



Landsbankinn's Policy on Measures Against Money Laundering and Terrorist Financing

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1. Scope and objectives

Landsbankinn places strong emphasis on complying in all respects with the requirements of the Act on Measures Against Money Laundering and Terrorist Financing, and on promoting cooperation between the Bank, authorities and regulators, as appropriate. Landsbankinn aims to conduct its actions against money laundering and terrorist financing in accordance with best practice for financial undertakings, both on an international level and domestically.

It is Landsbankinn's policy to limit risk arising from money laundering and terrorist financing in as far as possible. The Bank has also determined not to do business with parties considered high-risk or those connected to such parties, such as connected legal entities or private individuals (e.g. directors or beneficial owners), with regard for the risk of money laundering, terrorist financing and fraud, as determined by the Bank's risk assessment.

Landsbankinn's Policy on Measures Against Money Laundering and Terrorist Financing applies to its entire operation and to all employees of Landsbankinn and its subsidiaries.

2. Governance of measures against money laundering and terrorist financing

Landsbankinn has in place effective organisational and managerial processes to reduce and manage the risk of money laundering and terrorist financing, including work processes and procedures that are reviewed regularly.

Procedures based on the Bank's Policy on Measures Against Money Laundering and Terrorist Financing shall include, at a minimum, provisions on performing due diligence, performing risk assessments, monitoring of business relationships, ongoing monitoring, monitoring of trade sanctions, the obligation to report suspicious customer behaviour and connected measures, requirements for hiring personnel and provisions for training personnel.

The Executive Board is responsible for ensuring the efficacy of measures to limit the risk of money laundering and terrorist financing, through inter alia regular evaluations and adequate monitoring systems, and by putting in place procedures for each division so that employees can carry out control in compliance with law.

Methods to reduce the risk of money laundering and terrorist financing in Landsbankinn's operation are structured in the same manner as other control activity in the Bank. Front-line employees form the first line of the Bank's defence in day-to-day operations. The first line of defence is responsible for evaluating and informing on risks employees become aware of. Employees are required under the Bank's procedures to report all suspicious or unusual transactions to Compliance. The second line of defence, i.e. Compliance and Risk Management, develops and maintains active internal control systems to ensure, among other things, adequate risk management, information quality and compliance with law and internal policy, the Bank's rules and procedures. Internal Audit is the third line of defence, providing independent assessment of the effectiveness of the first and second lines of defence and their performance.

Part of the Bank's measures to combat money laundering and terrorist financing may be outsourced, if authorised by law, and provided this does not increase risk or detract from the Bank's defences.

Landsbankinn has appointed a Money Laundering Reporting Officer (MRLO) amongst senior management. The MRLO is generally responsible for handling notifications to the Financial Intelligence Unit (FIU), in a format determined by the FIU, on suspicious transactions and funds suspected of originating from criminal activity. The MRLO shall respond to queries from the FIU on additional information related to such notifications and provide all necessary information requested in relation to such notifications. The MRLO shall compile written reports on all suspicious and unusual transactions conducted through the Bank's operation.

The MRLO shall have unrestricted access to customer due diligence, transactions or requests for transactions, together with all documentation which could be of significance to notifications.

3. Due diligence, regular and ongoing monitoring of customers

Landsbankinn carries out due diligence on new customers at the commencement of ongoing business relationships, before individual transactions take place, and as part of the Bank's ongoing monitoring of business relationships, in accordance with the Bank's internal work procedures. Enhanced customer due diligence is carried out as required by law and the Bank's risk assessment, inter alia in the following instances:

- » The customer is located in a high-risk or non-cooperative jurisdiction
- » For transactions with other obligated entities from countries outside the EEA
- » In cases where customers or beneficial owners of legal entities are politically exposed persons
- » Other instances, when risk assessment indicates heightened risk.

Landsbankinn carries out regular ongoing monitoring of its customers. The frequency by which customer information is updated is determined by customers' risk score; customers are required to update their information at one to three-year intervals.

Landsbankinn carries out regular monitoring of customers and legal entities on international watch lists and sanction lists. Landsbankinn carries out special monitoring of international payments both in and outgoing, both due to the risk of money laundering and terrorist financing, and also due to the heightened risk of fraud linked to international payments. Landsbankinn further monitors international sanctions enforced by Iceland.

4. Risk assessment and risk appetite

Landsbankinn carries out a risk assessment of its product line and the services it offers its customer. Such risk assessment is updated annually. The risk assessment is based on such factors as the risks linked to individual products, services, customers, trading partner countries and the Bank's distribution channels.

Landsbankinn carries out enhanced due diligence on transactions with high-risk parties and applies enhanced monitoring to such business relationships and/or limits service provisions to such customers.

Landsbankinn does not enter into a business relationship or maintain business relationships with:

- » Parties to which international sanctions apply. Landsbankinn shall abide by the restrictions provided for on watch lists, including watch lists maintained by the UN, the EU, the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), and HM Treasury.
- » Countries on the FATF's list of high-risk and non-cooperative countries subject to a call for action in their regimes to counter money laundering and terrorist financing.
- » Parties suspected of having links to organised criminal activity, such as gambling, illegal arms deals, major property crime, illegal manufacturing or trafficking in narcotic drugs, illegal pornography, prostitution or human trafficking.
- » Parties who deal in nuclear weapons.
- » Parties who request anonymous transactions.
- » Financial undertakings or comparable parties that are shell banks or with other financial undertakings who allow shell banks to utilise their accounts.
- » Parties involved in mining or who offer the purchase or sale of virtual currency.
- » Parties whose information cannot be verified.
- » Parties considered to pose a heightened risk of money laundering or terrorist financing for other reasons than those listed above.

Enhanced precautions shall be taken in transactions with:

- » Parties from countries on FATF's list of countries that have in place action plans, developed in collaboration with FATF, for action against money laundering and terrorist financing.
- » Parties who have no direct connections with Iceland or Icelandic trade.
- » Parties who show unusual interest in the process of due diligence or refuse to provide requested information to carry out adequate due diligence.
- » Parties where the ownership of legal entities cannot be traced or where operations or governance is unusual or substantially inscrutable.

5. Notification of suspicious transactions to the FIU

Landsbankinn's Compliance function investigates independently all transactions reported as suspicious or unnatural by other employees or that are flagged in the Bank's surveillance systems. Such transactions are investigated and, if Compliance determines it necessary, forwarded to the FIU. Legal provisions on confidentiality shall not limit the Bank's obligation to provide information and access to documentation.

6. Monitoring of implementation of the Policy, employee training and infringements against the Policy

The MLRO monitors implementation of this Policy and ensures that work processes and procedures are in place to support coordinated procedures and correct execution of the Act on Measures Against Money Laundering and Terrorist Financing in Landsbankinn's operation.

Landsbankinn ensures that its employees are educated in the Bank's actions to combat money laundering and terrorist financing and, through such ongoing training, gain appropriate knowledge of the internal rules and procedures the Bank has set based on laws and regulations.

In the event that an employee violates this Policy or the Bank's other rules or procedures on measures to prevent money laundering and terrorist financing without legitimate reason, the Compliance Officer may give him/her a warning or take other appropriate action in accordance with the nature of the offence. Warnings are issued after consultation with the Director of Human Resources. The MLRO's report to the CEO shall contain information about the employee's infraction and the nature of the offence.

Review of this Policy shall take place annually or more frequently if necessary.