

Rules on Best Execution of Orders

Approved in September 2018 / Scheduled review in September 2019 / Responsible party: Compliance

1. Purpose and scope

- 1.1. These Rules are issued on the basis of Act No. 108/2007, on Securities Transactions (AST), and Reg. No. 995/2007, on Investor Protection and Business Practices of Financial Undertakings.
- 1.2. In adopting Rules on Best Execution of Orders, Kvika hf. (hereafter referred to as “the Bank”) seeks to obtain the best possible result for its clients in the execution of trading orders, asset management and investment advice with respect to the price, cost, speed, probability of concluding the transaction, scope, nature and other relevant factors of significance. The Bank shall also endeavour to inform its clients of the content of the Rules and obtain their consent for their application when commencing a business relationship and before orders are executed.
- 1.3. The Rules and Appendix 1 to them prescribe the markets where the Bank executes the orders of its clients when no specific execution is requested and what premises the Bank's employees act upon in executing orders.
- 1.4. The Rules apply to retail clients and professional clients. The Rules apply to eligible counterparties only if they have specifically requested this, cf. the third paragraph of Art. 22 of the AST.
- 1.5. The Rules apply to the execution of orders for trading in financial instruments, as that concept is defined in Point 2 of the first paragraph of Art. 2 of the AST, unless a client specifically requests a certain execution.
- 1.6. The Rules do not apply when the Bank publishes bids of professional clients or calls for bids from professional clients or when professional clients call for bids. These Rules do not apply to products that are not covered by the definition in the Act.
- 1.7. The Rules apply when the Bank directs orders for trading in financial instruments on the basis of asset management to other parties and when it provides services for receipt and transmission of orders to other parties.

2. Factors affecting best execution

- 2.1. In executing orders to trade, the Bank assesses the importance of various factors which can affect price formation or other aspects of the transaction which are dependent on their execution by the Bank, with the aim of ensuring the best possible outcome for clients. The factors considered are:
 - 2.1.1. price;
 - 2.1.2. cost;
 - 2.1.3. speed;
 - 2.1.4. probability of trade and settlement;
 - 2.1.5. scope of the transaction;
 - 2.1.6. nature of the transaction;
 - 2.1.7. settlement and payment;

2.1.8 other factors which may be considered in executing orders.

2.2. The Bank determines the relative importance of individual factors in the execution of orders to trade in each transaction on the basis of the following criteria:

- 2.2.1. how the client in question is classified according to the Act on Securities Transactions;
- 2.2.2. the nature and characteristics of the financial instrument;
- 2.2.3. the nature and characteristics of the markets to which orders may be directed;
- 2.2.4. the nature of the client's orders.

2.3. In those instances where the Bank trades in emerging markets, other factors, such as price spread, liquidity and cost, may be more important in comparison to developed markets.

2.4. When the Bank executes orders on behalf of a retail client, the best possible result shall be determined, among other things, based on an overall assessment that includes the price of a financial instrument and cost involved in the execution, including all expenses incurred by the client which are directly related to the order execution. These expenses may include, for example, market commissions, netting and settlement charges and any other fees paid to third parties involved in the execution of orders.

2.5. With these Rules, the Bank seeks to ensure clients fair and expeditious execution of trading orders, independent of orders of other clients or its own business interests. Orders which are similar in other respects will be executed in the order in which they are received.

2.6. When the Bank directs orders to trade in financial instruments on the basis of asset management to other parties or refers orders to other parties in connection with investment advice, the Bank is considered to have complied with the Rules on best execution if it has taken appropriate measures to select the party most likely to achieve best execution of the trading order and supervises the execution. The criteria listed in Section 3.2. shall form the basis for the selection of the executing party.

3. **Execution of trading orders on securities markets**

3.1. The Bank will execute orders in the following markets:

- 3.1.1. in a regulated securities market or a multilateral trading facility (MTF). In cases where the Bank does not have direct access to such markets, orders are executed through other securities brokers;
- 3.1.2. outside regulated securities market or MTFs. In such cases, the orders are executed as follows:
 - a) Orders of two or more of the Bank's clients are matched.
 - b) The Bank seeks orders to match the client's orders and executes a transaction.
 - c) Orders are executed by other securities brokers or market actors.

- 3.1.3. A list of the main markets used by the Bank for the execution of trading orders is given in Appendix 1. The Bank shall regularly reassess its selection and use of the markets listed in Appendix 1, with a view to ensuring clients the best execution of securities transactions.
- 3.2. In each instance the Bank assesses in which market best execution of orders is likely to be achieved. When choosing a market, consideration is given to those factors that may be of significance, e.g. the market's reliability, its ability to process complex financial instruments, quality and other factors. In assessing markets, the Bank will also take into account its own commissions and cost in executing the orders in each market. In those instances where only one market is available, the Bank is considered to have fulfilled its obligations under these Rules.
- 3.3. When the Bank directs orders for trading in financial instruments to third parties as part of asset management, or when a third party provides services for the receipt and transmission of orders, the Bank shall ensure that these Rules are complied with.
- 3.4. The Bank's Asset Management shall, as a rule, entrust the Bank's Capital Markets with execution of its clients' orders. Asset Management, however, shall have its clients' orders executed by other securities brokers if this will result in a better outcome for the client in accordance with these Rules.
- 3.5. The Bank shall endeavour to process orders from clients as soon as possible, taking current market conditions into consideration. In order to achieve the optimal result in each instance, clients' trading orders may be pooled with other orders received by the Bank or the Bank's own orders, provided the conditions of Art. 48 of Reg. No. 995/2007 are satisfied. No specific notification is given when orders are pooled. Although in occasional cases, the pooling of orders may result in a client not obtaining the best outcome, the client must accept this transaction.
- 3.6. When a client gives a conditional order that, due to market circumstances, cannot be executed as soon as it is received, the Bank shall endeavour to execute the order as soon as this is possible. The Bank can fulfil this obligation by transmitting the order to a regulated securities market or an MTF. The Bank may, however, decide not to publish clients' conditional orders if the latter have agreed to this.
- 3.7. Upon receipt and execution of orders from a legal entity, the Bank's employees shall ensure that the employee issuing them was authorized to do so.
4. **Off-market execution of trading orders**
- 4.1. The Bank may decide that, in order to ensure the best possible outcome in the execution of orders, it must execute the orders outside regulated securities markets or MTFs.
- 4.2. According to the AST, the Bank is obliged to obtain the consent of clients in advance if trading orders are executed outside regulated securities markets or MTFs (excluding cases where no regulated securities markets or MTFs are listed as facilities trading in the financial instrument concerned).

5. **Special orders of clients**

- 5.1. If a client requests a specific execution of a securities transaction or other execution of an order than is prescribed in these Rules, the Bank shall endeavour to carry out the client's orders accordingly. The Bank is thereby deemed to have fulfilled its obligation to seek to ensure the best possible outcome for clients, insofar as it executes the order or a specific part of it in accordance with the client's special instructions. However, such orders do not exempt the Bank from fulfilling other requirements of the AST concerning the execution of and arrangements for trading, for example, Rules prescribing good business practice.
- 5.2. If the client is a retail client in the meaning of the AST, the Bank shall inform him/her in a clear and conspicuous manner that prescribing a special execution of orders makes it probable that the best possible result will not be achieved.
- 5.3. If the client gives instructions for special execution of orders to a limited extent, the Bank will follow the Rules on best execution in other respects.

6. **Monitoring and review**

- 6.1. The Bank will monitor the efficacy of implementing these Rules in order to be able to identify defects and make improvements if necessary. The Compliance Officer and the Internal Auditor shall monitor the implementation of these Rules.
- 6.2. The Rules, including an assessment of the markets in Appendix 1, shall be reviewed annually. In addition, a review shall be made if a significant change occurs which affects the Bank's ability to continue to achieve the best possible results for its clients. The latest version of the Rules shall be available at all times on the Bank's website, www.kvika.is.

7. **Amendments**

- 7.1. Amendments to these Rules can only be made in writing and take effect once approved by the Bank's Board of Directors.
- 7.2. Amendments to the Appendix shall be made in writing and approved by the Managing Director of Capital Markets.

Approved by the Board of Directors of Kvika hf., 25 September 2018

Kristín Pétursdóttir [sign.]

Guðmundur Þórðarson [sign.]

Inga Björg Hjaltadóttir [sign.]

Hrönn Sveinsdóttir [sign.]

Guðjón Reynisson [sign.]

APPENDIX 1: A list of the principal markets used by the Bank for the execution of trading orders

Market	Direct access	Access through a third party	Securities	Money market instruments	Unit share certificates	Derivatives
OMX markets						
OMX Nordic Exchange Copenhagen		x	x			
OMX Nordic Exchange Helsinki		x	x			
OMX Nordic Exchange Reykjavik	x		x			
OMX Nordic Exchange Stockholm		x	x			
Riga Stock Exchange		x	x			
Tallinn Stock Exchange		x	x			
Vilnius Stock Exchange		x	x			
First North markets						
Copenhagen First North Market		x	x			
Helsinki First North Market		x	x			
Reykjavik First North Market	x		x			
Riga First North Market		x	x			
Stockholm First North Market		x	x			
Europe						

Amsterdam Stock Exchange		x	x			
Athens Stock Exchange, Greece		x	x			
Bucharest Stock Exchange		x	x			
Budapest Stock Exchange		x	x			
Bulgarian Stock Exchange - Sofia		x	x			
EN Brussels, Belgium		x	x			
Frankfurt Stock Exchange, Germany		x	x			
Georgian Stock Exchange		x	x			
Istanbul Stock Exchange		x	x			
Italian Stock Exchange		x	x			
London Stock Exchange, UK		x	x			
Madrid Stock Exchange		x	x			
Oslo Stock Exchange		x	x			
Paris Stock Exchange, France		x	x			
PFTS, Ukraine		x	x			
Prague Stock Exchange		x	x			
Russian Trading		x	x			

System Stock Exchange						
Switzerland Exchange		x	x			
Vienna Stock Exchange		x	x			
Warsaw Stock Exchange		x	x			
Xetra, Germany		x	x			
Zagreb Stock Exchange		x	x			
USA and Canada						
Amex, US		x	x			
Nasdaq, US		x	x			
NYSE, US		x	x			
Toronto Stock Exchange, Canada		x	x			

Appendix approved by the Managing Director of Brokerage on 25 September 2018.