

**Rules  
on large exposures incurred by financial undertakings  
No. 216 of 2 March 2007**

Article 1

These Rules apply to loans, securities assets, holdings and guarantees of financial undertaking on account of individual client or financially connected parties, and furthermore to other obligations of the same parties towards the financial undertaking, hereinafter referred to as exposures, and the evaluation of the risk attached to such obligations. The Rules also apply to a consolidation of a financial undertaking, and parent company and subsidiaries.

Article 2

For the purposes of these Rules the following definitions shall apply:  
*Exposure*: Asset items and off-balance sheet items as specified in Chapter V of the Rules on Capital Requirement and Risk Weighted Assets of Financial Undertakings No. 215/2007. Credit equivalent of the relevant items shall be calculated in accordance with the provisions of Chapter V of the same rules. Asset items deductible from own funds, according to own funds provisions of Act No. 161/2002 on Financial Undertakings, are excluded. Derivatives as specified in Chapter IV of the abovementioned rules shall be calculated in accordance with the methods specified in Annex III of Article 55A of the Rules on Capital Requirement and Risk Weighted Assets of Financial Undertakings No. 215/2007.

*Own funds*: Own funds according to the own funds provisions of Act No. 161/2002 on Financial Undertakings; this does not, however, apply to the own funds Part C according to the own funds provisions of the same Act.

*Group of connected clients*:

- a. Two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the others, or
- b. Two or more natural or legal persons between whom there is no relationship of control as set out in point a. but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

*International development banks*: Cf. Article 14 of Chapter V of the Rules on Capital Requirement and Risk Weighted Assets of Financial Undertakings No. 215/2007.

*Financial Undertaking*: A commercial bank, a savings bank, a credit undertaking, an electronic money undertaking, a securities company, a securities brokerage, or a management company of UCITS (Undertaking for Collective Investment in Transferable Securities), which has received an operating license in accordance with Article 4 of Act No.161/2002 on Financial Undertakings.

*Large exposure*: An exposure incurred by a financial undertaking to a client or a group of connected clients the value of which amounts to 10% or more of the own funds of the undertaking.

### Article 3

Large exposures to a client or a group of connected clients may not exceed the value of 25% of the own funds of a financial undertaking, cf. however paragraph 2. Should any portion of such large exposure be regarded as a position in a trading book, this position shall, in assessing the risk-weighted base, be treated as an excess risk, cf. provisions of Chapter X of the Rules on Capital Requirement and Risk Weighted Assets of Financial Undertakings No. 215/2007.

Large exposures to a parent company or a subsidiary of a financial undertaking and/or one or more subsidiaries of the parent company may not exceed the value of 20% of the own funds.

The total amount of large exposures may not exceed 800% of a financial undertaking's own funds.

The provisions of the first and second paragraphs shall not apply to large exposures of a financial undertaking which form a consolidation with the financial undertaking in question and are subject to prudential supervision on a consolidated basis, provided that the allocation of the risks within the group is considered satisfactory.

### Article 4

When calculating the ratios referred to in the first and second paragraphs of Article 3, the items below may be excluded in the context specified:

- a. Asset items constituting claims on central governments, central banks, international organizations or multilateral development banks which, unsecured, would be assigned a 0% risk weight under Chapter V of Rules No. 215/2007,
- b. asset items constituting claims carrying the explicit guarantees of central governments, central banks, international organizations, multilateral development banks or public sector entities, where unsecured claims on the entity providing the guarantee would be assigned a 0% risk weight under Chapter V of Rules No. 215/2007,
- c. other exposures attributable to, or guaranteed by, central governments, central banks, international organizations, multilateral development banks or public sector entities, where unsecured claims on the entity to which the exposure is attributable or by which it is guaranteed would be assigned a 0% risk weight under Chapter V of Rules No. 215/2007,
- d. asset items constituting claims on and other exposures to central governments or central banks not mentioned in point a. which are denominated and, where applicable, funded in the national currencies of the borrowers,
- e. asset items and other exposures secured by collateral in the form of debt securities issued by central governments or central banks, international organizations, multilateral development banks, Member States' regional governments, local authorities or public sector entities, which securities constitute claims on their issuer which would be assigned a 0% risk weighting under Chapter V of Rules No. 215/2007,
- f. asset items and other exposures secured by collateral in the form of cash deposits placed with or certificate of deposits issued by the lending credit institution or a financial undertaking which is the parent undertaking or a subsidiary of the lending credit institution,

- g. asset items constituting claims on and other exposures to financial undertakings, with a maturity of one year or less, but not constituting such institutions' own funds,
- h. bills of trade and other similar bills, with a maturity of one year or less, bearing the signatures of other financial undertaking,
- i. covered bonds falling within the terms of Annex VI, Part 1, points 68 to 70 of Article 55A of the Rules No. 215/2007,
- j. exposures secured by collateral in the form of securities other than those referred to in point e. The securities used as collateral shall be valued at market price, have a value that exceeds the exposures guaranteed and be listed on a regulated securities market. The excess value required shall be 100 %. It shall, however, be 150% in the case of shares and 50% in the case of debt securities issued by financial undertakings, regional governments or local authorities, other than those referred to in point e., multilateral development banks, other than those assigned a 0% risk weight under Chapter V of the Rules No. 215/2007. Where there is a mismatch between the maturity of the exposure and the maturity of the credit protection, the collateral shall not be recognized. Securities used as collateral may not constitute financial undertakings' own funds,
- k. loans secured by mortgages on residential real estate up to 50% of the real estate assessment value of the Valuation Office of Iceland or other value based on a systemic valuation authorized by the Financial Supervisory Authority, cf. Article 18 of the Rules No. 215/2007,
- l. exposures secured by mortgages on commercial property, where they would receive a 50 % risk weight under Chapter V of the Rules No. 215/2007, up to 50 % of the real estate assessment value of the Valuation Office of Iceland or other value based on a systemic valuation authorized by the Financial Supervisory Authority, cf. Article 18 of the Rules No. 215/2007,
- m. up to 50% of the medium/low-risk off-balance-sheet items referred to in Article 8 of the Rules No 215/2007,
- n. the low-risk off-balance-sheet items referred to in Article 8 of the Rules No. 215/2007 to the extent that an agreement has been concluded with the client or group of connected clients under which the exposure may be incurred only if it has been ascertained that it will not cause the limits applicable under Article 3 to be exceeded,
- o. up to 80% of claims on regional governments and local authorities within the European Economic Area, other than mentioned in point e., where those claims would be assigned a 20% risk weight under Chapter V of the Rules No. 215/2007. Same applies to other exposures to or guaranteed by such governments and authorities,
- p. claims on financial undertakings within the European Economic Area, recognized securities companies outside the European Economic Area, organized securities exchanges and recognized clearing houses and claims guaranteed by the same parties with a maximum residual maturity of one year. Up to 80% of claims with a residual maturity of more than one but not more than three years may be excluded, while up to 50% of claims with a residual maturity of three years or longer may be excluded. The provisions on claims with a residual maturity of over one year are subject to the condition that such claims be in the form of debt instruments issued by a party mentioned in the first sentence of this Point and that these debt

instruments are negotiable on a market operated by duly accredited parties and that their prices are registered daily,

- q. exposures incurred in connection with foreign exchange transactions in the ordinary course of settlement during the 48 hours following payment and risks in the case of transactions for the purchase or sale of securities, incurred in the ordinary course of settlement during the five working days following payment or delivery of the securities, whichever is the earlier.

When applying this Article, “credit derivatives”, cf. Annex VIII, part 2 of Article 55A of the Rules No. 215/2007, shall be classified as a “guarantee”.

#### Article 5

If the exposures exceed the limits provided for in the first and second paragraphs of Article 3, they shall be reported to the Financial Supervisory Authority which is then authorised, where circumstances warrant, to allow the financial undertaking a limited period of time within which to comply with the limits currently in force.

Without prejudice to the provisions of the first and second paragraphs of Article 3, the provisions of Chapter X of the Rules No. 215/2007, shall apply regarding permission to exceed the limits in question.

#### Article 6

Financial undertakings shall make use of/have at their disposal a sound management and information system and internal control mechanisms which identify and record all large exposures and subsequent changes to them in order to monitor them.

#### Article 7

Financial undertakings shall at least quarterly, i.e. at the end of March, June, September and December, submit to the Financial Supervisory Authority, in a form prescribed by it, a report on large exposures of clients or group of connected clients. A report in accordance with the 1<sup>st</sup> sentence of this paragraph shall have reached the Financial Supervisory Authority not later than 30 days from the accounting date. Management companies of UCITS, however, shall only submit a report on a semi-annual basis.

#### Article 8

These Rules, which are issued by virtue of the authorization in the fourth paragraph of Article 30 of Act No 161/2002 on Financial Undertakings, shall enter into force immediately. As of the same date, Rules No 531 of 30 June 2003, on large exposures incurred by financial undertakings with later amendments, shall be repealed.

Reykjavík, 2 March 2007

FJÁRMÁLAEFTIRLITID  
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