

Rules
on large exposures incurred by financial undertakings
No. 531 of 30 June 2003

Article 1

This 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 referred to in items A, B and C in Annex I to these Rules, excluding asset items deductible from own funds, according to own funds provisions of Act No. 161/2002 on Financial Undertakings.

Own funds: Own funds according to 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 defined in the first indent 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: The World Bank, the International Finance Corporation, the European Bank for Reconstruction and Development, the European Investment Fund, the Inter-American Investment Corporation, the Nordic Investment Bank, the African Development Bank, the Inter-American Development Bank, the Asian Development Bank, the Caribbean Development Bank and the Council of Europe Resettlement Fund.

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, which has received an operating licence 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. 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 7 of the Rules on the Solvency Ratio of Financial Undertakings.

The total amount of large exposures of a financial undertaking may not exceed 800% of an 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 undertaking in question.

Article 4

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

1. Claims on, or claims guaranteed by, treasuries and central banks in Zone A, cf. Annex II to this Regulation, and claims on, or claims guaranteed by the European Union.
2. Claims on, or claims guaranteed by, treasuries and central banks in Zone B, cf. Annex II to this Regulation, provided that these claims are denominated and funded in the national currency of the states concerned.
3. A financial undertaking's claims secured by collateral in cash deposits and certificates of deposit issued by the financial undertaking itself or a financial undertaking which is a parent undertaking or a subsidiary undertaking of the financial undertaking.
4. Claims secured by collateral in securities issued by parties specified in Point 1.
5. Up to 80% of claims on, or claims guaranteed by, Icelandic municipalities and municipalities and regional authorities in Zone A, cf. Annex II.
6. 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 one to 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. Claims of Icelandic savings banks on, or guaranteed by Sparisjódabanki Íslands hf. with a residual maturity of over one year, however, may be excluded up to a percentage of 80%. The provisions of this subparagraph do not apply to subordinated claims.
7. Claims, adequately secured by mortgages in a finished residential property used or rented by the borrower, amounting to up to 50% of the real estate assessment value of the Valuation Office of Iceland.
8. Claims guaranteed with collateral in securities not specified in Points 4 and 5, provided that they are not issued by a client of the financial undertaking or a group of connected clients. The securities must be registered on an organized securities exchange. The securities must be valued at market price and have a value exceeding that of the risks guaranteed. The excess value required shall be 100%. In the case of stocks, however, it shall be 150% and 50% in case of debt securities issued by credit institutions, municipalities, cf. Point 5, the European Investment Bank and international development banks. The provisions of this Point do not apply to subordinated claims.

9. Such portion of underwritten securities corresponding to the reductions specified in the first paragraph of Article 32 of the Rules on the Solvency Ratio of Financial Undertakings, issued by the Financial Supervisory Authority.
10. 50% of the off-balance-sheet items referred to in item B.3. in Annex I to this Regulation.
11. Off-balance-sheet items referred to in item B.4. in Annex I to this Regulation with the exception of unused overdraft facilities, provided that a credit facilities contract or a comparable commitment to a client or financially connected parties, does not lead to a situation where an exposure on account of the same parties exceed the limits specified in Article 3.
12. 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.

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 authorized, 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 7 of the Rules on the Solvency Ratio of Financial Undertakings, issued by the Financial Supervisory Authority, 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 identifies and records 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 1st sentence of this paragraph shall have reached the Financial Supervisory Authority not later than 30 days from the accounting date. Financial Undertakings with total assets under ISK 20 billion are, however, authorized to submit a report semi annually, provided that large exposures of a client or group of connected clients is less than 20% of own funds. UCITS management companies, 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, Regulation No 34 of 14 January 2002, on

maximum limits for loans and guarantees by credit institutions and undertakings engaged in securities services shall be repealed.

Reykjavík, 30 June 2003

FJÁRMÁLAEFTIRLITID
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ANNEX I

Asset items and off-balance-sheet items referred to regarding definition of an exposure in Article 2 of the Rules.

A. Balance sheet items.

All balance-sheet asset items.

B. Off-balance-sheet items other than interest-rate and foreign currency contracts, cf. item C.

B.1. High risk.

- a) guarantees having the character of credit substitutes,
- b) acceptances,
- c) asset sale and repurchase guarantees where the credit risk remains with the undertaking, and
- d) other items carrying high risk.

B.2. Medium risk.

- a) documentary credits issued and confirmed,
- b) warrantees and indemnities (including tender, performance, customs and tax bonds) and guarantees not having the character of credit substitutes,
- c) undrawn credit facilities (agreement to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of more than one year,
- d) note issuance facilities (NIFs) and revolving underwriting facilities (RLTFs), and
- e) other items carrying medium risk.

B.3. Medium/low risk.

- a) documentary credits in which underlying shipment acts as collateral and other similar transactions, and
- b) other items carrying medium risk.

B.4. Low risk.

- a) undrawn credit facilities (undrawn overdraft facilities, agreement to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of up to and including one year or which may be cancelled unconditionally at any time without notice, and
- b) other items carrying low risk.

C. Interest-rate and foreign exchange contracts.

C.1. Interest-rate contracts.

- a) single-currency interest-rate swaps,
 - b) basis-swaps,
 - c) forward-rate agreements,
 - d) interest-rate futures,
 - e) interest-rate options purchased, and
 - f) other contracts of similar nature.
- C.2. Foreign-exchange contracts excluding 14 day contracts or less.
- a) cross-currency interest-rate swaps,
 - b) forward foreign-exchange contracts,
 - c) currency futures,
 - d) currency options purchased, and
 - e) other contracts of a similar nature.
- C.3. Contracts of a nature similar to those in points C.1.a. to C.1.e. and C.2.a to C.2.d. concerning other reference items or indices concerning:
- a) equities,
 - b) precious metals except gold,
 - c) commodities other than precious metals, and
 - d) other contracts of a similar nature.

D. Calculation of risks in connection with interest-rate and foreign exchange contracts.

In the case of interest-rate contracts and foreign currency contracts, cf. item C, the risk in connection with such transactions shall be the same as the credit equivalent of such contracts. The credit equivalent of such contracts shall be calculated according to the marking-to-market method or the original exposure method, cf. Article 14 of the Rules on the Solvency Ratio of Financial Undertakings, issued by the Financial Supervisory Authority, without using the risk weightings of the counterparties in question.

ANNEX II

**Classification of countries within Zone A and B,
cf. Article 4 of the Rules.**

Zone A shall include the following countries.

(Countries forced to renegotiate their foreign debts are excluded from Zone A for a period of five years from the date of so doing.)

Austria	Italy	Spain
Australia	Japan	United Kingdom
United States of America	Canada	South Korea
Belgium	Luxembourg	Switzerland
Denmark	Mexico	Sweden
Finland	Norway	Czech Republic
France	New Zealand	Turkey
Greece	Portugal	Hungary
Netherlands	Poland	Germany
Ireland	Saudi-Arabia	
Iceland	Slovakia	

Zone B

All countries not included in Zone A.

