King's Town Bank Policy and Procedures for Identification, Assessment, and Management of Money Laundering, Terrorism Financing, and Proliferation Financing Risks

Article 1

The Policy and Procedures set forth the policy and procedures for identification, assessment, and management of money laundering, terrorism financing, and proliferation financing risks in accordance with the “Regulations Governing Anti-Money Laundering of Financial Institutions,” the “Regulations Governing Internal Audit and Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business and Other Financial Institutions Designated by the Financial Supervisory Commission,” the amended “Checklist of Money Laundering and Countering-Terrorism Financing Prevention Measures for Banks” (hereinafter referred to as “the Checklist”) issued by The Bankers Association of the Republic of China (hereinafter referred to as “The Bankers Association”) by Quan-Yi-Zi Letter No. 1080003139 dated May 31, 2019, and the “Reference Guide for Assessment of Anti-Money Laundering and Countering-Terrorism Financing Risks of Banks and the Formulation of Related Preventive Plans” prepared by The Bankers Association, with the aim for the prevention of anti-money laundering and countering-terrorism financing (hereinafter referred to as “AML/CTF”).

Article 2

The Bank shall adopt appropriate measures to identify and assess its money laundering, terrorism financing, and proliferation financing (ML/TF/PF) risks and formulate specific risk assessment indicators and mechanisms based on the identified risks. With the risk-based method, the Bank adopts a high-risk assessment procedure for high-risk clients, and adopts a simplified measure for low-risk clients, in order to more efficiently distribute resources so as to further control, mitigate, and prevent such risks. The Bank formulated AML/CTF plans base on its risk assessment results and business scales, and reviews and revives such plans on a regular basis.

Article 3

The Bank’s risk assessment indicators shall include aspects, including geography, customer, products and services, and transaction or service channels, and the Bank shall perform further analysis on each risk item so as to formulate the details of risk factors, in order to better identify and establish the classification rules for client risks levels.

I. Geographical risks:

With reference to the following channels, the Bank establishes and maintains a list of high-risk counties to identify countries/regions of high ML/TF/PF risks.

(I) Countries or regions which fail to comply with the suggestions of international anti-money laundering organizations as published by the international anti-money laundering organizations via the Financial Supervisory Commission, and countries or regions that are materially defective in AML/CTF.

(II) Countries and regions subject to economic sanctions by the United Nation, the U.S., or the European Union, or other similar measures.

(III) Countries or regions which are listed as corrupt based on the Corruption Perceptions Index by the International Transparency Organization.

(IV) Countries or regions which are offshore financial center announced by the International Monetary Fund (IMF).

(V) Countries or regions which are inflow and outflow targets of criminal proceeds or tax havens mentioned in the National Risk Assessment (NRA).

II. Customer risks:

(I) The Bank shall take comprehensive consideration of the individual client's background, occupation, and characteristics of socio-economic activities, region, organizational pattern, and structure of a non-natural person client in order to identify ML/TF/PF risks from the client.

(II) When the Bank identifies the risks of individual customers and determines their risk ratings, the following risk factors shall serve as the basis of assessments:

1. Geographical risks of the client: The Bank determines the risk level of the client's nationality and country of residence based on the list of regions with ML/TF/PF risks defined by the Bank.
2. Money laundering risks of the client's occupation and industry: The Bank determines the risk level of the client's occupation and industry base on money laundering risks of occupations and industries defined by the Bank. High-risk industries are industries that engage in cash-intensive transaction businesses or companies or trusts that are prone to be held as personal assets.
3. The channel where the customer opens a bank account and builds business relationships.
4. Products or services within the business relationship.
5. The circumstance where the address provided by the client is too far from the branch and the client is unable to provide a reasonable explanation.
6. The circumstance where the client is a company with silent shareholders, a company eligible for bearer stock issuance. The level of shareholding complexity of an institutional client.
7. If there exist abnormal transactions in the clients' accounts, such as accounts that have been reported for suspicious money laundering or terrorist

financing activities, and deposit watch-listed accounts.

8. If the client or related parties are involved in special major incidents reported live by the media.
9. Client accounts that are deemed as high-risk level based on the Bank's own business nature and consideration for relevant risk factors.
   (1) Foreign individuals who hold important political positions and those from countries that are under economic sanctions, terrorists or terrorist organizations that have been identified or under investigation by foreign governments or international anti-money laundering organizations, and individuals or groups that are subject to sanction under the Terrorism Financing Prevention Act, are deemed as high-risk clients.
   (2) Clients that are financial institutions without a comprehensive AML/CTF prevention mechanism are deemed as high-risk clients.
   (3) Businesses or practitioners whose product business or transaction patterns are prone to the exploitation of money laundering crimes. Such businesses or transactions include virtual currency transaction service providers, are deemed as high-risk clients.
   (4) Clients who have been reported as suspected of money laundering or terrorist transactions and who have been deemed as high risk clients through the dissemination and use of financial intelligence.

III. Risks of product and service transaction or payment channels

(I) The Bank identifies product and service transaction or payment channels that may bring higher ML/TF/PF risks base on its nature.

(II) The Bank shall conduct the ML/TF/PF risk assessment before launching new products or services or conducting a new type of business (including new payment mechanisms, using new technologies in existing or new products or business), and establish corresponding risk management measures to mitigate the identified risks.

(III) The factors of the risks of product and service transaction or payment channels include the followings:

1. The degree of association with cash.
2. Business relationship established or transaction channels, including the in-person transaction, electronic transactions or new methods, of transactions.
3. Whether it is a large amount of money or value transfer service.
4. Anonymous trading.
5. Receipts from an unknown or unrelated third party.
6. Target clients.

Article 4

The Bank has established classification rules for different customer risk levels.

The Bank divides customer risk levels into three categories: “high-risk level,” “medium-risk level,” and “low-risk level,” which serve as the basis for strengthening customer due diligence measures and the intensity of continuous monitoring mechanisms.

The Bank’s employees of all levels shall not disclose the information on customer risk level to customers or those who are unrelated to the implementation of AML/CTF prevention plans.

Article 5

The timing for risk identification and assessment of individual customers includes:

I. For customers who establish new business relationships or enter into trust contracts with the Bank, the Bank shall determine their risk levels when opening accounts or establishing business relationships.

II. For existing customers with identified risk levels, the Bank shall conduct a customer risk reassessment in accordance with the identification and assessment methods as described in Article 6.

Article 6

Although the Bank has assessed the risk level of each customer upon establishing a business relationship, risks of certain clients can only be identified after transactions take place in the customer account. Therefore, the Bank shall conduct assessments on the identity of existing customer base on the level of materiality and risks, and carry out reviews on the existing relationship and timely adjustments to the risk level at appropriate times, taking into consideration the timing and the adequacy of information obtained in the previous review. The aforementioned appropriate times shall include at least:

(I) When opening additional accounts, making addendums to trust contracts, or expanding new business relationships with existing customers.

(II) The scheduled regular customer reviews based on the level of materiality and risks.

(III) When Bank becomes known that there is a material change to the customer’s identity and background information.

(IV) Upon the occurrence of suspected money laundering or terrorist financing transactions or an event that may cause a substantial change in a customer's risk profile.

The Bank shall regularly review the adequacy of the information obtained by identifying customers and their substantial beneficial owner and ensure that such information is up-to-date. High-risk customers, unless otherwise stated in this Policy, shall be reviewed at least once a year.

Article 7

The Bank establishes corresponding control measures to the identified risks to mitigate or prevent the risk of money laundering and assigned appropriate risk control measures to customers based on their risk levels.

I. In accordance with the Bank's risk management and control policies and procedures, the following management and control measures are adopted for high-risk customers to effectively manage and reduce known risks:

(I) Enhancing customer due diligence measures.

(II) Obtaining the approval of the AML/CFT Supervisor before establishing or adding new business relationships.

(III) Customer due diligence review shall be carried out at least once a year.

(IV) Enhancing ongoing monitoring of business relationships.

II. For medium-risk clients, the Bank adopts the following control measures to manage effectively and reduce known risks effectively.

(I) Customer due diligence review shall be carried out once every three years.

(II) Adjusting the document requirement for customer due diligence review. The Bank may request fewer documents from the clients if allowed by laws and regulations.

III. For low-risk clients, the Bank adopts the simplified measure for customer identity control.

(I) Customer due diligence review shall be carried out once every seven years.

(II) If the purpose and nature can be determined based on the type of transaction or existing business relationship, the Bank may not require to collect specific information or to implement special measures to learn about the purpose and nature of the business relationship.

IV. Streamlined measures for the Bank's confirmation of customer identity

(I) For customers who have no transaction records in their accounts with the Bank for more than 12 months (the last date of transaction in the customers' accounts being the starting date), and whose average account balance in the last six months is within the following range, the identity control measures may be waived.

1. High-risk customers: NT$30,000 or less;
2. Medium-risk customers: NT$50,000 or less;
3. Low-risk customers: NT$100,000 or less.

(II) If there is a sudden transaction or a significant change in the transaction pattern (e.g., a sudden large-sum transaction) of an aforementioned customer who has no had transaction records in the period stated above, regular review and update of customer risk assessment information shall be initiated in the following month.

(III) However, the aforementioned streamlined measures of the confirmation of customer identity shall not be applied in the following cases:

1. Where the customer is from a high-risk country or region that does not take effective AML/CFT measures, including but not limited to countries or regions which fail to comply with the suggestions of international anti-

money laundering organizations as published by the international anti-money laundering organizations via the Financial Supervisory Commission, and countries or regions that are materially defective in AML/CTF.

2. Where the Bank has sufficient reasons to suspect the customer or transaction is involved in money laundering or terrorism financing activities.

Article 8

The Bank establishes regular and comprehensive ML/TF/PF and sanctions risk assessment operations and produces risk assessment reports so that the management is able to timely and effectively understand the overall ML/FT and sanctions risks encountered, decide on the mechanism to be established, and develop appropriate risk mitigation measures.

The Bank regularly conducts comprehensive ML/TF/PF risk assessments based on the following indicators:

I. Nature, scale, diversity, and complexity of businesses.

II. Target markets.

III. Number and scale of bank transactions.

IV. Management data and reports related to high-risk levels: These indicators include the number and proportion of high-risk customers; the amount, number, and proportion of high-risk products, services, or transactions; customers' nationalities, places of registration or places of operations, or amounts or proportions of transactions that involve high-risk regions.

V. Business and products, including channels and methods of delivering products and services to customers.

VI. Inspection results from internal audits and the supervisory authority.

VII. Management reports prepared by the internal management of the Bank.

VIII. Relevant AML/CFT reports issued by international anti-money laundering organizations and other countries.

IX. Information released by the competent authorities on risks of ML/TF/PF.

The Bank’s overall comprehensive ML/TF/PF risk assessment results shall serve as the basis for the development of the AML/CTF prevention plans. The Bank allocates appropriate human power and resources based on the assessment results and adopts effective countermeasures to prevent and mitigate risks.

In addition to the conditions specified above, the Bank shall reassess risks in the event of any material events, major developments in management and operation, or the emergence of new relevant threats.

The Policy and Procedures and any amendments thereafter shall become effective upon resolution at the board meeting.

Article 9

The Policy and Procedures shall become effective upon resolution at the board meeting.

The Policy and Procedures were enacted on November 23, 2015.
Amended on January 1, 2017.
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