

RULES

on Central Bank of Iceland Facilities for Financial Undertakings

CHAPTER I

Article 1

Purpose

With reference to Article 7, paragraph 1 and Article 38 of Act No. 36/2001 on the Central Bank of Iceland, the Board of Governors of the Central Bank of Iceland has set the following Rules on Central Bank facilities for financial undertakings (credit institutions).

The purpose of these Rules is to clarify the rights and obligations between the Central Bank and the financial undertakings that may have facilities with it. Facilities are subject to these Rules and conditions set on the basis of them.

Article 2

Scope

The following financial undertakings may have facilities with the Central Bank:

1. Financial undertakings (credit institutions) that have been granted an operating licence pursuant to Article 4, paragraph 1, items 1, 2 and 3 of Act No. 161/2002 on Financial Undertakings.
2. Branches of foreign financial undertakings which are established and hold an operating licence in another member state of the European Economic Area, cf. Article 31 of Act No. 161/2002, and operate in Iceland.
3. Branches of foreign financial undertakings which are established in a country outside the European Economic Area and have been authorised by the Financial Supervisory Authority pursuant to Article 33 of Act 161/2002, provided that the undertaking is authorised to pursue activity in its home state parallel to that provided for in Article 4, paragraph 1, items 1, 2 and 3 of the same Act, that the activity that the undertaking proposes to pursue in Iceland is comparable, and that its activity is subject to comparable supervision to the provisions of Act No. 87/1998 in its home state.

Article 3

Definitions

Business day: A day on which commercial banks or savings banks are open for business, from Monday to Friday.

Certificate of deposit: A type of bond issued by the Central Bank to a financial undertaking.

Collateral loan: A loan against collateral in securities that the Central Bank deems eligible.

Currency swap: An agreement for the purchase or sale of currency which is exchanged back after a specified time with an agreed reverse trade.

Financial collateral arrangement: The transfer of full ownership of financial collateral or pledging of financial collateral for the purpose of securing a financial undertaking's obligations towards the Central Bank.

Market value: The nominal value of a financial collateral obligation multiplied by the reference price

Overnight loan: A loan granted until the following business day against collateral in securities that the Central Bank deems eligible.

Reference price: The end-of-day price of a security on the last day before its valuation, on an organised securities exchange or in a recognised information system approved by the Central Bank.

Repurchase agreement: An agreement whereby the Central Bank purchases securities from a financial undertaking which at the same time acquires the rights and obligations after a specified interval to repurchase the securities or equivalent ones at a specified price.

CHAPTER II

Central Bank facilities for financial undertakings

Article 4

Currency of transactions

Central Bank transactions with financial undertakings are generally conducted in Icelandic krónur. The Board of Governors may authorise transactions in foreign currency.

Article 5

Current accounts

It is a condition for Central Bank facilities under these Rules that the financial undertaking in question has set up a current account with the Central Bank

Financial undertakings' facilities are credited or debited as appropriate by the Central Bank on their current accounts under these Rules and a financial undertaking is obliged always to maintain an adequate disposable balance on its account.

Article 6

Regular business days of the Central Bank of Iceland

Business days for regular facilities, cf. Article 7, paragraph 1, item 1, are Wednesdays each week. If a Wednesday is not a business day, regular facilities are granted on the following business day and the maturity is shortened correspondingly. New Year's Eve is not a regular business day.

Article 7

Types of facilities

Central Bank facilities may be in the following forms:

1. *Regular facilities:*
 - a. Seven-day loans against collateral in securities that the Central Bank deems eligible, cf. Article 11.
 - b. Certificates of deposit, i.e. bonds issued by the Central Bank to financial undertakings with a maturity of seven days.
 - c. Seven-day tied deposits.
2. *Overnight loans:*

On the request of a financial undertaking, the Central Bank provides overnight loans until the following business day against collateral in eligible securities, cf. Article 11. The Central Bank may alter the terms of or restrict access to overnight loans without notice.
3. *Other facilities:*

Other Central Bank facilities apart from item f. are available at the discretion of the Board of Governors and may be in the following forms:

 - a. Collateral loans with other periods than specified in item 1, point a.
 - b. Certificates of deposit with other maturities than specified in item 1, point b.
 - c. Tied deposits with other tied periods than specified in item 1, point c.
 - d. Repurchase agreements with securities that are eligible as financial collateral, cf. Article 11. Repurchase agreements involve the purchase and sale of securities on an organised exchange approved by the Central Bank. The financial undertaking

meets all the business costs incurred by parties on account of both the purchase and the sale.

- e. Currency swaps.
- f. Transfers to current accounts.

Article 8

Conditions for regular facilities

The Central Bank announces the terms and other conditions of regular facilities.

The Central Bank may decide to restrict the total amount of regular facilities and arrange an auction with the following conditions. In the case of a loan facility, the rate of interest is determined in the auction whereby all presenters of bids that are accepted in part or in whole are granted the same interest terms, which are the lowest rates agreed by the Central Bank. In sales of certificates of deposit, presenters of bids that are accepted in part or in whole are granted the same interest terms, which are the highest rates agreed by the Central Bank (Dutch auction).

Article 9

Interest rates

Interest rates on Central Bank facilities are subject to the decision of the Bank at any time and are published in an announcement on its website.

The interest rate is calculated on the basis of the number of calendar days in each interest period divided by 360, i.e. actual days/360. The monthly interest period is from the 21st of one month inclusive to the 20th of the next month inclusive.

The interest rate day for deposits and withdrawals is the day of the transaction unless otherwise separately negotiated. Validation of deposits on other days than the day of deposits shall only be made when errors need to be corrected.

CHAPTER III

Financial collateral arrangements

Article 10

Agreements on financial collateral arrangements

Financial collateral arrangements in Central Bank facilities for financial undertakings are subject to the provisions of Act No. 46/2005.

An agreement on a financial collateral arrangement shall be made in writing or electronically to enable the formal legal verification of the establishment of the collateral arrangement.

The liabilities and collateral covered by the agreement shall be specified in it.

Article 11

Financial collateral arrangements for Central Bank facilities

Eligible securities as collateral for Central Bank facilities may be Central Bank certificates of deposit, Government bonds, Treasury notes, Treasury bills, bonds and bills denominated in Icelandic currency that fulfil the following conditions:

1. The market value of the issue is more than 3 b.kr. and it is confirmed that this amount has been sold.
2. The issuer has a rating from one of the three agencies Standard & Poor's, Moody's or Fitch, and a long-term rating of A- or higher according to the rating system of Standard & Poor's and Fitch and A3 or higher from Moody's.
3. Securities carrying a Treasury guarantee are deemed equivalent to being issued by the Treasury.
4. Securities are under market making on an organised exchange or recognised information system approved by the Central Bank.

5. Securities shall generally be selected to exclude those with a final maturity before the duration of the agreement.
6. Securities other than Central Bank certificates of deposit shall be registered electronically.

Subordinated instruments may not be provided as collateral.

An issuer may not use its own bonds or bills as collateral for its own facilities with the Central Bank, nor those of an issuer in which the respective financial undertaking has a qualifying holding, cf. Article 40 paragraph 2 of Act No. 161/2002 on Financial Undertakings.

If securities are withdrawn or mature before the maturity of a liability, and if a seller requests their delivery, the seller shall provide new eligible securities with a value at least equal to that of the withdrawn or matured securities.

A financial undertaking is responsible for securities provided under financial collateral arrangements being free of encumbrances and restrictions.

Financial undertakings' tied deposits in the Central Bank under Article 7, item 1, point c. are also eligible as collateral for its facilities with the Bank.

Article 12

Valuation of financial collateral arrangements

In valuation of securities as financial collateral for Central Bank facilities, the following deductions shall be calculated from the reference price:

1. On Government bonds, Treasury notes and Treasury bills:
 - a. 1% for a residual maturity of less than 2 years
 - b. 3% for a residual maturity of 2 to 5 years
 - c. 5% for a residual maturity of more than 5 years
2. On other securities:
 - a. 2% for a residual maturity of less than 2 years
 - b. 5% for a residual maturity of 2 to 5 years
 - c. 7% for a residual maturity of more than 5 years

No deduction is calculated on Central Bank certificates of deposit.

If necessary, for example due to market conditions, the Central Bank may calculate further deductions.

Securities for which no reference price is available on an organised exchange or from a recognised information system approved by the Central Bank may not be used for a financial collateral arrangement unless specifically agreed by the Central Bank.

The Central Bank may refuse an application for a facility if no agreement is reached on valuation of collateral.

The stock of outstanding overnight loans may never exceed ninety percent of the market value of securities provided as collateral.

Article 13

Additional collateral security

The Central Bank regularly reviews collateral security value. Since the market value of securities may change without notice, such a review may lead the Central Bank to insist on additional collateral security. If these Rules stipulate that collateral value should always exceed a specified minimum, and if the collateral value falls below it, the financial undertaking shall provide additional collateral to enable the said minimum to be restored.

If the Central Bank considers that additional collateral security, cf. paragraph 1, is required, the relevant financial undertaking shall provide satisfactory collateral within two days from the presentation of such a demand. In exceptional cases, the Central Bank may also set a shorter deadline or insist on collateral being provided the same day, if changes in market conditions warrant this.

Article 14

Custody of securities

Securities provided under a financial collateral arrangement shall be registered with a securities depository that has been granted an operating licence pursuant to Act No. 131/1997 on Electronic Registration of Title to Securities. Securities may be electronically registered in a foreign securities depository recognised by the Central Bank.

Securities registered in an Icelandic securities depository shall be deposited in the respective financial undertaking's securities deposit account in the Central Bank. If securities are registered in a foreign depository they shall be deposited with a custodian (data centre) approved by the Central Bank.

Registration of financial collateral arrangements is subject to the provisions of Chapter IV of Act No. 131/1997 on Electronic Registration of Title to Securities. The securities deposit accounts of the respective financial undertaking shall also be pledged to the Central Bank with a separate declaration to that effect.

CHAPTER IV

Defaults and exclusion from Central Bank facilities

Article 15

Defaults and the Central Bank's right of realisation

If a financial undertaking does not remit payment on its liabilities from the date of maturity inclusive until the date of payment, periodic penalty interest shall be paid for that period on the amount of debt in default, cf. Article 6, paragraph 1 of the Interest Rates Act No. 38/2001.

The Central Bank may redeem securities that have been provided as financial collateral and dispose of them without notice or announcement towards the amount of the liability in default.

Article 16

Exclusion from facilities

The Central Bank may, without notice, exclude a credit institution from further facilities under these Rules if it has not complied with their provisions.

The Central Bank may also exclude a financial undertaking from facilities after a prior warning, if the undertaking does not fulfil the provisions of Chapter X of Act No. 161/2002 on liquid assets and own funds.

CHAPTER V

Sundry provisions

Article 17

General conditions for facilities

Financial undertakings that may have Central Bank facilities under these Rules shall sign a statement of general conditions describing the rights and obligations between the Central Bank and the financial undertaking under these rules and the implementation of facilities, stating inter alia:

1. Obligations of parties regarding facilities under these rules.
2. Implementation of facilities and arrangements for communication.
3. Financial collateral arrangements.
4. Provisions for custody of financial collateral arrangements.
5. Default and the Central Bank's right of realisation on account of it.
6. The financial undertaking's duty to provide information.

Article 18

Entry into force

These Rules enter into force on June 21, 2007. At the same time Rules No. 997 from December 10, 2004, on Central Bank Facilities for Credit Institutions, are abrogated.

Reykjavík, June 18, 2007

Central Bank of Iceland,

Davíð Oddsson,
Chairman of the Board of Governors

Eiríkur Guðnason
Governor