Group Guidelines on the Prevention of Money Laundering

1 Preliminary Remarks

1.1 Aims and Objectives of the Guidelines

These Guidelines provide further information on the procedure and framework for the prevention and detection of scenarios involving money laundering as implemented in the following Guidelines:

> KR 01 Compliance Guidelines
> KR 14 Internal Control System
> KR 16 Legal and Equity Investments

1.2 Scope

These Guidelines apply directly to all Vonovia Group companies that have their registered headquarters in Germany. Alongside the holding company, Vonovia Group companies are all companies in which Vonovia holds a majority share, whether directly or indirectly, or over which it can exert a controlling influence.

Individual companies may – by way of a resolution passed by the Management Board – be temporarily exempted from the application of some or all Group Guidelines in order to manage special situations, such as recent acquisitions or fundamental organizational changes.

These Guidelines are particularly relevant to all employees who are authorized to prepare or update regulations.

Foreign Subsidiaries:
Vonovia Group companies that have their registered headquarters abroad must adopt these Guidelines. Adjustments can be made to reflect country-specific differences in terms of organizational structure and country-specific legal requirements.

2 Background

The purpose of money laundering is to conceal or disguise the true origin of illegally acquired funds or assets (property, rights or other tangible assets) by transporting, transforming, transferring or converting them, or mixing them with legitimate transactions. This process typically involves three phases:

1. Converting the asset originally obtained from a criminal offense into other less conspicuous assets (known as surrogates) (this process is referred to as "placement").
2. Concealing the origins of the assets by making a large number of bank transfers or executing other transactions, where possible involving foreign banks that are not subject to supervision or bona fide third parties, especially if these individuals are subject to secrecy obligations (this process is referred to as "layering").
3. Feeding the tainted assets back into the legal economy, for example, by investing in companies that are recognized as serious businesses, e.g., by investing in regulated capital markets (this process is referred to as "replacement").

The German Money Laundering Act (GwG) also serves to combat the financing of terrorism. In this respect, the definition used in the German Money Laundering Act extends beyond the definition of the criminal offense set out in Section 89c of the German Criminal Code (StGB) and also covers the provision or collection of assets with the knowledge that these assets are being or are to be used, or with the intention to use these assets, either in full or in part, to form terrorist organizations (Section 129a StGB) or for other terrorist offenses.

The new German Money Laundering Act adopts a more risk-based approach. It is characterized by various undefined legal terms (in particular the term "appropriateness"), the aim being to highlight the fact that there are no general standards that apply to all obliged entities, but that all of the obligations set out in the Money Laundering Act have to take appropriate account of the specific situation of the obliged entity concerned. This gives the obliged entities a margin of discretion.

3 Implementation

In order to meet the requirements set out in the Money Laundering Act, Vonovia has put a risk-based system in place to detect and prevent money laundering-related issues.

Increased due diligence obligations apply, in particular, to transactions exceeding € 10 thousand per month.

Under "KR 16 Legal and Equity Investments," for example, the Legal department has to be involved in any lease agreements that exceed the volume set out above, and any in real estate transactions, as a mandatory requirement. The system covers all of the relevant requirements set out in the Money Laundering Act, particularly the checks on the beneficial owner.

In addition, the business partner check is based on the following questions:

1. Who is my business partner? – Question regarding identity
2. Can my business partner keep their promises? – Question regarding quality
3. Is my business partner financially reliable? – Question regarding credit standing
4. Can I rely on my business partner sticking to the law? – Question regarding integrity
5. Can I do business with this business partner? – Question regarding sanctions or similar restrictions

If specific activities (e.g., as a real estate agent) mean that the material scope of the Money Laundering Act or corresponding provisions under national law apply directly to a particular company or a department ("obliged entity within the meaning of the Money Laundering Act"), then its management is responsible for the implementation process and for complying with the necessary measures. The Legal and Compliance department provides the management team concerned with any necessary support.

4 Red Flags

The section below provides examples of cases that are strongly indicative of money laundering because the individuals involved are often prepared to accept financial disadvantages in the interests of maintaining anonymity and a lack of transparency. This suggests that the assets used in the transactions concerned do not originate from legitimate sources.

The following rule of thumb applies when it comes to identifying suspected cases of money laundering: The more unusual and pointless a transaction appears to be, the greater the risk of money laundering.

Cash Payment

Cash payment is a classic tactic used in money laundering. It is first of all used for the purposes of "placement", i.e., in order to convert the conspicuous cash funds into less conspicuous assets. What is more, cash payments do not leave any direct traces, making them the best way to conceal the operations involved. Buying real estate is a particularly attractive option for money laundering purposes because real estate is seen as offering particular stability with regard to value and does not stand out as a conspicuous purchase, even if the transaction involves registering the owners.

Red Flag: Transactions involving large sums of cash are generally regarded as suspicious for the reasons referred to above and the individuals involved must always be asked to provide compelling reasons for the use of cash. Another aspect is unusual behavior on the part of the buyer, for example, paying before the purchase agreement is certified by a notary. Another risk criterion is a scenario in which the notary also has reason to believe that the buyer's financial circumstances do not match the transaction in question.

Personal Background

In these cases, real estate transactions are used to conceal the criminal origin of the assets used to buy the property in question. The rapid purchase and sale of real estate is designed to make it more difficult to trace the assets by increasing the number of transactions involved and extending the paper trail. Extending the paper trail increases the risk of the law enforcement agencies not being able to trace it back in full when they launch investigations.

Red Flag: Occupation does not match the transactions being executed. The age of the customer and their business partners, or the number and frequency of real estate transactions is also untypical for a real estate transaction.

Reimbursements

Payments are made not (only) to acquire the property, but rather to conceal the real reasons behind a payment flow. There can be a whole range of reasons behind such structures, but each of them is linked to the measures to conceal the payment channels or the payment itself, e.g., a kick-back as a bribe, as commission for money laundering via the transaction, etc. This means that there is a risk that kick-back transactions are directly associated with money laundering activities, and therefore the performance of the agreement will create assets that can be used for money laundering purposes.

Red Flag: The transaction is not cost-effective – for example, with regard to notary fees and real estate transfer taxes – meaning that questions have to be asked. While kick-back transactions are not always illegal, they at least point to an increased risk of money laundering.

Possible Red Flags:

International Background:

Relevance of countries associated with an increased risk of money laundering in official notarial business (residence, origin of the funds, nationality, subsidiaries or parent companies, etc.) as defined in Delegated Regulation (EU) 2016/1675.

Red Flags Relating to the Parties Involved:

> Transaction volumes that do not match the social status and expertise of the parties involved
> Scenarios in which the parties involved do not speak the language and show a lack of interest
> Parties involved have no links to the local area or change legal advisor at regular intervals
> Involvement of dominant (investment) intermediaries
> Beneficial owners avoid personal contact with the notary
> Multiple representation without any close relationship between the parties
> Non-transparent participation structures; holding structures
> Clients from the areas of organized crime, drugs or the red light scene
> Particular urgency
> Delay in the execution of the agreement by the parties involved
> Unusually large number of transactions executed by the same parties within a short space of time
> Parties involved are politically exposed persons (PEPs), family members of PEPs or individuals known to have close links to PEPs

Contractual Structure that is Unusual for the Transaction Concerned:

> Settlement via notary escrow account/other intermediaries
> Cash flows into accounts of third parties that are not involved in the contract, especially in cases involving the unwinding of transactions
> Complex structure for no apparent reason
> Requests for changes to be made at short notice without any explanation being provided
> Disregard for the impact that the structure will have on the official costs involved

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