

FINANCIAL INTELLIGENCE UNIT

REPUBLIC OF MALAWI

2013 / 2014 Annual Report

Fighting Money Laundering & Terrorist Financing

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LIST OF ACRONYMS

ACB	Anti-Corruption Bureau
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CFT	Combating the Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
DPP	Director of Public Prosecution
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
LCTRs	Large Currency Transaction Reports
ML Act	Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act
MPS	Malawi Police Service
MoU	Memorandum of Understanding
MRA	Malawi Revenue Authority
NGO	Non-Governmental Organisation
RBM	Reserve Bank of Malawi
STRs	Suspicious Transaction Reports

1.0 STRATEGIC OVERVIEW

Vision

To lead in the fight against money laundering, terrorist financing and related financial crimes and thereby contributing towards the economic development and stability of the financial sector in Malawi.

Mission

To prevent and detect money laundering, terrorist financing and related financial crimes by providing quality intelligence to law enforcers and other FIUs.

FIU's Values

- Carrying out its mandate with a sense of **integrity** by among other things demonstrating honesty, respect and discipline.
- Striving for **excellence and professionalism** in conducting its operations and working relationships with stakeholders.
- Adhering to a high level of **security and confidentiality** to inspire and maintain the trust of its stakeholders.
- Optimising **interdependence** with local and international agencies in adherence to international standards.
- Being **accountable and transparent** in the use of its resources and information in adherence to good governance norms.
- Being encouraged to be **creative & innovative, adaptable & flexible** with an emphasis on effectiveness of the work and not necessarily adherence to tradition.

The FIU's Strategic Objectives

The FIU has a Strategic Plan that runs from 2012 to 2015 which contains the following strategic objectives:

a) Improve mechanism for receipt, analysis and dissemination of STRs and requests

- Under this objective, the FIU expects to get increased number of requests, disseminated reports as well as increased feedback to financial institutions on suspicious transaction reports.

b) Increase awareness of AML/CFT issues, roles and responsibility by the public and key service providers

- The FIU expects an increased media coverage and public awareness on AML/CFT issues. The FIU also expects all key service providers to be informed and aware of their roles and responsibilities.

c) Develop and strengthen organizational structure, systems and processes for an effective FIU performance

- The expected outcome is to have in place improved and effective organizational systems, procedures and culture, and a well accommodated and equipped FIU.

d) Strengthen coordination among key AML/CFT service providers for effective delivery of related services

- The FIU expects to have an improved coordination and reduced role conflicts or overlaps and improved access to relevant information by key AML players.

e) Improve regulatory services on AML/CFT issues

- The FIU expects improved professional practice related to AML/CFT issues, compliance to AML/CFT professional standards

by individuals and institutions, amendments to the ML Act, and improved follow-up of violations on compliance with ML Act.

f) Find and implement creative solutions through gathered AML/CFT information

- The FIU expects to have an ability to allocate resources based on AML/CFT risk assessment and contribute to risk management by financial institutions in the country.

2.0 THE DIRECTOR'S OVERVIEW OF THE FINANCIAL YEAR



The Financial Intelligence Unit (FIU) continues to play a significant role in maintaining the integrity of the country's financial sector. During the year under review, the FIU implemented a number of high impact activities.

This year has been filled with various developments on anti-money laundering and combating the financing of terrorism (AML/CFT). Firstly, financial institutions filed more suspicious transaction reports (STRs) than ever before. The FIU received 82 STRs during this reporting period, which is 12 STRs more than those received in the previous reporting period. The STRs for this year were mainly on cheque forgery, tax evasion, and theft and fraud scam in the Government of about K20billion.

Through the analysis of the STRs it was established that over 100 individuals and entities were connected to the theft and fraud scam in Government. Some of the cases are still being investigated and about 70 individuals and entities are undergoing prosecutions.

Another striking development during this period was the first application of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act (ML Act) during a ruling in a case related to money laundering. The High Court of Malawi used the ML Act to determine whether or not an accused person, who was answering money laundering charges, had tainted property in her possession. The court dismissed the case in favour of

the defendant. Further application of the ML Act is expected from the next reporting period as prosecution of many cases is at an advanced stage.

Since the last financial year, the ML Act has been undergoing a review with financial support from the World Bank through the Financial Sector Technical Assistance Project (FSTAP). During this year, the FIU and Reserve Bank of Malawi (RBM) coordinated with a consultant who was facilitating the review process. A number of consultative meetings took place across the country and stakeholders contributed to the proposed amendments.

Over the past three years the FIU has consolidated its regulatory role with financial institutions beyond the banking sector, and has now reached out to designated non-financial businesses and professions (DNFBPs) who, though not being financial in nature, have a risk of being conduits for money laundering. Entities such as the real estate sector, capital market players, and insurance companies were trained in AML/CFT obligations under the ML Act. Further to this, the FIU developed STR forms for each of these sectors, and reviewed the STR form for the banking sector. All the targeted financial institutions are expected to commence using these forms by September 2014.

A fifth key development this year was the issuing of the revised Currency and Goods Declaration Form through a gazette notice in September 2013. Once this form is fully implemented, all travelers will be obliged to declare currency and goods at all country's ports of entry and exit. The declarations will then be filed with the FIU for input into the FIU data base and analysis. The FIU is still strategizing with other stakeholders on how to implement this requirement.

The last key development relates to the FIU's coordination with the Ministry of Foreign Affairs and International Affairs as well as Ministry of Justice and Constitutional Affairs on development of ratification instruments for Conventions to suppress terrorism. Five Conventions were deposited with relevant institutions for ratification this year. With this commitment, the country will wear an enhanced AML/CFT image globally.

Apart from the six key developments, the FIU has continued to implement other important activities such as meeting with its domestic partners to further enhance the national AML/CFT regime. There was good coordination during the ML Act review, preparation for attendance of Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) meetings, provision of feedback to compliance officers of financial institutions, and holding

meetings with Law Enforcement Agencies (LEAs). International coordination has also taken a centre stage and to this end the FIU has signed a Memorandum of Understanding (MoU) with Taiwan FIU and also hosted officials from Botswana, Lesotho and Tanzania FIUs who were on a study tour.

I hope this report will present to you valuable insight on operations and achievements of the FIU in the year 2013/2014.

Atuweni-tupochile Phiri
ACTING DIRECTOR

3.0 OPERATIONAL AND HUMAN RESOURCE OVERVIEW

3.1 The FIU's Operational Mandate

The Malawi FIU is established under Section 11 of the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act (2006). It started its operations in July 2007. The FIU is established in the law as an autonomous central national agency responsible for receiving, requesting, analyzing and disseminating to competent authorities disclosures of financial information in order to counter money laundering and financing of terrorism.

It receives reports on suspicious financial transactions from different financial institutions. The reports are analysed together with information sourced from databases of other institutions to develop financial intelligence in order to detect money laundering, terrorist financing and other financial crimes.

The Malawi FIU was set up as an administrative agency; it does not investigate or prosecute money laundering, terrorist financing or other financial crimes. The FIU disseminates financial intelligence obtained to law enforcement agencies for investigation and prosecution.

3.2 The FIU's Human Resource Highlights

As at 30th June 2014, the FIU had 16 employees comprising 1 Acting Director, 6 under Monitoring and Analysis, 2 under Information and Communication Technology (ICT), 3 under Compliance and Prevention, and 3 under Finance and Administration.

The FIU's Finance and Administration Officer resigned during the year. Another position had fallen vacant after one of the Compliance Officers passed away in early 2013. These and other positions of Data Analyst and Driver were filled during the financial year.

Realising that human resource is at the hub of its operations, the FIU coordinated capacity building of 9 staff members in various areas which included:

- Intelligence-led Investigations and Fundamentals of Strategic Intelligence Analysis, facilitated by 4KS Knowledge held in Pretoria, South Africa, in August 2013;
- Microsoft Server Security offered by IP Net Solution held in India, in September 2013;
- Mutual Evaluation Assessor's Training sponsored by the ESAAMLG Secretariat and World Bank, held in Windhoek, Namibia, from 27 to 31 January 2014 and also in Victoria Falls, Zimbabwe, from 28 April to 2 May 2014. Two FIU staff were sponsored by the ESAAMLG/World Bank while another one was sponsored by the FIU;
- Southern Africa Regional Cyber-Security & Cyber-Crime Workshop, provided by USA's Department of State, FBI, Cyber-Crime Unit and other USA Agencies. This training took place in Gaborone, Botswana, from 4 to 6 June 2014. Attendance of the training was sponsored by the American Embassy; and
- Advanced Financial Crimes Investigators Course held in Lilongwe, Malawi, from 2 to 6 June 2014 sponsored by the World Bank.

4.0 ACHIEVEMENTS AND HIGHLIGHTS IN THE REPORTING YEAR

4.1 Receipt, Analysis and Dissemination

4.1.1 Receipt of LCTRs, EFTRs and STRs

During the year under review, the FIU received Large Currency Transaction Reports (LCTRs), Electronic Funds Transfer Reports (EFTRs) and Suspicious Transaction Reports (STRs).

It is a requirement that large currency transactions (transactions over K1 million) should be reported to the FIU by financial institutions on weekly or monthly basis depending on the sector and as guided by the FIU. The FIU gets over 2 million LCTRs every year. In this year, the LCTRs were mainly submitted by all commercial banks, 1 mobile money operator, 2 insurance companies, 1 accounting firm and 1 real estate business.

The number of financial institutions reporting to the FIU is low compared to the number of institutions required to report under the ML Act, in spite of the fact that the FIU has reached out to all entities. This could be due to the fact that the ML Act only provides for criminal sanctions for non-compliance and implementation of this could pose a challenge. However, plans are underway to have administrative sanctions to be administered on non-compliant reporting institutions.

Electronic Funds Transfers Reports (EFTRs) are filed with the FIU on a weekly basis and have no threshold attached to them. Currently the FIU receives over 200,000 EFTRs annually.

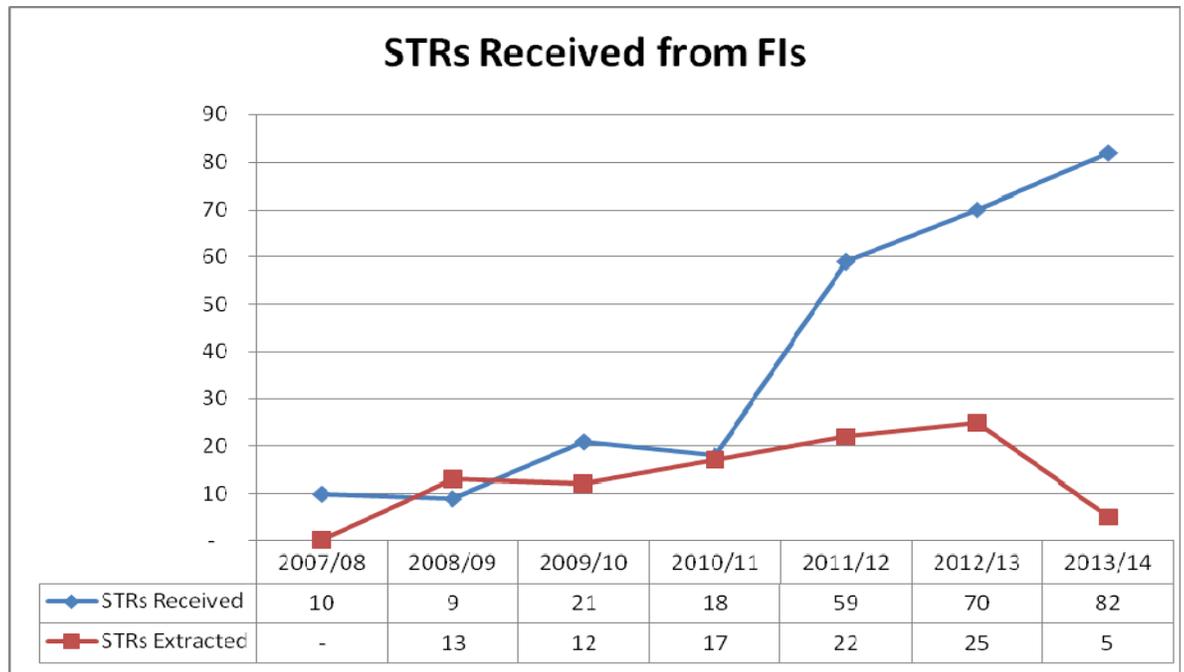


Figure 1: STRs received from financial institutions and extracted from LCTRs

In the year under review, the FIU received 82 STRs from financial institutions, representing a 17% increase over last year’s filed STRs. Further, the FIU extracted 5 STRs from the LCTRs and this brought the total number of STRs for the year to 87. A total of 76 reports came from the banks, 1 from the real estate sector, 3 from insurance companies and 2 from capital market firms.

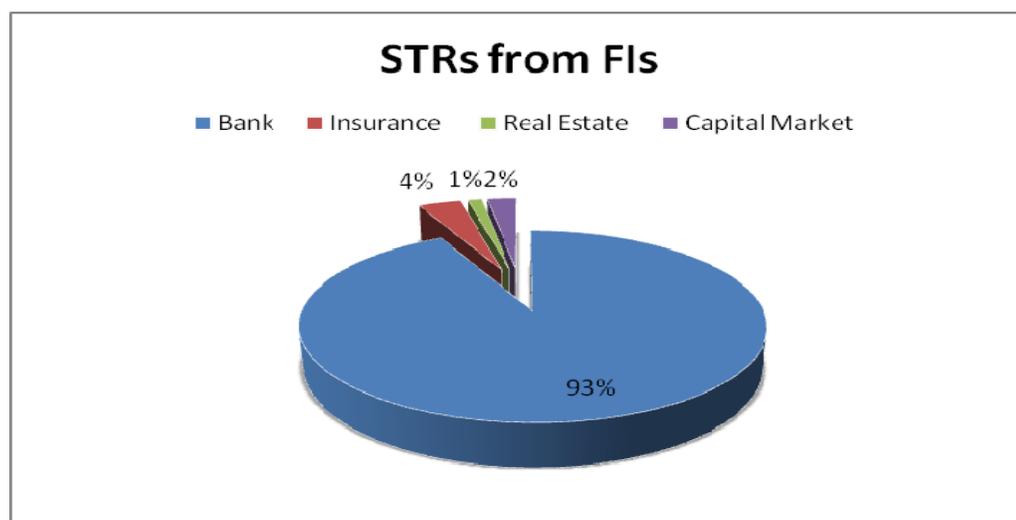


Figure 2: STRs filed by Financial Institutions in 2013/2014

Over the past two years, there has been an improvement on identification and filing of STRs by financial institutions. With cases on public sector fraud, which was christened 'cashgate' by the local media, financial institutions became more aggressive on the need to properly scrutinize transactions and file STRs with the FIU. Other contributing factors to these positive developments include feedback provided to individual financial institutions on their enquiries from time to time, the FIU's tailor-made training programs for financial institutions that require addressing of particular needs and regular meetings with Compliance Officers of banks aimed at addressing challenges being faced in implementing AML/CFT programs.

4.1.2 Analysis of STRs

The FIU analyses the received STRs using i2 Analyst's Notebook. With this software, the FIU generates flow or link charts of financial transactions which show relationships between various accounts, transactions and customers. Where necessary, further information is requested from other financial institutions that did not file the STR to enrich the analysis process. Apart from this, LCTRs and EFTRs which have previously been inputted into the FIU database and analysed accordingly also contribute significantly to generation and enrichment of STRs.

During the year under review, the FIU continued to analyze transactions from a fraud scheme in which some public officials and private companies allegedly colluded to cash government cheques and share the proceeds. The cheque payments were disguised as payments for goods and services supplied to the government ministries and departments. The FIU worked hand in hand with the ACB and FFU to deal with this matter, and it was discovered that a total of 101 individuals and business entities were connected to this scam which according to the forensic auditors hired by the Malawi Government, involved around K20billion. During the forensic audit, the FIU was one of the key sources of valuable data for that exercise.

4.1.3 Dissemination of Financial Intelligence

The FIU disseminated 19 cases to LEAs for investigations and possible prosecutions and most of them related to the *cashgate* and tax evasion. Out of

these cases, FFU was the highest recipient followed by the ACB. The FIU escalated 6 cases to ACB, 11 to FFU and 2 to MRA for investigation and possible prosecution. Apart from that, the FIU continued to share information with the RBM on AML issues in the banking and mobile money sectors which included challenges in identification of customers, lack of reporting of large currency transactions by one of the mobile money operator, and non-reporting of suspicious transactions by some forex bureau operators.

The number of disseminated reports has reduced considerably as compared to last year. This has partly been due to the fact that cases relating to *cashgate* were complex in terms of volumes of transactions and the number of alleged subjects involved and thus took more time to analyse. Further to this, some of the *cashgate* cases had more than one subject involved. The chart below shows the number of cases disseminated to LEAs:

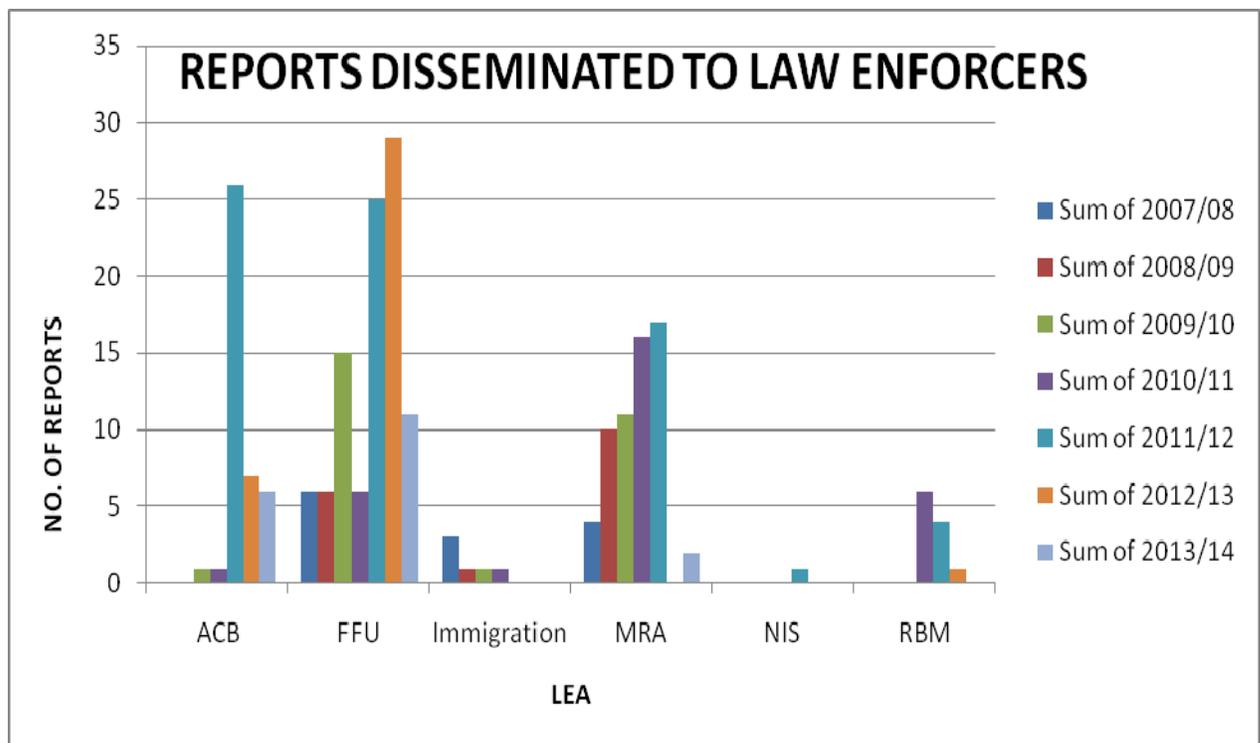


Figure 4: Reports Disseminated by the FIU

4.2 Information Sharing with LEAs and other FIUs

4.2.1 Information Sharing with Foreign FIUs

Under Section 11(2)(j) & (p) of the ML Act, the FIU has the mandate to share information with foreign FIUs for purposes of fighting money laundering, terrorist financing, proliferation of weapons of mass destruction and other financial crimes.

In this reporting year, the FIU made 9 requests to foreign FIUs and also received 4 requests in return. The increased number of requests was due to the analysis that was being conducted on *cashgate* suspects, some of whom were allegedly involved in transactions with individuals or entities based in other countries. In addition, the Malawi FIU received 5 spontaneous disclosures from other FIUs. This happens when the FIU receives an STR which involves a national of another jurisdiction and it is deemed necessary to inform that jurisdiction. The figure below shows a comparison of the number of requests handled between 2008 and 2014.

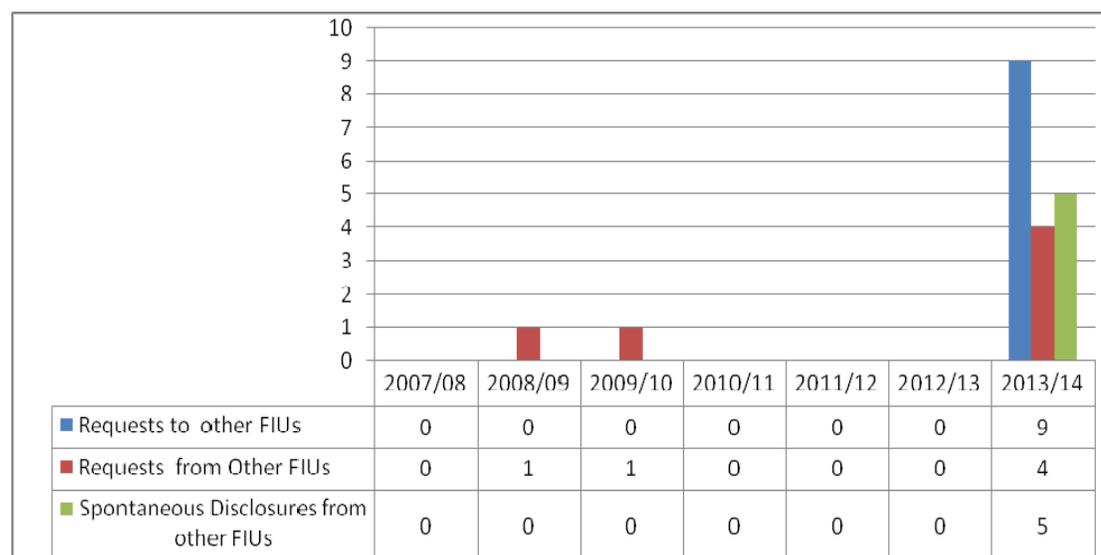


Figure 5: Requests to and from foreign FIUs

4.2.2 Information Sharing with Domestic Agencies

Domestically, the FIU also has a mandate to enter into agreements with law enforcement agencies and other government institutions for purposes of information exchange as stipulated under Section 11(2)(q). Pursuant to this mandate, the FIU has entered into Memoranda of Understanding with the Malawi

Revenue Authority, Immigration Department, Malawi Police Service, Reserve Bank of Malawi and the Anti-Corruption Bureau.

The FIU received 20 requests from the LEAs and supervisory authorities during this reporting period of which 18 were processed.

The MoU with the Immigration Department gives authority to the FIU to vet all Business Residence Permits (BRPs) and Permanent Resident Permits (PRPs). The FIU in this regard looks at the authenticity of the applicant's bank statement as well as the veracity of their financial standing.

Using this mandate, the FIU vetted 254 BRP and 299 PRP applications of which 16 BRP applications had false bank statements while only 3 applications for PRP had false banks statements. This was communicated to the Department of Immigration for its action.

4.2.3 Monitoring the prosecution of cases in connection with Money Laundering and other Financial Crimes

As part of its mandate, the FIU conducts research on trends and developments in money laundering and terrorist financing in order to find innovative ways of preventing and detecting money laundering, terrorist financing and other financial crimes. To fulfill this mandate, the FIU holds quarterly meetings with law enforcement agencies to establish the progress on cases under investigation or prosecution. Over the years, there has not been much progress on establishing trends due to the fact that there have been minimal civil or criminal actions commenced on the basis of the ML Act.

With investigations into the *cashgate* cases, this position is changing, as exemplified by *Criminal Case No.28 of 2013 Republic v Caroline Savala*. The state seized a motor vehicle belonging to the suspect on allegations that it was tainted property as it was believed to have been used in transporting Caroline Savala or her accomplices to various banks where proceeds of crime were deposited. When making a ruling on this, Justice Fiona Mwale of the High Court based her findings on the ML Act. According to the judge, the state failed to prove that the motor vehicle was an instrumentality in the commission of a serious crime.

As many *cashgate* cases are still in court, it is hoped that there will be more cases that will build the country's money laundering jurisprudence and general understanding.

4.3 Ensuring Compliance by Financial Institutions

4.3.1 Assessment of Financial Institution's compliance with the ML Act

The FIU conducts on-site examinations on financial institutions to establish AML/CFT compliance of financial institutions. During this reporting period, the FIU conducted full AML/CFT on-site examinations of National Bank of Malawi, FDH Bank, NBS Bank, NICO Life Insurance Company Ltd, TNM Ltd (TNM Mpamba), Airtel Malawi (Airtel Money), Pioneer Properties, Ching'onga Estate Agents, Alliance Properties and Watt Consultants. Geographical coverage and dates of the on-site examinations were as follows:

- National Bank of Malawi at Victoria Avenue, Customs Road, Zomba, Lilongwe, Capital City and Mzuzu branches from 19 August to 10 September 2013. This was a joint on-site examination with the RBM's Bank Supervision department;
- Nico Life Insurance Company Ltd at Blantyre, Lilongwe and Mzuzu branches from 28 October to 5 November 2013. This on-site examination was conducted by the FIU as well Bank Supervision and Pensions and Insurance Supervision departments of the RBM;
- TNM *Mpamba* at Lilongwe branch on 25 November 2013 and at its head office in Blantyre from 12 to 13 December 2013;
- Airtel Money at its head office in Lilongwe from 27th to 29th November 2013;
- FDH Bank at Umoyo, Limbe and Capital City branches from 3 to 20 February 2014;
- NBS Bank at Ginnery Corner, Limbe and Capital City branches from 3 to 20 February 2014; and

- Pioneer Properties, Ching'onga Estate Agents, Alliance Properties and Watt Consultants in Lilongwe from 19 May to 2 June 2014.

The shortfalls established during the examinations included inadequate KYC, lack of training or awareness on AML/CFT by board members of some financial institutions, inadequate scope for audit of the AML/CFT program which concentrated on KYC, and inadequate transaction monitoring. On-site examinations were extended to the real sector after considering that the sector had not started implementing any AML/CFT programs.

Following the on-site examinations, the financial institutions came up with actions plans to address the shortfalls which included arranging training for their staff members and Board of Directors. The training programs for some of these financial institutions were facilitated by the FIU. For the real estate sector, the FIU would consider training of players in this estate sector in Blantyre, Lilongwe and Mzuzu during the next financial year.

4.3.2 Coordinating Customer Records Updating Campaign

On 2 September 2011, the Government issued a gazette notice bringing into force the Money Laundering, Proceeds of Serious Crime and Terrorist Financing Regulations (AML Regulations). According to Regulation 3 (7), financial institutions which had business relationships before the coming into force of the ML Act were to take reasonable measures using a risk based approach to identify their customers within eighteen months from the date the regulations came into force.

In compliance with this Regulation, all banks were expected to complete updating of their existing customer records by March 2013. Almost all the banks failed to meet this deadline as such they requested the FIU to extend the deadline to 31 October 2013, after which all un-updated accounts would be suspended. The FIU and banks worked together to publicize this notice and on 1st November 2013 all customers who failed to provide their updated information to the banks had their accounts blocked.

Because of obliging to this requirement, the banks have since been better at noticing and determining suspicious transactions. It is expected that the exercise of

updating customer information will be carried out regularly by the banks and other financial institutions.

4.4 Skills and awareness enhancement for financial institutions

As one way of ensuring growth of an AML/CFT culture among the financial institutions, the FIU arranged training programs for various reporting entities. The training workshops conducted were as follows:

- 74 staff members of TNM were trained in September and October 2013. A total of 22 senior officers from central and northern regions were trained in September 2013 in Lilongwe while 52 staff members were trained in Blantyre in October 2013. The training in Blantyre included attendance by 16 senior management officers of the company based at its head office. The training workshops were aimed at imparting knowledge on the officers to enable them carry out their obligations in line with the ML Act with respect to the company's mobile money product known as *TNM Mpamba*.
- 6 staff of Stockbrokers Malawi Ltd (SML) underwent an AML/CFT training in Blantyre on 20 October 2013.
- 3 management officers of GetBucks Malawi Ltd attended a sensitisation workshop in Lilongwe conducted by the FIU on 7 November 2013.
- 14 staff members of Christian Aid were trained on 10 December 2013. This international non-governmental organisation (NGO) already provides awareness on AML/CFT to its staff members in accordance with the requirements of the standards in the country of their head office. This workshop was therefore requested by the NGO to enhance its staff's understanding of AML/CFT issues in a Malawian context. It was the first time for the FIU to reach out with AML/CFT training to an NGO.
- 15 staff members of CDH Bank in Lilongwe were trained in AML/CFT on 5 January 2014. This was a refresher workshop for staff members of the bank as staff of the branch were also trained by the FIU in 2012.

- 44 officers of Forex bureaus in Blantyre and Lilongwe attended an AML/CFT workshop on 14 and 17 April 2014, respectively. The workshop was organised by the RBM and facilitated by the FIU and RBM.
- 10 Board members of National Bank of Malawi underwent a sensitization workshop on 29 May 2013 aimed at enlightening the Board of the bank on AML/CFT concepts and enabling them to support AML/CFT programs of the bank. The training took place in Blantyre.
- 10 Board members of NBS Bank attended a sensitization workshop on 3 June 2014. The training, which took place in Blantyre, was aimed at enlightening the Board of the bank on AML/CFT concepts and enabling them support AML/CFT programs of the bank.
- 34 officers from compliance, audit and risk departments of the banks attended an ML/TF Risk Assessment workshop from 17 to 19 June 2014 in Mangochi facilitated by the FIU. The officers were empowered with knowledge on developing AML/CFT frameworks that are based on a risk assessment of the institution's products, services, geographical locations and customer bases.



Stockbrokers Malawi Limited staff were trained in AML/CFT in October 2013

The FIU currently trains financial institutions on request and the cost is shouldered by the respective institutions. This has contributed to increased number of staff of financial institution being trained, as the financial institution makes sure that the

training is carried out in several of its branches or that there is good representation from its branches and business units.



Staff of banks from Compliance, Risk and Internal Audit sections during ML/TF Risk Assessment Training in June 2014

4.5 Information and Communication Technology (ICT) Operations

The FIU's work is dependent on a robust information system. During this year, the FIU implemented the following ICT-related activities:

4.5.1 Development of Case Management System

The FIU started developing an analysis case management system during the previous year to enable analysts manage their workflow and provide timely statistics when required. When completed, the system is expected to quicken the analysis process by enabling users to keep strict focus on specific cases that they are working on and enhance collaboration among various stakeholders within the FIU. So far the Case Management System project has entered its final phase of development. Coding has been done and the system is fully developed. In the next phase, users will test the system to ensure that it meets their specifications. Following successful tests, the system will be implemented for use on the FIU servers. It is projected that the Case Management System will be fully deployed by September 2014.

4.5.2 Installation of Encryption Software at Financial Institutions

Reports submitted to the FIU require proper protection such as use of an encryption software. In line with this requirement, during the year the FIU installed TrueCrypt at Stockbrokers Malawi Limited, Aon Malawi Ltd, Charter Insurance Company Ltd, Express Insurance Brokers Ltd, General Alliance Insurance Ltd, Malawi Reinsurance Company Ltd, Old Mutual, Reunion Insurance Company Ltd, United General Insurance Company Ltd and Vanguard Life Assurance Company. Compliance Officers of these financial institutions were trained in the proper use of the data encryption software.

4.5.3 Online Reporting project

Suspicious transactions are currently submitted to the FIU through courier. The FIU would want to change this with an online reporting system to cut on cost of sending by the financial institutions as well as time spent by the FIU to input contents of the report in a database. With this reporting system, there will be an auto-reply and reports will automatically move into the FIU database. It is expected that development of the online reporting platform will be finalized in the next financial year, which will be followed by piloting of the system.

4.5.4 IFMIS Link Set-Up

When the FIU was at the RBM building, its Integrated Financial Management Information System (IFMIS) link to the Accountant General was installed via a shared RBM satellite. With the FIU's relocation from that building in August 2013, access to this shared satellite was not possible. Contract negotiations had to be initiated between the FIU and Malswitch Ltd as well as Malawi Telecommunications Ltd (MTL) to install a new satellite at the FIU's new premises. Further, the FIU liaised with the Accountant General's office for re-installation of IFMIS remote access at its present offices. The re-installation of the software was done during this reporting period and it is expected that the actual link will be fully operational by November 2014.

The re-installation of the IFMIS link took longer than expected due to protracted contractual discussions between MTL and Malswitch.

4.5.5 Other Developments

The FIU moved its www.fiumalawi.gov.mw website domain to another hosting platform to accommodate some website functionalities including addressing e-mail sending and receiving delays. Apart from that, the FIU installed a set of Uninterruptible Powers Supply (UPS) gadgets as a mitigating measure to power surges which occurred during the year and resulted in damage to some electrical and electronic equipment.

4.6 Public Awareness

It is the wish of the FIU to sensitise the public, as customers of financial institutions or otherwise, on money laundering and terrorist financing concepts and on effects of these crimes on the society. In doing so, the FIU employs various means.

In this reporting period, 8200 AML/CFT brochures were distributed to the financial institutions (banks, forex bureaus and real estate agents) and their customers. Besides that, the FIU issued 2 press releases on the role of the FIU and the deadline for KYC updating exercise on customers of banks. The media generated 83 articles, 66 in the print and online media, and 17 in the electronic media (i.e. radio and television). The media dwelt their coverage on the *cashgate* issues and press releases issued by the FIU.

The FIU continued to make use of its website for public awareness. The website was being updated with information such as press releases and news highlights on upcoming and already implemented activities.

4.7 Enhancing Domestic and International Cooperation

Money laundering, terrorist financing and other financial crimes are a concern to various stakeholders on the local and international scene and for this reason the FIU places importance on cooperating with its local and international partners. In the past year, the FIU undertook a number of steps to achieve its networking objectives.

4.7.1 Domestic Cooperation

The FIU engaged in the following:

- Holding interface meetings with Chief Executive Officers (CEOs) of some financial institutions. In this regard, between April and June 2014 the FIU's Acting Director had meetings with CEOs of National Bank of Malawi, Ecobank, Stockbrokers Malawi Ltd, NBS Bank, Indebank, Malawi Savings Bank and CDH Investment Bank.
- Holding meetings with Compliance Officers of banks, mobile money, and capital market players in August 2013 and March 2014. At these meetings a number of AML/CFT issues were discussed, among them the KYC Information Updating campaign, and conducting of ML/TF risk assessment on products, services, customers and jurisdictions connected with the financial institutions.
- Holding meetings with the FFU and ACB on cases being pursued regarding the fraud in government. In connection with the same, the FIU held meetings with Baker Tilly, a UK-based firm of chartered accountants and business advisers hired to carry out forensic auditing into fraud and mismanagement of government funds.
- Ad-hoc meetings were also conducted with the Immigration Department to discuss on applications for BRPs, and the MRA on the progress on tax evasion cases the agency was investigating.
- In addition to that, the FIU coordinated a meeting of members of the National AML/CFT Committee in August 2013 in preparation for attendance of ESAAMLG Task Force of Senior Officials and Council of Ministers meetings in Namibia in September 2013.

4.7.2 Regional Cooperation

The FIU continued to attend meetings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) which are held in April and August every year. Three officers attended the September 2013 ESAAMLG Task Force of Senior Officials meeting held in Swakopmund, Namibia. In addition to that, two officers

attended the Task Force of Senior Officials meeting held from 31 March to 4 April 2014 in Tanzania.

During the period under review, the ESAAMLG's Typologies Working Group carried out a study on *Money Laundering through the Money Remittance and Currency Exchange Sectors in the ESAAMLG region*. Malawi took part in this study and one officer from the RBM was a member of the core working team for the study. During this exercise, the FIU worked with the RBM on data collection from banks and foreign exchange bureaus.

Besides that, the Malawi FIU hosted some officers from Botswana FIU from 8 to 10 October 2013, Tanzania FIU from 7 to 11 October 2013, and Lesotho FIU from 18 to 22 November 2013. These FIU officers came on a study tour to help them set up their own FIUs. Malawi will continue to host officers of emerging FIU on study visits as this is very important not only to the visiting officers but also the host. Through such interactions, the Malawi FIU has strengthened its relationship with other FIUs and also learnt a lot from them. Further to this, such endeavours help place Malawi on the map as one of the leaders in AML/CFT issues in the region and beyond.

4.7.3 International Cooperation

Four officers of the FIU attended an EGMONT meeting in Sun City, South Africa, from 1 to 5 July 2013; two officers attended another meeting in Budapest, Hungary, from 16 to 19 February 2014, and other two officers attended another meeting in Lima, Peru, from 1 to 6 June 2014. EGMONT meetings provide a platform for member FIUs to empower each other through sharing of new knowledge on strategic and tactical analysis of transactions, use of the group's secure information sharing system and development of strategies for advancement of the group's objectives. The FIUs that show interest to join the group are partnered with existing members for close guidance. The Malawi FIU is thus currently providing such support to Lesotho and Zimbabwe FIUs. Furthermore, during the meeting in Hungary the Malawi FIU signed an MoU with the FIU of Taiwan to facilitate information sharing.



Lesotho FIU staff and Malawi FIU Acting Director during a study visit in Malawi

4.8 Other Activities

The FIU also carried out the following activities during the year under review:

- **Provision of feedback to Financial Institutions and LEAs**

Every quarter the FIU is expected to hold meetings with financial institutions and LEAs. The meetings are some of the means employed by the FIU to provide and get or give feedback to financial institutions on AML/CFT issues. Ad-hoc meetings are also held from time to time.

During this year, the FIU had 2 meetings with Compliance Officers, in August 2013 and March 2014, and was in constant contact with the financial institutions responding to their enquiries on KYC, risk assessment, and STR submission or beefing up of information related to STRs. There were over 20 enquiries from the financial institutions and feedback was provided within a maximum of 10 working days.

Because the Malawi FIU is administrative in nature, it relies on the LEAs for investigations and prosecutions. Over 30 ad-hoc meetings were held with the ACB, FFU and MRA on cases that were under investigations and prosecutions.

- **Coordinating the ML Act Review**

With financial support from the World Bank, under Financial Sector Technical Assistance Project (FSTAP), the FIU and RBM were involved in coordination of the review of the ML Act to align it with the Financial Action Task Force (FATF) Recommendations as revised in February 2012.

Six consultative meetings were held in the cities of Mzuzu, Lilongwe and Blantyre between August and October 2013. A cross-section of stakeholders attended the meetings and they included banks, insurance companies, lawyers, accountants, council for non-governmental organizations in Malawi (CONGOMA), academia, real estate agents, Ministry of Lands, Ministry of Finance, Ministry of Justice, Ministry of Foreign Affairs, Immigration Department, Malawi Gaming Board, Insurance association of Malawi, Bankers Association of Malawi, Malawi Law Society, Society for Accountants in Malawi, NGO Board, and Parliamentary Committees of Legal Affairs and Public Accounts.

The draft document was presented to Ministry of Justice and Constitutional Affairs in December 2013 for drafting. It was expected that the bill would be tabled in Parliament before June 2014 but this did not happen.

- **Facilitating Gazetting of Cross-Border Currency and Goods Declaration Form**

The Government issued an amended Customs and Exercise Currency and Goods Declaration Form, known as Form 47, through a gazette notice issued on 27th September 2013, requiring travelers to declare currency and goods in their possession at the ports of entry or exit from the country.

The declaration requirement is in line with Section 38 of the ML Act. It has become necessary to review the form and specifically include the declaration of currency to respond to the requirements of the ML Act, and also in realizing that a lot of money especially foreign currency is taken into or out of the country through cash couriers.

The amendments to the form were done through a Task Force comprising officers from the MRA, RBM, FIU, MPS and Immigration Department. The group continues to meet, and during this year it met twice and is working on strategies for implementing this form.

- **Development of STR Forms**

To provide suspicious transactions to the FIU, financial institutions record the information in an STR form. There was only one type of an STR form which all financial institutions had been using although it was designed with the banking sector in mind. To work with financial institutions efficiently and effectively, the FIU developed STR forms for specific sectors namely forex bureaus, mobile money, accountants, lawyers, real estate, insurance, capital markets, and casino and gambling houses. The STR form for the banking sector was also reviewed. The forms will require the financial institutions to provide adequate and relevant information particular to that sector. Use of the new forms by the institutions is expected to start by September 2014.

- **Relocation from RBM Building**

Since the FIU started its operations in 2007, it was housed within the RBM Building in Lilongwe. This ensured that the FIU enjoyed security facilities of the central bank which are in line with international standards. With growth in the number of the FIU's staff and for the RBM to accommodate other operations, it was necessary for the FIU to move out of the building. In August 2013 the FIU relocated to new offices within Lilongwe. The premises are manned by police officers 24/7 and security alarms, CCTV cameras and biometric access door controls have been installed at all strategic places, and some doors of the building were changed to accommodate security standards suiting an FIU.

- **Coordination on Ratification of 5 Conventions Relating to Suppression of Terrorism**

The United Nations (UN) General Assembly adopted the International Convention for the Suppression of the Financing of Terrorism on 9 December

1999. There are a number of treaties that address suppression of terrorism to which UN member countries are required to be party. As a member of the UN, Malawi is required to ratify such treaties or conventions. The Financial Action Task Force (FATF) also requires countries to have in place international cooperation measures on fighting money laundering, terrorist financing and financing of proliferation of weapons of mass destruction, and it was noted during the World Bank Mutual Evaluation of Malawi in 2008 that these conventions had not been ratified and as such Malawi could not be considered as being compliant with the FATF 40+9 Recommendations.

It is against this background that during this reporting period the FIU had been coordinating with the Ministry of Foreign Affairs and International Affairs as well as Ministry of Justice and Constitutional Affairs on development of instruments for ratification of conventions to suppress terrorism.

Between December 2013 and January 2014 Malawi ratified and deposited with the relevant institutions five conventions relating to Suppression of Terrorism as follows:

- The Convention on the Physical Protection of Nuclear Material;
- The Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation;
- The Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms Located on Continental Shelf;
- The Convention on the Marking of Plastic Explosives for the Purpose of Detection; and
- The Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, Supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation.

The International Atomic Energy Agency and the Foreign and Commonwealth Office acknowledged the deposit of instruments on the Convention on the Physical Protection of Nuclear Material and the Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation,

Supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation in December 2013 and January 2014 respectively. The country was awaiting acknowledgement by the depository institutions of the other conventions.

5.0 MAIN CHALLENGES ENCOUNTERED IN THE YEAR

The major challenges faced during the year were as follows:

- The relocation of offices to Area 9 and the ML Act Review coordination required a lot of time and concentration hence some planned activities could not be implemented as had been planned;
- Between 25th December 2013 and 2nd January 2014, the FIU's offices received increased voltage due to an electrical fault and this caused damages to the FIU's switchboard and other electronic gadgets such as computers, CCTV cables, electric fence energizer, database cables and surge protectors. An Un-interrupted Power Supply (UPS) machine which was used to protect the FIU's servers also got damaged. This brought communication and other operational challenges to the FIU for the better part of January 2014; and
- The volume of transactions relating to *cashgate* was enormous. The cases stretched the FIU to an extent that some activities were not implemented as scheduled initially.

6.0 PRIORITIES FOR THE COMING FINANCIAL YEAR

In the forthcoming year, the FIU has planned to implement a number of activities, but the key priorities are:

6.1 Increased Outreach to Financial Institutions

In line with the findings of the ML/TF National Risk Assessment (NRA), the FIU plans to be in close contact with the real estate agents, lawyers, forex bureaus, insurance companies, accountants, auditors, casinos and gambling houses, and other financial institutions whose reporting was not good enough or who had not yet started reporting to the FIU.

6.2 ML Act Review Finalisation

Review of the ML Act is a very important exercise. As the process continues, the FIU and RBM will liaise with the Attorney General and the Director of Public Prosecutions on the way forward for the ML Act review and enactment of the proposed amended Act.

6.3 Currency and Declaration Form awareness activities and implementation

The FIU, MRA, Immigration Department, MPS and RBM will continue strategising on how to implement the Currency and Goods Declaration Form. These institutions will also carry out awareness activities to ensure that members of the public understand the importance of these declarations.

7.0 FUNDING AND FINANCIAL STATEMENTS

7.1 Funding

The Finance and Administration department provides services of financial, human resource and administrative management. During the year under review, the FIU received an allocation of K244,135,775.00 from the national budget of Malawi. However, the actual funding received was K 229,536,414. Most of the activities were done within the allocated budget.

With the relocation of the FIU from the RBM Building, the FIU was allocated K50 million, and this is included in the figure on actual funding received. This catered for relocation expenses such as office materials removal, office rentals, office partitioning, purchase of CCTV and access door security equipment, purchase of office furniture and computers, hiring of security services from the Malawi Police Services, and hiring of cleaning and gardening services.

The FIU wishes to commend Government, in particular the Treasury, for timely remittance of monthly funding. This enabled the FIU to implement most of its activities as scheduled.

7.2 Financial Statements for the year ended 30 June 2014

MANAGEMENT RESPONSIBILITY

Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30 JUNE
2014**

Income and Expenditure for the Period Ending 30 June 2014

	Notes	MWK 2014	MWK 2013 Restated
Income			
Revenue	4	247,469,802	196,069,381
Total Income		247,469,802	196,069,381
Expenditure			
Expenses	5	259,675,633	205,536,698
Total Expenditure		259,675,634	205,536,698
Surplus/ (Deficit)		(12,205,832)	(9,467,317)

BALANCE SHEET**Balance Sheet as at 30 June 2014**

	Notes	30 June 14 MWK	30 June 13 MWK Restated
Noncurrent Assets			
Intangible Assets	7	0	0
Property, Plant & Equipment	8	17,541,717	6,202,246
Total Non Current Assets		17,541,717	6,202,246
Current Assets			
Debtors	9	37,530,097	34,382,097
Loan Revolving Account		1,466,452	43,385
Cash at Bank and in Hand		4,521,329	2,122,011
Suspense Account	10	220,201	220,201
		43,738,079	36,767,694
Total Assets		61,279,796	42,969,940
Reserves and Liabilities			
Reserves		(6,999,767)	5,206,065
Current Liabilities			
Trade and other payables	11	66,427,467	37,115,230
Overdraft		1,203,451	
Accruals		648,645	648,645
Total Current Liabilities		68,279,563	37,763,875
Total Reserves and Liabilities		61,279,796	42,969,940

CASH FLOW STATEMENTS

	30 June 14	30 June 13
	MWK	MWK
Cash flows from operating activities		
Cash receipts	247,345,188	196,015,732
Cash Paid to suppliers and employees	<u>(228,901,999)</u>	<u>(198,330,841)</u>
Cash Utilized in operations	18,443,189	(2,315,109)
Interest received	124,614	53,649
<i>Net cash flow from operating activities</i>	18,567,803	(2,261,460)
Cash Utilized in Investing Activities		
Purchase of Property, plant & Equipment	(14,745,418)	(2,608,633)
<i>Net Cash flow from investing activities</i>	<u>(14,745,418)</u>	<u>(2,608,633)</u>
Increase/ (Decrease) in cash and cash equivalent	3,822,385	(4,870,093)
<i>Cash and cash equivalents at beginning of yr</i>	2,165,396	7,035,489
<i>Cash and Cash equivalents at end of yr (note 6)</i>	<u>5,987,781</u>	<u>2,165,396</u>

NOTES TO THE FINANCIAL STATEMENTS

Accounting Policies to the Annual Financial Statements for the year ended 30 June 2014

1. Compliance with International reporting Standards

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The presentation of financial statements in accordance with International Accounting Standards requires management to make estimates and assumptions that reflect the reported amount and disclosures in the financial statements.

Actual results could differ from those estimates.

2. Principal Accounting Policies

The following is the summary of the principal accounting policies used by the institution.

2.1 Accounting Convention

The financial statements are prepared in terms of the historical cost convention.

2.2 Revenue Recognition

In terms of section 18 of the Money laundering, Proceeds of Serious Crime and Terrorist Financing Act, the expenses of the FIU shall be met out of

- a) money appropriated annually by Parliament for the purpose of the Financial Intelligence Unit;
- b) any government grants made to it; and
- c) any other money legally acquired by it, provided that the Financial Intelligence Unit may accept donations only with prior approval of the Director.

2.3 Income

The FIU was appropriated money by Parliament. Income has been accounted on accrual basis.

2.4 Expenditure

All expenses have been accounted on an accrual basis.

2.5 Intangible Assets

Intangible assets are initially measured at cost. After initial recognition, the assets are carried at cost, less any amortization and impairment losses. The amortization periods for the FIU's intangible assets are:

- Database 4 years
- Analyst Notebook 4 Years
- Microsoft SQL Server 4 Years
- Microsoft Visual Studio 4 Years

Notice that the value of Intangible assets are nil at the year end 30 June 2014. FIU Malawi is currently working on revaluing the assets.

2.6 Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life. The review of the estimated useful life is performed annually, both internally and externally. The estimated useful lives are as follows:

- Computer equipment 4 years
- Office Equipment 4 years
- Motor Vehicles 4 years
- Office Furniture 3 years

However the assets have not been revalued. There is an ongoing review of fixed assets which might affect the account statements significantly. These will be put in restated accounts for the year ending 30 June 2015.

2.7 FIU Pension Fund

The FIU expenses the Pension contributions made for staff monthly. The pension Fund is with Old Mutual

2.8 Impairment

At each balance sheet date, the FIU reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Critical accounting judgements made by management and key sources of estimation uncertainty

3.1 Critical accounting judgements made by management

In the process of applying the FIU's accounting policies, management has made the following judgements that affect the amounts recognised in the financial statements and related disclosure.

3.1.1 Impairment of noncurrent assets

In making its judgements, management has assessed at each balance sheet date whether there is an indication that items of property, plant and equipment and other assets may be impaired. If any such indication exists, the recoverable amount of the asset is assessed in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value, less costs to sell and value in use.

3.2 Key Sources of estimation uncertainty

3.2.1 Property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated lives using straight line basis. Management reviews the residual values annually considering market conditions and projected disposal values. In assessing useful lives and residual values, maintenance programmes and technological innovations are considered. The carrying value of property, plant and equipment is disclosed in note 8 to the financial statements.

4. Revenue

	30 June 14	30 June 13
	MWK	MWK
Funding	228,296,404	191,701,370
Other Income *	16,350,886	3,286,540
Interest on Staff Loans	2,822,512	1,081,471
Total Revenue	<u>247,469,802</u>	<u>196,069,381</u>

*Other income includes interest received from Banks, Money paid by Commercial Banks for Risk Assessment Training (K10,200,000) and Death Benefit on Estate of Late Mr. Sheen Msusa paid by Old Mutual (K 5,329,675.22)

5. Expenses

Depreciation	3,405,947	6,195,998
Amortization	0	0
Staff costs	100,065,144	81,581,497
Travel expenses	67,933,954	68,207,093
National AML/CFT Expenses	0	449,619
Other Expenses	88,270,588	49,102,491
Total Expenses	<u>259,675,633</u>	<u>205,536,698</u>

	30 June 14	30 June 13
	MWK	MWK

Cash comprises cash at bank and in hand.

Deposits and Bank balances	4,518,070	2,122,011
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Cash on Hand	3,259	0
Loan account	1,466,452	43,385
Total cash and cash equivalents	5,987,781	2,165,396

7. Intangible Assets

	Analyst Notebook MWK	Database- FIMTRAC MWK	Micro SQL Server 05 MWK	M Visual Studio MWK	Total MWK
Cost					
At 1 July 2013	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Additions					
At 30 June 2014	0	2,850,000	1,062,600	340,200	8,396,800
Amortization Charges					
At 1 July 2013	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Amortization Charge for the yr	0	0	0	0	0
Acc Amortization	4,144,000	2,850,000	1,062,600	340,200	8,396,800
Value of Assets at 30 June 2014	0	0	0	0	0

8. Property, Plant and Equipment

	Computer Equipment MWK	Office Equipment MWK	Motor Vehicles MWK	Office Furniture MWK	Total MWK
Cost					
At 1 July 2013	10,020,183	6,969,765	28,524,934	3,072,557	48,587,439
Additions	4,769,168	325,035		9,651,214	14,745,417

At 30 June 2014	14,789,351	7,294,800	28,524,934	12,723,771	63,332,856
Depreciation					
At 1 July 2013	9,391,187	6,701,029	24,362,949	1,930,026	42,385,191
Disposals	-	-	-	-	-
Charge for the yr	1,087,762	74,135	-	2,244,050	3,405,947
Accumulated Dpn At 30 June 2014	10,478,949	6,775,164	24,362,949	4,174,076	45,791,138
Net Book Value At 30 June 2014	4,310,402	519,636	4,161,985	8,549,695	17,541,718

9. Debtors

	30 June 14	30 June 13
	MWK	MWK
Staff Debtors	37,000,007	33,852,006
Other Debtors	530,090	530,090
	<u>37,530,097</u>	<u>34,382,096</u>

10. Suspense Account

The amount in Suspense Account is Petty Cash expenditures that have no documentation. The documentation was lost as we were moving from Reserve Bank premises. The amount concerned is K 220,200.56

11. Trade and other Payables

30 June 14	30 June 13
MWK	MWK

Trade Creditors	-	-
Other Creditors (Tax)	66,427,466	37,115,230
	<u>66,427,466</u>	<u>37,115,230</u>

The figure for Tax is a result of FIU being told by MRA that Government remits its Tax. Note however that we have now started paying Tax directly to MRA