

Policy for the Prevention of Money Laundering and Terrorism Financing

January 2025

1. Introduction

DLR has a regulatory obligation and responsibility towards its customers, employees, owners, and society to prevent misuse of DLR for money laundering of proceeds from crime, terrorism financing, or violations of financial sanctions (hereafter referred to as "financial crime").

The purpose of this policy is to establish a robust framework for how DLR prevents misuse for financial crime and ensures compliance with applicable legal requirements. The goal is also to ensure that DLR uses its resources effectively and risk-based in the prevention of financial crime.

This policy outlines DLR's principles and positions, which, based on DLR's business model, aim to prevent misuse for financial crime, thereby reducing the risk of reputational damage or significant financial losses for DLR or its customers due to non-compliance with anti-money laundering and terrorism financing regulations.

2. Prevention of Financial Crime

DLR is a financial institution operating solely in the Danish, Faroese, and Greenlandic markets, focusing exclusively on mortgage lending.

DLR emphasizes the prevention of financial crime through:

- Clearly defined risk tolerance
- Comprehensive business and operational processes
- IT systems supporting operational processes and controls
- Employee training
- Close collaboration with loan intermediating banks

3. Scope and Target Audience

The policy applies to all DLR employees.

DLR places great emphasis on ensuring all employees are familiar with the policy, possess sufficient knowledge of financial crime, and comply with the policy at all times.

4. Definitions

Financial crime includes the risk of money laundering, terrorism financing, and violations of financial sanctions.

4.1 Regulatory Requirements

DLR must comply with the applicable Anti-Money Laundering Act, the Financial Business Act, the Penal Code, and other relevant laws and regulations in the markets where DLR operates.

4.2 Money LaunderingSZ

Money laundering is defined as:

1. Illegally receiving or securing oneself or others a share of economic proceeds obtained through criminal acts.

2. Illegally concealing, storing, transporting, aiding in disposal, or otherwise ensuring proceeds from a criminal offense.
3. Attempts or participation in such transactions.

Money laundering is defined in the Penal Code as:

- The conversion or transfer of funds, directly or indirectly derived from a criminal offense, to conceal or disguise their illegal origin.

A characteristic feature of many types of money laundering transactions is that their purpose is to make the proceeds of a criminal offense appear legitimate. Such transactions are typically divided into three phases:

1. **Placement:** The illegal proceeds are introduced, for example, through the acquisition of real estate.
2. **Layering:** The illegal proceeds are separated from their source, for example, through the transfer of real estate without the full payment of the purchase price.
3. **Integration:** The illegal proceeds are returned to the offender. This could, for example, occur through the sale of the property and the transfer of funds back to the offender.

4.3 Terrorism Financing

Terrorism financing refers to activities aimed at providing financial support to a person or group intending to commit terrorist acts. The funds can be acquired both legally and illegally. For instance, proceeds from a supplementary top-up-loan might be transferred as financial support to a person or group intending to commit a terrorist act. The money is moved from a legal to an illegal context.

Terrorism financing is criminalized under the Penal Code and is defined as:

1. Directly or indirectly providing financial support to.
2. Directly or indirectly acquiring or collecting funds for, or.
3. Directly or indirectly making money or other assets available to a person, group, or organization that commits or intends to commit actions covered under the Penal Code's provisions.

The purpose is to contribute to the financing of terrorist activities in the form of financial support or facilitation for individuals or groups involved in terrorism or similar acts.

Terrorism financing activities can be divided into four stages:

1. Acquiring funds, for example, through the sale of real estate.
2. Storing the funds.
3. Transferring the funds to recipients domestically or internationally.
4. The specific use of the funds for terrorist-related activities.

5. Risk-Based Approach

An annual assessment is conducted to evaluate the inherent risk of DLR being misused for financial crime.

Risks are identified and assessed to understand DLR's vulnerability to financial crime. These evaluations form the foundation for DLR's work in preventing financial crime.

The risk assessment is reviewed annually or in response to significant changes in risk exposure.

6. Responsibilities

DLR's board of directors holds the overall responsibility as the highest governing body to ensure compliance with the Anti-Money Laundering Act.

The board authorizes the executive management to ensure that DLR has a governance setup capable of effectively preventing and mitigating the risk of DLR being misused for financial crime, in accordance with the defined framework of the policy. The executive management must ensure the existence of necessary and adequate business procedures and work descriptions.

Within DLR's executive management, a member has been designated as the anti-money laundering (AML) responsible executive. DLR's Chief Legal Officer has been appointed as the AML officer.

The AML officer is responsible for decisions regarding the approval of policies, procedures, and controls related to anti-money laundering. They also approve the establishment and continuation of business relationships with politically exposed persons. The AML officer has the authority to delegate their tasks.

7. Risk Management and Tolerance

The policy defines the framework for the risk associated with financial crime that DLR is willing to take and specifies which activities and customer relationships fall outside DLR's risk tolerance.

Through mitigating measures, DLR reduces the risks associated with financial crime so that the overall residual risk and DLR's overall risk exposure to money laundering and terrorism financing do not exceed DLR's risk tolerance as defined in DLR's risk management policy. The overall risk tolerance is defined as low, which in DLR's money laundering risk assessment corresponds to Low/Medium.

DLR does not wish to establish or expand customer relationships that are prohibited by law or regulation or that fall outside DLR's risk tolerance. These include – but are not limited to – the following:

1. Customers who refuse to comply with the requirements of mandatory Know-Your-Customer (KYC) procedures or other reasonable requirements made by DLR.
2. Customers residing/located in jurisdictions ranked as high-risk and non-cooperative by FATF (Financial Action Task Force).
3. Customers associated with activities, whether current or past, that are inconsistent with DLR's values or could otherwise harm DLR's reputation.
4. Customers with corporate structures that are more complex than necessary for conducting their business.
5. Beneficial owners of customers domiciled in countries listed by the EU as tax havens.
6. Beneficial owners with highly opaque ownership structures.

DLR's methods to mitigate the overall inherent risk of being exploited for money laundering and participating in terrorism financing are incorporated into business and operational processes in the area of money laundering.

When establishing customer relationships, DLR implements KYC procedures and performs internal checks on customer and ownership structures. This includes

collecting the necessary information and documentation about the customer relationship. This reduces the risk of DLR being misused for money laundering.

DLR actively participates in relevant forums and collaborates closely with authorities to combat money laundering and terrorism financing, including tax evasion.

DLR's risk tolerance regarding financial crime is part of DLR's risk management policy and risk management framework.

8. Approval and policy Changes

The responsible AML officer reviews and approves the policy annually, presenting it to management and the board for final approval.

This "Policy" was translated in January 2025 and is based on "DLR's politik for forebyggelse af hvidvask og terrorisme" approved by the board of directors of DLR Kredit A/S at its meeting on October 31, 2024. The policy will be submitted for re-approval by the board no later than 24 months from this date.