CHAPTER I: GENERAL

1. PURPOSE AND SCOPE

Arion Bank provides comprehensive financial services and this inevitably involves a risk of conflicts of interest. The risk of conflicts of interest arises when the Bank has undertaken to serve the interests of two or more parties which are not compatible, including the interests of the Bank itself and related parties.

It is Arion Bank's policy to take all appropriate measures to prevent conflicts of interest from damaging the interests of its clients.

These rules describe the methods used by the Bank to identify conflicts of interest in the Bank's activities and the measures it takes to prevent such conflicts from damaging the interests of its clients. The rules apply to all employees of Arion Bank.

The rules are based on the policy on conflicts of interest in Arion Bank's operations and should be read in conjunction with the Bank's policy on the conflicts of interest of employees, and other rules on conflicts of interests, such as the rules on the particular suitability of employees, rules on participation in employment and rules on employee transactions.

In the event of any uncertainties concerning the implementation of these rules, the opinion of the Compliance Officer should be obtained.

Definitions of the terms used can be found towards the end of these regulations.

CHAPTER II: IDENTIFYING CONFLICTS OF INTEREST

2. RISK ASSESSMENT

The Bank shall analyze on a regular basis the circumstances which may result in conflicts of interest which represent a genuine risk of damage to the interests of one or more of the Bank's clients.

The potential conflicts of interest identified are:

- Between Arion Bank (including related parties) and clients
- Between employees (including all individuals who work on behalf of the board of directors of the Bank) and clients
- Between clients of the Bank internally

The Bank assesses whether it (including related parties) or an employee:

- Is likely to receive financial gains or avoid financial losses at the expense of a client
- Has interests at stake in the result of the services provided to the client, which are separate from the interests of the client in terms of the result
- Has a financial incentive or other incentive to place the interests of one client or group of clients above the interests of the client concerned
- Pursues the same kind of business as the client
- Receives or will receive compensation in connection with a service provided to the client in the form of money, goods or services, other than traditional commission or fees for the service, from another party than the client

Managing directors are responsible for ensuring that in the relevant department circumstances are identified which could represent a genuine risk of damage to the interests of one or more of the Bank's clients, and Compliance is responsible for performing a risk assessment. A risk assessment shall be performed whenever necessary, e.g. when changes are made to the organization or services, but not less than annually.

3. MEASURES TO PROTECT A CLIENT'S INTERESTS

Wherever there is a risk of a conflict of interests, appropriate measures should be taken in order to control the circumstances so that the client's interests are not damaged. The appropriate measures shall ensure that the Bank's employees work with the necessary autonomy and these measures may encompass the following:

- Employees' duty to notify
- Separation of the relevant departments in order to prevent and manage the flow of information between employees who pursue activities which represent a risk of conflicts of interest
- Monitoring of employees who perform tasks on behalf of the clients whose interest could conflict, or who in other respects represent interests which might overlap, including the interests of the Bank
- Ensure there is no direct link between fees of employees of different departments where a conflict of interests could arise
- Ensure there is no direct link between fees of employees who perform credit ratings and credit assessments and the number and/or percentage of approved applications for consumer mortgages
- Measures to limit and/or control the circumstances when employees participate simultaneously, or directly afterwards, in different projects, for the purpose of preventing conflicts of interest

A managing director shall ensure that the appropriate measures are reviewed when necessary, e.g. in the event of any changes or if the measures turn out to have been inadequate.

4. RESPONSE TO INADEQUATE MEASURES

In cases where there is a genuine risk of damage to the interests of one or more client due to the fact that the measures taken by the Bank do not provide adequate assurance that the interests of the client are adequately looked after, special measures must be taken in consultation with Compliance. Such measures may include the following:

- Temporary increased separation of departments, e.g. so that projects are carried out by employees in special work spaces with even stricter access management
- Special monitoring by Compliance or independent third party

If it is not possible to take measures which provide adequate assurance that the interests of the client are being adequately looked after, the client shall be informed of the nature and/or reasons for the conflict of interest before the service is provided, and a description will be given of the measures which the Bank intends to take. Information to clients shall be in a durable medium and in sufficient detail to enable the client in question to make an informed decision whether they want the Bank to provide the proposed service anyway.

If none of the Bank's measures provide adequate assurance that the interests of the client are adequately protected and/or it is not possible to inform the client of the nature and reasons for the conflict of interests, e.g. due to the obligation of confidentiality towards other parties, it is not permitted to provide the requested service to the client.

5. DUTY TO NOTIFY AND SUITABILITY

An employee must notify Compliance without delay if any attempts are made to have an inappropriate influence on the employee while looking after the interests of their clients. The employee should notify Compliance without delay if the person in question has shared information with an unauthorized person, or received confidential information which the person in question was not supposed to receive.

The employee shall immediately inform their supervisor of any shared interests which could be significant when assessing a person's particular suitability to perform their duties in accordance with the rules on the particular suitability of employees.

6. RECORDING CONFLICTS OF INTEREST

Compliance is responsible for performing risk assessments and shall maintain a centralized record of identified risks of conflicts of interest and the measures taken by the Bank to manage such circumstances.

Compliance shall maintain a record of incidents where there is a genuine risk that the interests of one or more clients could be damaged, cf. Article 4.

CHAPTER III: MEASURES TO SAFEGUARD THE INTERESTS OF CLIENTS

7. SEPARATE DEPARTMENTS

Departments usually responsible for looking after the interests of clients shall be separated from other operations of the Bank where confidential information is handled. The same manager may not manage the day-to-day activities of two or more separate departments.

The objective of separating departments is to prevent employees who are responsible for looking after interests on behalf of clients from receiving confidential information concerning the interests of other departments or customers which could have, or appear to have, an impact on the suitability of the person in question to handle and conduct business on behalf of their clients.

The following departments are considered to look after the interests of their clients on an ongoing basis:

a) Markets

Markets is managed by the managing director of Markets. The division has different departments responsible for looking after interests, i.e. Capital Markets, Institutional Asset Management and Private Banking, Pension Fund Administration, and the day-to-day operations of each division is the responsibility of different department heads.

Markets must be separated from other activities of the Bank. Furthermore, Capital Markets must be separated from other activities of Markets and vice versa.

Individual units within Markets are permitted, however, to receive confidential information from other departments on the basis of special service agreements.

b) Corporate Finance

Corporate Finance is managed by the managing director of Corporate & Investment Banking, while the day-to-day management is the responsibility of a special head of department.

Corporate Finance must be separated from other activities of the Bank. Corporate Finance is, however, permitted to receive confidential information from other departments concerning its clients with the written consent of the client in question.

c) Market making

Market making is managed by the Chief Financial Officer, while the day-to-day management is the responsibility of the head of Treasury.

Market making must be separated from other activities of the Bank.

These activities must be separated in such a way that employees of separate departments cannot obtain without effort confidential information of other departments. Employees of separate departments must not have access to the premises or information systems which contain confidential information of other departments.

It is not permitted to directly link the fees of separate departments and their employees to the fees of other departments and their employees, where a conflict of interests may arise, and attention should be paid to this in rules on bonuses, if applicable.

8. COMMUNICATIONS

Employees must ensure that in all communications no confidential information is shared in breach of these rules. Employees are strictly prohibited from using confidential information which they should not be in possession of under these rules.

Employees are prohibited from sharing confidential information with employees of separate departments without the prior consent of Compliance, cf. Article 9.

9. EXEMPTION FROM SEPARATION OF DEPARTMENTS

Compliance can grant exemptions from the separation of departments if this is necessary and it is ensured that it does not damage the interests of one or more clients. Compliance can, for example, authorize the sharing of the specific confidential information with employees of separate departments and authorize an employee of a separate department to temporarily tend to specific tasks within another department. Exemptions may be subject to conditions.

A substantiated request for an exemption shall be sent in the appropriate format to Compliance (regluvordur@arionbanki.is). An exemption is also subject to the approval of the managing director of the department intending to provide the information or to lend the employee.

The CEO, Deputy CEO and managing directors are not responsible for the day-to-day management of separate departments and are not covered by the access restrictions which apply to employees of separate departments pursuant to these rules. They are authorized to gain access to information from separate departments, where this is necessary to ensure an adequate overview of the relevant area of work. The CEO, Deputy CEO and managing directors are nevertheless bound by the same restrictions as others concerning the use and distribution of confidential information and must therefore show particular caution in their work, as knowledge of a certain issue may disqualify them from making decisions on individual cases. They should take particular care not to share confidential information between separate departments.

10. OTHER MEASURES

Other key measures which the Bank takes to safeguard the interests of clients are:

1. *Business with related parties*: Exposures to related parties are subject to special requirements to ensure that arm's length conditions are maintained and that such transactions are beyond reproach.
2. *Suitability of employees*: The Bank's rules on the suitability of employees specify the duty of employees to report any shared interests which the employee may have in connection with a particular issue.
3. *Securities transactions by employees*: The Bank's rules on securities transactions by employees specify the duty of employees to inform Compliance of proposed securities transactions by themselves and related parties.
4. *Participation in employment by employees*: The Bank's rules on participation in employment places restrictions on the employees' permission to carry out other work simultaneously to their work for the Bank.
5. *Benefits*: The Bank's rules on benefits place restrictions on the employees' permission to receive and grant benefits and specify the duty to report any such benefits.
6. *Best execution*: The Bank's rules on the execution of trading orders specify the Bank's duty to seek all reasonable means to obtain the best possible outcome for the client when executing trading orders with financial instruments.
7. *Bonus schemes*: In the Bank's rules on bonus schemes it is ensured that there is no direct link between the fees of employees of two departments where a conflict of interest may arise. It is also ensured that there is no direct link between fees of employees who perform credit ratings and credit assessments and the number and/or percentage of approved applications for consumer mortgages.
8. *Instruction and advice*: Employees of the Bank receive regular instruction and training on conflicts of interest and have straightforward access to advice in the event of any disputes.
9. *Monitoring*: The Bank operates an independent compliance unit which monitors conflicts of interest in the Bank's operations. Compliance is responsible for identifying conflicts in respect of the issue of investment research, corporate finance projects and transactions by employees and the Bank for their own account, and it performs automatic monitoring of all securities transactions executed by the Bank.
10. *Internal organization*: The Bank's organization and procedures contain various measures which reduce the risk of conflicts of interest, e.g. by demanding the involvement of more than one employee to deal with an issue, ensuring traceability in systems and internal auditing.

CHAPTER IV: INTERNAL ORGANIZATION

11. RESPONSIBILITY AND INTERNAL CONTROLS

The managing director is responsible for the secure handling of confidential information within each department and for ensuring that the employees receive adequate instruction in that respect. The managing director shall ensure that effective internal controls are in place to ensure reliable and functional access management in the business premises and IT systems. The same applies to the highest ranking manager in cases where there is no managing director.

Internal controls are designed to ensure that employees of separate departments do not have access to work spaces or systems beyond what is permitted under these rules. Access permissions shall be reviewed on a regular basis, at least every 12 months.

12. AUTHORIZATION AND DUTIES OF COMPLIANCE

Compliance monitors the implementation of these rules and provides advice and opinions in connection with potential conflicts of interest, the establishment of internal organization and monitoring, access issues and the sharing of confidential information.

Compliance is responsible for risk assessments, records of identified conflicts of interest and records of notifications of incidents where a conflict of interest has arisen which resulted in a genuine risk of damage to the interests of the client.

Compliance helps the management organize the appropriate instruction for employees on conflicts of interest.

The Compliance Officer can recommend increased temporary separation if considered necessary, e.g. in connection with certain projects. The Compliance Officer can restrict temporarily the authorization of employees to carry out certain projects due to the risk of conflicts of interest and can, in some circumstances, order an employee to take temporary leave, if other measures do not provide adequate assurance that the interests of a client are adequately protected or due to reputation risk. The Compliance Officer can prohibit certain transactions from being carried out or services from being provided until it is ensured that the interests of the client are not being damaged.

Compliance shall keep a record of exemptions, requests for special measures, restrictions and corrective action and violations of these rules.

13. DEFINITIONS

For the purpose of these rules the following definitions shall apply:

1. *Employee*: Any employee of the Bank, including board directors.
2. *Client*: A customer (individuals and legal entities) who has instructed the Bank to look after their interests.
3. *Separation in the business premises*: Physical separation in the business premises by means of access management which restricts access to confidential information which can be found at the relevant place of work.
4. *Separation in IT systems*: Separation in IT systems by means of access management which restricts access to confidential information which can be found in other access managed systems.
5. *Confidential information*: Information which is not accessible to the general public, such as information subject to an obligation of confidentiality, inside information, information on planned transactions by employees or the Bank and other information on different interests which could undermine the credibility of the protection of interests for clients. Know-your-customer checks, information on assessments of risk related to individual customers, information on contact persons and service features, and value analyses of individual customers are not considered to be confidential information as defined in these rules.

14. PUBLICATION, ENTRY INTO FORCE, REVIEW

These rules shall be published on the Bank's intranet and external website and enter into force upon publication.

The Compliance Officer is responsible for reviewing these rules.

The rules shall be reviewed as often as considered necessary, e.g. due to organizational changes and changes in services, but not less than once a year.