Prudential Supervision of Marshall Islands Development Bank - The RMI Cabinet authorized the Banking Commission under Cabinet Minute (C.M. 133) to conduct prudential supervision of the Marshall Islands Development Bank in accordance with new prudential guidelines that shall be set by the Banking Commission. Prudential supervisory oversight of MIDB is a means to ensure that MIDB continues to operate in a safe and sound manner and that Government assets are safeguarded and protected at all times. Several countries in the world including the Pacific have started supervising their development banks for the same reasons i.e.
The Banking Commission is also mandated to regulate banks, financial institutions and cash dealers for AML/CFT compliance pursuant to the anti-money laundering provisions under Part 13 of the Act.


The RMI Cabinet also authorized the Banking Commission to conduct compliance examination of MIDB's adherence to the Marshall Islands Development Bank Act and to report all findings to the Minister of Finance and the RMI Cabinet. The recent Cabinet decision is based on past recommendations by the International Monetary Fund stated in Article IV mission reports for the RMI that stressed the need for the RMI Government to bring MIDB under the Banking Commission's regulatory framework. Furthermore, The Banking Commission is still in the process of developing the appropriate prudential guidelines and will commence its supervisory work once guidelines have been set and introduced to the Board of Directors and Management. This will require a transition period for MIDB to adopt and implement the guidelines.

IMF PFTAC Annual Meeting for Pacific Islands Bank Supervisors Cook Islands October 2017 - Mr. Sultan Korean Commissioner of Banking and Manager of Financial Institution Supervision, Mr. Rendy Johnny participated in the 2017 Annual Meeting IMF PFTAC for Bank Supervisors in Cook Islands. During the meeting, PFTAC facilitated a series of workshops centered on bank resolution regimes and potential implications of Fintech for financial sector supervision. The annual meeting also provided an opportunity to update the association on the Secretariat's activities and PFTAC's ongoing technical assistance programs.

AML/CFT Supervision

The Banking Commission is also mandated to regulate banks, financial institutions and cash dealers for AML/CFT compliance pursuant to the anti-money laundering provisions under Part 13 of the Act. All reporting entities are required to comply with AML
Regulations 2002 pertaining to customer due diligence, enhanced due diligence for higher risk customers, internal anti-money training program, reporting of suspicious activity, reporting of currency transactions, maintenance of bank records and other regulatory requirements stipulated under the Act and associated regulations and guidelines.

Supervision of reporting entities involve the following activities:

- Offsite review of bank and other reporting entity data and files prior to examination;
- Onsite examination of bank and other reporting entity’s anti-money laundering program to ensure full compliance with standards set by the Banking Commission;
- Enforcing compliance with law and regulations through regulatory fines and penalties for apparent violations;
- Ensure that apparent violations of the Act and regulations are rectified and corrective actions implemented across the institution.

New Developments

**AML/CFT Onsite Examinations** - In FY 2017, the FIS successfully completed four (4) AML/CFT examinations of Bank of Marshall Islands, Money Gram, Ajejdrikdrik Inc, and JAJ. The FIS has notified all reporting entities that were scheduled for follow up onsite examinations in FY 2017 that the scheduled examinations will be deferred until further notice due to the need to provide support work for the FIU in facilitating the National Risk Assessment process (further information on the NRA is explained in the FIU section of the report).

**Capacity Building and Training for Examiners** - The FIS in conjunction with Financial Sector Development division are exploring opportunities for capacity building of the examiners to ensure that they are well equipped with the skills and knowledge to undertake their responsibilities as young professionals. Training opportunities through the IMF’s PFTAC office in Fiji, the Financial Services Volunteer Corp, UNDP, ADB and the World Bank are currently explored by the FSD. There is a long term plan to enroll examiners in the Federal Deposit Insurance Corporation Risk Management School in Washington D.C. in the future. The FDIC School is a highly reputable institution which provides the requisite certification for bank examiners in the U.S. who upon completion of the five (5) - year program will be certified as Commissioned Examiners.
Licensing of Banks

The Banking Commission also has full responsibility for the licensing of all banks operating in the RMI. The Banking Commission reviews the bank license application pursuant to Section 111 of the Act and may extend additional conditions of license for the proposed activity. The Banking Commission can deny or revoke the license if it does not meet licensing requirements under the Act.

Banks are required to pay an annual licensing fee including a separate fee for each branch establishment.

Approved License Renewal: In FY 2017, the Banking Commission granted license renewal for the following banks:

- Bank of Marshall Islands- Uliga Branch, Airport Branch, Jaluit Branch, Ebeye Branch, Kwajalein Branch, and Wotje Branch (6 Branches);
- BOMI’s newly added branch in Kili (2017)
- BOG- Majuro Branch.

New Developments

There are two major revisions to the Banking Act 1987 that will require the formulation and revisions of current directives, guidelines, and instructions that the Banking Commission currently uses:

Amendment to the Banking Act 2017 (Bill 94) - The Minister of Finance, Banking and Postal Service plans to introduce Bill 94 to the Nitijela during the January 2018 session. The proposed bill will provide additional powers for the Banking Commission to supervise other financial service providers such as insurance companies and credit institutions. The overall safety and soundness of the RMI financial system is crucial for the continued support in economic development and also to protect consumers of financial products and services such as borrowers and insurance policy holders. The new bill once passed into law will also establish a licensing regime for these entities and provide the powers to the Banking Commission to collect fees and to deposit funds into a new Banking Commission special revenues fund that will be non-lapsing. Long-term financial self-reliance is one of the key objectives of the Banking Commission taking into consideration fiscal constraints within the Government due to projected revenue reductions and annual decrease in Compact grant assistance from the U.S. The bill also establishes the Financial Intelligence Unit, Anti-Money Laundering Council, and definition of Designated Non-Financial Service Providers (DNFBPs) as
newly regulated entities under Part 13 of the Act and to further comply with Financial Action Task Force recommendations.

**Revision of Banking Act 1987 and Directives (Prudential Standards) against Core Principles for Banking Supervision set by the Basel Committee** - As part of its key strategy to address the impact of de-risking in the RMI banking as stated in the Financial Sector Development Framework the Banking Commission was able to secure technical assistance (TA) from the IMF PFTAC to further strengthen the banking legal framework in line with Basel Standards. A TA for the RMI has been approved by the IMF PFTAC office, endorsed by the Minister of Financing, Banking and Postal Services, and will bring in legal experts from the IMF head office in D.C. to assist in the revision of the Banking Act and Directives. A legal review workshop was conducted by the IMF PFTAC in Guam for all the North Pacific countries- the RMI, Palau, Federated States of Micronesia and Kiribati to introduce the new Basel standards and do pre-planning for the one-year project. The Banking Commissioner and Ms. Claire Loek Assistant Attorney General participated in the workshop from the RMI. The IMF legal team will work closely with the Attorney General's office in the drafting of the new legislation and prudential statements. The IMF has scheduled an onsite visit for May of 2018 to meet with relevant stakeholders and introduce the first draft.

**Existing and New Regulations, Directives, Instructions, and Guidelines for Banks and Financial Institutions**

The following regulations, directives, guidelines, instructions, and advisories are currently effective and used by FIS in ensuring the safety and soundness of banks. Also banks, other financial institutions and cash dealers’ compliance with AML/CFT requirements under the Act.

**Prudential Supervision**

- Directive 2011-1 Lending Restrictions
- Directive 2- Accounting for Non-Performing Credits
- Directive 3- Asset Classification and Reserve Adequacy
- Guideline 1- Regulatory Reporting Requirement
- Guideline 2- Liquidity Risk Management
- Guidelines 3- Operational Risk Management
- Guideline 4- Requirements for the issue of a bank license under the Banking Act 1987
- Guidelines 5- Complaints and Grievances
- Advisory A-08- Unsecured Consumer Loan Rate
The RMI financial sector consists of two commercial banks, Bank of Marshall Islands and BOG (U.S. bank and FDIC insured) including other smaller financial institution and cash dealers that provide other types of financial services. There is also the Marshall Islands Development Bank (MIDB) which is a government owned institution that is governed by the MIDB Act. Both commercial banks fall under the supervisory framework of the Banking Commission and are required by the Banking Act 1987 to adhere to prudential banking standards. MIDB has been recently added
into the regulatory framework where it will be subject to prudential and AML/CFT supervision.

BOMI, BOG and other reporting entities defined as financial institutions and cash dealers are required to adhere to anti-money laundering provisions under Part 13 of the Banking Act 1987 and the revised AML Regulations 2002. Below is a list of the identified reporting entities that fall under the Commission’s purview as of the end of FY 2017

**Supervision of Reporting Entities**

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<tr>
<th>REPORTING ENTITIES</th>
<th>PRUDENTIAL SUPERVISION or AML/CFT SUPERVISION</th>
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<td><strong>BANKS</strong></td>
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<tr>
<td>BANK of Marshall Islands</td>
<td>BOTH</td>
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<td>Uliga Branch</td>
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<td>Majuro Airport Branch</td>
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<td>Bank of Guam</td>
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<td>Majuro Branch</td>
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<td><strong>CREDIT INSTITUTIONS</strong></td>
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<tr>
<td>Marshall Islands Services Corporation</td>
<td>AML/CFT Supervision</td>
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<td>Majuro Branch</td>
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<td>Ebeye Branch</td>
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<td>AjejdrikdrikInc Majuro</td>
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<td>JAJ Corporation Majuro</td>
<td>AML/CFT Supervision</td>
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<tr>
<td>Family Mart</td>
<td>AML/CFT Supervision</td>
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<td><strong>MONEY TRANSFER OPERATOR (MTO)</strong></td>
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<tr>
<td>Money Gram</td>
<td>AML/CFT Supervision</td>
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<td>Western Union</td>
<td>AML/CFT Supervision</td>
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<td><strong>INSURANCE</strong></td>
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<tr>
<td>Moylans Insurance</td>
<td>AML/CFT Supervision</td>
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<tr>
<td>Marshall Islands insurance Agency</td>
<td>AML/CFT Supervision</td>
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<tr>
<td>IAC Insurance</td>
<td>AML/CFT Supervision</td>
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<td><strong>CREDIT UNION</strong></td>
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<tr>
<td>Kwajalein Employee Credit Union</td>
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"The overall condition of the banking sector is Satisfactory. The domestic bank is well capitalized based on the tier-1 risk based capital ratio set by the Banking Commission. The U.S. bank branch has adequate capital support from head office to support its operations in the RMI."

New Developments

Completion of Financial Sector Profile - The FIS in FY 2017 continued to develop a Financial Sector Profile of all reporting entities in the RMI. This included banks, insurance companies and other financial services providers. The Sector Profiling is an ongoing work and effort is also part of the FIS’s work plan for continuation and improvement in FY 2018. The Financial Sector Profile will assist the Banking Commission in understanding the size of the market based on the respective shares of each entity in terms of asset size.

Creation of three (3) Examination Groups under FIS for FY 2018 - This was initially proposed for FY17 but the proposed positions were not available during last fiscal year. It will be implemented during the fiscal year 2018 providing that the additional two positions will be filled early February 2018. The FIS intends to plan and structure its activities based three (3) groups each comprising of banks, financial institutions and cash dealers, where the FIS Manager will lead each group with the assigned examiner. This way the heavy workload to supervise all these entities will be fairly spread out amongst the three examiners with the FIS Manager as lead examiner. Offsite bank surveillance work will be carried out by each manager for the bank that they have been assigned for.

Banking Sector Report

The overall condition of the banking sector is Satisfactory. The domestic bank is well capitalized based on the tier-1 risk based capital ratio set by the Banking Commission. The U.S. bank branch has adequate capital support from head office to support its operations in the RMI. Asset quality continues to remain satisfactory with the uninsured domestic bank primarily due to improved credit underwriting and sufficient allowance for loan losses.

Earnings performance overall is satisfactory resulting from the net interest margin in both banks and decrease in overhead costs and interest expense. There is excess liquidity in
the system indicative of the ability of both banks to meet their future obligations.

**Capital Adequacy**

Capital adequacy for the uninsured domestic bank slightly increased from the previous quarter ending June 2017. The RMI domestic bank is well-capitalized based on strong earnings performance from the past. Capital adequacy is assessed based on minimum standards set by the RMI Banking Commission (Banking Act 1987- for Bank of Marshall Islands).

The RMI Banking Act 1987 sets a minimum tier-1 risk-based capital ratio for domestic banks at a minimum level of 15%. The foreign bank branch has adequate capital support from its head office. The Banking Commission continues to monitor the level of capital for the domestic bank on a regular basis through its offsite bank surveillance system.

**Asset Quality**

The quality of the uninsured domestic bank's asset portfolio continues to be Satisfactory. Non-Performing Loans (NPL) to Gross Loans ratio declined from 2nd Quarter to 3rd Quarter of 2017 from 2.74% to 1.00 %, a 1.77% decline. The decline in the NPL ratio is indicative of improvement in the overall loan underwriting process to further enhance credit risk management.

3Branches of foreign banks are not subject to the RMI capital requirements under the Banking Act so therefore are not included in this analysis. However, for the purpose of effective implementation of its offsite surveillance system the Banking Commission uses a Strength of Support Assessment Framework (SOSA) to assess the overall financial strength of the parent bank in supporting its branch's risk taking activities in the RMI. The SOSA is conducted annually and requires an analysis of the parent’s capital position taken from the FDIC's Uniform Bank Performance Report (UBPR).
It is important to note that the uninsured domestic bank has set its risk appetite for NPLs at 10% and intends to maintain asset quality ratios at minimum levels within the risk appetite ranges set by the Board of Directors.4

Aggregate assets in the banking sector equated to $261.7 Million as of September 30 2017, a decline by 2% from $266.3 Million last quarter primarily due to an increase in cash withdrawals during this period through the liquidation of large time deposit accounts. Although there was a decline in aggregate assets between this periods it was also noted that gross loans increased by 4% from $117.4 Million to $121.5 Million demonstrating the high demand for consumer loans in the sector.

There is active lending in the sector but there still remains excess deposit funds in the system. Loans to deposit ratio for both banks as of reporting period (September 30, 2017) recorded 52.3%, which shows that there is sufficient liquidity in the system and the potential for banks to lend available funds to further strengthen economic activity. The RMI Banking Act permits up to 70% of total deposits that could made available for loans.

The Allowance for Loan Losses and Leases (ALLL) for the uninsured domestic bank has been in excess of the regulatory minimum required under Directive 3. As of reporting date (September 30, 2017), the uninsured domestic bank recorded an ALLL of $6.9 Million. The amount appears to be sufficient at current to act as cushion for potential loan losses or deterioration in asset quality when compared with the ALLL

4 BOG branch currently does not submit asset quality data at present but has been directed by the Commissioner of Banking to provide data under a new Conditions of License.
minimum that should be maintained based on minimum requirements set by the Commission-regulatory limit should $1.5 Million as of the reporting period.5

Earnings Performance

Earnings performance in the banking sector is Satisfactory as of the reporting date. Both banks have generated profits during the last calendar year and continue to do so as of reporting period. Between June and September 2017, the banking sector has realized an increased profitability by 73% from $1.28 million to $2.22 million. Improved sector earnings is due to the reduction in overhead expenses and interest expenses by nearly 21% and 12% respectively between the two periods. Furthermore interest income and noninterest income have both increased by 3% and 6% respectively during the same period.

Return on Assets (ROA) for the banking sector was recorded at an average of 2.85%. The reduction in total assets coupled with an increase in net income for the sector contributes to the increase in the ROA.6 Another contributing factor is the consistent growth in net interest margin (NIM) during the last three quarters which directly correlates to the increase in gross loans and net interest income.

Liquidity

Liquidity in the banking sector remains Strong. As of reporting period, sector liquidity was reported to be 63.1% indicative of sufficient liquidity in the system and compliance with statutory minimum of 20% per Section 122 of the Banking Act. Sufficient liquidity in the system demonstrates the ability of banks to meet cash needs when obligations are due for examples for loan disbursements, significant deposit withdrawals, and for other the operational purposes that require the immediate use of cash.

5 ALLL calculations are not done for BOG branch due to limitation in the existing Banking Act. The Commission however reviews the overall adequacy of BOG parent's level of ALLL based on available data from the FDIC but is not in the liberty of commenting on the adequacy of the ALLL on a consolidated basis.
6 Another contributing factor is the level and trend of the ROA is caused the high interest rate spreads in the banks with consumer lending rates capped at 15% per Cabinet Decree issued in 2006. The highest earning assets in a bank's balance sheet are loans and banks in the RMI have shown consistent growth in net interest income during the past four quarters. The net interest income were recorded at $2.9 Million, $3.0 Million and $3.1 Million in March, June and September 2017 respectively.
III. FINANCIAL SECTOR DEVELOPMENT (FSD)

Key Responsibilities

The key responsibilities of FSD are to assist the Commissioner of Banking in:

(i) Establishment of a monetary authority per the Cabinet's adoption of policy for establishment that will undertake all the necessary functions of a central bank apart from the issue of a domestic currency and conduct of monetary policy;

(ii) Identification, development, and implementation of key strategies for financial sector development in the RMI and collaborate with relevant stakeholders in the development and implementation of the financial sector development plan.

(iii) Act as a secondary contact with key organizations such as the IMF, World Bank, Asian Development Bank, Financial Stability Board, Bank for International Settlements and other key international organizations and development partners for technical assistance engagement and other related policy advice and issues with respect to financial sector development;

(iv) Coordinate with international organizations with respect to surveys and reports on global de-risking and correspondent banking in the RMI, and assist in identifying and developing a viable contingency plan for the existing CBR arrangement between local banks and U.S banks;

(v) Develop, compile and analyze financial data from the financial institutions for the purpose of understanding the financial linkages of the RMI financial system with the global financial system and the impact of global de-risking on the domestic financial sector.
"The establishment of a Monetary Authority, in particular, would assist in minimizing the risk of complete termination of the RMI financial system from the U.S. financial system."

The RMI Cabinet in December 2015, adopted the policy to establish a Monetary Authority which is envisaged to strengthen links of the RMI financial system to the international and U.S financial system. The establishment of a Monetary Authority, in particular, would assist in minimizing the risk of complete termination of the RMI financial system from the U.S. financial system.

Access to the U.S. Financial System through Correspondent Banking Relationships - The mechanism by which the RMI financial system is connected to the U.S. financial system is through the maintenance of correspondent banking relationships (CBRs) of domestic banks with U.S. banks. The Bank of Marshall Islands has been severely affected by de-risking. Since the RMI uses the U.S. dollar as its' legal tender pursuant to the Compact of Free Association ("COFA") Agreement between the RMI and the U.S., it is crucial that the RMI maintains and secures financial access to the U.S. financial system.

7Termination of CBRs by foreign banks, including banks in the U.S., due to strict enforcement of AML laws and regulations;

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Correspondent Banking Relationship and De-Risking - Cut off from U.S. dollar payment services of Federal Reserve System

Monetary Authority (MA) and RMI Contingency Plan in Addressing the Impact of De-Risking

U.S Banks are correspondent banks with linkage to the U.S financial system - supply of U.S notes and coins, wire payments, check clearance, clearing and settlement

Domestic Banks are correspondent banks with need to access U.S. dollar and payment services through CBRs - only U.S. banks have access to the Federal Reserve

Sending Country

Receiving Country

Termination of CBR

Beneficiary's Bank

Beneficiary's Customer
Mandate of the Monetary Authority- Minimizing Impact from De-Risking -

The proposed RMI MA is expected to be mandated with all the relevant monetary authority functions, except the issuance of a domestic currency and the conduct of monetary policy. Ways in which the MA will address the impact of de-risking is through the following measures: (a) having the powers under the MA law to establish accounts with the U.S. Federal Reserve, U.S. banks, and other foreign banks, (b) Using accounts with the U.S. Federal Reserve, U.S. banks, and other foreign banks to provide payment and settlement services for the RMI Government with other countries - cross border payments and the supply of U.S. notes and coins to the Government and commercial banks - supply of U.S. notes and coins at present done through BOMI CBR with U.S. bank and through Bank of Guam branch.

Additional MA Functions to Address Financial Sector Challenges - Apart from addressing the CBR challenge, having a competent monetary authority in place would also help in addressing the country’s financial sector challenges and map the way forward for the development of the RMI’s financial sector in the following ways: (a) having powers under the MA law to supervise the financial system to ensure a sound, safe, and robust system, (b) oversight of Financial Intelligence Unit (FIU) responsibilities, (c) regulating and overseeing a domestic payment system for banks (bank accounts with the MA will act as clearing accounts) - check clearing is conducted manually at present and not regulated- risk of other bank not willing to cooperate with other bank, (d) overseeing financial sector development efforts of the RMI- financial inclusion, financial literacy, small-medium enterprise lending, deposit insurance etc., (e) acting as the primary banker for the Government and banks through the management of RMI Government and commercial bank accounts - more secured with direct account relationships with the Federal Reserve with Government taking control of its own funds and not relying on U.S. banks, (f) acting as lender of last resort for banks and holding statutory deposit reserves for banks - for liquidity purposes.

Present efforts and achievements by the Banking Commission - The Banking Commission has been engaged since 2016 through technical assistance provided by the Financial Services Volunteer Corp to discuss the possibility of establishing MA accounts with the Federal Reserve. A meeting with the Federal Reserve of New York in 2016 confirmed that such accounts will only be used to provide official Government transactions and the supply of U.S notes and coins for commercial banks. Other commercial services normally done through CBRs for commercial banks will not be allowed. The Federal Reserve advised that if the RMI was to set up a monetary authority then the draft MA law would need to be submitted for review to ensure that the legal format is consistent with the Federal Reserve's model of central bank laws.
The establishment of a Monetary Authority is a medium to long term objective for the Banking Commission.

**Research Work by the FSD and attachment with central banks** - During the year, the FSD has begun the research process which will continue in the next few months to gather additional information on central banking and the viability of establishing an MA in the RMI. The FSD will also seek technical assistance and development support for the project from relevant bilateral and multilateral financial institutions and development partners. The Banking Commission plans to undertake a 1 week attachment program with the National Reserve Bank of Tonga (NRBT) where the primary aim of the attachment program is to understand how the NRBT operates as a central bank.

In FY 2018, the Banking Commission will continue to engage in learning attachments with relevant Monetary Authorities or Central Banks in the Asia-Pacific region, to learn of the development phases experienced in the setting up of their Monetary Authorities. The Banking Commission, in particular, intends to undertake a learning attachment with the Timor-Leste Central Bank, a central bank that does not conduct monetary policy but provides the payment means for commercial banks and provides the regular supply of U.S. notes and coins to commercial banks and citizens. The knowledge expected to be gained from the Timor-Leste Central Bank would be relevant to the RMI’s efforts to setup a suitable domestic Monetary Authority.

*Contingency Plan- Monetary Authority and Clearing Agency for Bank of Marshall Islands (Access to U.S. Financial System)*
Review of the Financial Sector Development Plan

In May to June 2017, the 5 year Financial Sector Development Plan (FSDP) formulated in December 2015 was reviewed by the Banking Commission. A new Financial Sector Development Framework was developed and endorsed by the Minister of Finance Honorable Brenson S. Wase on June 6, 2017. The review of the 5 year Financial Sector Development Plan was necessary to include new strategic objectives that are critical to developing the RMI’s financial system. The broad key strategic objectives of the Financial Sector Development Framework are listed below:

- Address the Impact of De-risking and work with foreign banks to assist in providing CBRs for domestic banks;
- Strengthen supervisory capacity and oversight authority of the Banking Commission to safeguard financial stability;
- Enhance consumer protection, financial inclusion and SME finance to promote financial competency and private sector development;
- Review and develop the payments and settlements systems framework for efficient domestic and international clearing- establish a contingency plan;
- Address additional strategic areas necessary to develop the RMI financial sector.

The next step for the Banking Commission in FY 2018, is to conduct consultations with relevant stakeholders in the private-public sector and civil society to ensure the final plan captures all relevant areas of development and improvement needed to build a reputable and strong financial system that supports economic development and growth in the RMI.

Technical Assistance Support

The Banking Commission in 2017, engaged and utilized a number of technical assistance (TA) support to review the regulatory framework, provide legal input including support to strengthen supervisory capacity and improve the surveillance systems on money laundering and the financing of terrorism. The TA support to the Banking Commission were provided by international financial institutions and development partners such as the International Monetary Fund (IMF), World Bank (WB), United National Development Program (UNDP) and the Financial Services Volunteer Corps (FSVC).

Reserve Bank of Fiji Financial Intelligence Unit Engagement - The UNDP in April 2017, provided the Banking Commission consultant from the Financial Intelligence Unit (FIU) of the Reserve Bank of Fiji. The consultant assisted the Banking
"The Banking Commission in 2017, engaged and utilized a number of technical assistance (TA) support to review the regulatory framework, provide legal input including support to strengthen supervisory capacity and improve the surveillance systems on money laundering and the financing of terrorism."

Commission’s FIU in establishing its intelligence analytical procedures (tactical and strategic analyses) consistent with the requirements of the Financial Action Task Force Recommendation 29. Part of the TA also supported the planning and organization of an inaugural AML/CFT networking workshop to discuss challenges in the implementation of the AML/CFT international requirements. The Workshop also provided an insight of the national ML/FT risk assessment coordinated by the RMI FIU.

**IMF PFTAC Engagement** - In July 2017, the PFTAC provided a 2 weeks technical support to the Banking Commission to assist build examiners capacity in the examination of foreign bank branches in particular the application of the Strength-Of-Support-Assessment (SOSA) and Risk Management-Operational Controls-Compliance-Asset Quality (ROCA) Frameworks for the supervision of foreign bank branches. Both frameworks were developed by the Federal Reserve and are currently being tailored to suit the RMI. The IMF through its Suva, Fiji based Pacific Technical Assistance Centre (PFTAC) continues to assist the Banking Commission in the review of the RMI’s Banks and Financial Institutions Act against international best practices and standards. In FY 2018, the IMF will assist the Banking Commission in reviewing the Banks and Financial Institutions Act against the Basel Core Principles for Effective Banking Supervision.

**World Bank TA for the 1st National Risk Assessment of the RMI** - The WB in August 2017 agreed to provide guidance and support to the RMI in the conduct of its first National Risk Assessment (NRA). The NRA aims to identify gaps in regards to the RMI’s money laundering and financing of terrorism framework with the aim of helping the RMI address the identified weaknesses. Seven NRA working groups consisting of various key stakeholders were established in September 2017 through cabinet’s approval, to assess the seven specific sectors of
risk in the RMI. The NRA is currently in progress and is expected to be completed within 12 months.

**FSVC Support to Address De-Risking and Meeting with Authorities and Banks in Hawaii** - The Banking Commission engaged the FSVC in 2017 to provide technical support, on legal and regulatory commentary and review with regards to addressing De-risking and CBR issues, and strengthening of supervisory and examination capacity. In August 2017, the FSVC facilitated RMI’s meeting with the Hawaii Department of Financial Institutions, the Bank of Hawaii and the First Hawaiian Bank (FHB). The meetings in Hawaii enabled the RMI delegation to have face-to-face discussions with Hawaiian authorities in regards to BOMI’s CBR status and strategies to address BOMI’s CBR issue, including the supervisory and examination capabilities the Banking Commission would need to have in place to ensure that safety and soundness and AML/CFT requirements are effectively addressed.

In FY2018, the FSVC would provide assistance in the provision of legal advice on BOMI’s plans to establish a state agency and branch in Hawaii. The proposed agency and branch setup in Hawaii is an alternative approach by BOMI to address any CBR issues that may arise with FHB going forward. This will provide an additional avenue for BOMI to have a more direct channel to the U.S. financial system without relying on U.S. bank CBRs, through direct establishment of accounts with the Federal Reserve. BOMI has hired a law firm in Hawaii to assist in processing the branch application and the Banking Commission will continue to monitor BOMI’s progress in this respect.

The FSVC will also provide financial and banking experts in FY 2018 to assist the Banking Commission’s examiners utilize and apply international best practices in safety and soundness as well as AML/CFT examinations. The experts are expected to provide advice on U.S supervision and examination frameworks, procedures and manuals the Banking Commission can adapt to effectively supervise and examine both local as well as foreign bank branch operation in the RMI. In FY 2018, the Banking Commission will continue to work with the FSVC in building examiners supervision and examination capabilities, and seek to solicit FSVC’s commentary on banks examination reports including technical assistance to BOMI in improving the banks AML/CFT compliance and systems.

Banking Commission going forward will also continue to explore and request TA support from regional and international partners including international financial institutions to assist the Banking Commission in refining its mandate, strengthening key operations as well as in addressing and implementing the strategies that will be contained in the Financial Sector Development Plan.
Sustainable Economic Development Sector Committee

The Sustainable Economic Development Sector Committee (SEDSC) is one of the five working group that operates under the main National Strategic Plan Sector Committee. The Office of the Banking Commission was designated by the Economic Policy, Planning and Statistics Office (EPPSO) in May 2017 to Chair the SEDSC. The general objectives of the SEDSC is to: (i) Provide interagency cooperation and information sharing on ongoing planning and current year outcomes and results, and (ii) Share statistics with EPPSO and other relevant ministries and agencies. Current membership of the SEDSC consists of the: (a) Ministry of Finance, Banking and Postal Services (b) Ministry of Resource and Development (c) Marshall Islands Visitors Authority (d) Office of Commerce and Investment (e) Marshall Islands Maritime Resources and Authority and the (f) Office of the Banking Commission. The 5 strategic areas designated under the RMI National Strategic Plan 2015-2017 for Sustainable Economic Development are:

1. Agriculture and Agriculture Production
2. Marine resources (Fisheries, Fisheries Infrastructure, Deep Sea Mining)
3. Trade and Local Manufacturing
4. Tourism
5. Financial Services, Private Sector, Private Sector
6. Investment and Employment
7. Government Investment (Trust Funds)

In FY 2017, members of the SEDSC met three times to review progress with the strategic areas that fall under the respective responsibilities of the members of the SEDSC. In the meetings, members also provided their strategic plans and the relevant organizational targets aligned to the United Nation’s Sustainable Development Goals and the RMI Government’s Agenda 2020 objectives. The Office of the Banking Commission, going forward will continue to coordinate the efforts of the SEDSC as
The Republic of the Marshall Islands (RMI), as a member of the international community, has an obligation to participate in the international efforts to combat financial crimes such as money laundering (ML) and terrorist financing (TF). To help meet this obligation, the RMI Cabinet established the Domestic Financial Intelligence Unit (DFIU), housed in the Banking Commission.

The DFIU was established by Cabinet Minute 236 (2000). At its meeting on 20 November 2000, the Cabinet approved the establishment of a DFIU spearheaded by the Commissioner of Banking. The DFIU comprises of the Commissioner of Banking, Police Commissioner, Tax and Customs Division Chief, a representative from the Attorney General’s Office, and the Trust Company of the Marshall Islands (TCMI).

The powers of the DFIU of the RMI are provided specifically in section 167, and more broadly in sections 170 and 180 of the Banking Act 1987 (Act). Section 167 of the Act provides the Commissioner of Banking with the full powers equivalent to a Financial Intelligence Unit (FIU). Furthermore, Section 167 of the Act requires the Commissioner of Banking to receive and analyze financial intelligence that relate to potential ML in the RMI.

In October 2000, the Nitijela of the Marshall Islands passed the Banking Act (Amendment) 2000. The purpose of the amendment to the Act is to make provision for the prevention of money laundering and enable the illicit proceeds of serious crimes to be identified, traced, frozen, and seized or confiscated.
Key Responsibilities

The role and function of the Financial Intelligence Unit are provided under Part XIII, Section 167 of the Act. The Banking Commission is the lead agency in the RMI responsible for the detection and prevention of ML and TF activities. The powers are provided to the Commissioner of Banking, as the Head of the FIU, specifically in Sections 167, and more broadly in sections 170 and 180 of the Banking Act.

The FIU's core objective is to protect the RMI from money laundering. The key role and responsibilities of the FIU according to Section 167 of the Act are as follows:

- Assist the RMI Government in combating ML, TF and other serious crimes;
- Receive, analyze, and develop financial intelligence from transaction reports submitted by financial institutions and cash dealers;
- Share financial intelligence with LEAs if there are reasonable grounds for ML;
- Enforce compliance by reporting entities with the requirements of the Banking Act and Anti Money Laundering Regulations;
- Compile statistics and records;
- Disseminate information within the RMI or elsewhere;
- Create trainings and workshops for financial institutions and cash dealers with respect to record-keeping and reporting obligations;
- Exchange information between international administrative authorities and also assist international administrative authorities in conducting money laundering investigation; and
- Investigate, in association with law enforcement authorities, money laundering when there is reasonable grounds to suspect money laundering activity is happening.

Regulated Entities

Under Part 13 of the Act, financial institutions and cash dealers are subject to the supervision of the Banking Commission. The Financial Institutions Supervision (FIS) Division of the Banking commission plays the key role in the supervision of all financial institutions and cash dealers to ensure compliance with the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) standards.

The Financial Intelligence Unit complements this role through joint examinations with the FIS Division and participates in each AML/CFT examination that FIS conducts.
Financial institutions and entities that are subject to AML/CFT requirements of the RMI are listed in the following diagram.

**Governance Structure**

**Minister of Finance, Banking and Postal Services**

The Banking Commission – FIU falls under the portfolio of the Minister of Finance, Banking and Postal Services, Honorable Minister Brenson S. Wase. The Banking Commission – Financial Intelligence Unit is accountable to the Commissioner of Banking and ultimately to the Minister of Finance, Banking and Postal Services.

**Commissioner of Banking**

The Commissioner of Banking is responsible for the administration and enforcement of the provisions of the Banking Act. The Commissioner, is the Head of the FIU and has specific powers under Part 13, Section 167 of the Act which are the same as those of the FIU. The Commissioner of Banking is required under the Act to develop and submit an annual FIU Report to the Cabinet at the end of every financial year. Within a year, quarterly progress reports on the FIU are also submitted to the Minister of Finance, Banking and Postal Services.
Manager of the Financial Intelligence Unit (FIU)

The FIU Manager post was established by Cabinet Minute (C.M.) 201 (2016) on November 15, 2016. A key responsibility of the FIU Manager is to manage the affairs of the FIU under the guidance and supervision of the Commissioner of Banking in the implementation of Section 167 of the Banking Act on combating ML in the RMI. The FIU Manager is the point of contact and lead member in all AML/CFT efforts nationwide and a primary contact for Egmont Group of FIUs and is tasked with Asia Pacific Group on Money Laundering (APG) and Financial Action Task Force (FATF) related matters.

Analysis of Financial Information Received

A key function of the FIU is to analyze reports of financial transactions – Currency Transaction Reports (CTR) and Suspicious Activity Reports (SAR) – it receives from financial institutions and cash dealers in the RMI. Financial institutions and cash dealers are required under the Banking Act to report CTRs and SARs to the Banking Commission – Financial Intelligence Unit.

Highlights of the financial reports received by the FIU in FY 2013 through FY 2017 are provided below. During the FY 2016, the FIU received a total of 3756 financial transaction reports, which include CTR and SAR submissions. Furthermore, during FY
2017, the FIU received a total of 3471 financial transaction reports, which shows a significant 12% decrease in financial transaction reporting. During the FY 2017, there were 3,426 currency transactions and 45 suspicious activities reported to the Banking Commission - FIU. On an average, 289 financial transaction reports are submitted to the FIU every month during the FY 2017.

<table>
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<tr>
<th></th>
<th>FY 2013</th>
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<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
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<td>8</td>
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<tr>
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<td>273</td>
<td>273</td>
<td>295</td>
<td>313</td>
<td>289</td>
</tr>
</tbody>
</table>

**Currency Transaction Reports (CTR)**

Financial institutions and cash dealers are required under Section 180 of the Banking Act to report to the Commissioner of Banking, all transactions involving currency of a value greater than $10,000 in a single transaction or multiple transactions within a 24 hour period when aggregated. Financial institutions and cash dealers are required to file CTRs to the Banking Commission within 10 working days since the date of transaction, per the Anti-Money Laundering Regulations. All records of currency transaction reports shall be kept by the Banking Commission for a period of 15 years.

A total of 3,426 currency transaction reports were received by the Financial Intelligence Unit during the FY 2017 compared with 3,745 CTRs during the FY 2016. There is a decrease of 9% in CTR submissions from financial institutions and cash
dealers in FY 2017 compared to previous FY 2016. CTRs were received from Bank of Guam, Bank of Marshall Islands and JAJ Corporation.

![Currency Transactions Reported (FY 2017)](chart)

### Analysis of Currency Transaction Reports

Per the Banking Commission - Financial Intelligence Unit Standard Operating Procedure, upon receipt of a CTR, the FIU shall, with the utmost confidentiality:

- Assign a unique reference number to the report, acknowledge receipt of report, establish electronic report in the Banking Commission Database, and ensure that the report has been checked and signed by the reporting institution's Compliance Officer;
- Review the content of the report and determine whether any immediate action is required;
- Inquire further information from financial institutions or cash dealers, if necessary; and
- Input CTR with assigned unique number into the Banking Commission Database.

### Suspicious Activity Reports (SAR)

A suspicious transaction is a transaction or attempted transaction which a financial institution or cash dealer has reasonable grounds to suspect may be related to a money laundering, terrorist financing, or other serious offense.

Financial institutions and cash dealers are required under Part 13 of the Banking Act, Section 170 to report all suspicious transactions within three (3) days of detection of suspicious transaction to the Commissioner of Banking.
The reporting of suspicious activity by financial institutions and cash dealers is one of the cornerstones of the FATF 40 Recommendations. FATF Recommendation 20, *Reporting of Suspicious Transactions*, states that if a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required by law to report such activity to the FIU. This reflects the commitment of the RMI to combat ML and TF.

The FIU received a total of 45 Suspicious Activity Reports during the FY 2017 which is a significant 76% increase in suspicious activity reporting compared to FY 2016 where only 11 SARs were reported to the Banking Commission – FIU.

During the FY 2016-2017, a total of four dissemination case reports were forwarded to law enforcement agencies for further investigation. Two of those four dissemination case reports were further investigated by our designated financial crimes investigator at the Marshall Islands Police Department and further disseminated to the Attorney General’s Office for further investigation and filing of possible charges. The SARs were initially received by the Banking Commission – FIU from the Bank of Guam, Bank of Marshall Islands, Western Union, Ajejdrikdrik Incorporated, and JAJ Corporation.

**Analysis of Suspicious Transaction Reports**

Per Section 170 of the Banking Act, the Anti-Money Laundering Regulations, and the Banking Commission – FIU Standard Operating Procedures on “Receipt, Analysis and Dissemination of Suspicious Activity Reports”, Section 170 of the Banking Act, financial institutions and cash dealers are required to report to the Commissioner of
Banking all suspicious transactions within three (3) days of detecting the suspicious activity. Records of all SARs must be kept for a period of 15 years.

Upon receipt of a SAR, the Financial Intelligence Unit shall, with the utmost confidentiality:

- Assign a unique reference number to the report, acknowledge receipt of report, establish electronic record of report in the Banking Commission Database, and ensure that the report has been checked by the reporting institution’s Compliance Officer;
- Review the content of the report and determine whether any immediate action, as listed under Section 1.4 and 1.5 of the Banking Commission – FIU Standard Operating Procedures on “Receipt, Analysis and Dissemination of Suspicious Activity Reports”, is required;
- Inquire further information from financial institutions or cash dealers, if necessary
- Request for background information from external agencies on subject to see if there are any previous reports and known criminal activity, both domestic and foreign; and
- If additional information gathered on SAR confirms hypothesis developed, the SAR will either be disseminated to the relevant LEA or filed away with the endorsement of the Commissioner of Banking.

**Dissemination of Financial Intelligence**

Dissemination of financial intelligence to relevant law enforcement agencies is a core function of the Banking Commission - FIU as stipulated under Section 167 of the Banking Act. The FIU receives, analyses and disseminates financial intelligence to relevant law enforcements, such as the Attorney General's Office, Auditor General's Office and Police Commission, enabling the investigation of predicate crimes, money laundering and terrorist financing activities.

The FIU analyses suspicious transaction and currency transaction reports received from financial institutions and cash dealers to develop intelligence. Additionally, if there are reasonable grounds to suspect that a transaction is suspicious and additional requested information from internal and external agencies confirm the hypothesis developed, the FIU will prepare an investigative file and disseminate a cover report to the relevant LEAs. Under Section 167 of the Act, the Commissioner of Banking, in association with law enforcement, may conduct investigation if there is reasonable grounds to suspect that money laundering activity is occurring.
After the analysis of a SAR and the intelligence gathering from internal and external agencies, the SARs that are not disseminated to LEAs are filed away for future intelligence reference and analysis.

**Domestic Coordination and Engagement**

**AML/CFT Working Group**

There is an adhoc AML/CFT Working Group that has been active in coordinating all activities related to the strengthening of the RMI’s AML/CFT regime in particular dealing with FATF and APG related issues. The working group currently comprises of the Commissioner of Banking, Attorney General, Police Commissioner, Chief of Customs and Taxation, Trust Company of the Marshall Islands, and other members from other government agencies that may join upon invitation. The AML/CFT Working Group is currently striving to ensure full implementation of all 40 FATF Recommendations and aims at developing an effective national system in place to combat ML and TF.

The adhoc AML/CFT Working Group is also responsible for the timely rectification of all the deficiencies that are identified in the RMI’s most recent Mutual Evaluation Report 2011 conducted by Asia Pacific Group on Money Laundering (APGML) in preparation of the RMI’s next round of evaluations scheduled for 2020. The AML/CFT Working Group is also responsible for the planning and organization of the RMI’s 1st National Risk Assessment, as required under Recommendation 1 of the FATF 40 Recommendations. Additionally, the Working Group is responsible for improving the overall AML/CFT framework for the RMI aligning it with the existing international standards for the purpose of combating financial crimes domestically and internationally.

**Counter Terrorism Committee (CTC)**

The Banking Commission - FIU is a member of the Counter Terrorism Committee, a committee overlooked by the Permanent Secretary of the Ministry of Foreign Affairs, and Trade (MOFAT) and is responsible for countering terrorism implementation strategies. CTC is currently chaired by Commissioner of Banking Sultan T. Korean. During the FY 2017, the Banking Commission - FIU continued to contribute to the meetings and works of the CTC.

Other members of CTC include the Attorney General and Registrar of Domestic Corporations, Police Commissioner, MOFAT Permanent Secretary, and the Trust Company of the Marshall Islands - Registrar of Non-Domestic Corporations.
Universal Form for FIBL Taskforce

The Universal Form Taskforce kick started with a workshop conducted by Office of Commerce and Investment (OCI) on May 9, 2017 at MIR Jemanun Room regarding the drafting of a Universal Form for Foreign Investment Business Licenses (FIBL). The Universal Form is designed to expedite the application process for setting up business in the RMI by foreign investors.

It was agreed by all taskforce members that RMI FIU and Marshall Islands Police Department (MIPD), particularly Interpol are key players for a foreign investment license application to go through. Interpol will do criminal background checks and RMI FIU will provide financial clearance on FIBL incorporator and shareholders to make sure investment is not derived from illicit activities. The taskforce is in the process of finalizing the Universal Form which will be available online for foreign investors.

Per the suggestion of the Attorney General's Office and the Universal Form Taskforce, the FIU is now required to provide financial clearance on all FIBL applications. The FIU started receiving FIBL clearance requests in September 2017. One (1) Background and Credibility Check Request was received in FY 2017 from the FIBL Unit. Credibility checks are conducted per the Banking Commission-FIU SOP on Due Diligence Checks. Once checks have been conducted on both the legal and natural persons involved, the Commissioner of Banking will sign off on whether the Banking Commission - FIU has any objection over the establishment of business.

A Memorandum of Understanding (MOU) is in the final draft phase between Tier 1 agencies in the hope that the MOU will establish a cooperative relationship between all Tier 1 agencies. Tier 1 agencies comprise of the following:
- Division of Immigration
- Division of Labor
- FIBL Registrar (Tax & Revenue)
- Marshall Islands Social Security Administration
- Attorney General's Office
- Marshall Islands Police Department (Interpol)
- RMI Banking Commission - FIU

**Currency Declaration**

One of the key recommendations put forth in the RMI's Mutual Evaluations Report 2011 is to rectify the deficiencies in the current Currency Declaration Act 2009 in order to comply with Recommendation 32, Cash Couriers, of the FATF 40 Recommendation. A team comprising of the following government agencies, met together to amend the current Currency Declaration Act (CDA) to address the deficiencies in the Act:

1. Customs Division, Ministry of Finance, Banking & Postal,
2. Financial Intelligence Unit of the Banking Commission, Ministry of Finance, Banking & Postal,
3. Division of Immigration, Ministry of Justice, Immigration & Labor, and
4. Division of Agriculture & Quarantine, Ministry of Natural Resources & Commerce.

Some of the amendments to the current CDA include, to name a few:

- Definition of natural, legal persons, and currency to include bearer negotiable instruments;
- Declaration to include mail and cargo;
- Inclusion of legal persons to the CDA;
- Inclusion of RMI Banking Commission - FIU and Quarantine Officer as authorized officer under the CDA; and
- Immunity for authorized officer.

A proposed MOU for Inter-Agency Collaboration & Information Sharing on Matters Related to Ports of Entry Declaration Forms between the listed members above to improve the border security control and monitoring of all ports of entry and desire to share information and collaborate on exchange of resources and intelligence to promote effectiveness and efficiency in their respective mandates and efforts on the movement of
dangerous and prohibited merchandise, food and animal products and all forms of currency amounting to at least $10,000. The team also met to create an Arrival and Departure Card for the RMI. The form is still in its early draft stages.

Inaugural AML/CFT Networking Forum

Commissioner of Banking Mr. Sultan T. Korean, in conjunction with the Fiji FIU Consultant, Mr. Avaneesh Raman organized the inaugural National AML/CFT Networking Forum for the Republic of the Marshall Islands on April 20, 2017.

The forum was aimed at collaborating stakeholders involved in the domestic AML/CFT coordination framework. The first ever networking forum was well attended by representatives of the AML/CFT Working Group, private sector reporting entities which includes the financial institutions and cash dealers, relevant law enforcement agencies, the Banking Commission and relevant government stakeholders.

The networking forum was utilized as a medium to discuss challenges faced by the RMI in the implementation of the AML/CFT international requirements. Stakeholders were also provided an insight in the national ML/TF risk assessment, which is now a current project for the National Risk Assessment Working Group. Commissioner Korean reiterated that the Banking Commission - FIU intends to coordinate such a forum on an annual basis in a bid to strengthen the domestic coordination framework for AML/CFT matters in line with the vision of the Banking Commission-FIU to protect the RMI from money laundering.
NTC-Banking Commission Summer Internship Program

Mr. Rithen Lajar, Liberal Arts Major at the College of the Marshall Islands successfully complete a nine (9) weeks summer internship program with Banking Commission - Financial Intelligence Unit. Mr. Lajar was able to learn and understand the FIU's role, procedures and procedures. By the completion of his 9 weeks internship, Mr. Lajar successful completed 4 modules on ML and TF. Mr. Lajar is now certified for completing the Asian Development Bank's Online Course on Combating Money Laundering and Terrorist Financing.

Mr. Lajar is now able to comprehend the Banking Act, AML Regulations, FATF 40 Recommendations, and Banking Commission - FIU Standard Operating Procedures on Tactical and Strategic Analysis of SARs and Due Diligence checks. Mr. Lajar was also able to assist the FIU Manager in analyzing SARs, as well as participate in AML off-site examination with FIS Manager Mr. Rendy Johnny.

1st National Risk Assessment (NRA)

At its meeting on August 22, 2017, the Cabinet approved the establishment of the Republic of the Marshall Islands’ National Risk Assessment Working Group (NRAWG) comprising of key stakeholders from the government and private sectors as follows:

- Office of the Attorney General
- Office of the Auditor General
- Banking Commission
- Immigration Division
• Judiciary/Courts
• Kwajalein Atoll Local Government
• Marshall Islands Development Bank
• Ministry of Finance, Banking and Postal Services (Tax and Custom, FIBL)
• Police Commission
• RMI Law Society, and
• Trust Company of the Marshall Islands (Non-Resident Domestic Corporate Registry and Maritime Administrator)
• Ajejdrikdrik, Inc.
• Bank of Guam
• Bank of Marshall Islands
• Enewetak Credit Union
• Family Mart
• Individual Assurance Company (IAC)
• Jurelang, Alice, Jessica (JAJ) Corporation
• Marshall Insurance Company
• Marshall Islands Service Corporation
• Money Gram
• Moylans’ Insurance
• Western Union, and
• Chamber of Commerce
The NRA, coordinated by the Commissioner of Banking Mr. Sultan T. Korean and FIU Manager Ms. Samelda Neimon Leon, will be a self-assessment involving number of relevant stakeholders from the RMI Government and private sector who will only be receiving advice from the World Bank.

Identifying, assessing, and understanding ML and TF risks is an essential part of the implementation and development of a national AML/CFT regime, which includes laws, regulations, enforcement and other measure to mitigate ML/TF risks. The NRA will assist the RMI Government in identifying its ML risks and efficiently allocating its resources to mitigate the identified risks, i.e., the risk-based approach - which is central to the FATF standards set out in Recommendation 1.

**NRA Team Leaders - Video Conference with World Bank**

The NRA is also important in addressing the impact of the U.S. de-risking by U.S banks on our banking sector. The Banking Commission has prioritized the NRA as a key strategy in strengthening the AML/CFT regime of the RMI and providing assurance to foreign authorities that the country, its authorities and citizen are fully aware of the ML/TF threats and vulnerabilities in the system and that appropriate actions are taken to mitigate the potential ML/TF risks.

The NRAWG Coordinators and Team Leaders met with Mr. Stuart Yikona and Mr. Nigel Bartlett, Senior Financial Sector Specialists at the World Bank via a video conference on September 28, 2017 at Banking Commission’s Conference Room. During the workshop, the date for the first workshop for all team members was agreed upon.
and the full NRA tool was shared and discussed with the NRA Coordinators and Team Leaders.

International Engagement and Contribution

Pacific FIU Attachment Program

The Fiji FIU hosted four officers from the FIU’s of the Cook Islands, Marshall Islands, Papua New Guinea and Vanuatu from November 7-11, 2016. The attachment program is jointly supported by the United Nations Development Program (UNDP) Pacific Office in Fiji and the United Nations Office on Drugs and Crime (UNODC).
FIU Manager participated in the Fiji FIU Attachment Program which supports and contributes to the UN’s Pacific regional anti-corruption efforts on strengthening national integrity systems and good governance. FIUs play a central role in promoting interagency cooperation and ensures safety of the financial system from illicit transactions. The week long attachment program was very beneficial and helped strengthen capacity building and enhance knowledge of participants.

**Asian Development Bank Seminar on Beneficial Ownership**

More than 80 delegates from 24 countries and international organization participated in the 2nd Global Forum Seminar on Beneficial Ownership in Manila, Philippines on 28-30 March 2017. The seminar was hosted by the Asian Development Bank (“ADB”) with the support from the APG, OECD Korea Policy Center and World Bank.

Ensuring the availability of beneficial ownership information is at the forefront of the international agenda on tax transparency and is a vital part of the international standards of transparency and exchange of information for tax purposes - both automatic and on request. The absence of information about who ultimately owns and controls companies and other legal entities leads to tax evasion and money laundering, as well as enabling flows of illicit funds from developing countries. The seminar is part of a broader effort to ensure that countries have the tools needed to ensure that tax evaders can no longer hide behind shell companies and layers of intermediaries.
Egmont Secured Web

The FIU continues to participate in activities of the Egmont Group of Financial Intelligence Units. As a member of the Egmont Group of FIUs, the RMI is committed to sharing information with other Egmont Group members when needed. During FY 2017, the FIU continued to provide assistance and information to other Egmont Group members upon request via Egmont Secure Web.

Per the Banking Commission - FIU Standard Operating Procedure, upon receipt of a request by a foreign counterpart for assistance, the FIU, under the direction of the Commissioner of Banking, shall enter data relative to the request into the International Administrative Authority Spreadsheet with the name and address of the agency, contact person, type of agency - whether administrative or investigative, and the type of information jurisdiction is requesting. The FIU must ensure the authenticity, and reasonableness of the request and respond to the request, in a timely manner.

During FY 2017, the FIU received a total of four (4) incoming request through the Egmont Secured Web regarding beneficial ownership information on non-domestic corporations registered in the Republic of the Marshall Islands. Each request that came in sought for beneficial ownership information on one or more non-domestic registered corporation. Each of those requests was responded to in a timely manner through cooperation of relevant agencies within the RMI. The RMI-FIU made three (3) outgoing requests to our partner FIU jurisdictions regarding possible a possible money laundering case.

In 2012-2013, the FIU received a total of 30 incoming request for information from foreign counterparts and a total of 20 incoming request received in 2014-2015. In addition to receiving reports from financial institutions and cash dealers, one of the FIU’s most significant responsibilities is to respond to requests for information from foreign partner jurisdictions.

Memorandum of Understanding with Foreign FIUs

Engaging with foreign counterparts is essential for the Financial Intelligence Unit, per Section 167 of the Banking Act which authorizes the Commissioner of Banking to bilaterally exchange information with international administrative authorities, as well as facilitate and assist international administrative authorities in conducting money laundering investigations.
Signing of Banking Commission - Fiji FIU MOU with Attorney General

A Memorandum of Understanding (MOU) was signed between Fiji FIU and RMI-FIU for the engagement of Mr. Avaneesh Raman as a Consultant for the RMI-FIU for the duration of the 2 weeks technical assistance from 10-21 April 2017. The MOU clearly defined the terms of reference (TOR) for the TA mission which is stated as follows:

- TOR 1: Provide Training to Banking Commission FIU Staff on Tactical and Strategic Analysis;
- TOR 2: Develop SOP for Tactical and Strategic Analysis;
- TOR 3: Provide relevant training to financial institutions;
- TOR 4: Training on conducting background and credibility (due-diligence) checks;
- TOR 5: Domestic Information exchange arrangement such as developing MOU’s with LEA.

Technical Assistance - Strengthening Intelligence Management Framework

A formal request was made to the Fiji FIU by the RMI FIU on February 3, 2017 to engage an Intelligence Management specialist in strengthening the intelligence management framework for the RMI FIU. Mr. Avaneesh Raman from the Fiji FIU engaged in a 2 weeks TA mission with the RMI FIU from April 10-21, 2017. Mr. Raman was able to successfully achieve his TORs. The Consultant conducted four major workshops and trainings during the two weeks, alongside with FIU Manager.
Consultant conducted two half day workshops for RMI Banking Commission-FIU staff on Tactical Analysis and Strategic Analysis respectively on April 12 and April 13, 2017.

Consultant and FIU Manager developed the following SOPs:

i. SOP 1: Receipt, Analysis and Dissemination of SARs (Tactical Analysis)
ii. SOP 2: Strategic Analysis together with a framework scoping document for Strategic Analysis; and
iii. SOP 3: Due Diligence Checks.

RMI FIU Conducts AML Training for Reporting Entities

Consultant and FIU Manager held a half day workshop on April 19, 2017 for the relevant personnel (AML Compliance Officers of Financial Institutions and Cash Dealers) on compliance and reporting obligations under the Banking Act and AML Regulations 2002.

Pursuant to Section 167 of the Banking Act and the AML Regulations, Banking Commission - FIU conducted the "Workshop on AML/CFT Compliance Obligations" with a focus on suspicious activity red-flag indicators and detection.
Consultant delivered training on April 13, 2017 to relevant personnel on how to explore open sources and resources available on the World Wide Web to assist them in conducting due diligence checks and background/credibility checks on individuals and entities. The information may be utilized by the relevant personnel to identify suspicion of a serious offense, ML offense, or linked to an offense of TF for individuals or entities.

Asia-Pacific Group (APG) on Money Laundering

The Asia Pacific Group on Money Laundering ("APGML") is an autonomous and collaborative international organization currently comprising of 41 member countries. The Republic of the Marshall Islands has been a member of the APG since June 2002.

Per Cabinet Minute 072 (2002), the Cabinet at its meeting on 23 May 2002, endorsed the RMI’s membership bid to join the APGML. CM 072 endorsed the appointment of the Commissioner of Banking as the central contact person for the APG Secretariat. The Police Commissioner, Chief of Customs and Taxation, Registrar of Foreign and Domestic Corporations, and the Attorney General were all endorsed to assist in all APG related initiatives.

20th APG Annual Meeting and Technical Assistance Forum

The 20th APG Annual Meeting and Technical Assistance Forum 2017, co-chaired by Deputy Commissioner Leanne Close of Australia and Mr. Hithamillage Amaratunga of Sri Lanka, consisted of pre-plenary mutual evaluation-related meetings, working group and steering group meetings, technical seminar, and plenary
and technical assistance forum. 2017 APG Annual Meeting was held in Hilton Colombo Hotel in Colombo, Sri Lanka from July 17-21, 2017.

The RMI delegation, led by Commissioner of Banking Sultan T. Korean were able to participate in the follow-ups and re-rating of our neighboring island countries’ (Fiji, Samoa and Vanuatu) mutual evaluations. Additionally, the delegation was able to meet with Mr. Stuart Yikona, Senior Financial Sector Specialist from the World Bank to discuss possible technical assistance in regards the National Risk Assessment of the RMI.

V. TRAINING AND CAPACITY BUILDING INITIATIVES

The Banking Commission strives to become a full-fledged financial systems regulator and has set as one of its immediate priorities training and capacity building initiatives for its staff and managers. There are plans to propose by way of Cabinet Paper the Banking Commission's staff eligibility for RMI Scholarship funding for professional certification courses. This will provide the opportunity for staff and management to enhance their professional skills in financial industry supervision, financial sector development and anti-money laundering. Furthermore, the Banking Commission will continue to participate in all available and relevant capacity building and training opportunities available domestically and abroad.
Key Training/Capacity Building Workshops and Meetings- International

The following capacity building programs and meetings were attended by Banking Commission staff and their counterparts from other Ministries/Agencies of the RMI Government:

**Prudential Supervision Trainings/Meetings**

- **MENAFATF/APG Joint Typologies and Capacity Building Workshop, Nov 28 – Dec 1 2016** - Mr. Sultan Korean Banking Commissioner, Mr. Rendy Johnny, Manager FIS and Ms Samelda Leon, Manager FIU;

- **IMF High Level Dialogue, April 7, 2017** - Mr. Rendy Johnny, Manager FIS.

**Financial Sector Development Training/Meetings**

- **WTO-PIFS-UNCTAD Regional Workshop on E-Commerce, Fiji June 20-22, 2017** – Mr. Neumi N W Usumaki, Manager FSD;

- **FSVC meeting with Hawaii Department of Financial Institutions, Bank of Hawaii and First Hawaiian Bank, Hawaii, August 27-29, 2017** – Mr. Patrick Chen President and CEO BOMI, Ms. Velma Edwards Head of Compliance BOMI, Mr. Sultan Korean Banking Commissioner and Mr. Neumi N W Usumaki, Manager FSD.

**AML/CFT Training / Meetings**

- **Pacific FIU Attachment Program, Fiji November 7-11, 2016** - Ms. Samelda Neimon Leon, Manager FIU;

Asia Pacific Group on Money Laundering 20th Annual and Technical Assistance & Training Meeting, Colombo Sri Lanka, July 17-21, 2017 - Mr. Sultan T. Korean, Banking Commissioner, Ms. Claire Loeak, Assistant Attorney General, and Ms. Samelda Neimon Leon, Manager FIU.