

Rules
on additional own funds items for financial undertakings
No. 156 of 26 January 2005

Article 1

Own Funds Part A, cf. Paragraph 10 of Article 84 of the Act on financial undertakings, No. 161/2002 may include:

1. debt security which fulfils the requirements of Articles 2 and 4 of these Rules (non-innovative hybrid capital);
2. debt security which fulfils the requirements of Articles 3 and 4 of these Rules (innovative hybrid capital).

Article 2

Debt securities as referred to in Point 1 of Article 1 must fulfil the following requirements:

1. the debt security shall not specify a due date;
2. repayment of the principal of the debt security is only permitted in accordance with a decision thereto by the issuer, having received the approval of the Financial Supervisory Authority and not before 10 years have elapsed from the date of issue of the debt security. The approval of the Financial Supervisory Authority is subject to, in the assessment of the Authority, that the own funds of the issuer will be satisfactory following the repayment. Replacement capital in the form of a comparable security is permitted after 5 years have elapsed from the date of issue of the debt security;
3. interest payments are only authorised within the limits set by unallocated own funds, and provided the minimum own funds requirements are furthermore fulfilled after the interest payments have been taken into consideration. If interest payments are not made in a specific year or period of years they shall not be accumulated. The interest provided for in the debt security on the issuing date can not be changed nor include step-up terms cf. Point 3 of Article 3;
4. the principal of the debt security can be reduced to absorb operating losses by the issuer, provided that prior to such a reduction the own funds of the issuer have dropped below the currently required minimum for own funds. If an issuer fulfils the minimum own funds requirements once more, the reduction of the principal may be reversed, in full or in part, to its previous position;
5. in the event of the bankruptcy or winding-up of the issuer, claims in accordance with the debt security, including the portion corresponding to a reduction, cf. Point 4, shall be paid following all other claims on the issuer than repayment of share capital or initial capital.

Article 3

Debt securities as referred to in Point 2 of Article 1 must fulfil the following requirements:

1. the debt security shall not specify a due date;
2. repayment of the principal of the debt security is only permitted in accordance with a decision thereto by the issuer, having received the approval of the Financial Supervisory Authority and not before 10 years have elapsed from the date of issue of the debt security.

The approval of the Financial Supervisory Authority is subject to, in the assessment of the Authority, that the own funds of the issuer will be satisfactory following the repayment;

3. interest payments are only authorised within the limits set by unallocated own funds, and provided the minimum own funds requirements are furthermore fulfilled after the interest payments have been taken into consideration. If interest payments are not made in a specific year or period of years they shall not be accumulated. The interest provided for in the debt security may be stepped up once, after 10 years have elapsed from the date of issue of the security. The step-up may not result in the issuer's effective cost for the second period being higher than the stepped-up index basis with the addition of the initial interest spread and after deducting the difference between the stepped-up index basis as per the original issue of the security, on the one hand, and the initial index basis, on the other, with the addition of 1 percentage point or 50% of the initial interest spread, cf. further the formula here below in this same Point. Initial interest spread shall mean the risk premium, so-called credit spread, added to the initial index basis, e.g. interest on treasury bonds of similar duration to that upon which the step-up clause is based. Interest payments in accordance with this Point shall be based on the reduced principal, cf. Point 4, where applicable. The formula for the step-up shall be as follows: $\text{Step-up} = \text{EVG} + \text{U}\acute{\text{A}}\acute{\text{A}} - (\text{EVGU} - \text{UVG}) + 1\%$ or $+ (50\% * \text{U}\acute{\text{A}}\acute{\text{A}})$, where EVG is the stepped-up index basis, U $\acute{\text{A}}\acute{\text{A}}$ is the initial interest spread, EVGU is the stepped-up index basis as per the original issue of the security and UVG is the initial index basis;

4. the principal of the debt security can be reduced to absorb operating losses by the issuer, provided that prior to such a reduction the own funds of the issuer have dropped below the currently required minimum for own funds. If an issuer fulfils the minimum own funds requirements once more, the reduction of the principal may be reversed, in full or in part, to its previous position;

5. in the event of the bankruptcy or winding-up of the issuer, claims in accordance with the debt security, including the portion corresponding to a reduction, cf. Point 4, shall be paid following all other claims on the issuer than repayment of share capital or initial capital.

Article 4

The issuer of a debt security as referred to in these Rules must have received its full value for disposal.

The debt security may not be guaranteed by the issuer, nor by parties connected to the issuer, or by any other means give the creditor priority or an advantage over other creditors. The debt security shall be entered as a subordinated debt item in the financial statements and interest in accordance with Point 3 of Article 2 and Point 3 of Article 3 shall be entered as interest expense.

The total amount of debt securities as referred to in Points 1 and 2 of Article 1 may comprise a maximum of 33% of Own Funds Part A in calculations of own funds. The total amount of debt securities as referred to in Point 2 of Article 1 may comprise a maximum of 15% of Own Funds Part A in calculations of own funds. The abovementioned limits apply to both the parent company and a consolidation.

Article 5

These Rules are issued on the basis of Paragraph 10 of Article 84 of Act No. 161/2002, on Financial Undertakings, and shall enter into force at once. At the same time Regulation No. 540/2003 on an additional own funds item for financial undertakings will cease to apply.

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FJÁRMÁLAEFTIRLITÐ

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