

This is an English translation.

The original Icelandic text, as published in the Law Gazette (Stjórnartíðindi), is the authoritative text. Should there be discrepancy between this translation and the authoritative text, the latter prevails.

Act on Covered Bonds, No. 11/2008

CHAPTER I

General Provisions

Article 1

Scope

This Act shall apply to issuing of covered bonds.

Article 2

Definitions

For the purposes of this Act the following meanings shall apply:

1. Issuer: a commercial bank, savings bank or credit undertaking, which has received an operating license as provided for in the Act on Financial Undertakings and which has been licensed to issue covered bonds.

2. Covered bond: a bond or other unilateral, unconditional, written debt obligation, which enjoys a right of priority on the issuer's cover pool upon bankruptcy and is issued in compliance with this Act.
3. Bond: a written debt instrument whereby an issuer recognises unilaterally and unconditionally its obligation to make a specific monetary payment.
4. Cover pool: a collection of bonds, substitute collateral and other assets listed in a register, as provided for in Chapter VI, in which the covered bond holders and issuing institution's counterparties have rights of priority pursuant to the provisions of this Act.
5. Substitute collateral: assets as provided for in Article 6 which may be included in the cover pool and are intended to ensure that the interests of covered bond holder are not prejudiced despite changes which may occur to assets in the cover pool.
6. Member state: a state which is a party to the Agreement on the European Economic Area or the European Free Trade Association Treaty, or the Faroe

Islands.

7. Derivative agreement: an agreement concluded for the purpose of achieving a balance between financial terms and conditions governing assets in the cover pool and corresponding terms and conditions governing the covered bonds, entered into between an issuer and the Icelandic state, a member state, municipality in a member state, central bank in a member state or other party deemed sufficiently solid to fulfil the obligations involved in the agreement.

8. Loan class: the type of debt instrument in an asset pool, as provided for in Points 1-4 of the first paragraph of Article 5.

9. Covered bond class: covered bonds issued by an issuer based on one and the same license from the Financial Supervisory Authority (FME).

Article 3

License requirements

FME shall grant licenses for the issuance of covered bonds pursuant to this Act. Licenses to issue covered bonds will

only be granted to commercial banks, savings banks and credit undertakings.

The conditions for granting a license to issue covered bonds are as follows:

1. that the issuance complies with this Act, and
2. that the issuer's budget, as attested to by a certified public accountant, demonstrates that its financial situation is sufficiently sound so that the issuance of covered bonds will not jeopardise the interests of other creditors.

FME may authorise the conversion of previously issued bonds and other debt obligations, which were issued to finance bonds of the same type which may be included in the cover pool, to covered bonds as provided for in this Act.

FME may make the granting of a license subject to further conditions, for instance, concerning loan classes in the cover pool for the issue in question, classes of covered bonds, time limits of issues, maturities and repayment terms of the proposed covered bond. Such conditions shall be specified in the license.

Article 4

Processing of license applications

Once a license application has been submitted, FME must process the application within six months of receiving a complete application. If the granting of a license is delayed beyond this period, FME must notify the applicant in writing of the reasons for the delay.

CHAPTER II

Cover pool assets, etc.

Article 5

Bonds in the cover pool

The cover pool may consist of bonds of the following classes:

1. Bonds which have been issued against mortgages in residential housing in member states.
2. Bonds which have been issued against mortgages in industrial, office or commercial property in member states.
3. Bonds which have been issued against mortgages in farms and other real estate used for agricultural purposes in member states.
4. Bonds issued by the Icelandic state or other member