

5.6 Anti-Money Laundering , Combating the Financing of Terrorism and Countering Proliferation Financing

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In response to global trends in anti-money laundering (AML), combating the financing of terrorism (CFT), and countering proliferation financing (CPF), and in line with the Group's overseas expansion strategy, the Bank adopts a "risk-based approach" to continuously enhance its AML/CFT/CPF framework. Internal policies and regulations are updated promptly to comply with external regulatory changes, and correct concepts are disseminated with major current events as examples to strengthen the consensus and risk awareness of all staff regarding AML/CFT/CPF.

The Bank has established policies and regulations including the "Anti-money Laundering and Counter Financing Terrorism Policy", "Anti-Money Laundering and Counter-Terrorism Financing Guidelines", "Rules Governing Customers' Money Laundering and Terrorist Financing Risk Assessment and Due Diligence", "Management Rules Governing AML/CFT of the Overseas Entities", "Rules Risk Assessment on Money Laundering and Financing Terrorism of Product and Service Offerings and Related Channels and Platforms", and "Rules Governing Reporting on Cash Transactions, Suspicious Transactions and Designated Sanctioned Individuals or Entities". These regulations are reviewed regularly each year to ensure their appropriateness in light of domestic and international trends and changes in the financial market.

Taking into account recommendations from Financial Action Task Force (FATF) and best practices from banking associations, Cathay FHC establishes an information sharing mechanism with its subsidiaries while Cathay FHC being the core. This mechanism includes sharing group lists, types of suspicious transactions, information about suspicious customers/transactions, and risk data across subsidiaries to deploy a collective defense network against money laundering and financing of terrorism.

By identifying and assessing potential money laundering, terrorist financing and proliferation financing countering risks, specific assessment items are formulated based on the identified risks to further control, mitigate, or prevent risks. The Bank has established an Anti-Money Laundering and Counter Financing Terrorism Committee, chaired by the CEO, with heads of various business units serving as committee members. Regular meetings are held to report and discuss issues related to AML/CFT. The committee reports on the Bank's AML/CFT efforts to the board of directors semi-annually. Additionally, we refer to external and internal information, including reports from FATF, foreign related reports, the National ML/TF/PF Risk Assessment Report (NRA) process conducted by the Anti-Money Laundering Office, Executive Yuan, and Sectoral Risk Assessment (SRA) conducted by the Financial Supervisory Commission. Regular institution-wide risk assessments are conducted and submitted to the Audit Committee for review and approval by the Board of Directors, with reports provided to regulatory authorities for reference.

To effectively enhance the Bank's ability to monitor suspicious transactions associated with money laundering (ML), terrorist financing (TF), and proliferation financing (PF), and to mitigate related risks, the Bank has adopted a centralized approach to monitoring transactions. A standardized suspicious transaction investigation procedure has been established to ensure consistent review standards and strengthen the quality of monitoring operations. A bank-wide digital information system has been implemented to systematize the alerting, reviewing, and reporting processes for transactions suspected of ML/TF/PF. Through centralized reviews and division of responsibilities, we enhance the investigative expertise of monitoring personnel. The Bank also holds regular review meetings on transaction monitoring investigations and reporting, and has established a quality assurance mechanism to periodically review the handling of monitoring cases to ensure their effectiveness.

The Bank regarding anti-money laundering, counter the financing of terrorism and proliferation financing conducts diverse education programs to cultivate talent in technology compliance, anti-money laundering (AML), counter the financing of terrorism (CTF), and counter proliferation financing (CPF). These programs aim to instill a culture of compliance from within and address the specific needs of employees based on their roles. Educational materials are developed to address internal and external regulations, international trends, industry enforcement cases, and emerging threats in electronic commerce and financial technology. This ensures that employees understand their responsibilities and obligations in AML, CTF and CPF efforts and are equipped with the necessary expertise to fulfill their duties professionally.

AML/CFT/CPF Process Flow Chart

