Annex

Guidelines for Credit Cards Companies Regarding Assessment of Money Laundering and Terrorism Financing Risks and Adoption of Prevention Programs

I. These Guidelines are enacted in accordance with the "Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuers" for the purpose of anti-money laundering and countering terrorism financing, including how the institutions engaging in credit card business identify and assess money laundering and terrorism financing risks, as well as enact anti-money laundering and countering terrorism financing programs as a basis for enforcement.

II. The internal control system of the institutions engaging in credit card business shall be approved by the Board of Directors (Executives), same for the amendments. Also, its contents shall include relevant written policies and procedures for the identification, assessment, and management of money laundering and terrorism financing, as well as the anti-money laundering and countering terrorism financing programs enacted in accordance with the results of the risk assessment and it shall be reviewed regularly.

The risk-based approach is to assist in the development of control and mitigation measures for anti-money laundering and countering terrorism financing in order to facilitate the institutions engaging in credit card business in determining their anti-money laundering and countering terrorism financing resource allocation, establishing their internal control systems, and enacting and implementing their anti-money laundering and countering terrorism financing policies, procedures, and control measures.

The statements cited in these Guidelines are not mandatory and the risk assessment mechanism of the institutions engaging in credit card business shall be commensurate with the nature and scale of its business operation. For small or primitive institutions engaging in credit card business, a simple risk assessment is sufficient; however, for institutions engaging in credit card business with more complex products and services provided, with a number of branches (or subsidiaries) offering a wide variety of products, or with diversified customers to be served, a more sophistic risk assessment process is required.

III. The institutions engaging in credit card business shall take appropriate measures to identify and assess money laundering and terrorism financing risks in order to have the specific risk assessment items enacted in accordance with the identified risks for further risk control, reduction, and prevention.

Specific risk assessment items shall include at least the aspects of region, customer, product and service, and transaction or payment channel, and shall further analyze the risk items in order to enact the detailed risk factors.

(I) Regional risk:

1. Institutions engaging in credit card business shall identify the areas with higher risk of money laundering and terrorism financing.
2. While preparing the list of regions with high-risk of money laundering and terrorism financing, the institutions engaging in credit card business may choose the applicable risk factors based on the practical experience of each company (or subsidiary) and the consideration of individual needs.

(II) Customer risk:

1. Institutions engaging in credit card business shall take into account the individual customer's background, occupational and socioeconomic activity characteristics, region, and corporate customer's organizational form and structure in order to identify the customer's money laundering

and terrorism financing risks.

2. In identifying individual customer's risks and determining their risk levels, institutions engaging in credit card business shall base their assessments on the following risk factors:
   (1) Customer's regional risk: Assess the risk of the nation that the customer has nationality or residency established in accordance with the list of regions with high-risk of money laundering and terrorism financing defined by the institutions engaging in credit card business.
   (2) Customer's money laundering risk by the occupation and business operation: Assess the risk of the occupation and business operation of the customer in accordance with the money laundering risk by the occupation and business operation defined by the institutions engaging in credit card business. High-risk industries refer to the companies or trusts engaged in cash-intensive business transaction or those easily being used to hold personal assets.
   (3) The institution that employs the individual customer;
   (4) The channel for customer's account-opening and establishing a business relationship
   (5) Are the customers with any other sign of high risk of money laundering and terrorism financing?

(III) Products and services, transactions, or payment channel risks:

1. The institutions engaging in credit card business shall identify the high risk of money laundering and terrorism financing by the nature of the individual product and service, transaction, or payment channel.
2. Before marketing new products or services or handling new types of services (including new delivery mechanisms and the use of new technology for existing or new products or services), the institutions engaging in credit card business shall assess the risk of money laundering and terrorism financing and establish appropriate risk

management measures to reduce the identified risks.

3. The respective products and services, transactions, or payment channel risks are illustrated as follows:
   (1) Associated with cash;
   (2) The business relationship or transaction channel, including whether it is a face-to-face transaction or not.
   (3) Whether it is a high amount of money or value transfer business or not?
   (4) Anonymous transactions
   (5) Received money from an unknown or unrelated third party.

IV. Institutions engaging in credit card business shall establish different customer risk levels and grading rules.

The risk of the customer shall include at least two or more risk levels, namely, “high risk” and “general risk,” as the basis for due diligence and the intensive and continuous monitoring mechanism. In the case of the institutions engaging in credit card business with a two-level risk adopted, since the “general risk” level is still higher than the “low risk” level referred to in Paragraph 5 and Paragraph 7 of the Guidelines, the simplified measures are not applicable to the customers in the “general risk” level.

The institutions engaging in credit card business shall not disclose the customer’s risk level related information to the customer or the person who is not involved in the task of anti-money laundering or countering terrorism financing.

V. In addition to having important political persons of a foreign government or trading counterparties that are individuals, legal entities, or organizations sanctioned under the Terrorism Financing Prevention Act or terrorists or terrorist groups identified or investigated by a foreign government or an international anti-money laundering organization deemed as high-risk customers, the institutions engaging in credit card business may have the type of high-risk customers defined in accordance with the respective business operation and the relevant risk factors.

The institutions engaging in credit card business may base on a complete written risk analysis result to define the type of customer with low risk; also, the written risk analysis result shall be able to adequately demonstrate that this type of customer commensurate with the lower risk factor.

VI. The institutions engaging in credit card business shall have the risk level of the new customers determined when having a business relationship established.

For existing customers who have their risk level identified, the institutions engaging in credit card business shall re-evaluate the customer's risk in accordance with its risk assessment policies and procedures.

Although the institutions engaging in credit card business have the risk of the customer assessed when establishing a business relationship; however, the overall risk profile of certain customers will become clear only through a credit card transaction; therefore, the institutions engaging in credit card business is to review the existing customer's identity information in accordance with the importance and risk level, and to have the existing relationship reviewed and the risk level adjusted timely after considering the timing of the previous review implemented and the adequacy of the information obtained. The aforementioned appropriate timing shall include at least:

(I) At the time when customers add new business transactions;

(II) The timing for regular customer review scheduled in accordance with the importance of the customer and the risk level

(III) At the time when learned about the significant change in customer's identity and background information;

(IV) At the time when a suspected money-laundering or terrorism financing transaction is reported that is likely to result in a material change to the customer's risk level

The institutions engaging in credit card business shall regularly review the adequacy of the information obtained for identifying the identity of the customer and the real beneficiary, and shall ensure the update of such information; especially for high-risk customers that shall be reviewed at least once a year by the institutions engaging in credit card business.

VII. The institutions engaging in credit card business shall establish corresponding control measures to reduce or prevent the risk of money laundering according to the identified risks. The institutions engaging in credit card business shall determine the applicable control measures according to the customer's risk level. For risk control measures, the institutions engaging in credit card business shall adopt different control measures for high-risk customers and customers with specific high-risk factors in order to effectively manage and reduce known risks in accordance with their risk prevention policies and procedures, for example:

(I) Initiate the "Enhanced Due Diligence," for example:

1. Obtain information on customer's wealth source, asset type and quantity, etc.
2. Obtain information on the financial status of corporate and group customers: Understand the latest business activities and business information of customers.
3. Conduct a field visit or telephone interview based on the classification of customers to confirm the actual operation of customers.

(II) The establishment or addition of business transactions shall be approved by the authorized senior management in accordance with the consideration of the internal risk of the institutions engaging in credit card business.

(III) Increase the frequency of customer reviews.

(IV) The business relationship shall be supervised forcefully and continuously.

Except for the proviso stated in Article 6, Paragraph 1, Section 3 of the Guideline, for the lower risk scenario, the institutions engaging in credit card business shall adopt simplified measures in accordance with their risk control policies and procedures. The simplified measures shall be commensurate with their lower risk factors; also, the simplified measures shall be adopted as follows:

(I) Reduce the frequency of customer identity data update.

(II) Reduce the level of continuous monitoring.

(III) If the purpose and nature of the business relationship can be inferred from the type of transaction or the established business relationship, it is not necessary to collect specific information or to carry out special measures for the need of understanding the purpose and nature of the business relationship.

VIII. The institutions engaging in credit card business shall establish a regular and comprehensive money-laundering and terrorism financing risk assessment with a risk assessment report prepared so that the management can understand the overall risk of money laundering and terrorism financing faced by the institutions engaging in credit card business in a timely and effective manner, determine the mechanisms to be developed, and develop appropriate offset measures.

The institutions engaging in credit card business shall establish a regular and comprehensive money-laundering and terrorism financing risk assessment process in accordance with the following indicators:

(I) The nature, scale, diversity, and complexity of the business operation

(II) Targeted market

(III) Transaction volume and scale of the institutions engaging in credit card business: Consider the characteristics of general trading activities and customers of the institutions engaging in credit card business.

(IV) High-risk related management data and reports: Such as, the number and proportion of high-risk customers; the amount, quantity, or proportion of high-risk products, services, or transactions; the nationality, place of registration, or place of business of the customer, or the amount or ratio of the transaction in an area involving high-risk, etc.

(V) Business and products, including the channel and manner of providing business and products to customers, the implementation of due diligence, such as, the use of information systems and whether the due diligence is commissioned to a third party or not.

(VI) Internal audit and the inspection results of the competent authorities

The institutions engaging in credit card business while implementing the comprehensive money-laundering and terrorism financing risk assessment as stated in the preceding paragraph, in addition to considering the aforementioned indicators, shall apply the other information obtained internally and externally, such as:

(I) The management report provided by the internal management of the institutions engaging in credit card business (such as, the supervisor of the business unit)

(II) The Anti-Money Laundering and Countering Terrorism Financing related reports issued by the International Anti-Money Laundering Organization and other countries

(III) The information on the money laundering and terrorism financing issued by the competent authorities

The development of the anti-money laundering and countering terrorism financing program shall be based on the comprehensive money laundering and terrorism financing risk assessment results of the institutions engaging in credit card business. The institutions engaging in credit card business shall have manpower and resources reallocated appropriately in accordance with the risk assessment results; also, shall adopt effective counter measures to prevent or reduce risks.

The institutions engaging in credit card business when experiencing significant changes, such as, major events, significant developments in management and operations, or the surfacing of new threats shall have the assessment operation initiated again.

The institutions engaging in credit card business upon the completion or update of a new risk assessment report shall have it submitted to the Financial Supervisory Commission for future reference.

IX. The institutions engaging in credit card business shall have the policies that are enacted in accordance with these Guidelines implemented after the resolution of the Board of Directors (Executives) and it shall be reported to the Financial Supervisory Commission for future reference along with the “Directions Governing Anti-Money Laundering and Countering Terrorism Financing” with an annual review initiated, same for the amendments.