

Overview of rules on the execution of trade orders

1 Introduction

1.1 Purpose

Arion Bank has adopted rules on the execution of trade orders ("the Rules"). The aim of this document is to provide clients with relevant information on the Rules.

Arion Bank's rules on the execution of trade orders are designed to enable the Bank to achieve the best possible execution of client trade orders. The Rules are not intended to go further than the laws and regulations current at any given time.

1.2 Scope

The Rules apply when the Bank provides the following investment services:

- a) The Bank executes trade orders relating to financial instruments on behalf of the client.
- b) The Bank receives and transmits client trade orders relating to financial instruments to be executed by a third party.
- c) The Bank is responsible for asset management on behalf of the client.

The Rules apply to clients which the Bank has classified as retail clients or professional clients. The Rules do not apply to eligible counterparties but the Bank will act fairly and professionally with respect to eligible counterparties. The Rules do not apply when the Bank acts as a counterparty for its own account.

The General Terms of Business for Investment Services, as current at any given time, apply to all transactions in financial instruments, unless specifically agreed otherwise.

2 Handling of trade orders

2.1 Sequence of orders

Orders are recorded upon receipt and are directed into the correct channels.

Orders which are otherwise comparable are processed sequentially, unless the nature of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise.

2.2 Aggregation of orders

It is permitted to aggregate orders of multiple clients, for example trade orders for the Bank's own account, if the following conditions are met:

- it is unlikely that the aggregated orders and trades will work to the overall disadvantage of those clients having their trade orders aggregated,
- any client involved has been informed that the aggregation may be to their disadvantage in respect of certain orders,
- allocation is decided in advance in accordance with a clear set of processes.

Clients have priority over the Bank's trades for its own account when allocating aggregated orders. The Bank is not allocated trades when the aggregated orders have only been executed in part, unless it is possible to demonstrate that the Bank's share of the trades has a positive impact on other clients.

2.3 Settlement

The Bank takes all normal measures to ensure that the financial instruments or financial assets of the client, which are received upon settlement following the execution of orders, are delivered without delay and properly into the account of the client in question.

3 Order execution

3.1 *Influencing factors*

When executing trade orders with financial instruments the Bank takes all measures to ensure the best possible results for the client with respect to price, cost, speed, likelihood of execution, settlement, size, characteristics and any other relevant factors.

In the case of a *retail client*, the total payment, i.e. the price of the financial instrument and the cost of the trade/execution (including fees), is the most important factor when assessing best execution. The Bank will let other factors have priority over direct price and cost but only to the extent that these factors contribute to the best possible result in terms of the total return to the retail client.

Arion Bank evaluates the relative importance of the above factors based on the following criteria:

- characteristics of the client, including whether the client is classed as a retail client or professional client,
- characteristics of the client's orders,
- characteristics of the financial instruments in the orders,
- characteristics of the execution venues to which the orders can be directed.

The above assessment is used to determine where and how the orders shall be executed in order to consistently obtain the best possible result. Speed and likelihood of execution are the factors which the Bank considers have the greatest impact when assessing best execution.

When assessing whether the Bank has met its obligations with reference to best execution, the circumstances at the time the orders were given and the characteristics of the financial instruments are considered. The quality of execution is not evaluated on the basis of single transactions but instead from an overall assessment of the execution of comparable transactions over a longer time period.

Arion Bank reserves the right to refuse to execute client orders, for example if the Bank believes that the transaction is not suited to the client in question, if orders are incomplete or if there is any suspicion of market abuse. Arion Bank does not need to provide a reason for its decision.

3.2 *Specific instructions*

When a client gives instructions on a particular execution, or specific factors of the execution, such instructions should prevail over the Bank's assessment in respect of the factors to which the client's instructions apply. When Arion Bank executes a trade in accordance with the client's instructions, the Bank is considered to have provided the client with best execution with respect to the factors to which the client's instructions apply. It is not permitted to encourage the client to provide instructions to execute a trade in any other way than what the Bank believes would ensure the best possible result for the client.

When a client gives instructions for a specific execution, these orders may prevent the Bank from taking measures developed and implemented under these Rules to achieve the best possible outcome in executing the client's instructions with respect to the factors covered by those instructions.

When executing a client's orders outside a trading venue the Bank shall check the fairness of the price proposed to the client by gathering market data used to estimate the price of such product and, where possible, by comparing it with similar or comparable products.

4 Choice of markets to execute orders

The Bank participates in securities markets in Iceland, i.e. Nasdaq OMX Iceland and First North. The Bank can also execute client orders in listed financial instruments outside trading venues, including against Arion Bank's own account, provided that the client has agreed to this (in general or in respect of specific trades) and it is thought it will lead to the best possible result.

If one or more execution venues are in competition over receiving offers for listed financial instruments, the Bank shall assess and compare the performance of these venues in order to decide whether to ask to participate in a particular execution venue, or whether to cease participation in other markets.

In cases where it is possible to execute certain orders in one or more execution venues, the Bank, when choosing a venue, directs the orders to the execution venue which consistently produces the best result for the client with respect to the criteria given in Article 3.1. The Bank might also check whether it would

produce a better result for the client to transmit the orders to a third party for execution, i.e. if a third party participates in an execution venue which the Bank does not participate in.

The most significant factor influencing the Bank's choice of execution venue is efficient price formation, such as the spread between bid and ask prices and access to price information, as well as liquidity and the cost of executing transactions.

The table below shows the execution venues chiefly used by the Bank to execute trade orders.

Execution venue	Type	Equities	Bonds/bills
Nasdaq OMX Iceland	RM	X	X
First North Iceland	MTF	X	X
Nasdaq	RM	X	
New York Stock Exchange	RM	X	X
London Stock Exchange	RM	X	X
OMX Nordic Exchange Copenhagen A/S	RM	X	
Oslo Bors Asa	RM	X	
Toronto Stock Exchange	RM	X	
American Stock Exchange	RM		X

RM – Regulated market for financial instruments

MTF = Multilateral trading facilities

By definition there is no formal execution venue for unlisted financial instruments and therefore trading with such instruments always takes place off market. **There is always a certain risk when trading away from formal execution venues, such as counterparty risk.**

5 Transmitting trade orders to third parties and asset management

When orders are transmitted to third parties for execution, the Bank takes adequate measures to ensure the best possible result for the client with respect to the factors listed in Article 3. Orders are transmitted to third parties who are obliged to execute the orders in a comparable way to the Bank.

Orders are transmitted to the third party who generally provides the best possible results and enables the Bank to meet its obligations under these Rules.

It must be assessed whether, and then to what extent, it is necessary to have an influence on how transactions are executed by a third party through specific instructions.

When a client instructs the Bank to forward the orders to another party for execution, the Bank is considered to have fulfilled its obligations under these Rules once the transactions are sent in accordance with the client's wishes.

Clients can request information about the third parties that Arion Bank primarily uses to achieve the best possible results in the transmission of client orders, including orders to third parties related to asset management. Those third parties used by the Bank must have execution arrangements which enable Arion Bank to fulfill its obligations under these Rules.