

# Rules on Measures to Prevent Conflicts of Interest

Approved in October 2020 / Responsible party: Compliance

## 1 Purpose and scope

- 1.1. These Rules are adopted with reference to the third paragraph of Art. 6 and Art. 8 of Act No. 108/2007, on Securities Transactions, Articles 19-20 of Reg. No. 995/2007, on Investor Protection and the Business Conduct of Financial Undertakings, as well as Paragraphs 103-116 of EBA Guidelines GL/2017/11 on internal governance ("**EBA Guidelines**"). Consideration was also given to Articles 33-35 of Commission Regulation (EU) 2017/565. The Rules are considered the policy of Kvika banki hf. ("**the Bank**" or "**Kvika**") on measures to prevent conflicts of interest, in the meaning of Art. 20 of Reg. No. 995/2007 and Chapter 11 of the EBA Guidelines.
- 1.2. The Rules are intended to limit conflicts of interest in the Bank's operations and deal with how conflicts of interest should be handled should they arise.
- 1.3. The objective of the Rules is to increase the Bank's credibility and prevent conflicts of interest from damaging the interests of its customers. At the same time, the Rules are intended to preclude any doubt as to the objectivity of persons who follow them in handling and concluding individual cases.
- 1.4. The Rules are adopted on a group-wide basis and apply to all employees of the Bank and its subsidiaries. In order to ensure compliance with the Rules throughout the group, the Bank's subsidiaries that are considered to be financial undertakings, within the meaning of the Act on Financial Undertakings, No. 161/2002 (hereafter "the AFU"), shall also adopt specific rules that are based on and refer to these Rules. The rules of subsidiaries shall, however, have regard for the principle of proportionality in the Guidelines. In the case of the Bank's foreign subsidiaries, the rules may be adapted to national requirements. Any significant material changes must be notified to the Bank's Compliance Officer. References to employees shall include employees under traditional employment contracts, contractors or persons working under another type of arrangement based on remuneration for work performed.
- 1.5. The Rules shall apply to the Bank's current customers, parties with whom the Bank seeks to establish a business relationship and former customers where confidentiality or other obligations still apply between them and the Bank. Furthermore, these Rules also apply to the Bank's employees and management.

## 2 Definitions

- 2.1. A conflict of interest, within the meaning of the Rules, arises when the interests of the Bank on the one hand, including those of its employees, tied agents or parties under its control, and a customer on the other hand, or the interests of two customers, do not coincide. Conflicts of interest arise when the Bank provides its customer with an investment service that could result in benefits for the Bank or its other customers and leads to, or could lead to, a significant risk of damage to the interests of one or more customers. In addition, the interests of the Bank's employees and the Board, or the Bank itself, may not coincide.
- 2.2. Conflicts of interest can primarily occur between:
  - 2.2.1. various customers of the Bank;

- 2.2.2. the Bank (and/or related companies) and a customer;
  - 2.2.3. Bank employees and a customer;
  - 2.2.4. employees of Kvika and the Bank itself.
- 2.3. In assessing conflicts of interest with Kvika's employees, not only the interests of the employee in question shall be taken into account, but also those connected with the employee's immediate family and previous positions, as appropriate.
- 2.4. A securities transaction is considered to be any type of transaction covered by the definition in Art. 1 of Act No. 108/2007, on Securities Transactions.
- 3. Analysis of conflicts of interest within the Bank**
- 3.1. The Bank must identify conflicts of interest that may arise between itself, including its employees, tied agents or parties under its control, and those of its customers. In addition, the Bank has to analyse conflicts of interest that may arise between customers themselves. Conflicts of interest that may arise between the Bank and its employees also need to be identified. A distinction shall be made as to whether these comprise incidental or ongoing conflicts of interest and appropriate remedies applied.
- 3.2. In Annex I to these Rules, the Bank has defined circumstances and events in its operations that may give rise to conflicts of interest. The Annex shall be regularly updated, and actions and measures to limit conflicts of interest shall also be reviewed regularly. The Bank's Compliance Officer shall keep a record of any conflicts of interest that arise.
- 3.3. When assessing whether there is a risk of a conflicts of interest arising when providing investor and/or ancillary services, the Bank will assess whether it, its employee or a party directly or indirectly connected to the Bank through control:
- 3.3.1. is likely to enjoy financial benefit or avoid financial loss at the expense of the customer;
  - 3.3.2. has interests in the outcome of the service provided to the customer and these interests are distinct from the interests of the customer with respect of the outcome;
  - 3.3.3. has a financial incentive or other incentive to give precedence to the interests of another customer or a group of customers over the interests of the customer in question,
  - 3.3.4. carries out the same business activity as the customer;
  - 3.3.5. receives or will receive an inducement in connection with services provided to the customer in the form of money, goods or services, other than the usual commissions or fees for these services.
- 3.4. The Bank will pay special attention to possible conflicts of interest in the following activities of the Bank and its subsidiaries:
- 3.4.1. securities brokerage;
  - 3.4.2. proprietary trading;
  - 3.4.3. asset management and private banking;
  - 3.4.4. investment advice; and
  - 3.4.5. corporate advisory, including securities offerings, underwriting and advisory services in connection with mergers and acquisitions.

#### **4. Methods and measures to limit conflicts of interest**

- 4.1. The Bank shall, among other things, apply the following methods and measures to prevent conflicts of interest.
  - 4.1.1. The flow of information between employees within the Bank and subsidiaries engaged in activities that entail a risk of conflicts of interest shall be limited as far as possible if the exchange of information is likely to damage the interests of one or more customers. The separation of business divisions is laid down in the Bank's rules on separate activities of business divisions. The Bank's subsidiaries engaged in such activities are kept separate and independent of the Bank, as provided for in Acts and Regulations, and shall be subject to their own internal rules on the separation of business divisions.
  - 4.1.2. Employees' trading in financial instruments on own account is subject to the prior approval of the Compliance Officer, cf. the Bank's rules on employees' own transactions.
  - 4.1.3. If an employee has access to information on interests that the Bank has at stake in connection with a financial instrument, the customer shall be informed of this situation when advice is provided regarding the financial instrument. Efforts shall be made to inform customers of conflicts of interest that arise or foreseeably may arise so that the customer can make an informed decision on continuing with a transaction.
  - 4.1.4. Care shall be taken to ensure there are no links between the remuneration to the Bank's employees, working primarily in one division, and the remuneration of employees in other divisions or subsidiaries of the Bank, if conflicts of interest could arise between these divisions.
  - 4.1.5. Undesirable influence on services provided by the Bank shall be prevented by setting rules on gifts, inducements and incentive payments. These shall prevent a party from having an undue influence on the way in which an employee of the Bank conducts trading in financial instruments or limit his/her ability to exercise such influence.
  - 4.1.6. Internal rules and work processes shall be in place to deal with those instances where employees participate simultaneously or in direct continuation in different tasks, in order to prevent conflicts of interest.
  - 4.1.7. Ensure that tasks which give rise to conflicts of interest for one employee of the Bank are transferred to an independent employee or employees.
  - 4.1.8. Prevent employees who engage in activities other than the Bank's operations from having unacceptable influence on transactions related to the interests of those parties. The Bank has adopted rules on the authorisation of employees to participate in business operations.
  - 4.1.9. Prevent key executives from engaging in business decision-making that affects the interests of other executives or could give reason to believe that independence is not fully maintained, so that conflicts of interest could be seen to exist. The Bank has adopted rules on business dealings of directors and rules on transactions of employees with the Bank. Furthermore, the Procedural Rules of the Board of Directors discuss business dealings of directors.
  - 4.1.10. Ensure that business transacted with employees and close family members takes place on arm's length terms. The Bank has adopted rules on transactions of employees with the Bank.
  - 4.1.11. Prevent key executives from accepting management positions in the Bank's competitors, except in the case of credit institutions that are permanently linked to a central institution, cf. Art. 10 of EU Regulation 575/2013, cf. 2020/EEA/12/01, and in the case of institutions covered by Paragraph 7 of Art. 113 of the same Regulation, or in the case of a company within the Kvika group. The Bank has adopted rules on the authorisation of employees to

participate in business operations. Acts and rules also apply to the involvement of directors in other supervised entities.

4.1.12. Other measures that may be necessary to prevent conflicts of interest from damaging customers' interests.

4.2. The Bank's leaders shall ensure that their employees are familiar with the Bank's rules and their obligations under them.

4.3. If an employee is in doubt about the content of or circumstances referred to in these Rules, the employee should contact his/her supervisor or the Compliance Officer for explanations and/or guidance.

## **5. Management and notification of conflicts of interest**

5.1. Parties covered by the Rules shall make every effort to detect and prevent situations from arising which could create conflicts of interest. If a situation arises where there is a possibility of a conflict of interest between the Bank and a customer, the employee should always put the customer's interest before those of the bank. Employees shall always ensure that the Bank's customers enjoy equal treatment with regard to information, price and other terms of business.

5.2. If the Bank or its employee considers there to be a likelihood of a conflict of interest or believes that a conflict of interest has arisen, which could negatively affect a customer's interests, the employee shall send an e-mail to the Compliance Officer at [regulvordur@kvika.is](mailto:regulvordur@kvika.is), describing the conflict of interest or potential conflict of interest.

5.3. The Compliance Officer shall assess whether a conflict of interest exists and provide advice on any measures that must be taken to prevent the interests of customers from being prejudiced. The Compliance Officer shall also be authorised, if he/she deems it necessary, to refer the case to a special committee on actions against conflicts of interest. That committee shall consist of, in addition to the Compliance Officer, the CEO and one key employee of the Bank. In the absence of the CEO and/or Compliance Officer, their deputies shall replace them on the committee.

5.4. In cases where the Bank's methods and measures cannot provide adequate assurance that the interests of customers are adequately safeguarded, the Bank shall inform the relevant customers of the nature and reasons for the conflicts of interest, either in writing or in a recorded telephone conversation, before a business relationship is established between the Bank and the customer if possible, otherwise before the relevant transaction takes place. The Bank is not authorised to conclude transactions with or on behalf of a customer when it is not possible to avoid conflicts of interest or manage them through the Bank's internal rules, unless the customer has been informed of potential conflicts of interest, the risk that the Bank deems to arise from them, as well as the ways which the Bank considers suitable to mitigate that risk. In such cases, the customer's explicit consent must be given to take part in the transaction in question.

5.5. The remedy described in Art. 5.4 shall be used as a last resort and only in those cases where it is clear that the Bank's effective organisational and management measures, which are intended to deal with conflicts of interest, are not sufficient to prevent the risk of damage to the customer's interests.

- 5.6. In the event of a serious conflict of interest that the Bank is not permitted to inform individual customers about, the Bank will not provide services that could be connected to the above-mentioned conflicts.

## **6. Documentation**

- 6.1. If events which are considered to involve conflicts of interest occur or incidents that may be likely to cause conflicts of interest are discovered, the Bank shall record and store in digital format information on the relevant conflicts of interest, whether they are reported to the customer or not. To fulfil this obligation, the Bank shall record and store in digital format information about the customer, services requested or provided and the Bank's response.
- 6.2. A record shall be kept of any decisions that may have been taken in connection with the incident in question. It must be recorded in detail if such an incident was approved and then how the incident was handled, what action was taken by the Bank and why the conflict of interest in question is considered to have been satisfactorily by the Bank without further intervention.
- 6.3. Any type of conflicts of interest that may arise concerning the Bank's Board of Directors, whether individual directors or the Board as a whole, shall be recorded specifically. Such conflicts of interest shall be dealt with by the Board, discussed and a conclusion reached. Every effort shall be made to document each step from the time such conflicts of interest are discovered until the final settlement of the matter.
- 6.4. Records must comply with Art. 21 of Reg. No. 995/2007, on Investor Protection and Business Conduct of Financial Undertakings, and cover the activities that are considered to be securities transactions, carried out by the undertaking or on its behalf, where a conflict of interest has arisen which entails a real risk that the interests of one or more customers could or will be harmed.

## **7. Supervision and auditing**

- 7.1. The Compliance Officer and Internal Audit Director shall ensure the enforcement of these Rules.
- 7.2. The Compliance Officer shall keep a record of the activities carried out by or on behalf of the Bank that are considered securities transactions in which a conflict of interest entailing a material risk of damage to the interests of one or more customers has arisen.
- 7.3. The Bank shall review these Rules on measures against conflicts of interest at regular intervals, at least once a year, in addition to which procedures and work processes shall be regularly reviewed with regard to experience of conflicts of interest, cf. Art. 3.2.

## **8. Amendments**

- 8.1. Amendments to these Rules can only be made in writing and shall enter into force following their approval by the Bank's Board of Directors.
- 8.2. Amendments to the Annex shall be made in writing and approved by the CEO.

## **9. Penalties**

- 9.1. Violations of these Rules may be punishable under provisions of Act No. 108/2007, on Securities Transactions. Violation of the Rules may be liable to a formal reprimand or, as the case may be, dismissal.
- 9.2. The Bank's employees are obliged to inform the Compliance Officer immediately should they become aware or suspect that the Rules have been broken. The Compliance Officer shall keep a record of alleged violations. In the case of serious and repeated violations, the Compliance Officer shall notify the CEO and/or the Board, as the case may be, and the Internal Audit Director.

**10. Publication**

- 10.1. These Rules or at least an extract from them shall be accessible on the Bank's website.

Adopted by the Board of Directors of Kvika banki hf. on

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## **Annex I - List of potential conflicts of interest**

Possible conflicts between the Bank/Bank employees and a customer:

- **General examples of potential conflicts of interest:**
  - The Bank or a related party obtains financial gain or avoids losses at the expense of the customer.
  - The Bank, or a related party, may have different interests in the outcome of securities transactions than the customer.
  - The Bank, or a related party, may have an interest in favouring one customer at the expense of another.
  - The Bank, or a related party, may conduct the same business activities as the customer.
  - The Bank, or a related party, may receive an inducement from a party other than the customer in connection with the Bank's service.
  
- **Examples of potential conflicts of interest in Capital Markets /Investment Advice:**
  - The Bank learns of the customer's possible future transactions in certain securities, and at the same time takes a position in the securities in question.
  - An employee of the Bank concludes securities transactions that run counter to the interests of a customer who has expressed an interest in trading in the securities in question.
  - The Bank acts as intermediary in a transaction or arranges a transaction when the Bank knows that one party owns a qualifying holding in the Bank or the Bank knows that the party is an insider or a director in the undertaking sold.
  - If the Bank is the owner of the sold asset.
  - If the Bank has an interest in the sold asset.
  - The customer is financially connected to the Bank - the owner of a qualifying holding in the Bank, a subsidiary of the Bank.
  
- **Examples of potential conflicts of interest in Banking/Corporate Finance:**
  - The Bank represents customer A in obtaining financing for a specific project and at the same time the Bank's Corporate Finance advises customer B on the possible acquisition of customer A.
  - The Bank's Corporate Finance advises Customer A, and subsequently Corporate Finance becomes Customer B's advisor on the acquisition of Customer A.
  - The Bank provides a customer with services in connection with the issuance of bonds or bills, and at the same time provides advice to other customers on the purchase and sale of such debt instruments.
  - The Bank appropriates certain assets of a customer at an unreasonable price due to the customer's debts to the Bank.
  - One division of the Bank uses the services of another division of the Bank for the benefit of the customer and the customer pays an unreasonable fee.
  - Risk of customer discrimination due to abnormal gifts or inducements from customers.
  - Corporate Finance works for customer A, then customer B, who is A's competitor, requests to work with the Bank's Corporate Finance.

Possible conflicts between the Bank's customers themselves:

- **Examples of potential customer conflicts:**
  - The Bank's Corporate Finance advises two customers, who are in direct competition with each other, on the acquisition of the same company.
  - The Bank provides a customer with analytical advice regarding a company or group to which Corporate Finance is at the same time providing advice.
  - The Bank provides two customers with advice and financing services for the purchase of the same product.

Potential conflicts between the Bank's employees on the one hand and KvikA on the other:

- **Examples of potential conflicts between employees and the Bank:**
  - In connection with the Bank's financial interests, such as in cases where an employee or manager in the Bank owns a holding or any kind of ownership interest in a customer of the Bank, credit is provided to an undertaking owned by an employee of the Bank or an undertaking in which an employee of the Bank is a director.
  - A close relationship exists between an employee and a shareholder of the Bank, whether work-related or personal.
  - Execution of a transaction affects the interests of an employee, his/her family or another person who has a personal or business relationship with the Bank's employee.
  - Other or previous work of the employee in the last 5 years.
  - Personal or business relationships with others who may have an interest in transactions carried out by the Bank.
  - The political influence or political affiliation of an employee.
- **Examples of potential conflicts between directors and the Bank:**
  - Any type of event which could affect a director's ability to take objective decisions on behalf of the Bank.
  - Such conflicts of interest and responses to them are discussed in more detail in the Board's Procedural Rules and the Bank's Rules on the Business Dealings of Directors.
- It shall not be considered a conflict of interest if the opposing interests are regarded as minor, such as when the holdings involved are below a *de minimis* level.