

RULES

on Price Indexation of Savings and Loans

I. General provisions on price indexation

Article 1

Domestic price indexation of savings and loans shall be based on the Consumer Price Index (CPI) as announced monthly by Statistics Iceland, cf. the provisions of Chapter VI of Act No. 38 of May 26, 2001 on Interest and Price Indexation, unless otherwise stipulated by law, cf. however the provisions of Article 5 below.

II. Indexation of deposit accounts

Article 2

Deposit Money Banks (DMBs) may only accept savings which are indexed against the CPI if the deposit is in a time account tied for 36 months or more.

However, DMBs may price-index deposits in the following cases:

1. If the terms stipulate that the deposit is available for withdrawal for a specific period to a maximum of one month at the end of the original tied period, which is a minimum of 36 months according to paragraph 1, the deposit may be price-indexed if it is tied again for 6 months or more.
2. Under a regular monthly savings plan for a minimum duration of 36 months, where the indexation will apply to the unwithdrawn deposit amount each month, while deposits in excess of that figure will bear the nominal rate of interest.
3. Vacation pay accounts under the provisions of Act No. 30 of March 27, 1987, on Holiday Allowance.

Article 3

Price indexation of indexed deposit accounts is calculated as stated in the following three paragraphs.

Price indexation is calculated in two ways, i.e. the lowest deposit amount in a calendar month is adjusted in accordance with the CPI, while deposits and withdrawals are indexed within the month with separate price indexation in the form of interest rates announced by the DMBs.

On the first day of each month the principal, which has remained unmoved for the past month, shall have changed by the same proportion as the CPI, regardless of whether this is an increase or a decrease.

Separate indexation is applied to in-payments from the day of deposit to the end of the same month, then compounded to the principal after the CPI adjustment has been made. In the same way, separate indexation is applied to out-payments from the beginning of the same month until the day of withdrawal, then compounded to the principal at the end of the same month. Separate indexation within the out-payment month, however, is paid out together with the principal and accrued interest if the account is closed.

III. Indexation of loans

Article 4

Provisions for indexing the principal of a loan against the CPI are only permitted if the loan is for a minimum term of five years.

The principal changes in proportion to changes in the CPI from the base index to the first due date, and then in proportion to changes in the index between due dates. The principal of a loan shall change on each due date before interest and instalments are calculated. The base index shall be the index that is in effect when the loan is made, unless otherwise determined by an agreement or the nature of the case.

All the due dates of a loan shall be on the same day of the month, so that the interval between them is counted in whole months. If the due date of a loan is on a different day of the month from that on which the loan is made, a daily interest rate with special indexation shall be calculated for the purpose of adjustment for deviations within the month of the loan (to a maximum of 29 days). On disbursement of a loan the borrower pays daily interest if the due date is later in the month than the granting of the loan, while the lender shall pay if the due date is earlier.

Receipts shall state in detail the calculation of payments and accrued indexation.

Article 5

Loan agreements may, however, be indexed against a domestic or foreign equity index, or a basket of such indices which do not measure changes in the general level of prices. The provisions of Article 4, paragraph 1 apply to the term of lending, and the technicalities of the debt documents are subject to the provisions of Article 4, paragraphs 2, 3 and 4 as applicable.

IV. Entry into force, etc.

Article 6

These Rules were set with reference to the provisions of Chapter VI of Act No. 38 of May 26, 2001, and enter into force on July 1, 2001. At the same time, the Central Bank of Iceland's Rules No. 879 of December 17, 1999, on Price Indexation of Savings and Loans, are abrogated.

Article 7

Transitional provision

If a loan agreement, certificate of deposit or other instrument, denominated in Icelandic króna and made prior to the entry into force of these Rules, states that the amounts shall change according to the SDR or euro exchange rate index as calculated and announced by the Central Bank of Iceland, then the official reference exchange rate of the euro or SDR (buying rate), in accordance with Article 19 of Act No. 36/2001, on the Central Bank of Iceland, on the 21st day of the preceding month shall be used as a reference each month. If the exchange rate is not fixed on the 21st day of the month, the last buying rate fixed before that day shall be used as a reference. Deposits may not be accepted in accounts which have been established with the abovementioned terms before the entry into force of these Rules.

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