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RULES
on Additional Own Funds Items for Financial Undertakings

Art. 1

Tier 1 capital, cf. the fifth paragraph of Art. 84 of Act No. 161/2002, on Financial Undertakings, may include:

1. hybrid capital which fulfils the requirements of Articles 2, 4 and 5 of these Rules (contingent convertible capital);
2. hybrid capital which fulfils the requirements of Articles 3-5 of these rules (non-innovative hybrid capital).

Art. 2

Hybrid capital, as referred to in Point 1 of Art. 1 must satisfy the following requirements:

1. Hybrid capital may not specify a maturity.
2. Repayment of the principal of hybrid capital is unauthorised. The issuer may convert hybrid capital to equity or guarantee capital.
3. The terms and conditions of hybrid capital must state under what conditions hybrid capital shall be converted to equity or guarantee capital. The conditions shall require that the financial undertaking fulfil minimum requirements for own funds, cf. the eleventh paragraph of Art. 14, subparagraph a of the first paragraph and the fourth paragraph of Art. 84 of Act No. 161/2002, on Financial Undertakings.
4. The Financial Supervisory Authority may, having regard to the issuer's financial and solvency situation, demand that hybrid capital be converted to equity or guarantee capital.
5. Interest shall only be calculated on hybrid capital which has not been converted.

In assessing an issuer's financial and solvency situation, cf. Point 4 of the first paragraph of Art. 2, the Financial Supervisory Authority shall consider the following factors:

1. whether the financial undertaking fulfils the minimum own funds requirements of the Financial Supervisory Authority;
2. foreseeable developments in the financial undertaking's financial situation; and
3. the financial undertaking's financial health in other respects.

The conversion ratio of hybrid capital to equity or guarantee capital shall be determined on the date of issue of the instrument and the ratio shall be based on the market value of share capital or guarantee capital at that time, cf. however the fourth paragraph.



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The Financial Supervisory Authority may authorise modification of the conversion ratio as referred to in the third paragraph of this Article under special circumstances, such as in the case of a merger, takeover, split of a financial undertaking or similar instances.

If the market value increases in excess of the conversion ratio this reduces the amount of share capital or guarantee capital which is obtained for the hybrid capital. A decrease in the market value does not increase the amount of share capital or guarantee capital.

Art. 3

Hybrid capital as referred to in Point 2 of Art. 1 may not contain an incentive for the issuer to redeem nor specify any maturity. The hybrid capital may, however, include call option provisions; a call option is not regarded as an incentive for the issuer to redeem.

Hybrid capital, as referred to in Point 2 of Art. 1 must also satisfy the following requirements:

1. Redemption or refinancing of the instrument is not allowed until at least five years have elapsed from the date of its issue and after receiving the approval of the Financial Supervisory Authority.
2. The Financial Supervisory Authority may authorise the refinancing of hybrid capital before five years have passed from its issue if the refinancing is carried out by means of instruments with the same or better quality as own funds.
3. The Financial Supervisory Authority may, at any time, authorise the redemption or refinancing of hybrid capital as referred to in Point 2 of the first paragraph if unforeseen changes occur to taxation treatment and regulatory classification of these hybrid capital instruments, cf. Art. 1.

Authorisation by the Financial Supervisory Authority for redemption or refinancing shall only be granted if the issuer's foreseeable financial and solvency situation is considered acceptable following redemption or refinancing of the instruments. The Financial Supervisory Authority may only grant authorisation for the redemption of temporary hybrid capital on due dates if the minimum requirement for own funds, cf. the eleventh paragraph of Art. 14, subparagraph a of the first paragraph and the fourth paragraph of Art. 84 of Act No. 161/2002, on Financial Undertakings, is satisfied.

In addition to the above-mentioned, hybrid capital must fulfil the following conditions:

1. The terms and conditions of the hybrid capital must specify under what circumstances the instruments shall be written down together with unpaid interest.
2. The terms and conditions of the hybrid capital must specify by what means write-downs of the instruments shall take place.
3. The issuer of hybrid capital may unilaterally decide to write down hybrid capital.
4. The Financial Supervisory Authority may, having regard to the issuer's financial and solvency situation, demand a write-down of hybrid capital.
5. Following a write-down as provided for in Points 3 and 4, the Financial Supervisory Authority may, having regard to the issuer's financial and solvency situation, authorise a previous write-down of the principal to be reversed in full or in part.
6. Once hybrid capital has been written down, as provided for in Points 3 and 4, and until the write-down has been fully reversed, as provided for in Point 5, interest payments are prohibited. A partial reversal of a write-down, cf. Point 5, is not sufficient to remove the prohibition on interest payments.



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In assessing an issuer's financial and solvency situation, cf. Points 4 and 5 of the fourth paragraph of this Article, the Financial Supervisory Authority takes into account those factors which are mentioned in the second paragraph of Art. 2.

Art. 4

Hybrid capital, as referred to in Points 1 and 2 of Art. 1, must comply with the following requirements:

1. The issuer of hybrid capital may, having regard to the issuer's financial situation, suspend interest payments for an indefinite period.
2. Interest payments must be suspended if the issuer does not satisfy minimum requirements for own funds, cf. the eleventh paragraph of Art. 14, subparagraph a of the first paragraph and the fourth paragraph of Art. 84 of Act No. 161/2002, on Financial Undertakings.
3. The Financial Supervisory Authority may, having regard to the issuer's financial and solvency situation, suspend interest payments.

If the Financial Supervisory Authority suspends interest payments, the issuer may, with the approval of the Financial Supervisory Authority, replace interest payments with payments in the form of share capital or guarantee capital. The approval of the Financial Supervisory Authority depends upon the issuer's financial and solvency position being acceptable following the distribution.

In assessing whether an issuer's financial and solvency position is acceptable, as referred to in the second paragraph of this Article, the Financial Supervisory Authority takes into account, among other things, those factors which are mentioned in the second paragraph of Art. 2.

Interest payments are only authorised within the limits allowed by retained earnings, and provided that minimum own funds requirements are satisfied after taking the interest payments into consideration. If interest payments are not made in a certain year or period of years the interest shall not accumulate.

The provisions of this Article on limits to interest payments shall also apply to other payments on hybrid capital which may be made in lieu of direct interest payments, such as dividends. The limits shall not apply to redemption or refinancing as referred to in Art. 3.

Art. 5

The issuer of hybrid capital in accordance with these Rules shall receive the value of the instrument for its disposal upon its issue. An issue of hybrid capital must be notified to the Financial Supervisory Authority.

Hybrid capital may not be guaranteed by the issuer, involve a guarantee by parties connected to the issuer or by any other means give creditors priority over or a better right than other creditors. The following maximum limits for hybrid capital in Tier 1 capital shall apply:

1. The total amount of hybrid capital as referred to in Points 1 and 2 of Art. 1 may not exceed 10% of Tier 1 capital in calculation of own funds.



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2. The total amount of hybrid capital as referred to in Point 2 of Art. 1 may not exceed 5% of Tier 1 capital in calculation of own funds.

The above-mentioned limits apply to both the parent company and the group. The Financial Supervisory Authority may authorise a financial undertaking to exceed these limits temporarily if exceptional and cogent reasons so warrant.

Upon the liquidation or winding-up of the issuer, claims arising from hybrid capital, including that portion equivalent to any write-down, cf. Point 2 of the fourth paragraph of Art. 3, are ranked after claims provided for in Articles 109-114 of the Act on Bankruptcy etc., No. 21/1991, i.e. they shall be paid after all claims on the issuer other than claims for repayment of share capital or guarantee capital.

In addition to those requirements for the issue of hybrid capital which are referred to in these Rules, all hybrid capital must include provisions preventing the owner of the instrument from forcing the winding-up or liquidation of the issuer due to measures taken by the issuer or the Financial Supervisory Authority in accordance with these Rules.

Art. 6

These Rules are issued on the basis of the tenth paragraph of Art. 84 of Act No. 161/2002, on Financial Undertakings, and shall enter into force immediately. Upon their entry into force Rules No. 156/2005 on additional own funds items for financial undertakings shall become invalid.

Financial Supervisory Authority, 18 December 2012

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