

Covered Bond Act (688/2010)

In accordance with the decision of the Parliament the following is enacted:

Chapter 1 General provisions

Section 1 Scope of application

This Act provides for the right to undertake mortgage credit bank operations as well as for the requirements for this kind of activity and supervision of compliance with these requirements.

Section 2 Definitions

For the purposes of this Act:

1) **mortgage credit bank operations** shall mean activities, where covered bonds in accordance with this Act are issued; mortgage credit bank operations are however not taken to mean operations where covered bonds, with no other collateral than a guarantee by a public-sector entity, are issued;

2) a **mortgage-backed credit** shall mean:

a) a credit the collateral of which is a mortgage on mortgageable property for primarily residential purposes referred to in chapter 16, section 1 or in chapter 19, section 1 of the Land Code (540/1995) or shares in a housing company referred to in chapter 1, section 2 of the Act on Housing Companies (1599/2009) or shares comparable thereto, participations and rights of occupancy or collateral comparable to the aforementioned collateral, situated in another State belonging to the European Economic Area (*housing loan*);

b) a credit the collateral of which is a mortgage on mortgageable property for commercial or office purposes referred to in chapter 16, section 1 or in chapter 19, section 1 of the Land Code (540/1995), shares of a housing company or a real estate company entitling to occupancy of the commercial or office premises or collateral comparable to the aforementioned collateral, situated in another State belonging to the European Economic Area (*commercial property credit*);

3) **public-sector credit** shall mean a credit which has been granted to the Finnish State, a Finnish municipality or other public-sector entity which may, when applying the procedure set out in section 58 of the Act on Credit Institutions (121/2007), be considered equivalent to the Finnish State or Finnish municipality or a credit which is fully collateralised by a guarantee of a public-sector entity or a claim on such entity;

4) an **intermediary credit** shall mean a credit which has been granted by a mortgage credit bank to a deposit bank or credit entity pursuant to the requirements set out in Section 8;

5) a **covered bond** shall mean a bond collateralised by a mortgage-backed credit or a public-sector credit entered in the register of bonds in accordance with the provisions of this Act;

6) a **mortgage credit bank** shall mean a credit institution operating as a limited liability company, referred to in section 8, sub-section 1 of the Act on Credit Institutions, which does not undertake other than mortgage credit bank operations;

7) a **deposit bank** shall mean a deposit bank referred to in section 9 of the Act on Credit Institutions;

8) a **credit entity** shall mean a credit entity referred to in section 11 of the Act on Credit Institutions;

9) the **issuer** shall mean the mortgage credit bank or deposit bank or credit entity who has the right to undertake mortgage credit bank operations.

Section 3 Other applicable legislation

Unless otherwise provided for in this Act, a mortgage credit bank shall be governed by the Limited-Liability Companies Act (624/2006), the Act on Commercial Banks and other Credit Institutions in the Form of a Limited Company (1501/2001) and the Act on Credit Institutions.

Section 4 Supervision

Compliance with this Act and provisions issued thereunder shall be supervised by the Financial Supervisory Authority.

Chapter 2 Mortgage Credit Bank

Section 5 Licence of a mortgage credit bank

A mortgage credit bank licence may be granted to a credit institution as referred to in Section 8 of the Act on Credit Institutions which fulfils the requirements set out in this Act

Section 6 Trading name

Only a mortgage credit bank may use the term mortgage credit bank in its trading name or otherwise to indicate its operations.

Section 7 Permitted business operations

As its business operations, a mortgage credit bank may not undertake other operations than to grant and acquire mortgage-backed credits, intermediary credits and public-sector credits as well as undertake operations closely related to such business. A mortgage credit bank may not own other real estate, shares and participations than those which holding is necessary for the business of the mortgage credit bank.

The funds of a mortgage credit bank may, in addition to that provided for in sub-section 1, only be invested in claims to which a risk adjustment of 0 or 20 per cent may be applied when using the method set out in section 58 of the Act on Credit Institutions, as well as in other securities referred to in chapter 1, section 2, sub-section 1, paragraph 2 of the Securities Markets Act (495/1989) that are listed securities or market securities referred to in chapter 1, section 3 of the aforementioned Act as well as in comparable foreign securities.

However a mortgage credit bank may own such real estates as well as shares and participations in a housing company or a real estate company which have come to the possession of the mortgage credit bank as collateral for an unpaid claim.

Section 8 Intermediary credit

A mortgage credit bank may grant a credit to a deposit bank or a credit entity on the following terms and conditions (*intermediary credit*):

- 1) the intermediary credit is entered into the register of bonds of the mortgage credit bank and mortgage-backed credits or public-sector credits of the debtor of the intermediary credit in accordance with the requirements for collateral in section 12-14 and section 16 are entered in the register of bonds as collateral for the covered bonds;
- 2) a mortgage credit bank or its bankruptcy estate have a right to receive payment from a mortgage-backed credit or a public-sector credit entered into the register of bonds as collateral pursuant to an intermediary credit by assigning the credit or by collecting the credit in accordance with its terms and conditions after the covered bond has become due or after the mortgage credit bank has been declared bankrupt or placed in liquidation;
- 3) the assets of the debtor of the intermediary credit entered into the register of bonds are subject to the provisions regarding third-party collateral in sections 28-30 and section 40 of the Act on Guarantee and Third-Party Collateral (361/1999), provided however, that the potential right of recourse of the debtor of the intermediary credit is primarily set of against the intermediary credit;
- 4) a mortgage credit bank has the right to use payments from intermediary credits for payment of obligations resulting solely from covered bonds against a right of recourse caused by payment or assignment of a mortgage-backed credit or public-sector credit registered as collateral of the debtor of the intermediary credit, until all covered bonds subject to such have been fully paid; and
- 5) a mortgage backed credit and a public-sector credit that has been entered into the register of bonds as collateral pursuant to an intermediary credit can be removed from the register or released to the debtor of the intermediary credit only in the same proportion in which the principal of the intermediary credit has been paid.

A mortgage credit bank shall not without the permission of the Financial Supervisory Authority assign or pledge an intermediary credit, nor shall it be taken in execution of a debt of a mortgage credit bank or a precautionary measures be directed at it. An assignment or pledge violating this prohibition shall be void.

Section 9 Merger, division and assignment of business operations

A mortgage credit bank may merge into another mortgage credit bank or deposit bank or credit entity that has acquired a licence referred to in section 10. Upon a division and assignment of business operations, the mortgage credit bank may assign its assets referred to in section 12 to another mortgage credit bank, credit bank or credit entity.

Chapter 3 Mortgage credit bank operations

Section 10 Mortgage credit bank operations' subjectivity to licence

The Financial Supervisory Authority may grant, by application, a licence for mortgage credit bank operations to a deposit bank or a credit entity that fulfils the requirements provided by this Act. An entity

other than a deposit bank or a credit entity that has acquired a license in accordance with this sub-section or a mortgage credit bank that has acquired a license in accordance with section 5 is not allowed to undertake mortgage credit bank operations or name the bonds it has issued covered bonds or a term of confusing similarity.

The applicant shall, in addition to its articles of association or the regulations governing its operations, deliver to the Financial Supervisory Authority an account:

- 1) that the mortgage credit bank operations are conducted in accordance with this Act and regulations issued thereunder;
- 2) of its business plans concerning mortgage credit bank operations;
- 3) that operations of the credit institution are stable and that its financial position and capacity is sufficient to secure the repayment of the covered bonds;
- 4) that the applicant has the expertise and professional skill required in mortgage credit bank operations;
- 5) that the applicant's risk management and supervisory methods are at a level required for mortgage credit bank operations;
- 6) of principles and practices concerning valuation of collateral; and
- 7) that the register of bonds of the applicant meets the prescribed requirements.

The Financial Supervisory Authority may issue further regulations concerning the permitting procedures.

Section 11 Supervision of mortgage credit bank operations

The Financial Supervisory Authority supervises mortgage credit bank operations referred to in this Act. The Financial Supervisory Authority has the right to issue regulations for risk management and internal control in respect of mortgage credit bank operations.

If the deposit bank or credit entity that has acquired a licence for mortgage credit bank operations does not comply with the requirements provided for by this Act or the conditions of the license granted by the Financial Supervisory Authority, the Financial Supervisory Authority shall lay down a period in which the deposit bank or credit entity that has acquired a licence must fulfil the requirements set by the Financial Supervisory Authority. If the conditions are not fulfilled within the set period, the Financial Supervisory Authority may cancel the license of the deposit bank or credit entity to undertake mortgage credit bank operations.

Chapter 4 Collateral

Section 12 Collateral of a covered bond

The collateral of covered bonds includes equally the mortgage-backed credits, public-sector credits as well as supplementary collateral referred to in section 15, entered into the register of bonds referred to in

section 20 as collateral of covered bonds, unless the collateral is entered into the register as collateral for an identified covered bond.

The issuer and the debtor of an intermediary credit shall not assign or pledge mortgage-backed credits and public-sector credits placed as collateral for the covered bonds without the permission of the Financial Supervisory Authority. An assignment or pledge violating this prohibition shall be void. The credit document or data system where the mortgage-backed credits and public-sector credits are managed shall bear an entry to the effect that the credit has been given as collateral for a covered bond.

Collateral placed by the issuer or the debtor of an intermediary credit for covered bonds entered in the register in accordance with this Act, is not recovered pursuant to section 14 of the Recovery of the Bankruptcy Estate Act (758/1991).

Section 13 Currency of collateral

Collateral for a covered bond, entered in the register of bonds referred to in section 20 must be in the same currency as the covered bond. In application of this section, derivatives contracts concluded to hedge against risks relating to covered bonds and the assets placed as collateral for them shall also be taken into account.

Section 14 Requirements for a mortgage-backed credit and collateral thereof

A mortgage-backed credit placed as collateral for a covered bond may not exceed the current value of the shares or real estate standing as collateral. The current value shall be evaluated with observance to good real estate evaluation practice applicable to credit institutions in accordance with provisions on the management of capital adequacy and credit risk of credit institutions issued by the Financial Supervisory Authority. A statement of an independent and external real estate evaluator approved by the Central Chamber of Commerce, as referred to in the Real Estate Fund Act (1173/1997), shall be acquired of the shares and real estates placed as collateral of commercial property credits and housing loans exceeding the amount of EUR 3 million.

The issuer shall regularly monitor and revise the value of the shares or real estates placed as collateral in accordance with provisions on the management of capital adequacy and credit risk of credit institutions issued by the Financial Supervisory Authority.

If the collateral of a covered bond does not fulfil the requirements provided for in this Act, the Financial Supervisory Authority shall set a time period within which the issuer shall acquire more collateral in accordance with the law. If the issuer does not fulfil the requirements relating to collateral within the set time period, the Financial Supervisory Authority may cancel the issuer's license for mortgage credit bank operations.

Section 15 Supplementary collateral

The following supplementary collateral may temporarily be used as collateral for a covered bond:

1) bonds and other debt obligations issued by a central government, a municipality or another public-sector entity or another credit institution than one belonging to the same consolidation group as the issuer;

- 2) a guarantee as for own debt granted by a public-sector entity or credit institution referred to in paragraph 1;
- 3) a credit insurance given by an insurance company other than one belonging to the same group, referred to in the Act on Supervision of Finance and Insurance Groups (699/2004), with the issuer;
- 4) assets of the issuer deposited in the Bank of Finland or a deposit bank; if the issuer is a deposit bank the deposit may not be in a deposit bank belonging to the same consolidation group as the issuer.

Supplementary collateral may temporarily be used in situations where:

- 1) mortgage-backed credits or public-sector credits have not yet been granted or registered as collateral for the covered bond; or
- 2) the total amount of collateral does not fulfil the provisions provided for in sections 16 and 17.

The amount of supplementary collateral referred to in sub-section 1 above shall not exceed 20 per cent of the total amount of all the collateral entered in the register of bonds, however in such a manner that receivables from credit institutions shall not exceed 15 per cent of the total amount of collateral. The Financial Supervisory Authority may, on application by the issuer, for a special reason, grant an exemption from the latter restriction for a set period.

Section 16 Requirements for the total amount of collateral

In the application of the provisions of this section and section 17, the total amount of collateral of covered bonds shall take into account:

- 1) an amount not exceeding 70 per cent of the current value of the shares or real estate placed as collateral for each housing loan;
- 2) an amount not exceeding 60 per cent of the current value of the shares or real estate placed as collateral for each commercial property credit; and
- 3) public-sector credits and supplementary collaterals at book value.

Intermediary credits and credits entered in the register of bonds which must, in accordance with the regulations issued by the Financial Supervisory Authority, be booked as non-performing credit shall not be taken into account in the total amount of collateral.

The total amount of collateral of covered bonds shall continuously exceed the remaining combined capital of the covered bonds.

The net present value of the total amount of collateral of covered bonds shall continuously exceed by at least 2 per cent the total net present value of the payment liabilities resulting from the covered bonds.

Mortgage-backed credits and public-sector credits of the debtor of the intermediary credit entered in the register of bonds are taken into account in the total amount of collateral. When calculating the current value of mortgage-backed credits, payments are taken into account in the proportion in which they are taken into account in the total amount of collateral. Derivatives contracts, concluded to hedge against risks

relating to covered bonds and the assets placed as collateral for them, entered into the register of bonds shall also be taken into account when determining the total amount of collateral. The Financial Supervisory Authority may issue further provisions on the calculation of the current value.

At least 90 per cent of the total amount of collateral shall be housing credits or public-sector credits or supplementary collateral unless otherwise provided for in the terms and conditions of a covered bond.

Mortgage-backed credits or public-sector credits of the debtor of the intermediary credit registered as collateral for the covered bonds shall be entered into the register of bonds so that the total value of such credits taken into account in the total amount of collateral, shall continuously exceed the capital of the intermediary credit.

Section 17 Requirements for liquidity

The issuer shall ensure that the remaining average maturity of covered bonds does not exceed the remaining average maturity of the credits entered in the register of bonds in accordance with section 20.

The issuer shall further ensure that the total amount of interest accrued from the assets calculated in the total amount of collateral, during any successive period of 12 calendar months, is sufficient to cover the total amount of interest payable to holders of covered bonds and payments to counter-parties in derivative contracts during the same period. The aforementioned provisions in this sub-section, also applies to derivatives contracts concluded for the purpose of hedging the covered bonds and assets placed as their collateral. Before the commencement of liquidation or bankruptcy proceedings of the issuer or a debtor of an intermediary credit a mortgage credit bank may in respect of collateral granted by a debtor of an intermediary credit alternatively treat the interest payments on the intermediary credit as being the interest accrued from such collateral.

The Financial Supervisory Authority may issue further provisions on the application of this section.

Section 18 Derivatives contracts in mortgage credit bank operations

Derivatives contracts may only be concluded in mortgage credit bank operations to hedge risks.

A covered bond may include a clause whereby the cash flows of the covered bond vary in the same way as the cash flows of a derivatives contract only if a derivatives contract has been concluded to hedge the risk caused by the clause.

The Financial Supervisory Authority may issue further provisions on the application of this section.

Section 19 Annual accounts and interim report

The annual accounts of the issuer shall indicate, in addition to that provided for in chapter 9 of the Act on Credit Institutions, the amount of mortgage-backed credits, intermediary credits and public-sector credits granted as well as the amount of covered bonds issued as well as the basis for the valuation of the collateral for the mortgage-backed credits and intermediary credits. If the issuer is obliged to use a real estate evaluator as referred to in Section 14, the annual accounts shall also indicate the real estate evaluators used.

The provisions of section 157 of the Act on Credit Institutions on an interim report of a deposit bank shall apply to the interim report of a mortgage credit bank.

Chapter 5 Register of bonds

Section 20 Register of bonds

The issuer shall keep a register of issued covered bonds and their collateral.

The following shall be entered in the register for each issue of covered bonds:

- 1) the nominal value and the outstanding capital of the bond;
- 2) the interest rate or reference rate of the bond;
- 3) the repayment period of the bond;
- 4) number of bond participations;
- 5) denomination of the bond participations;
- 6) the total nominal value as well as the outstanding capital of mortgage-backed credits and public-sector credits placed as collateral for the bond; if the total book value of the credits is less than the nominal value, the book value shall also be entered;
- 7) the grantor, type, nominal value or monetary amount and term of validity of the supplementary collateral, placed as collateral for the bond as well as the name of the debtor of the debt obligation or credit institution accepting a deposit;
- 8) any intermediary credits relating to the bond with their nominal value and outstanding capital.

The following shall be entered in the register of bonds for mortgage-backed credit and public-sector credit placed as collateral for a covered bond:

- 1) the credit number by which the credit can be individualised;
- 2) the nominal value and the outstanding capital of the credit;
- 3) the repayment period of the credit;
- 4) the interest rate or reference rate of the credit.

In addition, the following shall be entered regarding mortgage-backed credits placed as collateral for the covered bond:

- 1) the current value of the shares, real estate or corresponding object placed as collateral;

2) how much 70 per cent of the current value of the shares or real estate placed as collateral for the housing credit and 60 per cent of the current value of the shares or real estate placed as collateral for the commercial property credit is, if the capital of the credit exceeds this;

3) the name of the deposit bank accepting the deposit placed as temporary supplementary collateral to replace shares, real estates or corresponding object in connection with the assignment of such property as well as the capital and account number of the deposit.

All assets entered in the register stand equally as collateral for the covered bonds, unless the collateral has been entered in the register as collateral for a specified covered bond. If a mortgage-backed credit, a public-sector credit or a supplementary collateral stand as collateral for a specified covered bond, the register shall additionally indicate the covered bond forming the object of the collateral.

Section 21 Entering derivatives contracts in the register of bonds

Derivatives contracts concluded for hedging against risks relating to covered bonds or to funds placed as their collateral shall be entered in the register of bonds. The register shall indicate at least the following information on each derivatives contract:

- 1) the number by which the contract can be individualised;
- 2) the type of contract;
- 3) the contracting party
- 4) the date of commencement and termination;
- 5) the amount in the contract currency.

Section 22 Maintenance of the register of bonds

The information shall be entered in the register of bonds no later than on the first banking day following the issue of the covered bonds and the granting of the mortgage-backed credit or public-sector credit to be placed as collateral or the acquisition of supplementary collateral. Any changes in the information shall be entered in the register without delay. A record shall be made of the entries in the register which cannot subsequently be changed.

A mortgage-backed credit, intermediary credit and a public-sector credit shall be deleted from the register when they have been fully paid. A credit shall also be deleted from the register if it can not after a change or deletion of collateral be regarded as a mortgage-backed credit. A mortgage-backed credit, intermediary credit, public-sector credit and supplementary collateral may also be deleted from the register, if the total amount of collateral entered in the register as collateral for the covered bonds is sufficient to fulfil the requirements prescribed by law and in the loan conditions of the covered bond after the deletion or assignment.

A mortgage-backed credit, public-sector credit and supplementary collateral entered in the register as collateral for a specified bond may be deleted or assigned as collateral for another bond if the value of the mortgage-backed credits and public-sector credits as well as the amount of supplementary collateral placed

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as collateral for the bonds in question, exceeds the remaining capital of the bond after the deletion and requirements based on the loan conditions of the covered bond or credit rating are fulfilled.

Section 23 Changes in a mortgage-backed credit, an intermediary credit or public-sector credit

The registration of a mortgage-backed credit or public-sector credit as collateral for bonds shall not prevent the mortgage credit bank, deposit bank, credit entity and debtor of an intermediary credit from agreeing with the debtor of such credit on the premature payment of the credit, or on making changes to the terms of the credit or on replacing the collateral with another collateral, as required by this Act, nor shall it otherwise restrict the rights of the mortgage credit bank, deposit bank or credit entity as creditor.

Chapter 6 Enforcement

Section 24 Prohibition on execution, precautionary measures and set-off

A mortgage-backed credit, public-sector credit and supplementary collateral placed as collateral for covered bonds and entered in the register of bonds shall not be taken in execution of a debt of a mortgage credit bank, a deposit bank or a credit entity nor shall precautionary measures be directed at them.

The creditor shall not in the liquidation or bankruptcy of the issuer set-off its receivables against a mortgage-backed credit or public-sector credit entered in the register of bonds and standing as collateral for a covered bond in so far as this is within the scope of the priority of payment right of the holders of the covered bonds referred to in section 25, or against an intermediary credit, unless otherwise provided for in this Act.

Section 25 Position of covered bonds in the event of liquidation and bankruptcy of the issuer

Notwithstanding the liquidation and bankruptcy of the issuer, a covered bond shall be paid, for the entire loan period of the covered bond in accordance with its contractual terms from the funds included in the cover pool of the covered bond before other claims. The funds accruing from collateral for covered bonds after the commencement of liquidation or bankruptcy shall be entered in the register of bonds as collateral for these bonds. The collateral for covered bonds shall also be governed, where applicable, by the provisions of section 24, sub-section 2 of this section, sections 26, 28, 29 on funds placed as collateral for a covered bond. The provisions of chapter 12, section 17 of the Bankruptcy Act (120/2004) shall be applied to proving a claim based on a covered bond upon the bankruptcy of a mortgage credit bank, a deposit bank or a credit entity.

In respect of the mortgage-backed credit included in the total amount of collateral of a covered bond the priority of payment right in accordance with this section is however limited to the maximum amount which corresponds to 70 per cent in respect of housing loans and to 60 per cent in respect of commercial property credits of the current value of shares or real estate which stand as collateral for the credit as entered in the register of bonds at the time of commencement of liquidation or bankruptcy of the issuer.

A mortgage credit bank placed in liquidation or its bankruptcy estate has a right to receive payment from a collection carried out in accordance with the loan conditions or assignment price of a mortgage-backed credit or public-sector credit entered in the register of bonds as collateral for an intermediary credit. Payments in respect of these are entered in the register of bonds in accordance with sub-section 1.

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What is provided for above for the repayment of a covered bond applies accordingly to derivatives contracts entered in the register of bonds and to credit securing liquidity as referred to in section 26, sub-section 4. Counter-parties of derivatives contracts and providers of credits have an equal right with the bearers of the covered bonds to receive payment from the funds, entered in the register as collateral for the covered bond, and from the payments relating to them.

Section 26 Management of collateral during the liquidation and bankruptcy of the issuer

When the issuer has been placed in liquidation or declared bankrupt, the Financial Supervisory Authority shall, without delay, appoint an attorney in accordance with section 29 of the Act on the Financial Supervisory Authority (878/2008) to supervise the interests of creditors of covered bonds and creditor entities comparable to such and to exercise, on their behalf, the right to be heard. The attorney shall especially supervise the management of the funds placed as collateral for the covered bonds and their conversion into cash as well as the contractual payments to be made to the holders of the covered bonds. The attorney to be appointed shall have sufficient knowledge of financing and legal issues with regard to the nature and scope of the duties. Unless otherwise provided for below, the provisions of section 29 of the Act on the Financial Supervisory Authority shall be applied to the attorney.

A bankruptcy administrator shall, on demand of the attorney or by his permission, conclude derivatives contracts necessary for hedging against risks relating to covered bonds and the assets placed as their collateral as well as, where necessary, sell a sufficient amount of collateral for the covered bond in order to fulfil the obligations relating to the covered bond.

In addition, the administrator may, by permission of the Financial Supervisory Authority, assign the liability for a covered bond as well as the assets placed as its collateral to another mortgage credit bank, deposit bank or credit entity that has acquired a license to issue covered bonds or to a foreign mortgage credit bank which is subject to supervision corresponding to that of this Act unless otherwise provided by the terms of the covered bond.

A bankruptcy administrator has a right to terminate or assign a derivatives contract to a third party on the attorneys demand or consent, if assets standing as collateral are transferred or converted into cash and it is reasonable from the perspective of risk management, and a right to transfer collateral to the counter-party in derivatives contract when the interests of the holder of the covered demands such. A bankruptcy administrator shall also have a right to conclude contractual arrangements to secure liquidity or take out liquidity credit upon the attorney's demand or consent.

If the requirements for the total amount of collateral of the covered bonds, in sections 16 and 17, can not be fulfilled, the administrator must upon the demand or consent of the attorney call the covered bonds due and for payment of them, sell the assets placed as collateral for each of the covered bonds.

The administrator shall upon the demand or consent of the attorney, demand that the debtor of the intermediary credit sells to the issuer the mortgage-backed credits and public-sector credits included in the collateral of the covered bond so that the received consideration is set off partly or wholly against the issuers receivable in accordance with the intermediary credit, notwithstanding section 24, sub-section 2. The debtor of the intermediary credit must upon the administrators demand sell to a third party a sufficient amount of collateral for the issuers covered bond in order to fulfil obligations relating to the covered bond.

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Section 27 Assignment of collateral to the bankruptcy estate

The bankruptcy administrator may, on the consent of the attorney, assign collaterals entered in the register of bonds to the bankruptcy estate only, if the value and net present value of the total amount of collateral, as provided for in section 16, considerably exceed the total amount of the covered bonds and it is apparent that the collateral to be assigned shall not be necessary to fulfil the obligations provided for by the terms of the covered bonds, derivatives contracts or contractual arrangements securing liquidity.

The bankruptcy administrator shall assign the share of payments produced by a mortgage-backed credit exceeding the priority of payment right, as provided for in section 25, to the bankruptcy estate.

What is provided for above for the assignment of collateral to the bankruptcy estate, applies equally to the debtor of an intermediary credit.

Section 28

Management of collateral during the liquidation or bankruptcy of the debtor of an intermediary credit

When the debtor of an intermediary credit has been placed in liquidation or bankruptcy the Financial Supervisory Authority shall without delay appoint an attorney in accordance with section 29 of the Act on the Financial Supervisory Authority to supervise the interests of the holders of covered bonds issued by the mortgage credit bank standing as the creditor of the intermediary credit and to exercise, on their behalf, the right to be heard. The attorney must especially supervise the management of funds placed as collateral for covered bonds and their conversion into cash as well as the contractual payments to be made to the creditors of covered bonds and entities comparable to such. Notwithstanding the liquidation and bankruptcy of the debtor of the intermediary credit, a covered bond must be paid for the entire loan period of the covered bond, in accordance with its contractual terms, from the funds entered in the register of bonds as collateral for the covered bond before other claims following, where applicable, in addition to what is provided for in section 25 for the priority of payment right.

When the debtor of the intermediary credit is in liquidation, the bankruptcy administrator shall upon the attorney's demand or consent:

- 1) sell to the issuer the mortgage-backed credits or public-sector credits, included in the collaterals of its covered bond, in such a manner that, notwithstanding section 24 sub-section 2, the substitute claim is set-off partially or wholly against the claim under the intermediary credit of the issuer;
- 2) if necessary, sell to a third party a sufficient amount of collaterals for a covered bond to manage obligations related to the covered bond.

Section 29 Cash assets relating to the liquidation and bankruptcy of the issuer

Funds accrued from the collateral of covered bonds after the commencement of liquidation or bankruptcy of the issuer of covered bonds and the bank accounts related to the said funds shall be entered in the register of bonds. After the commencement of liquidation or bankruptcy of a mortgage credit bank, deposit bank or credit entity a credit in accordance with section 26, sub-section 4 taken by a bankruptcy administrator shall be entered in the register of bonds. The credit institution in which the bank account is

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held and the bank account number must be entered in the register in respect of every bank account and in respect of every taken credit, the credit institution who issued the credit, the number of the credit and nominal value shall be entered in the register. The covered bond to which the item referred to above is directed at must also be entered in the register.

Section 30 Position of derivatives contracts in the liquidation or bankruptcy of the issuer

The obligations resulting from derivatives contracts shall be fulfilled towards the issuer in accordance with the contractual terms notwithstanding a bankruptcy or liquidation unless otherwise provided by the terms of the derivatives contract. The provisions of section 29 on the collateral for a covered bond shall be applied to the funds accrued by the issuer on the basis of the derivatives contracts referred to in this section after the commencement of the liquidation or bankruptcy proceedings.

Chapter 7 Provisions on liability for damages and punishment

Section 31 Liability for damages

The liability for damages of a shareholder of a mortgage credit bank, a member of its Supervisory Board and Board of Directors as well as its Managing Director shall be governed by the Act on Credit Institutions and the liability for damages of an auditor by the Audit Act (459/2007). The bringing of an action for damages on behalf of a mortgage credit bank shall be governed by the provisions of chapter 22, sections 6 - 8 of the Limited-Liability Companies Act (624/2006).

Section 32 Mortgage credit bank offence

Anyone who

- 1) engages in mortgage credit bank operations without a licence;
- 2) in violation of section 6 uses the term mortgage credit bank in its trading name or otherwise to indicate its activity, or in violation of section 10 uses the term covered bond or a term of confusing similarity for bonds issued by it;
- 3) issues a covered bond without complying with the provisions of sections 14 and 15 on the collateral of such bonds or
- 4) deliberately makes an incorrect entry in the register of bonds or deliberately neglects to make an entry required by this act,

shall, unless the act is minor or subject to a more severe punishment elsewhere in the law, be sentenced for a mortgage credit bank offence to a fine or to imprisonment not exceeding six months.

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Chapter 8 Provisions on entry into force and transitional provisions

Section 33 Entry into force

This Act shall enter into force on 1 [] 2010.

Section 34 Transitional provisions

By this Act the Mortgage Credit Bank Act enacted 23rd December 1999 including its later amendments is repealed.

The provisions of this Act shall not apply to covered bonds issued or derivatives contracts registered before the entering into force of this act. Unless otherwise agreed, the relevant provisions in sections 9, 9a and 17 of the old act are applied to such bonds. An entry which may not be altered must be made in respect of this matter in relation to the bond in the register of bonds.

A mortgage credit bank which at the time of the entry into force of this Act is engaged in mortgage credit bank operations, shall within six months from the entry into force of this Act, bring its register of bonds to correspond to provisions provided for chapter 5 of this Act.

Measures necessary for the implementation of this Act may be under-taken prior to its entry into force.