

SEÐLABANKI ÍSLANDS

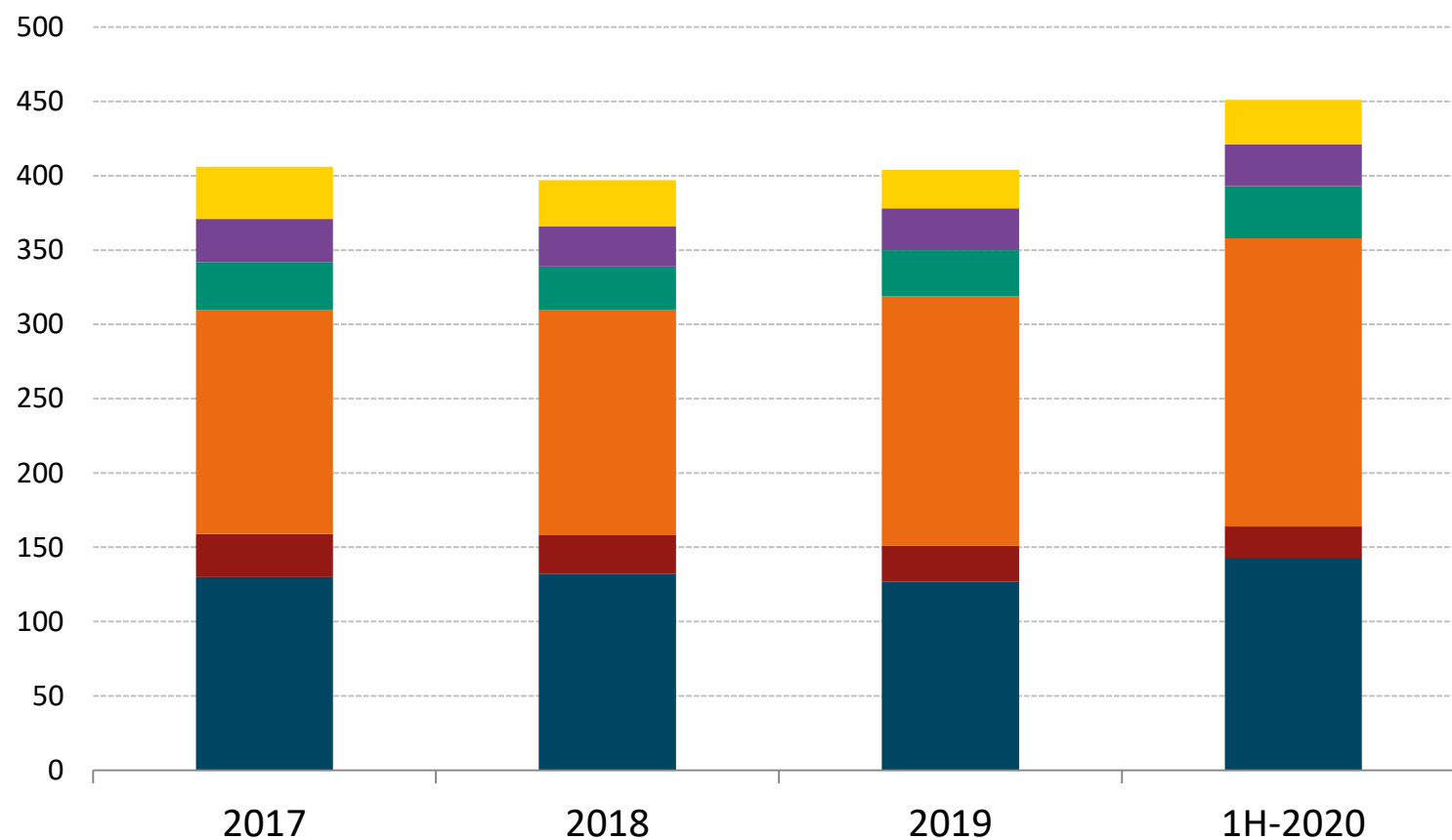
Credit Relief and Provisioning

Unnur Gunnarsdóttir
Deputy Governor for Financial Supervision



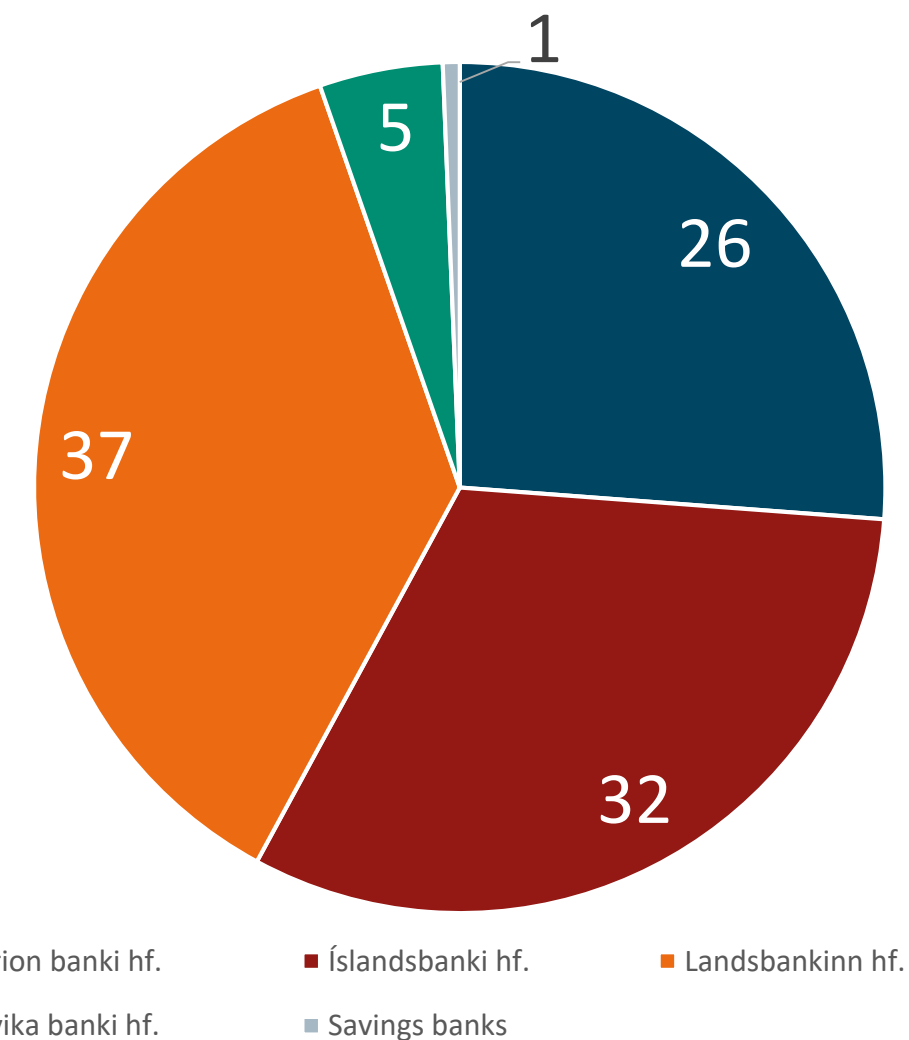
The Icelandic financial system

Financial system: Assets as % of GDP



- Others
- Central Bank of Iceland
- Mutual, investment, and institutional investment funds
- Pension funds
- Housing Financing Fund

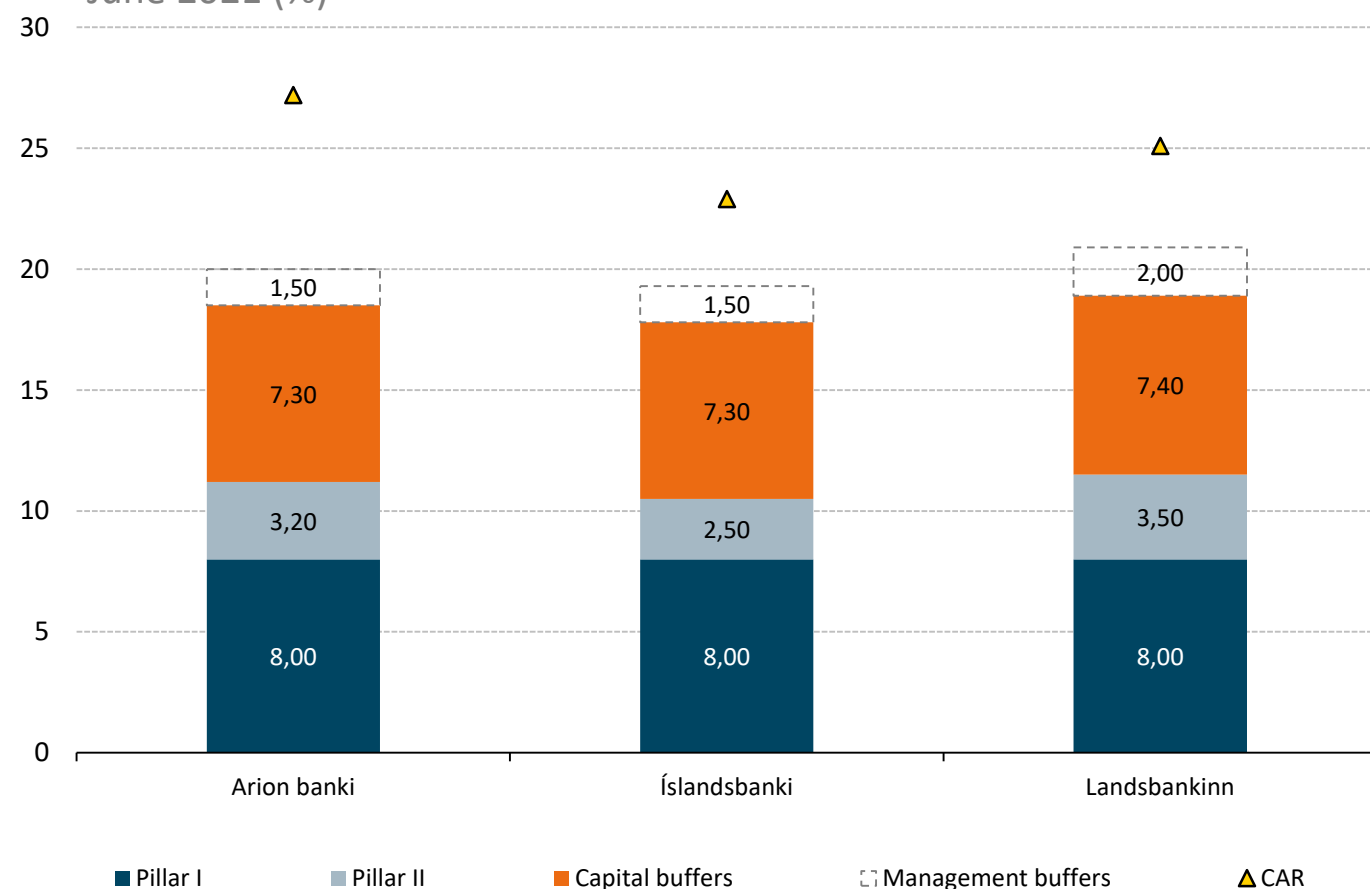
Banking system % of total bank assets



- 3 largest banks account for 94% of the banking system

Capital and liquidity is well above regulatory minimum

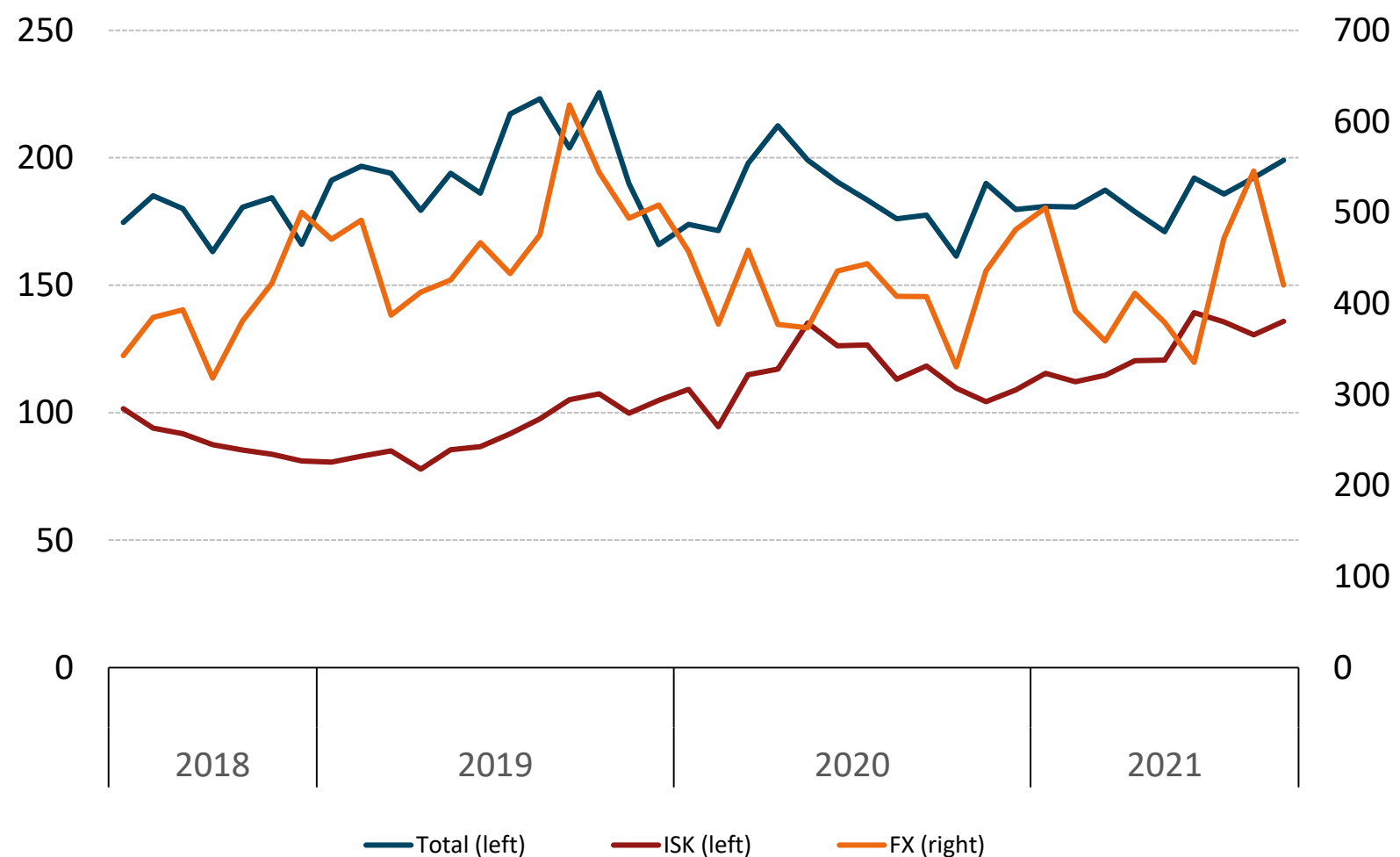
D-SIBs' capital requirements and capital adequacy ratios at the end of June 2021 (%)¹



1. Domestic systemically important banks, consolidated figures. In calculating the capital ratio, the portion of H1/2021 profit to be paid as a dividend in 2022 has been deducted from the capital base. If the proposed dividend payments are included with the capital base, the banks' capital ratios are as follows: Arion Bank, 29.2%; Íslandsbanki, 23.3%; and Landsbankinn, 25.8%.

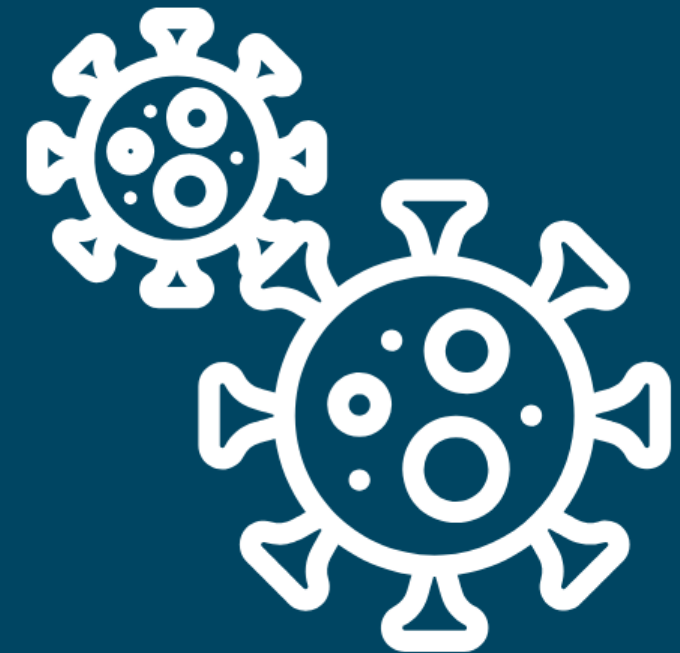
Source: Commercial banks' financial statements and other published materials.

Large banks: Liquidity coverage ratio (%)



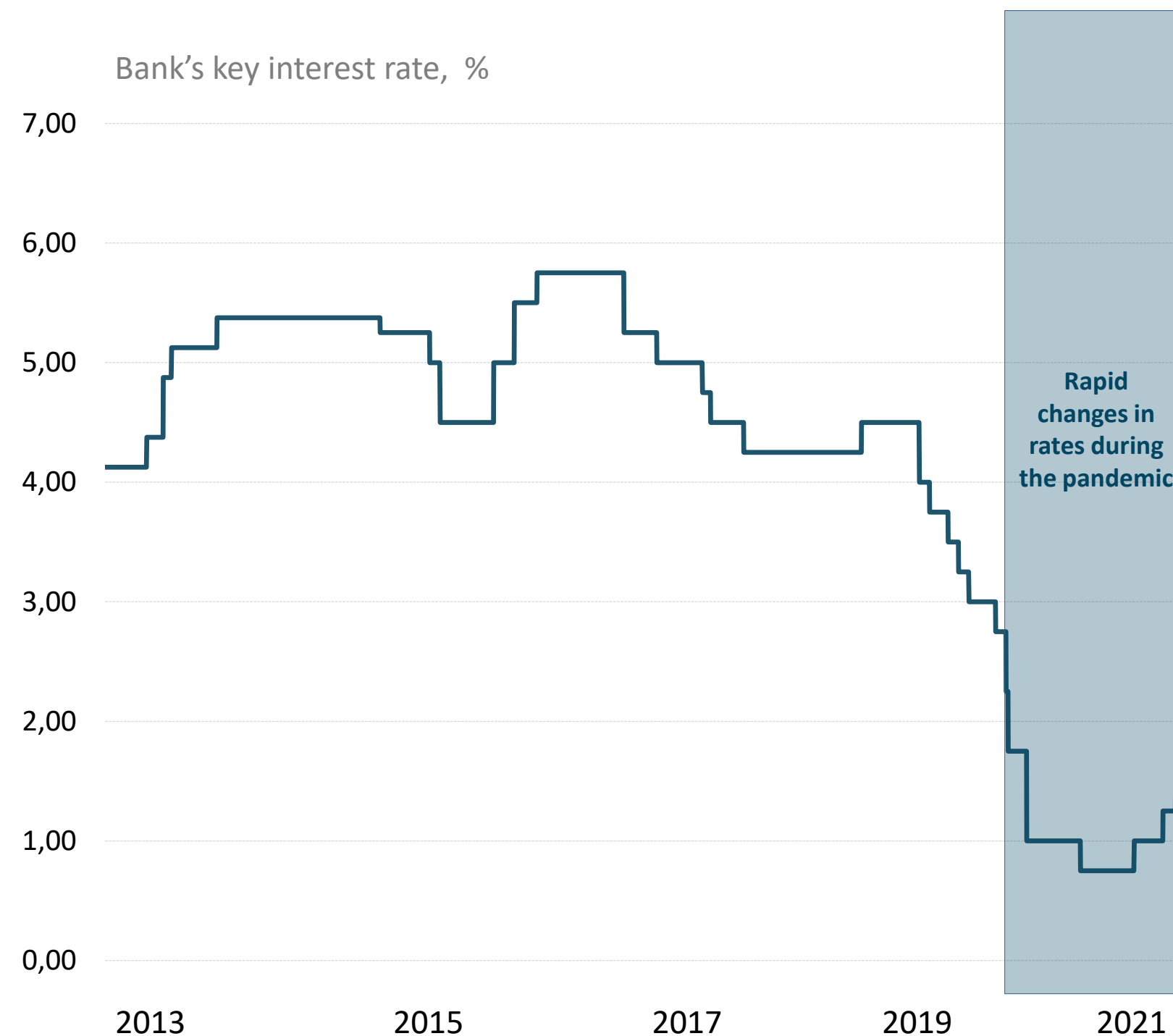
1. Domestic systemically important banks, consolidated figures.
Source: Central Bank of Iceland

Actions in response to COVID-19



Monetary policy during COVID-19

- Central bank key interest rates lowered by **200 bps** in four decisions from March 2020 to November 2020
- Economic recovery 2021
 - Favourable developments in unemployment and output
 - Inflation higher than expected
 - First rate hike in May, **25 bps**
 - Two further **25 bps** hikes in August and October
 - Increase by **50 bps** in November



Financial stability

- Counter Cyclical Buffer released in March 2020
 - Lowered from 2% to 0%
- CCyB re-instated on 29 September 2021
 - Increased from 0% to 2%, effective 29 September 2022 as the cyclical systemic risk has reached similar level as before the pandemic
- Restrictions on distributions of bank profits
 - In line with EBA statement
 - Extended in January 2021
 - Restrictions withdrawn on 30 June this year

Discretionary fiscal measures



- Corporates

- Closing support
- Postponing tax payments
- Public guaranteed lending



- Households

- Unemployment benefits to top up reduced working hours
- Income when quarantined

Cost of discretionary fiscal measures: **2,9% of GDP**

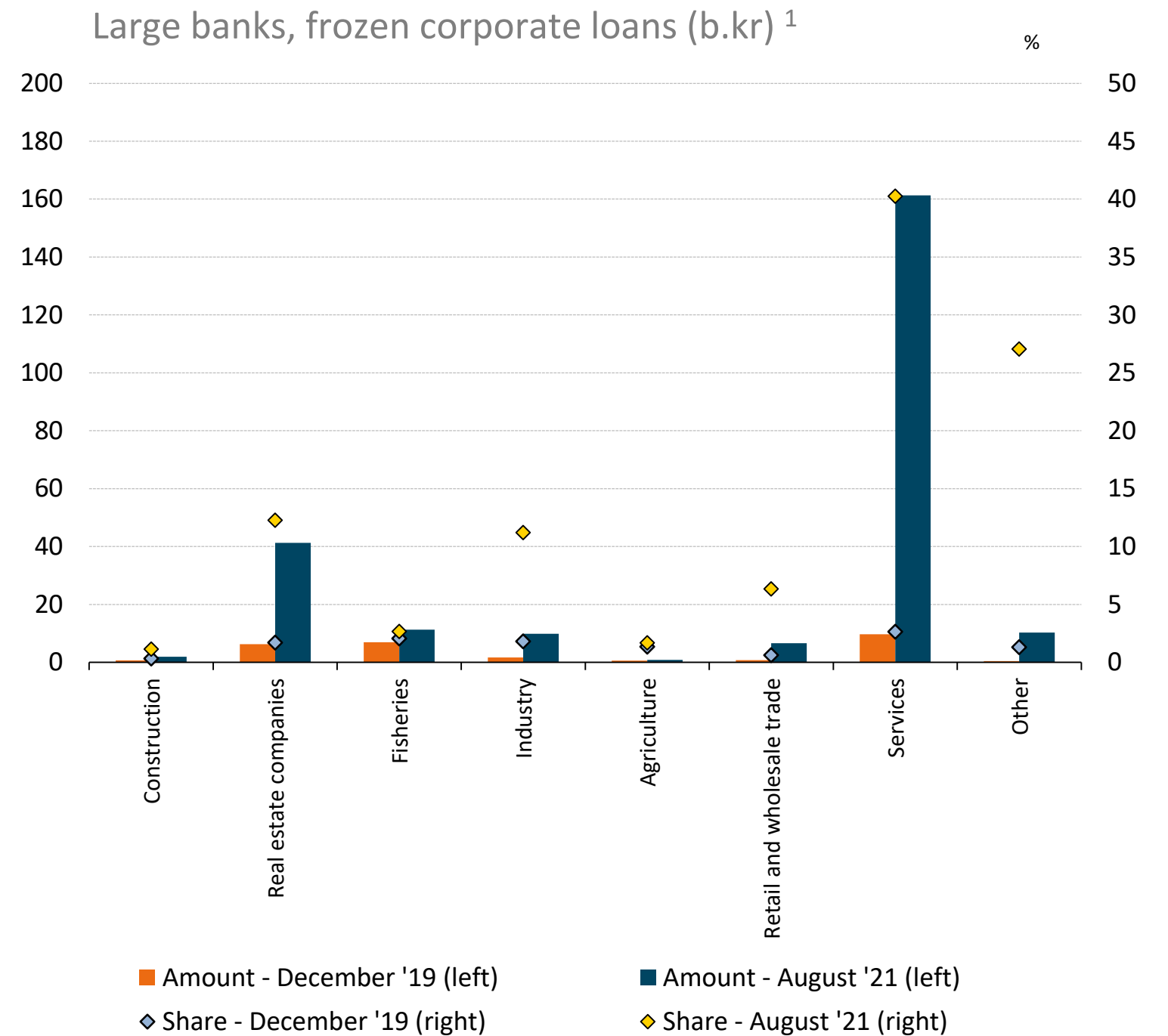
Developements in the credit market



Corporates

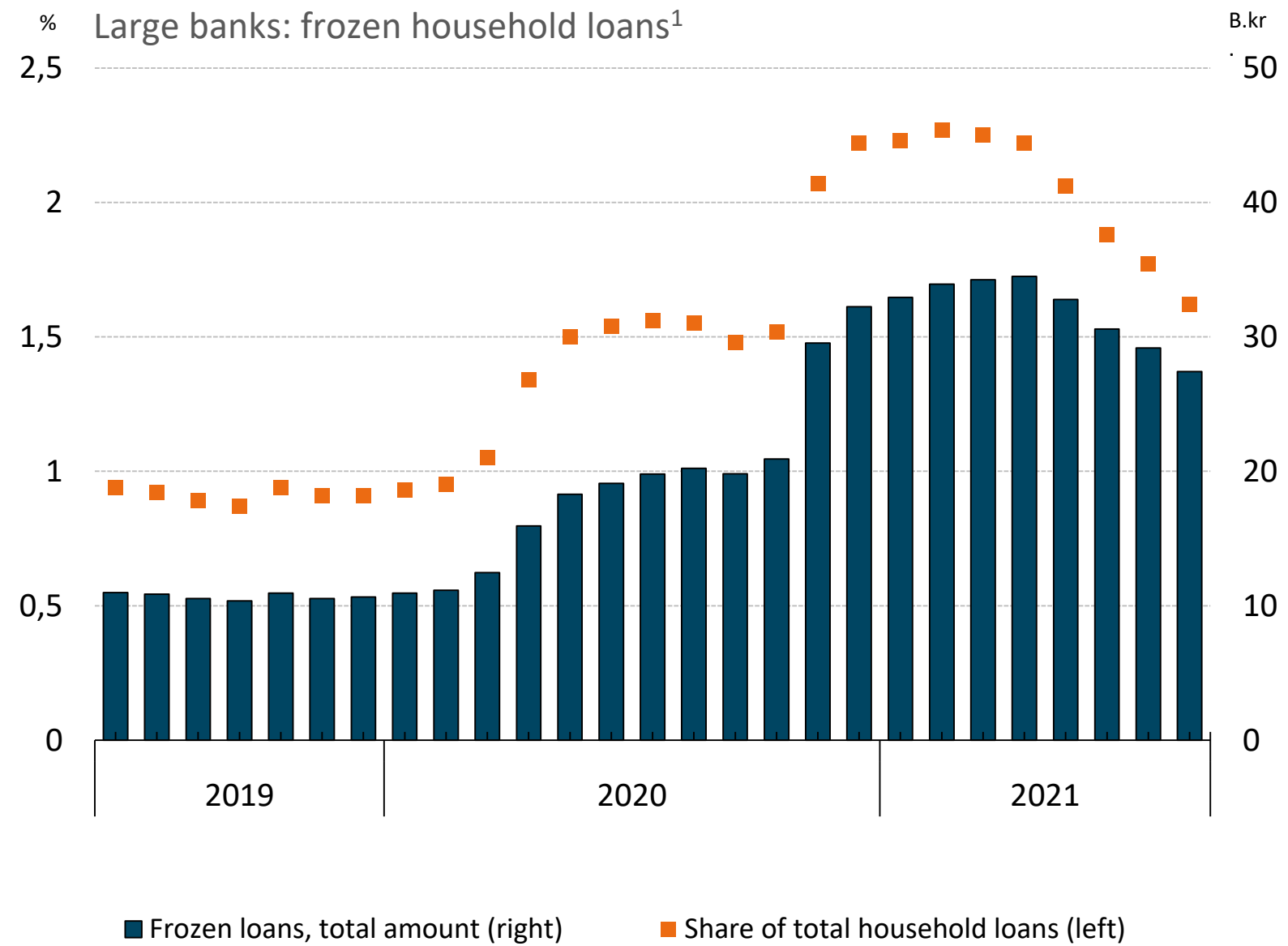
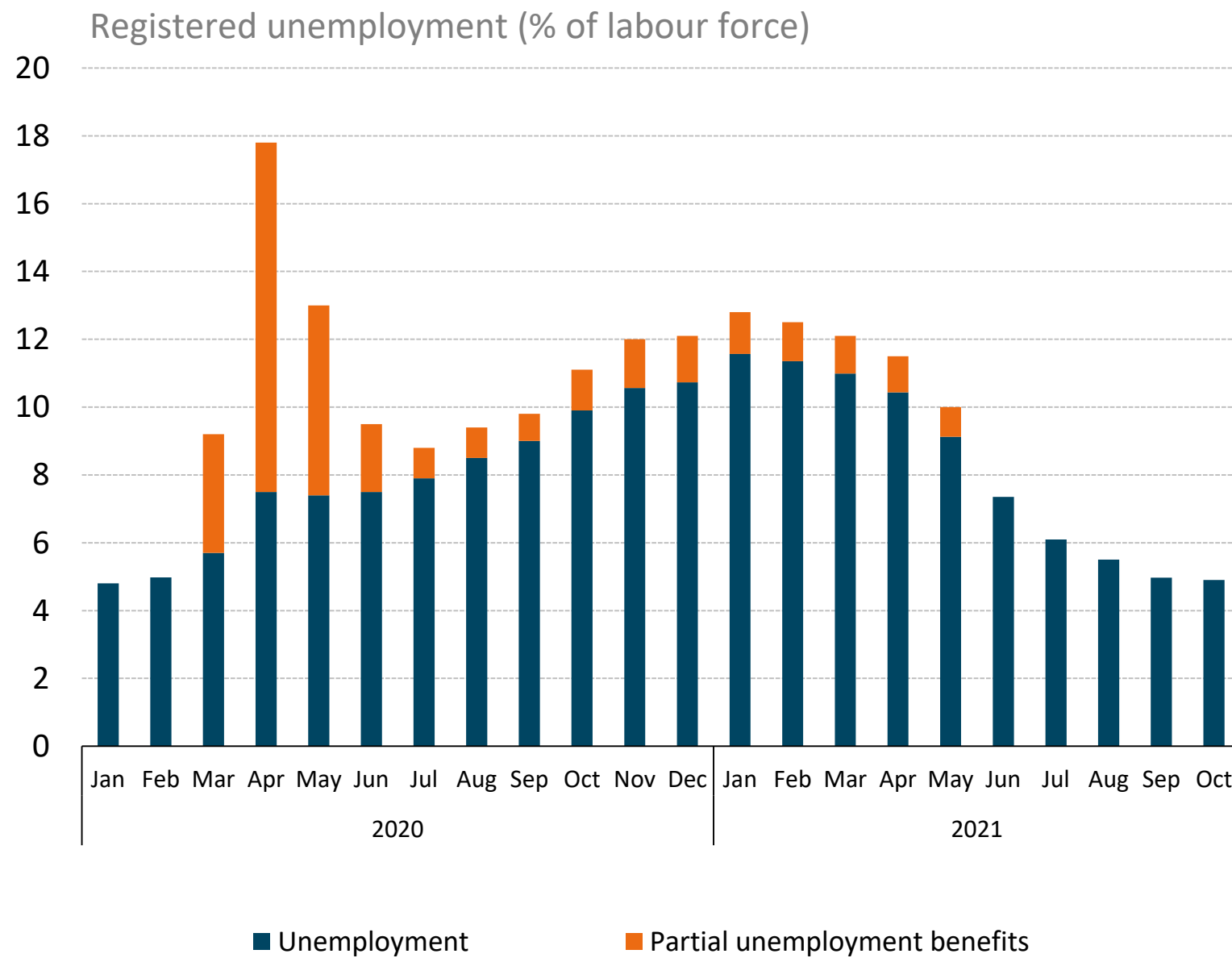


- Corporate loans in payment holidays or other similar status
 - December 2019 (blue) vs August 2021 (orange)
- Most notable increase in the services sector
 - Includes largely tourism industry
 - 40% loans in services affected
- Notable increase in real estate (hotels)



1. Parent companies, book value. Frozen loans according to the cross-default method.
 Source: Central Bank of Iceland.

Households



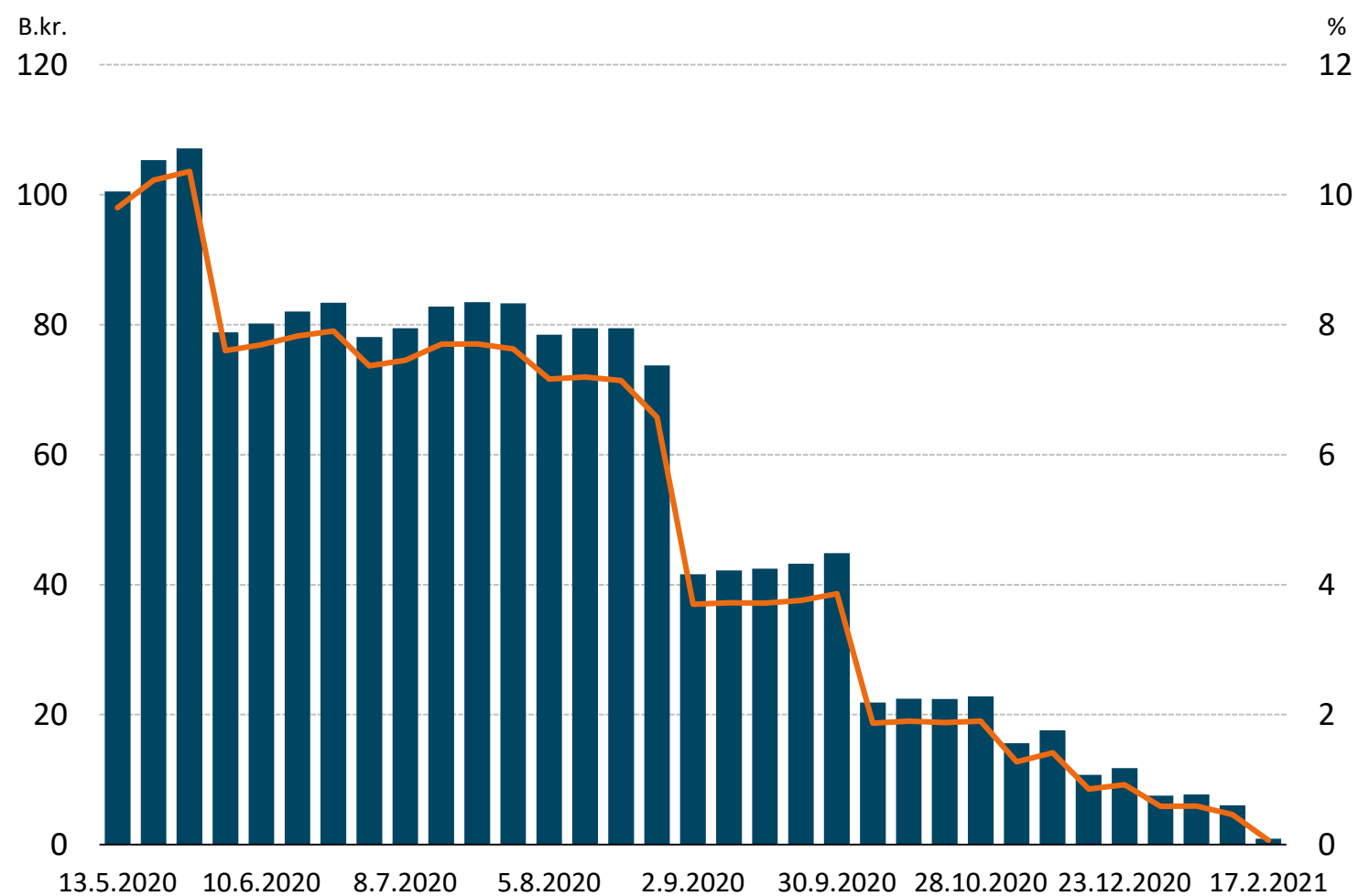
Source: Directorate of labour.

1. Parent companies, claim value, constant prices. Frozen loans according to the cross-default method.
Source: Central Bank of Iceland.

Covid-19 Moratoria

- Loan moratoria (payment holiday) by the financial sector was an important measure to mitigate the sudden fall in cash-flows of many companies

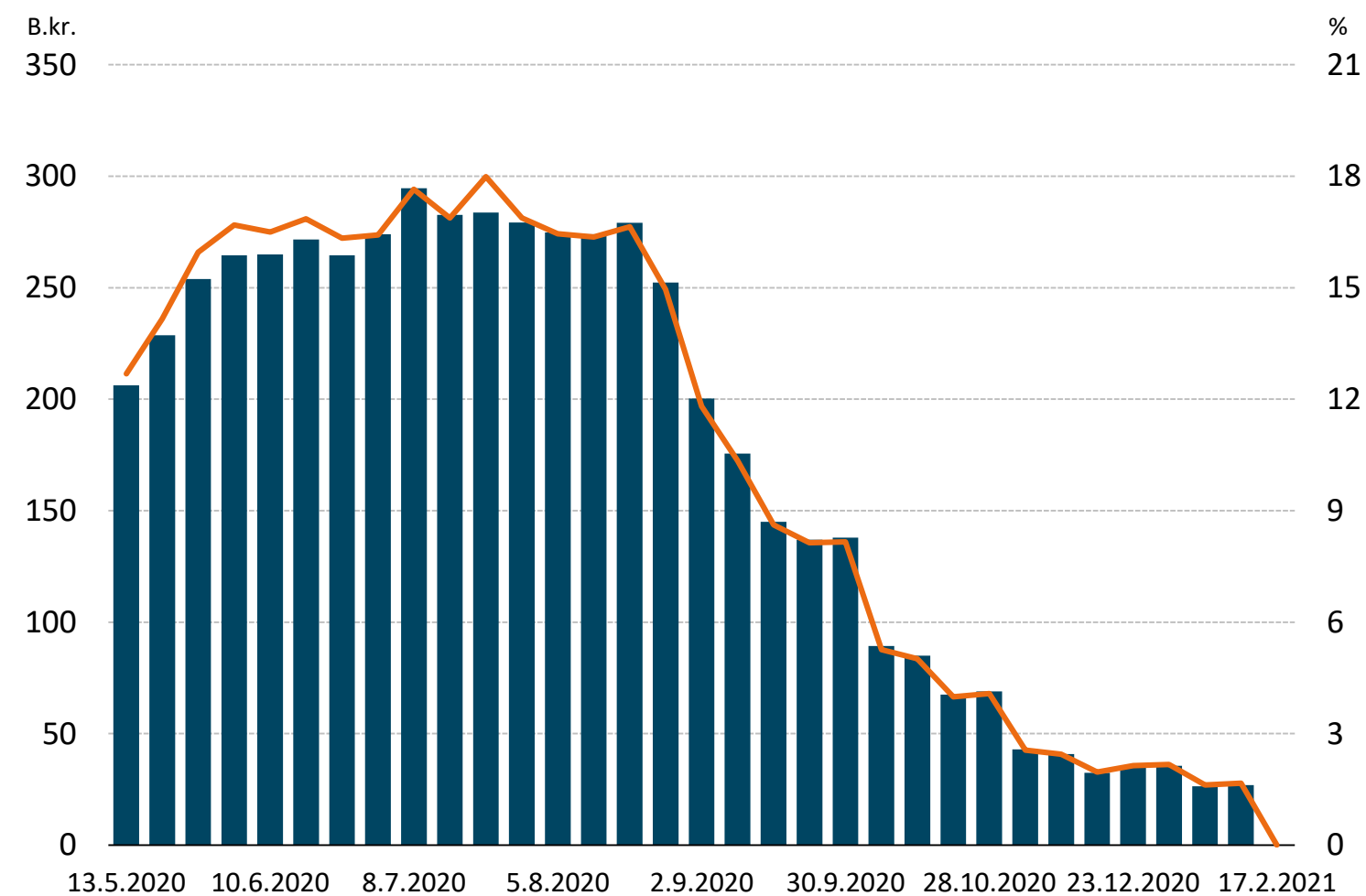
Mortgage loans in moratoria



■ Outstanding balance (left) — % of mortgage loans (right)

Source: Central Bank of Iceland.

Loans to companies in moratoria



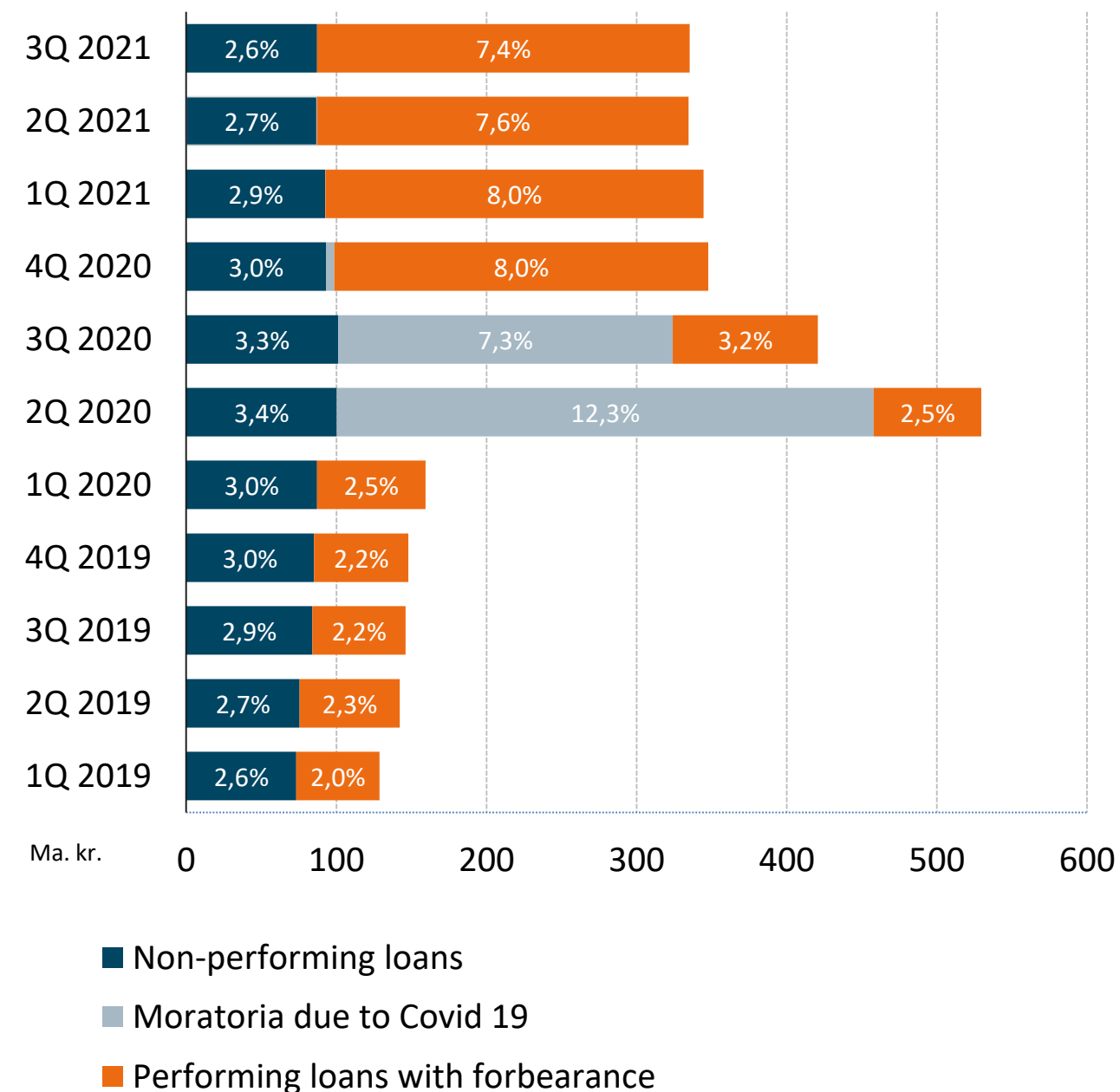
■ Outstanding balance (left) — % of total (right)

Source: Central Bank of Iceland.

NPL & Forbearance

- The banks average NPL core ratio was 2,6% at the end of Q3
 - Corporate NPL 4,2%
 - Households NPL 0,9%
- Still uncertainty regarding quality of loans to the tourism companies

Large banks, non-performing, moratoria and forbearance



Source: Seðlabanki Íslands

Substantial Rise in Real Estate Prices - Actions taken



The bar on LTV higher
80% in general
90% for first time buyers



**Introduction of DSTI
restrictions**
35% of net income
40% for first time buyers

Conclusion

- Government actions softened the downturn
- Coordinated reactions of the financial system
- Modest public guaranteed loans

- Next steps:
 - Analyse the quality of loans with forbearance