



VELFERÐARRÁÐUNEYTIÐ

Ministry of Welfare

Regulation on the Finances and Risk Management of the Housing Financing Fund, No. 544/2004, as amended by Regulation No. 896/2005.

Article 1

Objectives and Purposes.

The Housing Financing Fund shall safely keep and invest the funds in its charge in the purpose of securing the best possible loan terms and minimising as possible the risks to the State Treasury resulting from the Fund's liabilities. Care shall be taken to ensure that the Fund has available liquid funds to honour its commitments at all times.

Article 2

Risk Management.

The Housing Financing Fund shall adopt a risk management policy and institute a risk management system in order to control its risks and minimise them as possible.

The Fund's risk management policy shall provide for a framework for assessment of its risks and make possible the analysis of risk factors and assessment of different risks, and provide for an arrangement securing separation of functions and definition of responsibilities. The policy shall be laid down with a view to the guidelines of the Financial Supervisory Authority on internal control and risk management of financial companies. The policy shall be reviewed annually and modified as necessary.

The policy, and any modifications to be made thereto, shall be subject to approval by the Board of the Housing Financing Fund, having obtained the opinion of the Financial Supervisory Authority. The State Guaranty Fund and the Ministry of Finance shall also be notified of any planned modifications.

Article 3

Risk Management Methods.

The Housing Financing Fund shall keep its payments and revenues in balance, and apply traditional methods to maintain a high standard as regards risk management and financial management. In this purpose, the Fund is authorised to conduct trade in its financing bonds and other securities. The methods to be employed shall be provided for in further detail in the Fund's risk management policy [in accordance with the provisions of Annex I].¹⁾

¹⁾ Regulation No. 896/2005, Article 1.

Article 4

Committee on Financial Affairs.

A Committee on Financial Affairs shall be established within the Housing Financing Fund, composed of the Fund's staff members who are entrusted with responsibility for its risk management and financing. The chief roles of the Committee on Financial Affairs shall be to make proposals to the Board concerning securities issues and interest additions, and to take decisions concerning purchases of the Fund's financing bonds and its financial management alternatives.

Article 5

Internal Control.

The Housing Financing Fund shall establish and maintain an internal quality control system to ensure a separation of individual functions in carrying out its operations. The system shall be provided for in further detail in the Fund's risk management policy.

Internal control shall be directly subject to the Fund's Board.

Article 6

Reports.

The Board of the Housing Financing Fund shall provide the Minister of Social Affairs and the Financial Supervisory Authority with quarterly reports on the progress of its risk management policy and the key figures in its operations. Each report shall provide information concerning evolution of defaults, the proportion of the Fund's total loans that are separately managed, the amounts of HFF's mortgages and mortgage instruments paid up, and the evolution of interest rates on new loans. The reports shall furthermore present an assessment of probable losses of outstanding loans and the Fund's interest risks, an analysis of the provision for losses account and future loss forecasts, and describe the likely effects of extra payments and prepayments for the Fund's status.

The Housing Financing Fund shall send its reports to the Ministry of Finance and the State Guaranty Fund for information.

Article 7

The Housing Financing Fund's Equity Ratio.

The Housing Financing Fund shall in the long term endeavour to keep its equity ratio, as defined in the rules of the Financial Supervisory Authority on the solvency ratio of financial undertakings, over 5%, in order to ensure that the Fund will be able to honour its obligations.

If the Fund's equity ratio is likely to fall below 4%, the Board of the Fund shall call the attention of the Minister to this and increase the frequency of its reports according to Article 6, delivering reports on a monthly basis. The Board shall furthermore make proposals on how to achieve the equity ratio objective, including whether the interest addition provided for in Article 28 of the Housing Act should be increased, or whether the decisions provided for in paragraph 2 of Article 23 of the Act should be taken.

If it is deemed that traditional risk management methods and the Fund's room to decide on interest rates will not suffice to protect its financial status, the Minister, having obtained the opinion of the Board on the necessary measures, shall issue an administrative regulation on payment of fees for extra instalments and payment of HFF's mortgages prior to maturity. The fee shall, in part or entirely, compensate for the difference between the paid-up value of a HFF's mortgage and a comparable bond.

Article 8

Provision for Losses.

The Housing Financing Fund shall keep a provision for losses account, in conformity with generally accepted auditing standards and according to its own risk assessment, so that its balance sheet presents, at any particular time, as accurate a picture as possible of its financial situation.

Article 9

Supervision by the Financial Supervisory Authority.

The Financial Supervisory Authority shall control that the Housing Financing Fund conducts its operations as provided for by the Housing Act and the applicable administrative Regulations. Act on Official Supervision of Financial Enterprises, No. 87/1998, as amended, shall apply as applicable with respect to the duty to provide information and to supervision of the Fund's operations.

Article 10

Entry into Force.

This Regulation, issued as provided for in paragraph 4 of Article 11 of Act No. 44/1998, as amended, and after the opinions of the Board of the Housing Financing Fund and the Financial Supervisory Authority have been received, shall enter into force 1 July 2004.

[Annex I

Permitted Transactions and Trading Parties in the Context of Risk Management.

The Housing Financing Fund shall use traditional risk management methods in order to ensure a high standard as regards risk management and financial management, and for keeping revenues and expenses in balance, as provided for in further detail in the Fund's risk management policy. For this purpose the Fund is authorised to deposit available funds to bank accounts bearing interest, to trade in securities, and to employ any other accepted means of short-term and long-term investment.

Purchases of financial instruments or debt instruments issued by the parties enumerated under items *A-E* below, or of units in mutual funds that invest in securities issued by those parties, shall be counted among the accepted means of investment referred to in paragraph 1. This shall also apply to purchases of mortgage instruments as referred to under item *F*, and assets yielding returns from the cash flow derived from such instruments.

Trading parties and assets shall be of the following categories:

- A. The Icelandic State Treasury and state institutions.
- B. Credit institutions with a credit rating not inferior to Moody's BBB, or a comparable credit rating by other credit rating institutions.
- C. Companies of the OECD member states having a long term credit rating not inferior to Moody's A1, or a comparable credit rating by other credit rating institutions.
- D. Domestic financial institutions other than those referred to under item *B*.
- E. Municipalities.
- F. Debt instruments secured by mortgage upon residential housing, issued by private persons, companies or financial institutions. The amount of such instruments shall generally not exceed 80% of the market value of the property, i.e. LTV ratios, in question, and shall never exceed 90% LTV ratios.

As a part of the Fund's risk management policy, the Board of the Housing Financing Fund shall determine the proportion, i.e. weightings, of allowed investments within each investment category, in the light of an assessment of the risk due to the opposite party. The variation shall be of two kinds, on the one hand relating to the Fund's risk management and its need to balance the lifetimes of assets and liabilities and cash flow, and, on the other hand, relating to the Fund's short-term financial management.]¹⁾

¹⁾ Regulation No. 896/2005, Article 2.

Ministry of Social Affairs, 24 June 2004.

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*[This translation is published for information only.
The original Icelandic text is published in the Law Gazette.
In case of a possible discrepancy, the original Icelandic text applies.]*