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## Icelandic banks vs. Nordic Peers

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**Presented by:**  
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Reykjavik,  
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**Moody's Investors Service**

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# Agenda





## Agenda

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- **Rating Icelandic Banks**
- **Moody's Bank Rating Methodology**
- **Nordic Peer Group Comparison**
- **Rated Icelandic Banks: Strengths and Challenges**

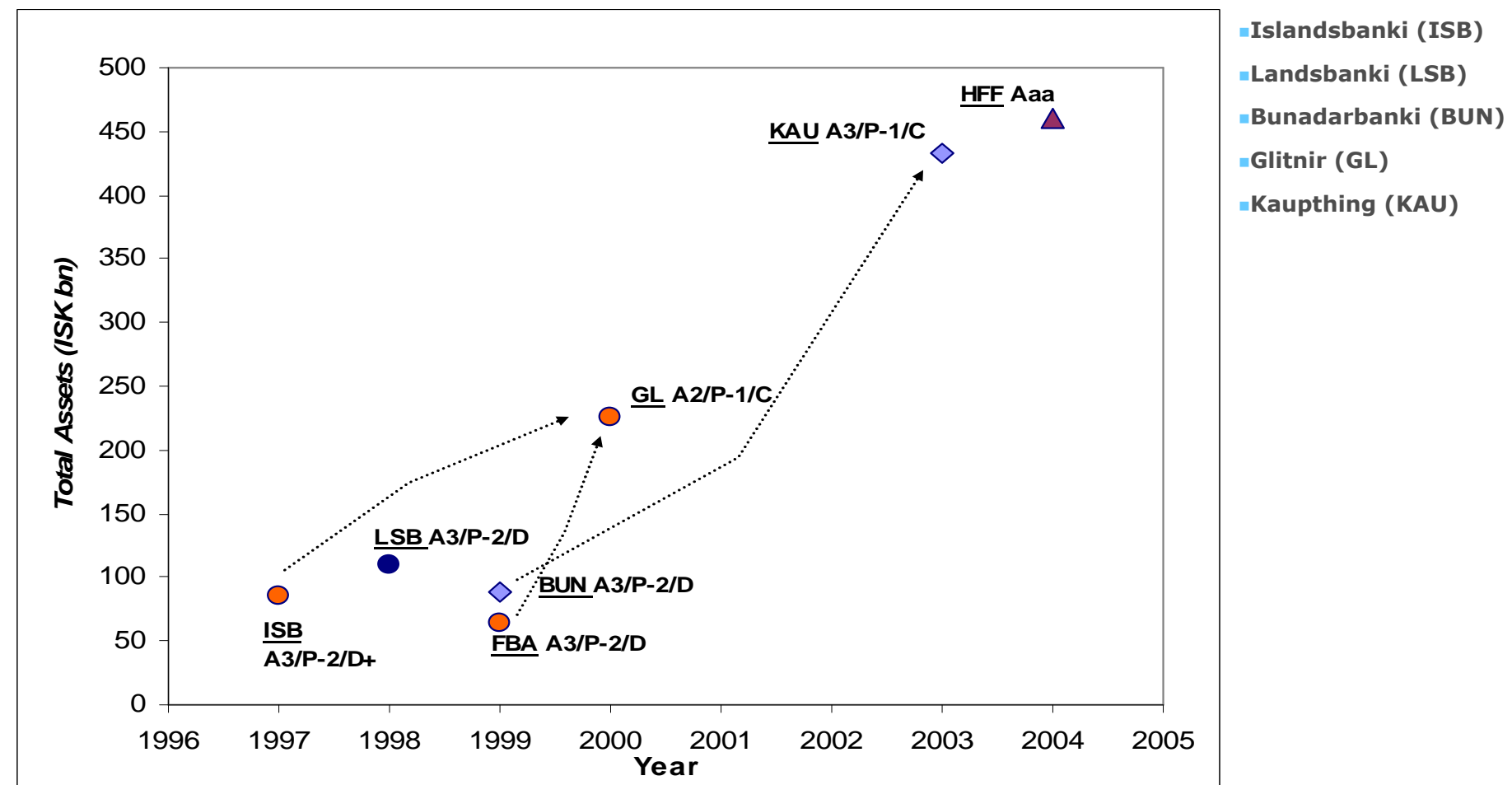




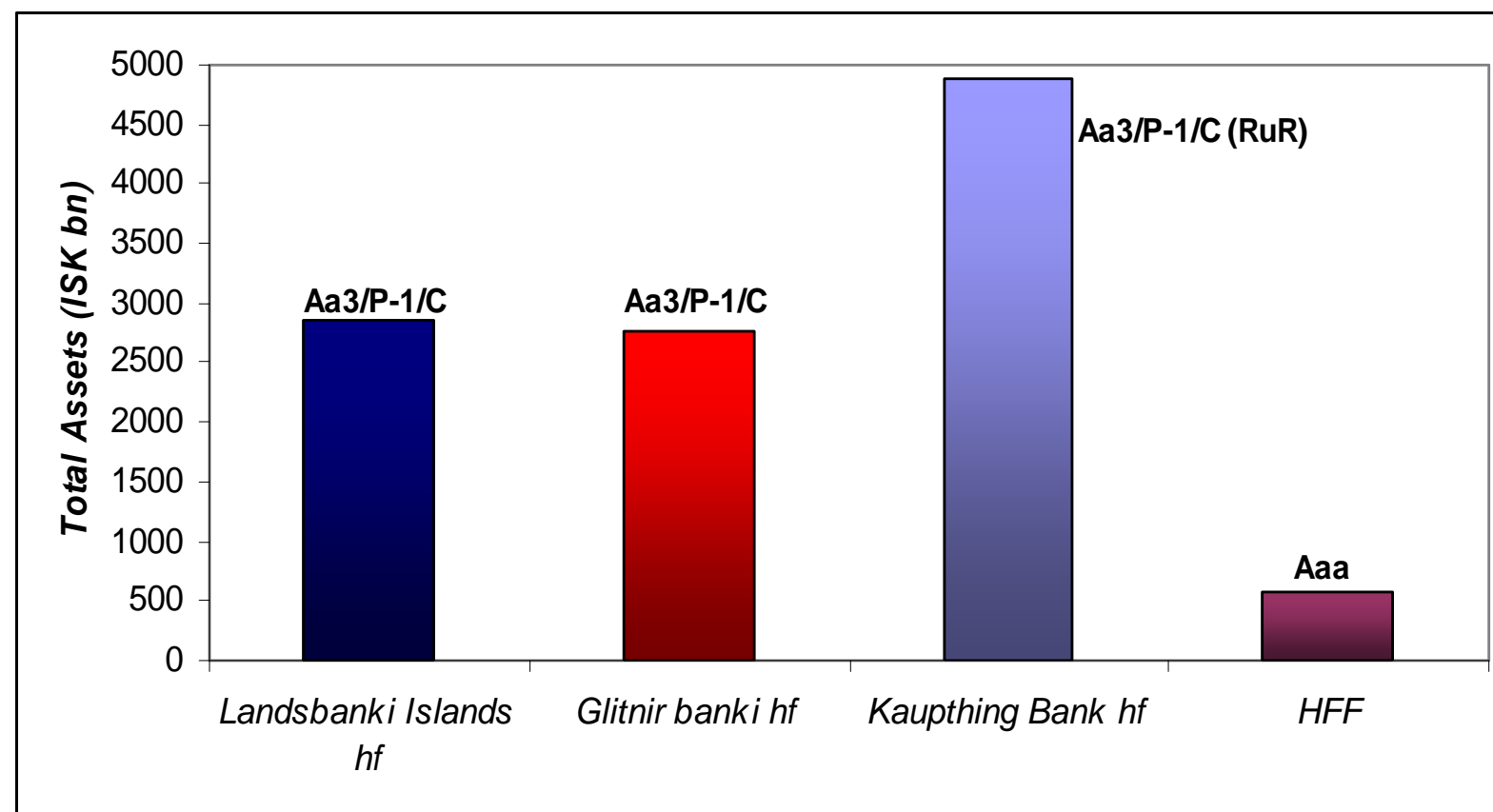
# Rating Icelandic Banks



## A banking system in transition



## ...and with strong growth



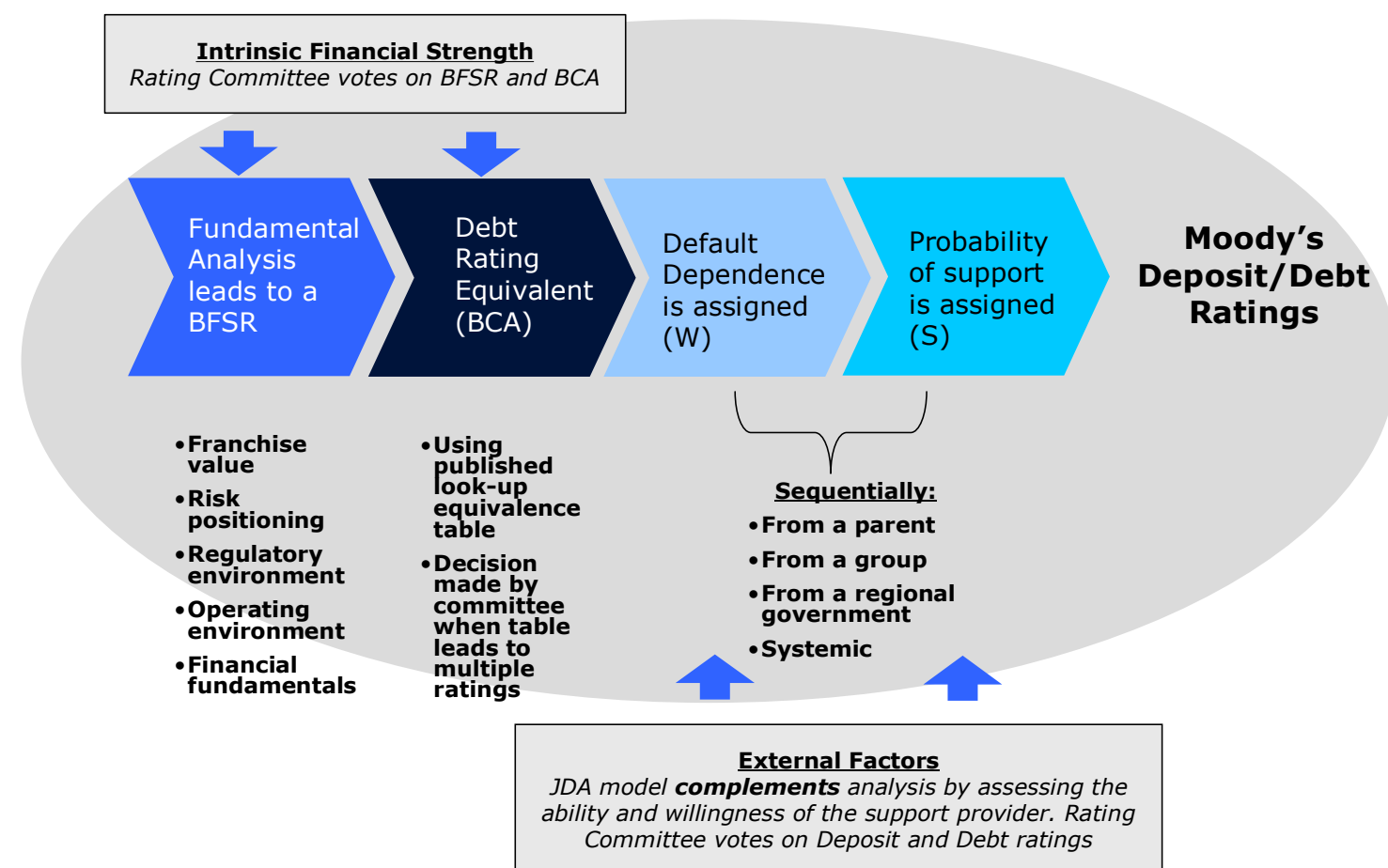


## Moody's Bank Rating Methodology



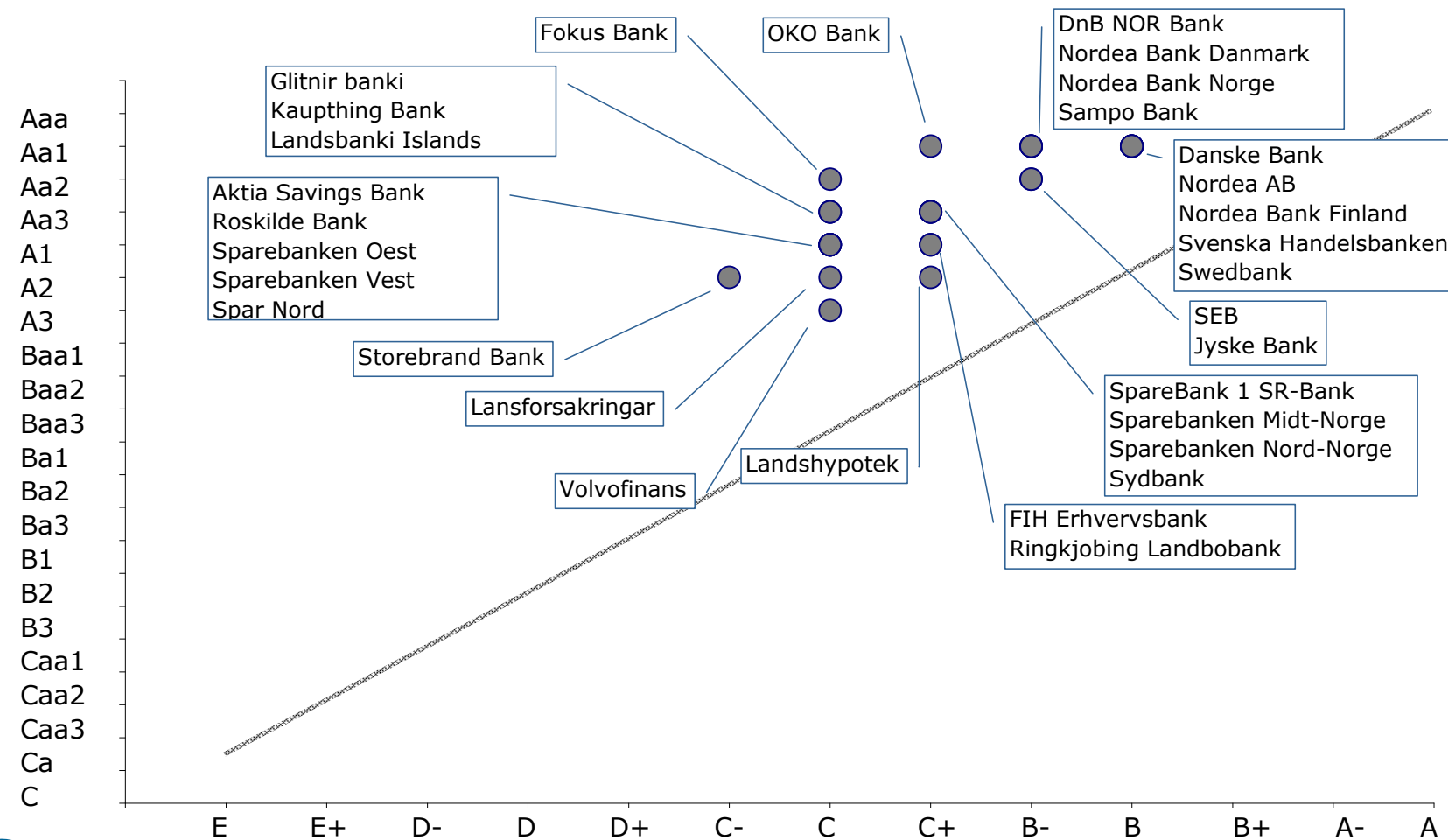
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# Moody's Bank Rating Methodology





## Nordic Banks: High standalone ratings combined with high support

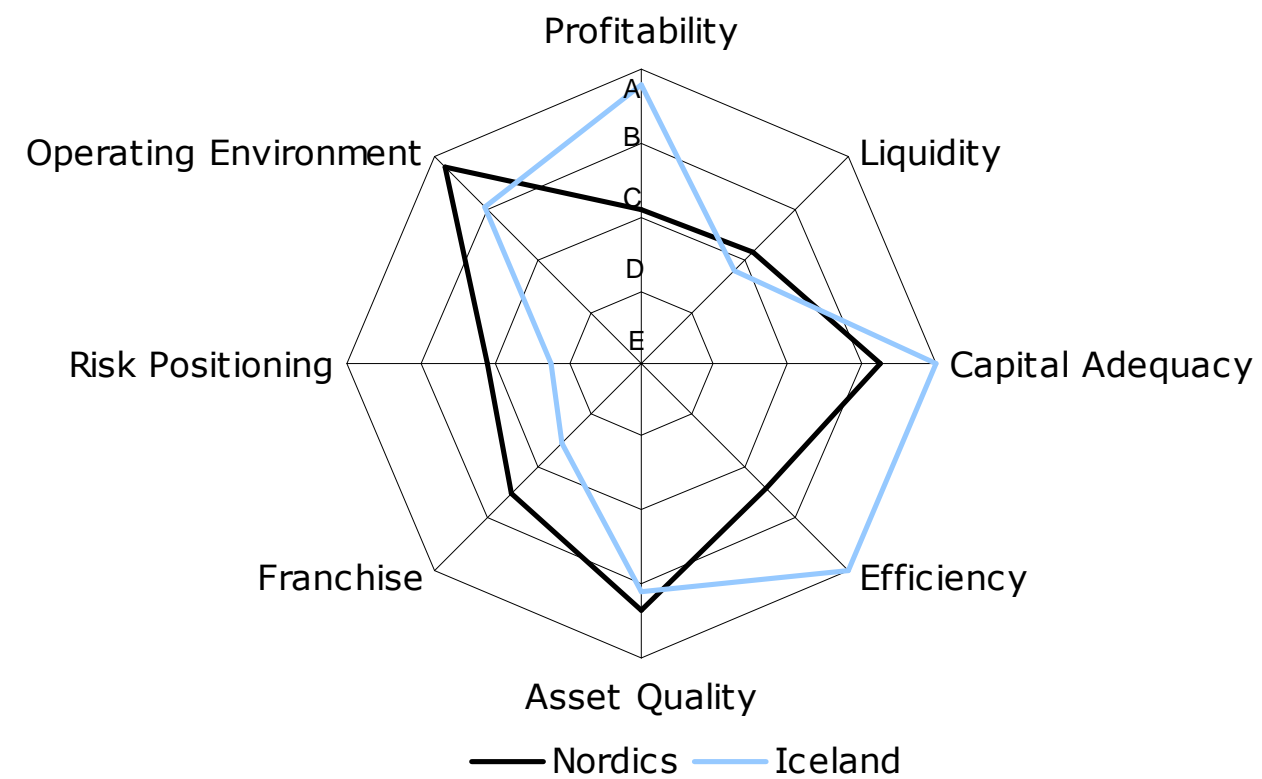




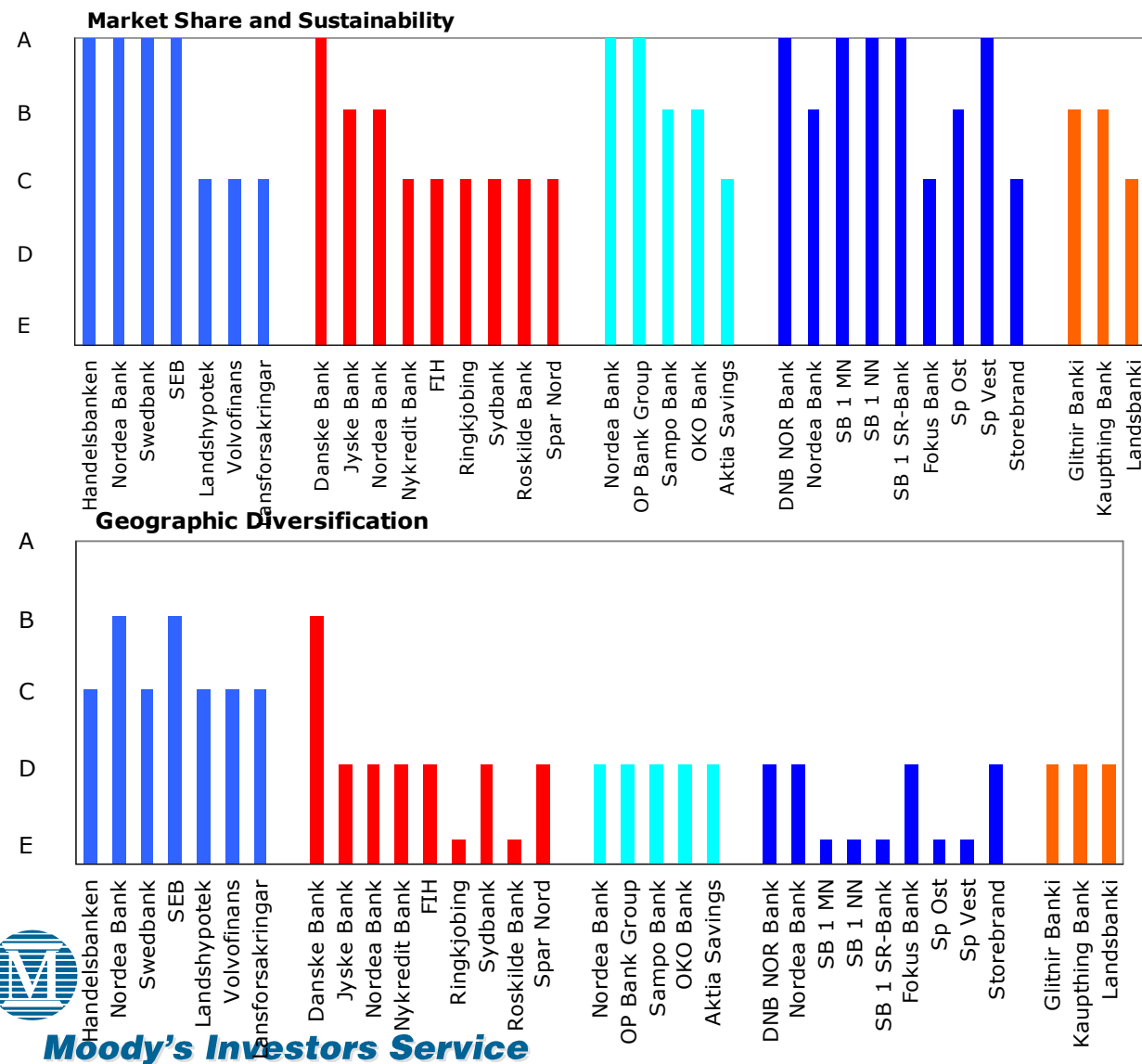
# Nordic Peer Group Comparison



## Iceland vs. Nordics: Eight Dimensions



# Market Share vs. Geographic Concentration

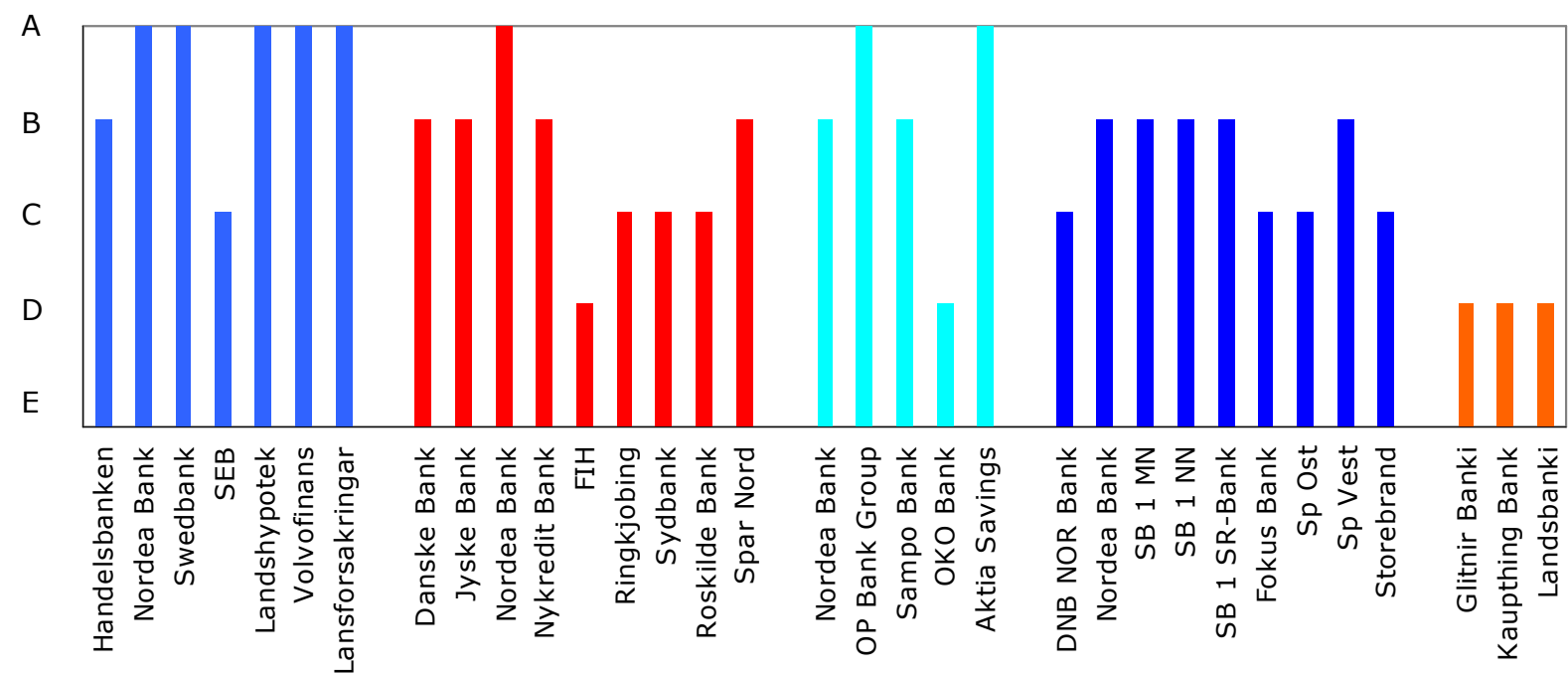


■ **Solid and diversified market share**

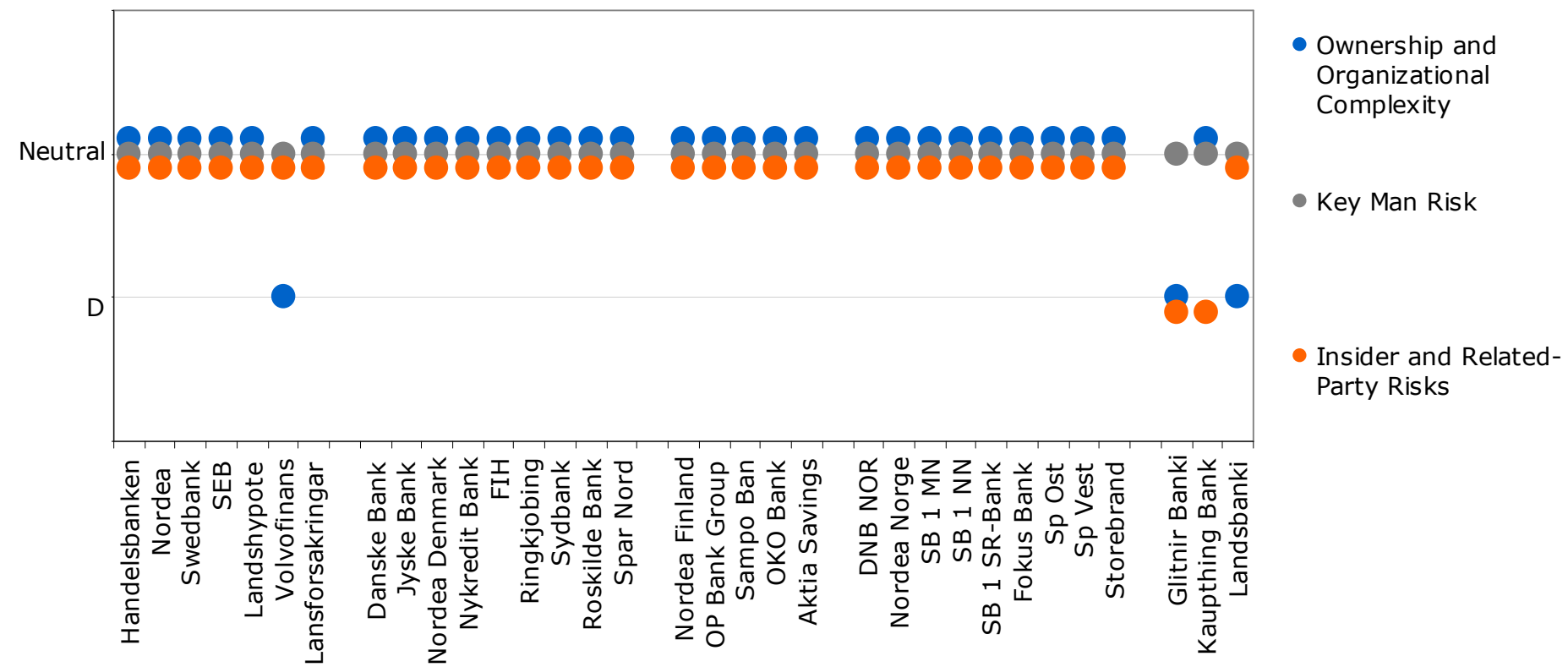
■ **...but generally operations concentrate on small geographic areas**



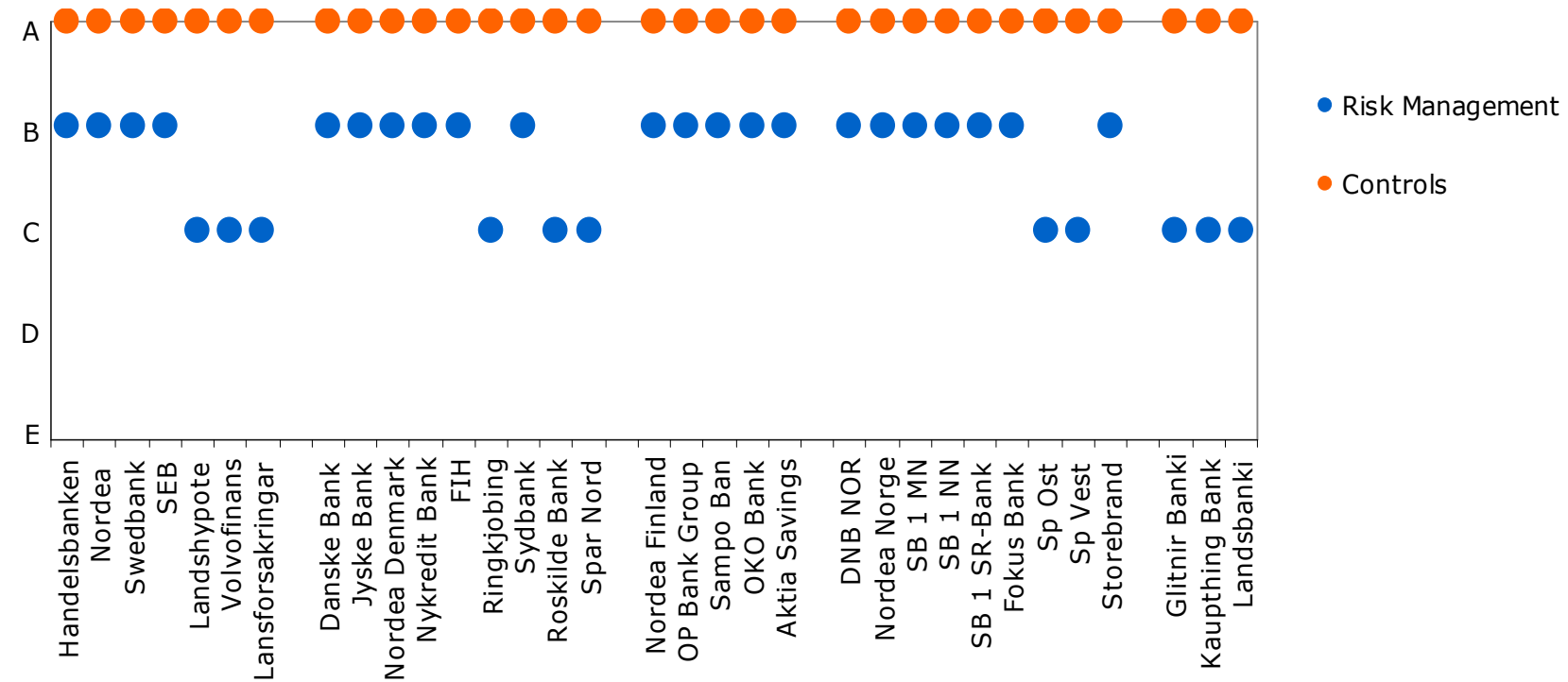
## Earnings Stability: Less recurring earnings



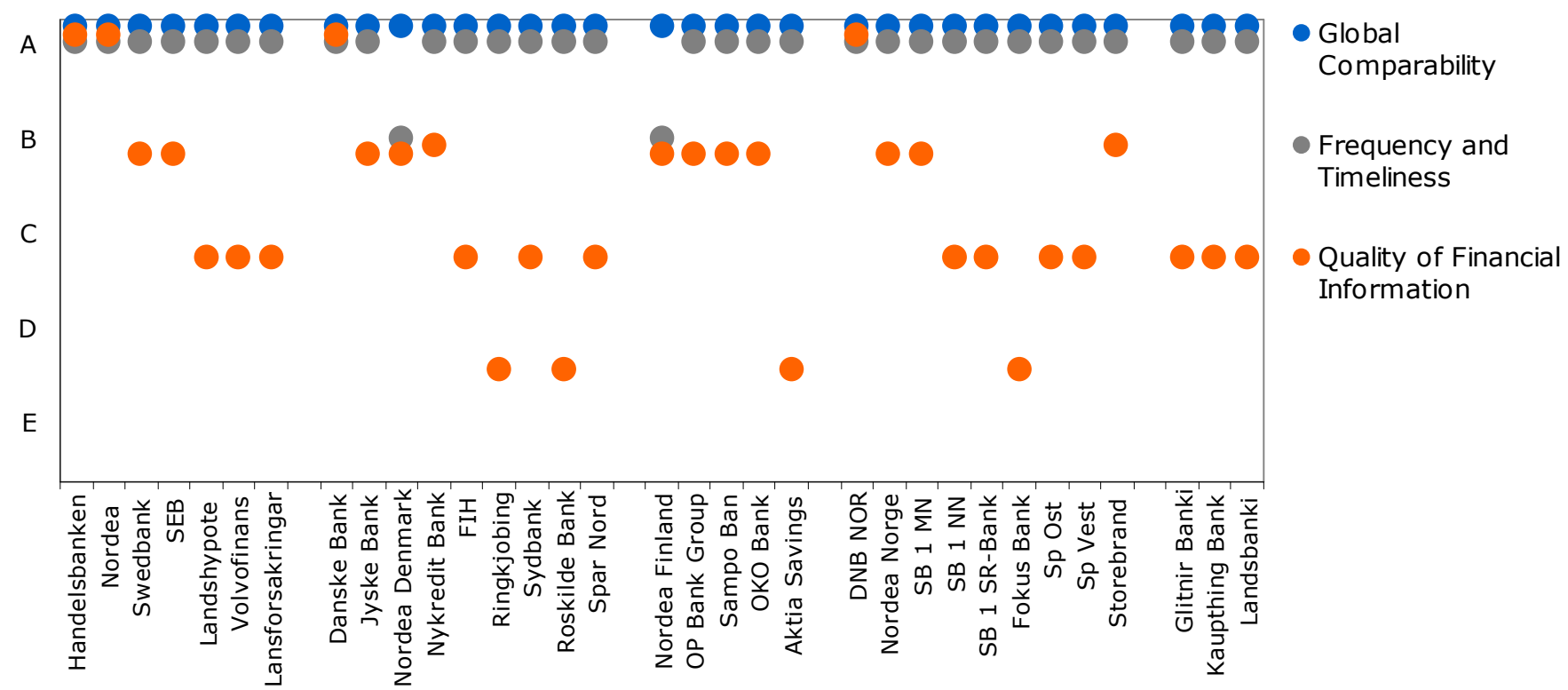
## Corporate Governance: Different from Nordic peers



## Controls and Risk Management: Improving

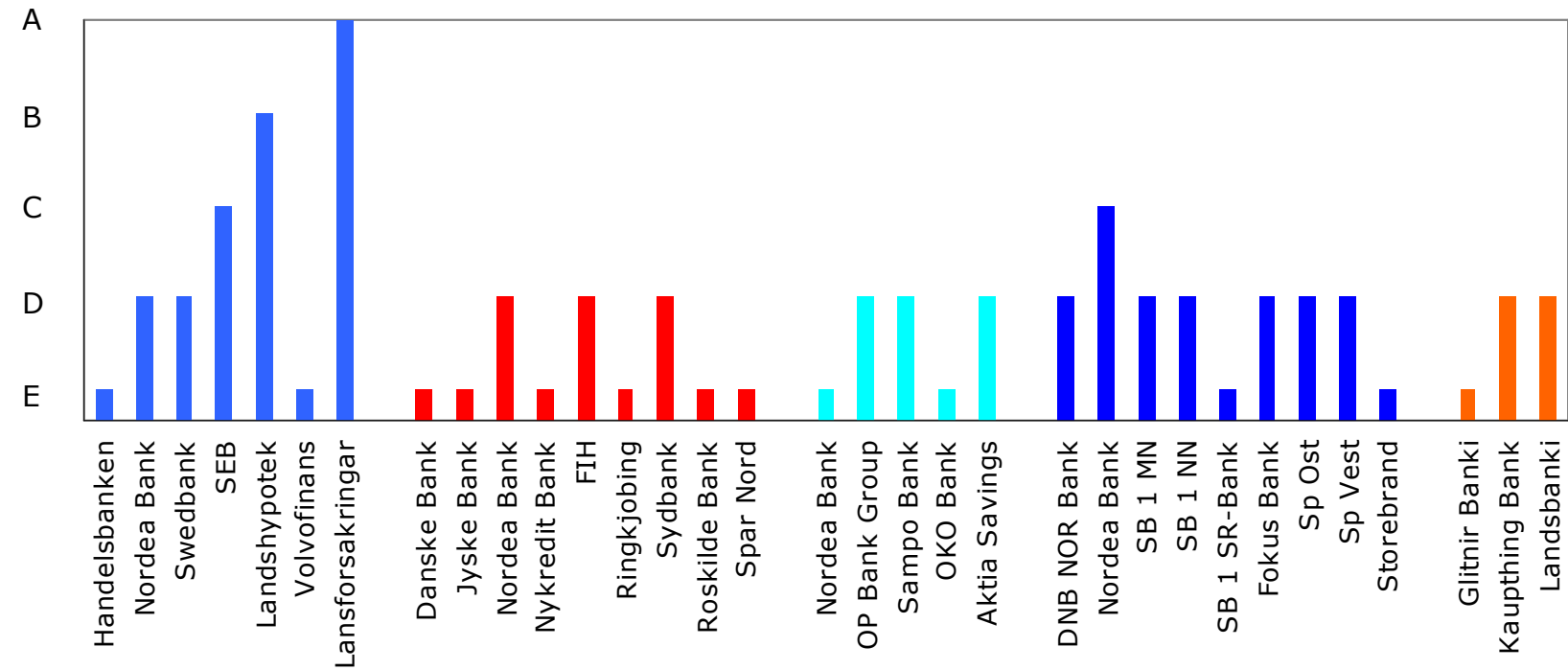


## Financial Reporting Transparency: Improving

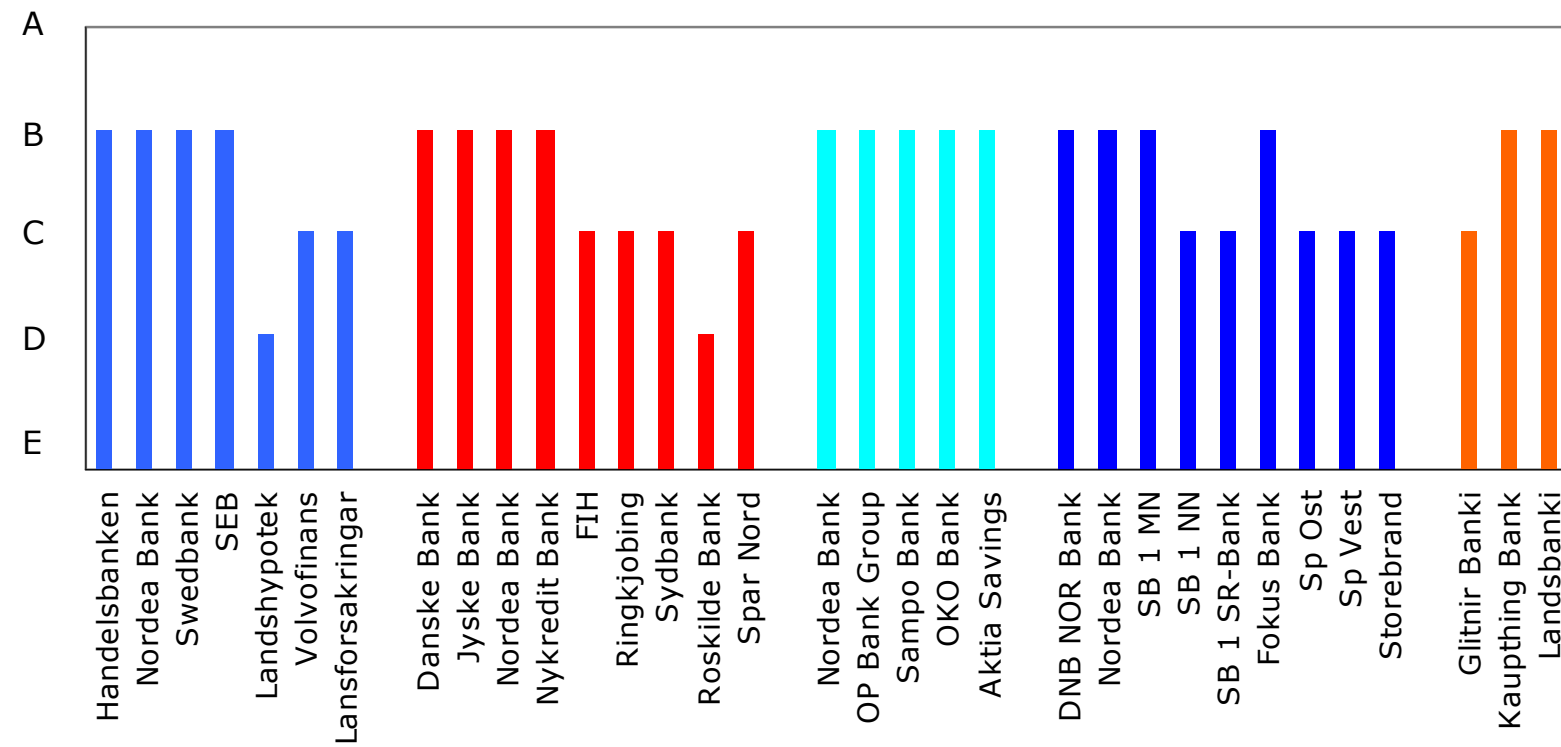




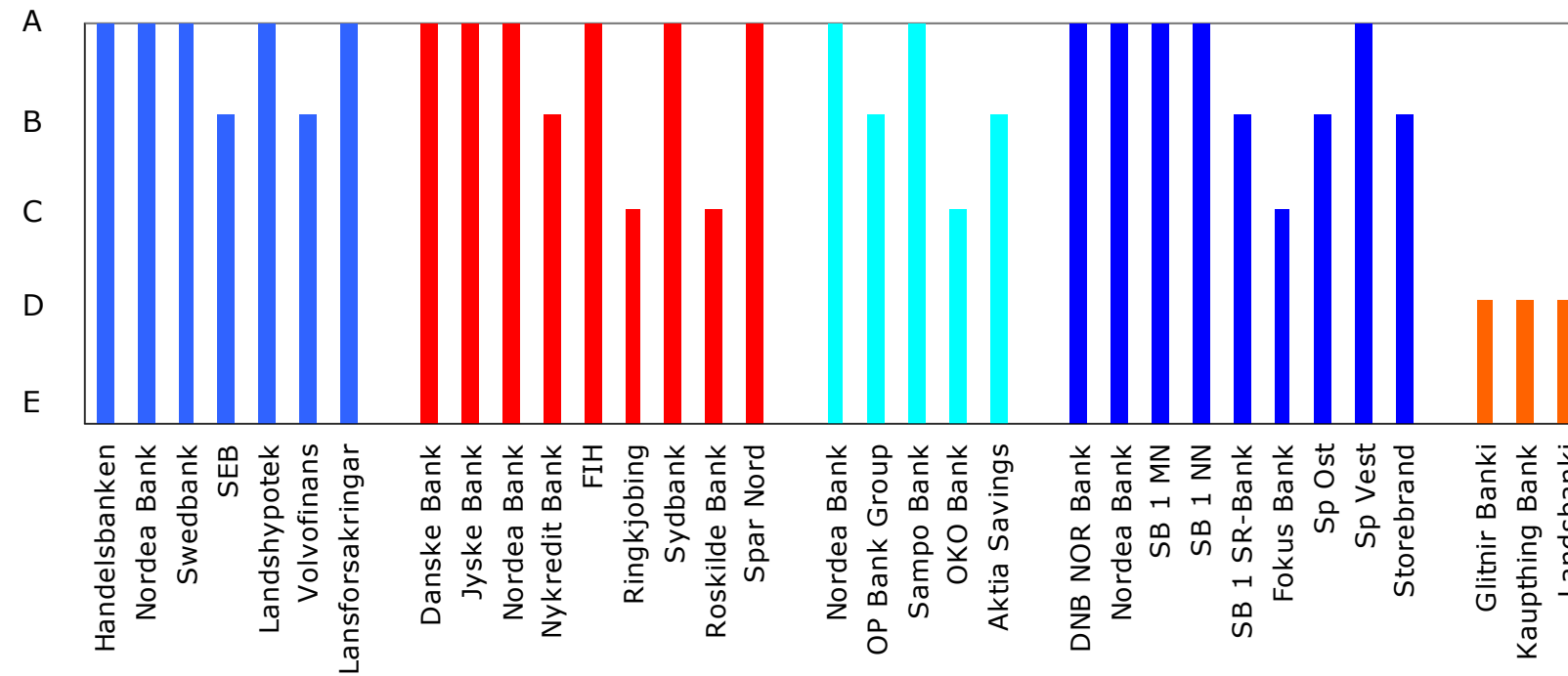
## Credit Risk Concentration: In line with peers



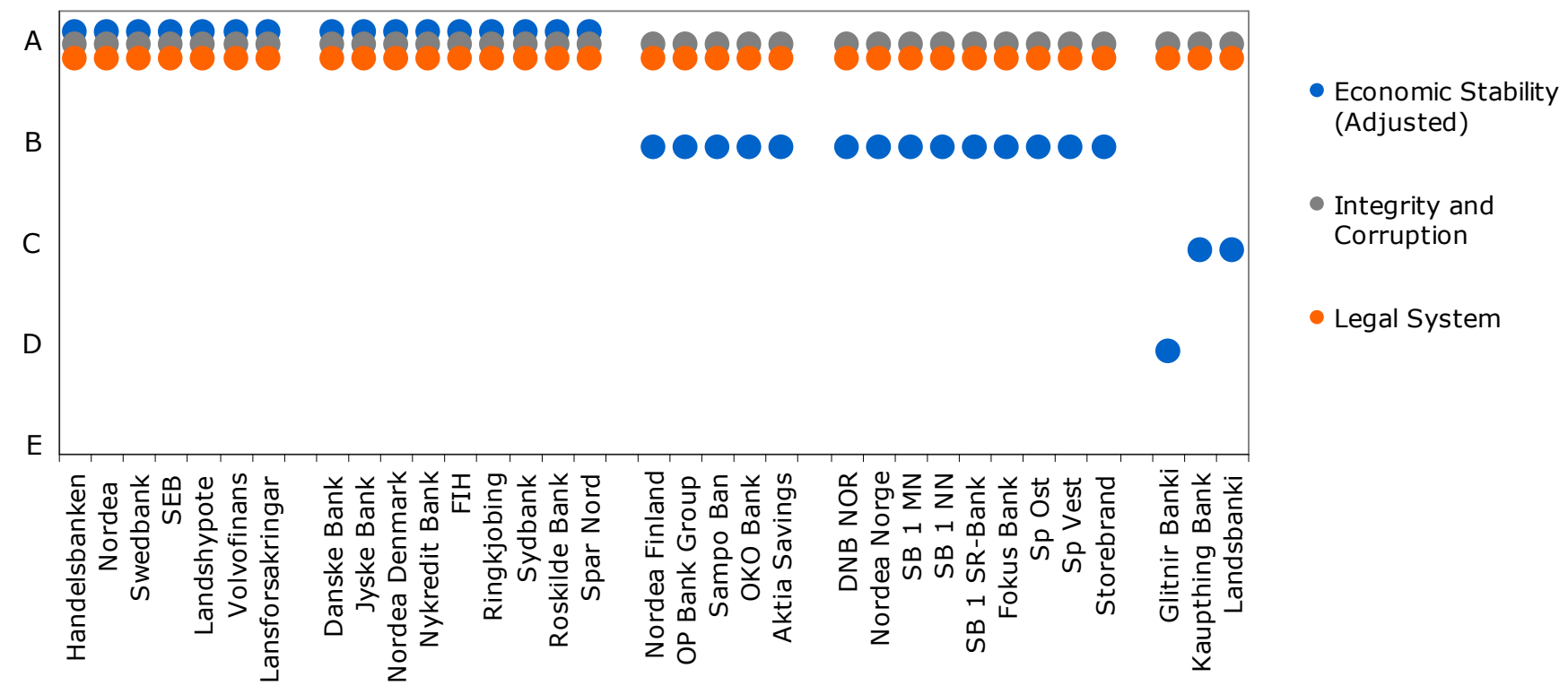
## Liquidity Management: Improved, but difficult market conditions



## Market Risk Appetite: High compared to Nordic Banks

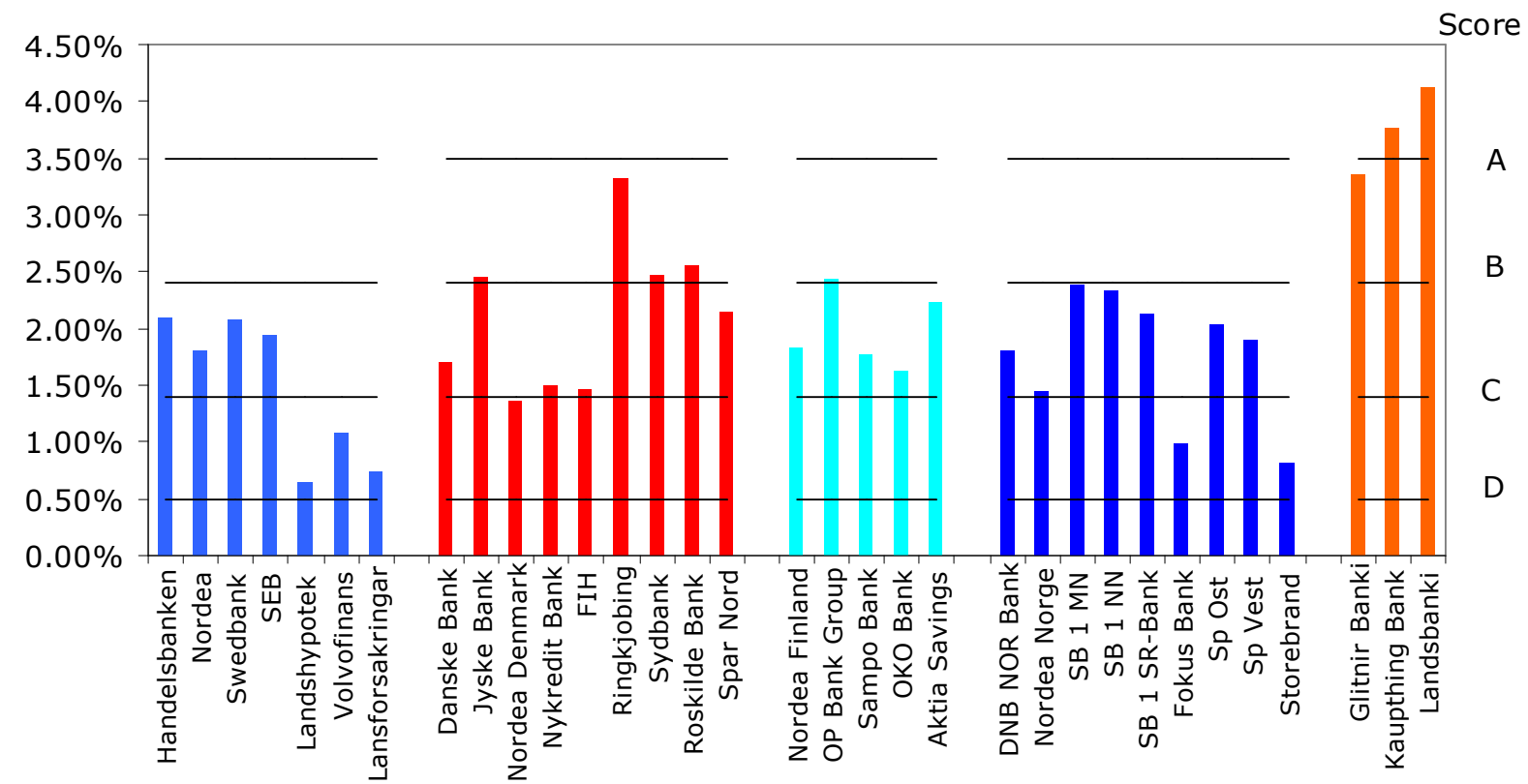


# Operating Environment



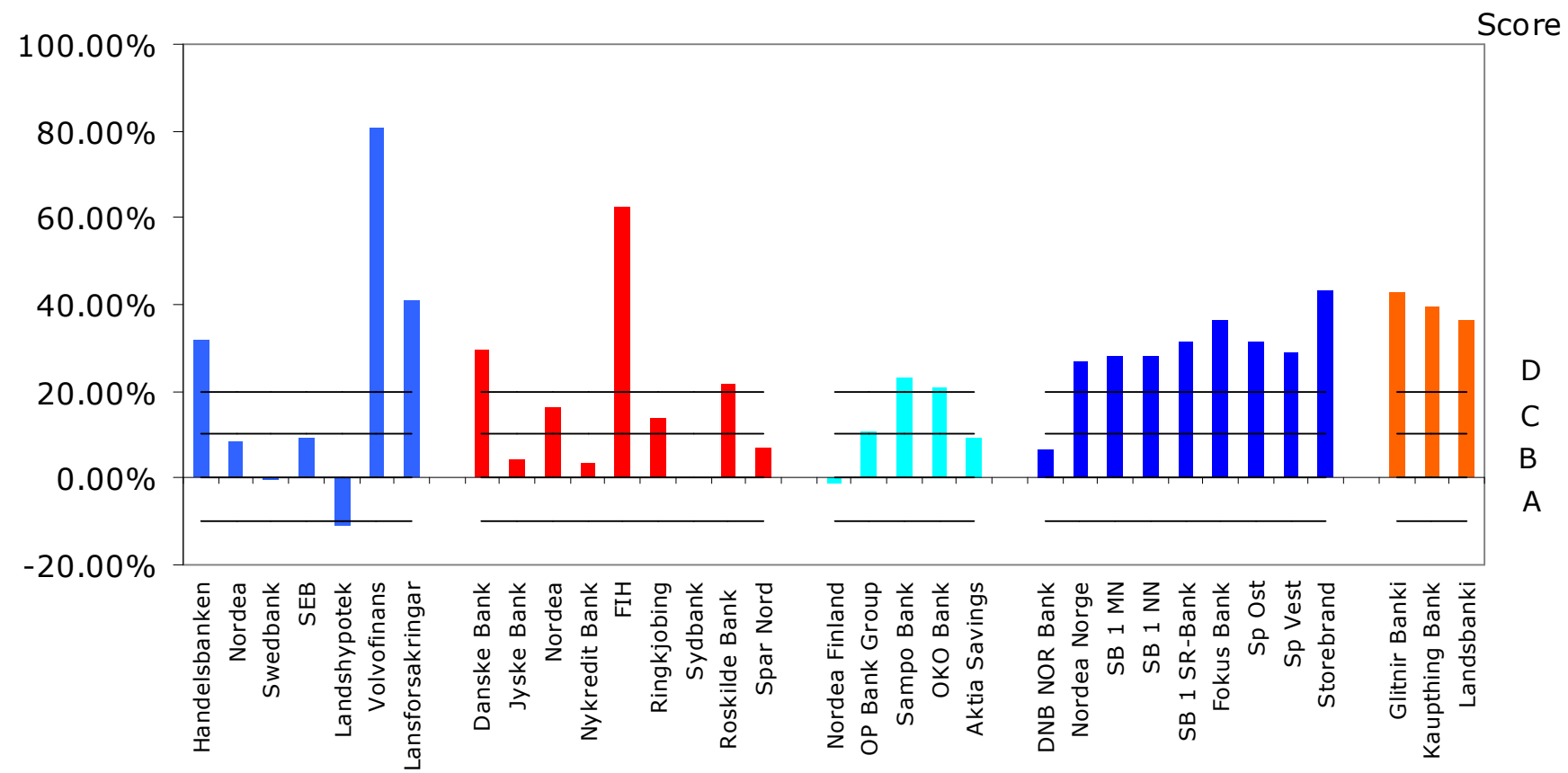
## Profitability: Strong albeit not deemed to be recurrent

Pre-Provision Profit % Risk-Weighted Assets



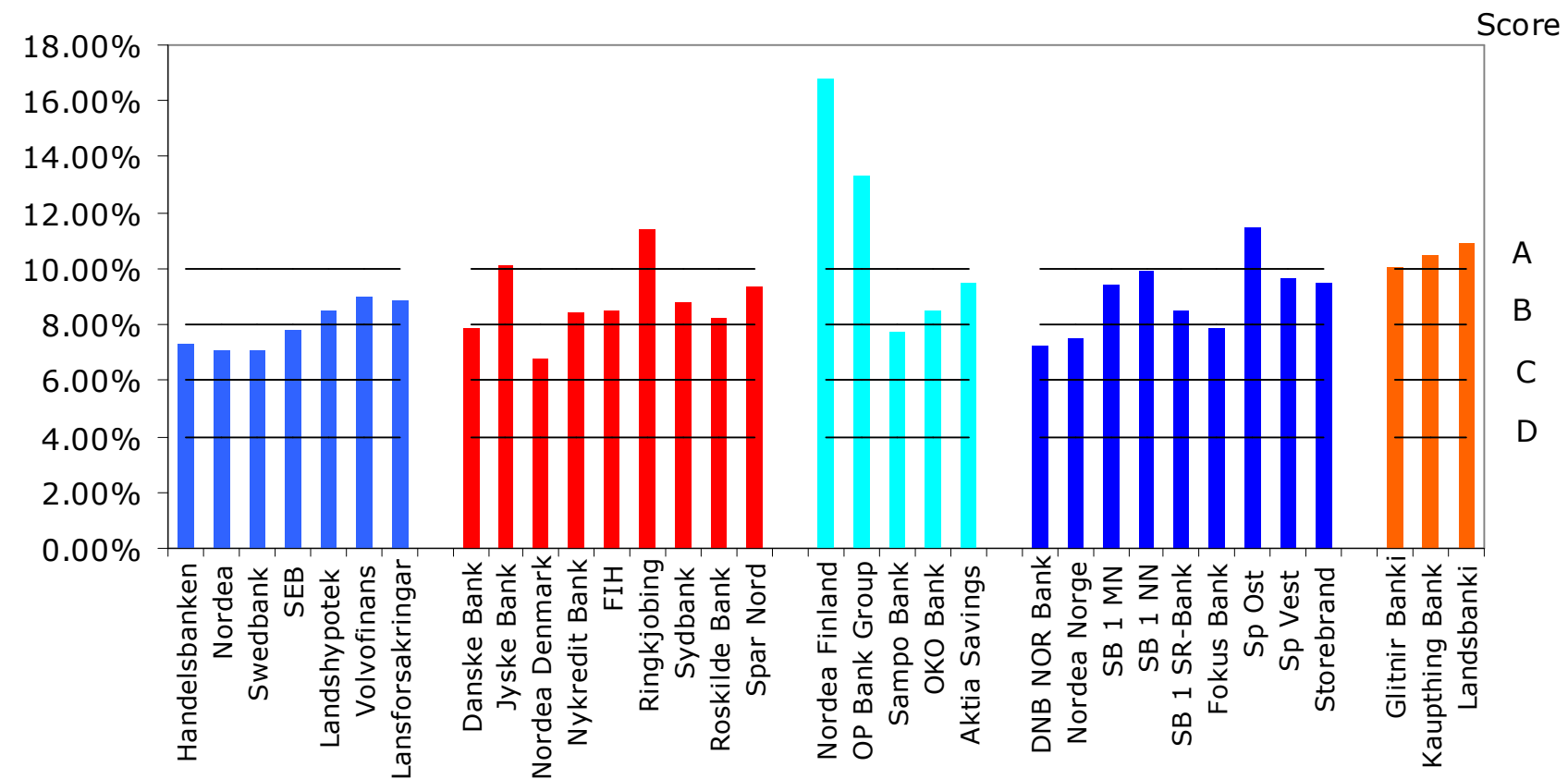
# Liquidity: More stretched than other Nordic players

(Market Funds - Liquid Assets) % Total Assets



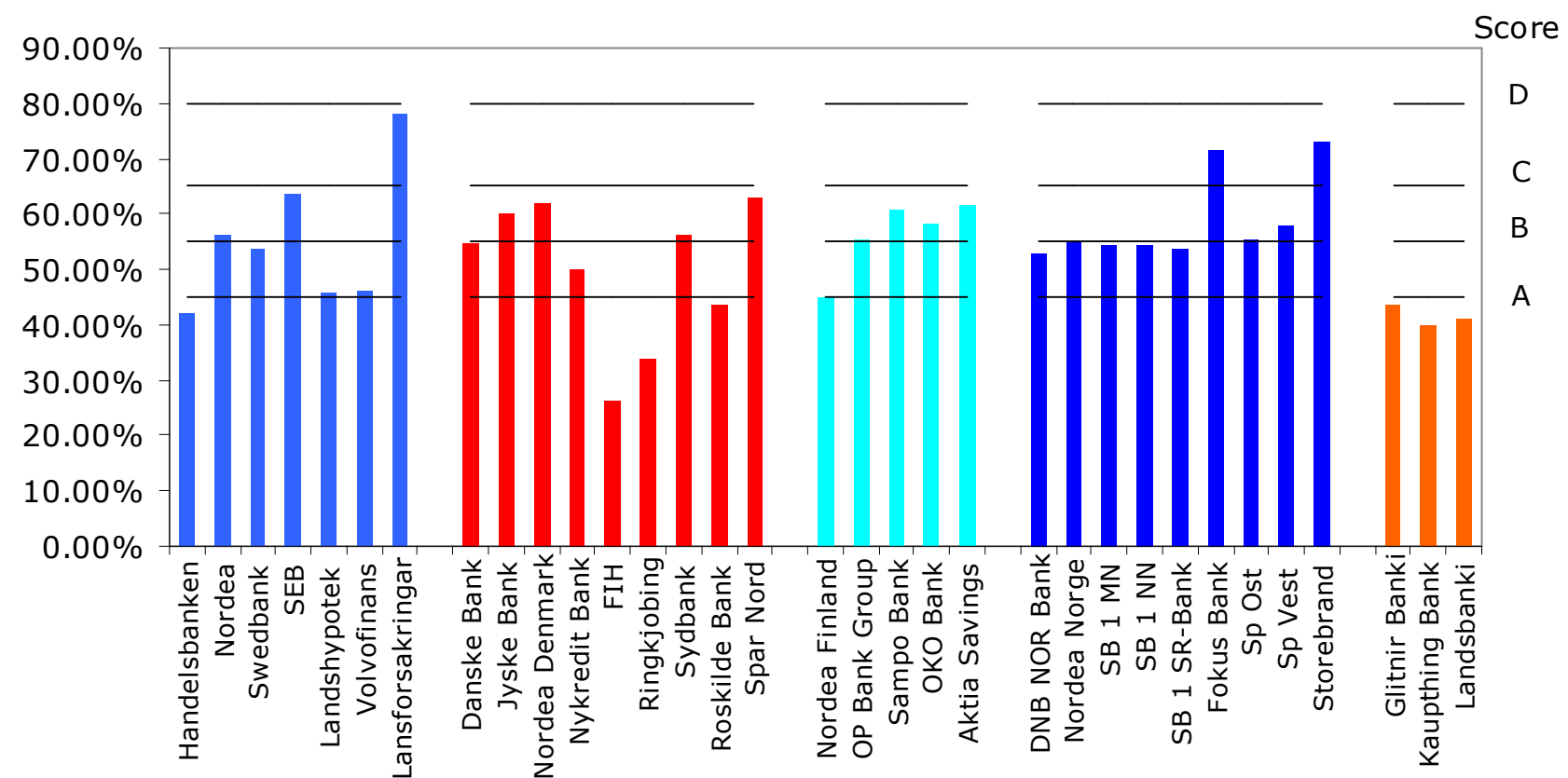
## Capital Adequacy: Relatively high

Tier 1 ratio



## Efficiency: Compares well

Cost / income ratio



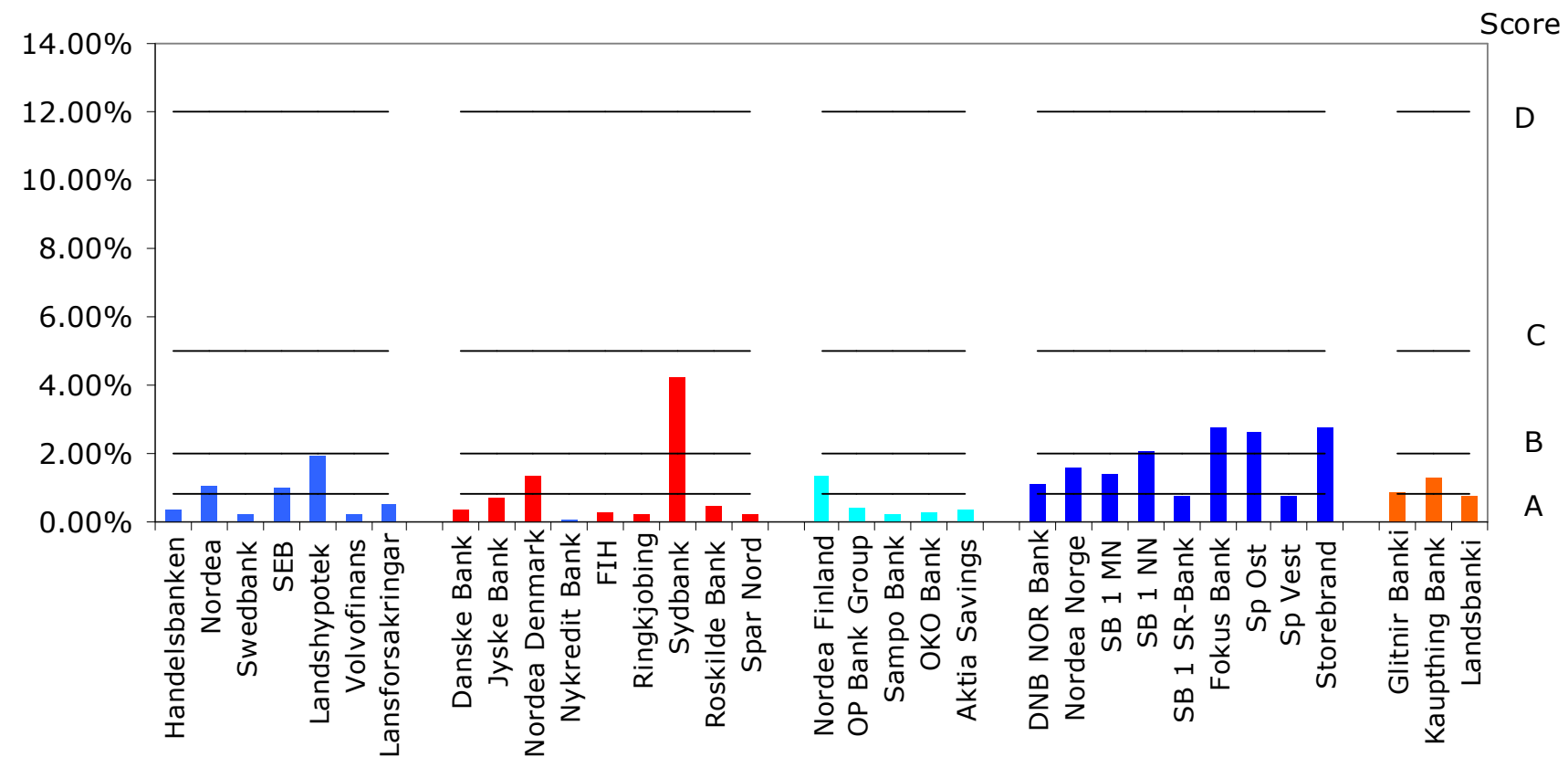
**Regional and local banks will typically have higher costs**





## Asset Quality: In line with Nordics peers

Problem Loans % Gross Loans





**Rated Icelandic  
Banks: Strengths and  
Challenges**



## **Icelandic Banks' strengths...**

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- **Strong likelihood of state support in the event of systemic shock**
- **Good financial fundamentals**
- **Good efficiency levels, even when excluding non-recurring income**
- **Diversification of income and assets by type of business and geography**
- **Strengthened retail funding base**
- **Improving liquidity management**
- **Capable credit risk management and good-quality loan portfolios**
- **Adequate capitalisation**



## **... But They Also Face Challenges**

- **Margin pressure arising from fierce domestic and international competition**
- **Large exposures and related-party lending higher than those of similar European banks, although well within regulatory requirements and diminishing**
- **Retention of income levels and asset quality given imbalances in Icelandic economy**
- **Controlling the market risk arising from relatively high levels of equity holdings as a proportion of risk capital**
- **Reliance on confidence-sensitive wholesale funding**
- **Maintaining a protective liquidity profile, given fluctuating capital market appetite for Icelandic risk**



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