

Rules of Procedure for the Board of the Housing Financing Fund

The Housing Financing Fund operates according to the Housing Act, no. 44/1998, including later amendments. The Minister of Social Affairs is responsible for housing affairs and the board operates under the minister's mandate.

1. Board Election and Division of Duties

- 1.1. The minister of social affairs appoints the board of the Housing Financing Fund for a tenure of four years. The board has five members and five substitutes. The minister of social affairs appoints a chairman and vice-chairman from the board members. The minister decrees the board's salaries.

2. Working Scope of the Board

- 2.1. The board has highest authority over the Fund's affairs and shall ensure that the Fund's organization and operation remain in good balance and in accordance with law and regulation concerning the Fund.
- 2.2. The board shall guarantee sufficient monitoring of the Fund's accounts and control the handling of the Fund's finances. To this end, the board shall decide the Fund's organization, arrange the procedure of internal control and handle the accounts and financial statements.
- 2.3. The board shall appoint a managing director, settle salaries and other terms, determine a job description and resolve official duty regulations and retirement conditions. A written employment contract shall be made with the managing director. The board may assign the chairman and vice-chairman of the board to negotiate wages and other terms with the managing director.
- 2.4. The board is decisive in all matters concerned untraditional or extensive. However, the board can grant the managing director permission to settle such affairs. All documents concerning major decisions, such as any untraditional or extensive contracts, must be signed by the Fund's managing director and the chairman of the board.
- 2.5. The board shall treat any major decisions on the Fund's strategic planning and activities. The board shall develop the investment policy of the Fund. The board shall control that the appropriation of the Fund's funds be in concert with its investment policy. The board shall ensure that the division of the Fund's portfolio be according to current law and the Fund's current investment policy.

3. Board Spokesman

- 3.1. The chairman of the board is the board's spokesman and appears on its behalf in matters concerning the Fund should the board not decide otherwise. The Managing Director also appears on behalf of the Fund according to official duty regulations.
- 3.2. The chairman of the board answers to the managing director on behalf of the board.

4. Board Meeting Notices

- 4.1. Board meetings shall on average be held twice a month. Additional board meetings shall be held if considered necessary by the chairman or managing director. Board meetings shall also be called on demand by three or more board members. The chairman announces and chairs board meetings.
- 4.2. At the end of each board meeting a date for the subsequent meeting shall be decided. Additional meetings must be announced at least three days in advance, if possible. The chairman may however decide on less notice if inevitable due to special circumstances.
- 4.3. The managing director shall reiterate meeting notices no later than the day before the meeting, specifying the agenda.
- 4.4. Meeting documents shall on average be sent to board members a day before the planned meeting. The managing director shall prepare cases for the board and specify whether proposals are put forward for informational purposes, discussion or approval. Reports on internal audits shall be presented to the board as soon as they are received. The director shall attach a memorandum specifying the director's position toward the report and containing proposals for improvements if applicable.
- 4.5. A board member who cannot attend a planned board meeting shall inform the managing director with due notice. The managing director calls for a substitute when a board member is unable to attend for an extended period.

5. Decisive Power

- 5.1. The board has decisive power if the majority of the board attends a meeting that has been planned in accordance with the rules of procedure. However, the board shall aim not to decide on important cases until all board members have had an opportunity to express their opinion on the matter, if possible.
- 5.2. A board meeting decision is not valid without the support of the board's majority.
- 5.3. Should a board member request to delay the conclusion of a case until the subsequent meeting the request shall be heeded unless the case in question is essential to the Fund or its customers' interests.
- 5.4. Board members shall turn to the chairman of the board or managing director with requests for individual cases on a board meeting agenda.

6. Minutes

- 6.1. The chairman of the board shall make sure that a minutes book be kept, recording board meetings and board decisions.
- 6.2. The following shall be recorded in the minutes book
 - 6.2.1. Meeting location and time.
 - 6.2.2. Attendance, chair and keeper of the minutes.
 - 6.2.3. Agenda with a short description of items.
 - 6.2.4. Decisions and voting, if applicable.
 - 6.2.5. Start and finish times of meeting.
 - 6.2.6. Date of next planned board meeting.

- 6.3. Each board member can request a booking in the minutes. When a board member or the managing director does not agree with the board's decisions they are entitled to have their dissenting opinion booked in the minutes.
- 6.4. The minutes shall always be written as soon as possible after the meeting and sent to board members and any substitutes in attendance. The minutes shall be ready for approval at the beginning of the subsequent board meeting. The board members in attendance of the relevant meeting and the managing director shall sign the minutes.
- 6.5. The board may decide to record the minutes on a computer. The chairman or the chairman's deputy shall then sign each page of the minutes which shall be sequentially numbered. Signed minutes shall be bound regularly for permanent preservation.
- 6.6. Department heads get a copy of the minutes drafts at the same time as board members. Once the minutes have been approved at a board meeting they are published on the Fund's intranet. However, the board can decide that specific agenda items remain confidential within the board.

7. Incompetence

- 7.1. Board members or managing director may not handle cases concerning their person. Board members and managing director are duty bound to inform of such incidents.
- 7.2. Board members shall inform the board in advance if a situation arises concerning cases that may render them incompetent or cast doubts on their competence. Subsequently, the board decides whether the respective board member shall step down during the handling of the case. The board member whose competence is in doubt may not partake in discussions or decisions on the matter.

8. Further Rules on the Board's Activities

- 8.1. The vice-chairman deputises should the chairman of the board be unable to attend.
- 8.2. Board members shall acquaint themselves with legal provisions concerning the Fund, law on financial institutions and law on securities trading as applicable, and regulations set on the basis of this law that can concern the Housing Financing Fund, such as insider trading. The same applies for the guidelines set by the Financial Supervisory Authority (FME).

9. Treatment of the Rules of Procedure

- 9.1. Board members in office during the validation of these rules of procedure shall sign the original rules. Should the board agree to changes to the rules of procedure the board members shall sign the original rules thus modified. The rules of procedure shall be introduced to new board members and they shall confirm the introduction by signing the original copy of the rules.

10. Communication with the Authorities and the Iceland Stock Exchange

- 10.1. The board of the Housing Financing Fund controls that the Financial Supervisory Authority, the Central Bank of Iceland and other authorities be sent all information stipulated by law and regulation. The managing director shall regularly submit information on this communication.
- 10.2. The chairman of the board of the Housing Financing Fund shall inform the Minister of Social Affairs of the Fund's activities no less than biannually. The chairman of the board shall also notify the minister if the Fund's activities and services are not in

concert with legal provisions and if the Fund's operations are not in accordance with the government's budget.

10.3. Other communication with the authorities shall take place with close consultation with the chairman of the board.

11. Changes to the Rules of Procedure

11.1. Only the board of the Housing Financing Fund may modify these rules of procedure. To change the rules the ordinary majority of the board must approve.

Thus approved at board meeting on 27 April, 2006.