



HONG LEONG BANK GROUP

PREVENTION OF FINANCIAL CRIMES

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1. Introduction

At Hong Leong Bank Group, we believe in being here for the long term, and sustainability is a key element in this journey. We strive to deliver long-lasting Environmental, Social, Governance (“ESG”) and Value-based intermediation (“VBI”) solutions that contribute to a better future for all. Our sustainability approach is organised into 5 themes that guide our strategic efforts towards managing ESG risks and opportunities. Under the theme of Socially Responsible Business, one of the material topic is Prevention of Financial Crimes.

 Digital at the Core	 Workforce Readiness	 Socially Responsible Business	 Environmental Management	 Community Investment
<ul style="list-style-type: none"> • Digital Banking • Cyber Security and Data Privacy • Simplifying Customer Experiences 	<ul style="list-style-type: none"> • Nurturing Talent Growth • Ethics, Integrity and Compliance • Employee Health and Well-being 	<ul style="list-style-type: none"> • Climate-positive Financing • Responsible Financing • Fair Banking • Sustainable Supply Chain • Community Banking • Prevention of Financial Crime 	<ul style="list-style-type: none"> • Managing Our Environmental Footprint • Responsible Consumption 	<ul style="list-style-type: none"> • Building Communities • Financial Literacy

Hong Leong Bank Group sustainability strategy covers 5 Themes and 16 Material Topics

2. Prevention of Financial Crimes

- Financial intermediation has widespread implications for the economy and society at large. While the lending and financing that we provide is critical to economic development, we also take into consideration the potential risks involved, as the same financial system can be also used by criminals associated with serious crimes including drug trade, terrorism and human trafficking.

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2. Prevention of Financial Crimes cont.

- One of our area of focus in being a socially responsible business is the **prevention of financial crimes**. In this effort, the Bank have taken measures to identify and prevent money laundering and terrorism financing activities. As such, we continue to invest in resources to ensure that we stamp-out illicit activities in the financial system.
- Our concerted efforts in the prevention, detection and reporting of financial crimes start with a strong culture which we continue to cultivate by having a strong tone from the top, continuous awareness and learning programmes for our employees and business partners, multiple lines of defence, organisational structure, and robust Risk, Compliance and Audit functions.

3. Financial Crimes

3.1 Money Laundering (ML)

What is Money Laundering?

- A process of converting money or property derived from criminal activities to give it a legitimate appearance. It is a process to clean 'dirty' money in order to disguise its criminal origin.

Three Stages of Money Laundering

1. Placement

The stage where illicit funds are separated from their illegal source and are placed into the financial system.

2. Layering

The process of creating multiple layers of transactions to further distance the illegal funds from their illegal sources. The purpose of layering is to obscure or to make it difficult to trace the origin of the funds.

3. Integration

Laundered proceeds are integrated into the economy, appearing as legitimate funds.

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3. Financial Crimes cont.

3.2 Terrorism Financing (TF)

What is Terrorism Financing?

- The act of providing financial support, funded from either legitimate or illegitimate sources, to terrorists or terrorist organisations that enables them to carry out terrorist acts or will benefit any terrorist or terrorist organisation(s).
- While most of the funds originate from criminal activities, they may also be derived from legitimate sources, for example, through salaries, revenues generated from legitimate business or the use of non-profit organisations to raise funds through donations.

3.3 Targeted Financial Sanctions (TFS)

What are Targeted Financial Sanctions?

- TFS refers to asset freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly for the benefits of person designated or entities specified by the relevant United Nations Security Council Sanctions Committee, Malaysian Government Official List and other relevant sanctions authority. TFS regimes are split into three pillars:
 1. Terrorism Financing
 2. Proliferation Financing
 3. Other UN Sanction Regimes

3.3.1 Proliferation Financing

What is Proliferation Financing?

- The act of providing funds or financial services which are used, in whole or in part, for the manufacture, possession, transport, or use of weapons of mass destruction (WMD).

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3. Financial Crimes cont.

3.3.2 UN Sanctions Regimes

What are UN Sanctions Regimes?

- Sanctions measures applied by the United Nations Security Council, encompassing a broad range of enforcement options that do not involve the use of armed force.
- The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions.
- Sanctions are applied to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.



The United Nations logo. Photo: Reuters/Lucas Jackson/Files
UN Security Council-Sanctions
<https://www.un.org/securitycouncil/sanctions/information>

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4. Impact of money laundering and terrorism financing

- Money Laundering and Terrorism Financing can erode the integrity of a nation's financial institutions. Thus it has significant economic and social impact, especially for countries with fragile financial systems because they are susceptible to disruptions from such effects.
- Among the main negative impacts of Money Laundering and Terrorism Financing on a nation are:
 - Increase in the overall rate of crime that could threaten national security.
 - Inhibition of growth and competitiveness of the economy.
 - Damage of integrity and reputation of the business and financial sector.
 - Increase in cost of doing business and operations of various sectors of the economy.



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5. National Risk Assessment on Money Laundering & Terrorism Financing (NRA)

5.1 What is the NRA?

- Assessment of the country's exposure to prevailing crimes (domestic and foreign) and vulnerabilities of various sectors to money laundering and terrorism financing risks. It is an initiative undertaken under the ambit of the National Coordination Committee to Counter Money Laundering (NCC).
- Results of the NRA is communicated to the reporting institutions, supervisors, regulators and law enforcement agencies to assist in prioritising the deployment of resources to tackle high-impact risks in a more effective and targeted manner.

5.2 2017 NRA Report Summary on the Banking Sector

- The ML risk of the banking sector is rated as high while TF risk is rated as medium high.
- The banking sector has the highest number and value involved in relation to both ML and TF investigations and prosecutions.
- It is associated with fraud, corruption, tax evasion, illicit drug trafficking, smuggling, and insider trading/market manipulation.
- The risks are contributed by the high volume and value of transactions involved, the provision of high risk products/services by the sector and the high number of customers it caters to.

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6. Managing Financial Crime Risk

6.1 What is Financial Crime Risk to the Bank?

- Risk of legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to Anti-Money Laundering, Counter Financing of Terrorism and Targeted Financial Sanctions requirements.

6.2 Our Strategy and Actions to Mitigate Financial Crime Risk

- The Bank undertakes monitoring of developments of laws and regulations and assesses its impact to internal policies, processes and procedures.
- We are building human and digital capabilities by leveraging on continuous learning and developmental goals as well as technological solutions to enhance our capabilities in detection, monitoring and reporting of potential suspicious activities.
- We continuously maintain robust controls as a gatekeeper to the financial system against Money Laundering, Terrorist Financing and Proliferation Financing risks.
- Management oversight on financial crime matters are effected through the Management level Financial Crime Governance Committee, whilst Board oversight is effected through the Board Risk Management Committee.

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7. Our Role in Maintaining the Nation's Financial Integrity

As a reporting institution under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUA 2001), the Bank, together with the whole financial system, plays an important role as the first line of defence to prevent the financial system from being used to facilitate crimes and terrorist activities. In this capacity, we carried out the key roles of:

- Prevent the Bank from being used as a conduit for money laundering & terrorism financing activities.
- Filing of suspicious transaction report (STR) to Bank Negara Malaysia (BNM) when they are reasonable grounds to suspect a transaction to be unusual or related to criminal activities.
- Close collaboration and the sharing of information with the Law Enforcement Agencies (LEA) agencies.



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8. Our Commitment in Fighting Financial Crimes

Hong Leong Banking Group (“HLBG” or “the Bank”) affirms its commitment to managing the threats of money laundering, counter financing of terrorism and targeted financial sanctions. The Bank is committed in safeguarding the integrity of the financial system and the interests of our customers, stakeholders and employees.

We have a proactive and responsible approach through the establishment of the Anti-Money Laundering, Counter Financing of Terrorism and Targeted Financial Sanctions (“AML, CFT and TFS”) Programme (“the Programme”) as outlined in our Board Policy on AML, CFT and TFS (“the Policy”).

The Policy reinforces our dedication to comply with laws and regulations in all jurisdictions in which we operate, in an effort to stamp out illicit activities

8. 1 Our Approach

We adopt a risk-based approach in implementing policies, procedures, processes, systems and controls in line with regulatory expectations. This includes:

Prevention	Enacting a robust Know-Your-Customer process, that enables the Bank to undertake a consistent Customer Due Diligence approach, risk rating customers based on their profiles.
Monitoring	Detection of suspicious activities supplemented with transaction monitoring and periodic reviews of customers’ transactions and profiles.
Reporting	Timely and accurate reporting of suspicious transactions, activities, cash threshold reports and any relevant sanctions concerns, including actively collaborating with regulators and law enforcing agencies in investigations.

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9. Ensuring Effectiveness of AML, CFT and TFS Programme

Some of the key components of the Policy in ensuring effective implementation of the Programme include:

- Periodic AML, CFT and TFS risk assessment to determine HLBG's risk landscape and evaluate the effectiveness of the corresponding controls.
- Established roles and responsibilities of the Board of Directors, Senior Management and all employees with regard to AML, CFT and TFS to denote clear accountability at all levels.
- Highlight and enforce AML, CFT and TFS regimes applicable to HLBG through the screening of new, potential and existing customers, maintaining an up-to-date database on applicable regimes and evaluation of new products, services as well as changes to business practices to ensure ML and TF risks are mitigated.
- Ensure record keeping requirements are adhered to, in line with HLBG's record retention policy.



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10. Strengthening Our Lines of Defense

In upholding our commitment and safeguarding the Bank from being used as a conduit for financial crime proceeds, we have taken several measures to strengthen our lines of defense against financial crime.

- Continual updating of our Board Policy on AML, CFT and TFS in line with regulatory updates from Bank Negara Malaysia
 - Establishing a dedicated Financial Crime Governance Committee (“FCGC”) that focuses on Financial Crime Compliance (“FCC”) matters and further enhances senior management oversight of the evolving FCC risk landscape.
 - Embarked on new digital AML System that leverages on artificial intelligence and machine learning to improve the effectiveness of AML detection, monitoring and reporting and prevent proceeds of financial crime from entering the financial system.
 - Regular AML, CFT and TFS training and communication is delivered across the Bank together with role-based training targeted at specific risks associated with divisions and individual positions. Together, these practices raise and reinforce awareness of financial crime risks and keep employees updated on compliance-related matters.
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