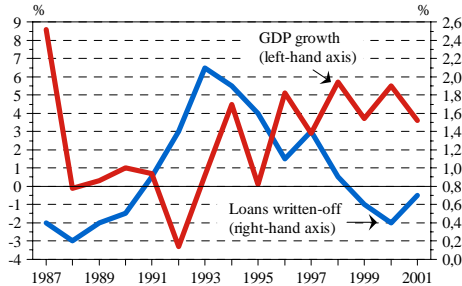


Loan-losses of commercial banks and savings banks

A large increase took place in write-offs of loans by commercial banks and savings banks last year. Landsbanki Íslands hf., Búnadarbanki Íslands hf., Íslandsbanki hf. and the savings banks wrote off a total of 4.2 b.kr., or 73% more than in 2000.

These same banks also substantially increased their provisions for loan losses in 2001, allocating a total of 8.5 b.kr. to such reserve accounts. Credit losses typically follow in the wake of an economic downswing, with some lag.

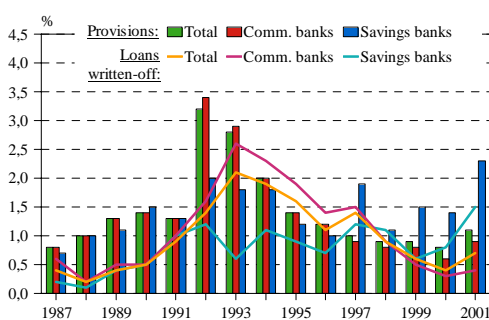
Chart 1
GDP growth and loans written-off
as % of total loans¹ 1987-2001



1. Commercial banks and savings banks.
Source: Financial Supervisory Authority and Central Bank of Iceland.

Lending by these institutions soared over the period 1998-2001 and their proportion of loan losses decreased for this and other reasons until last year. Thus commercial banks and savings banks lost an

Chart 2
Provisions to loan loss accounts and loans
written-off as % of total loans 1987-2001



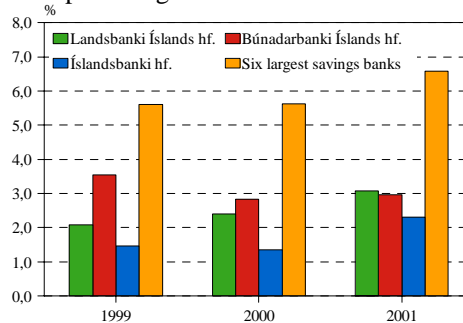
Source: Financial Supervisory Authority.

annual 1.7% of their total lending over the period 1992-1995, compared with 0.6% from 1998 to 2001.

It is interesting to note that 1997 appears to mark a turning point insofar as the ratio of final write-offs to total lending at savings banks outstrips that of commercial banks then, and the gap between them progressively widens.

In 2001 the ratio of loan losses to total lending was 0.6% at Landsbanki, 0.3% at Íslandsbanki and 0.2% at Búnadarbanki. At the savings banks, however, this ratio was more than 1.5% in 2001, having risen from 0.8% the year before.

Chart 3
Non-performing loans as a
percentage of total loans¹ 1999-2001



1. Commercial banks and savings banks. Source: Financial Supervisory Authority.

Looking at the stock of non-performing loans, which are loans for which special loss provisions have been made along with other interest-frozen loans, an increase can be discerned in recent times.

It is noticeable that the proportion of non-performing loans is much greater at the six largest savings banks than at the commercial banks which were examined - more than twice as high as at Landsbanki and Búnadarbanki and three times higher than at Íslandsbanki. These institutions have allocated varying provisions for non-performing loans to reserves dedicated to this purpose. Íslandsbanki made provisions for more than half of its non-performing loans, Landsbanki and Búnadarbanki for just under half, and the six largest savings banks only just under one-quarter.

From the interim statements that are available at the time of writing, it is obvious that the effects of the

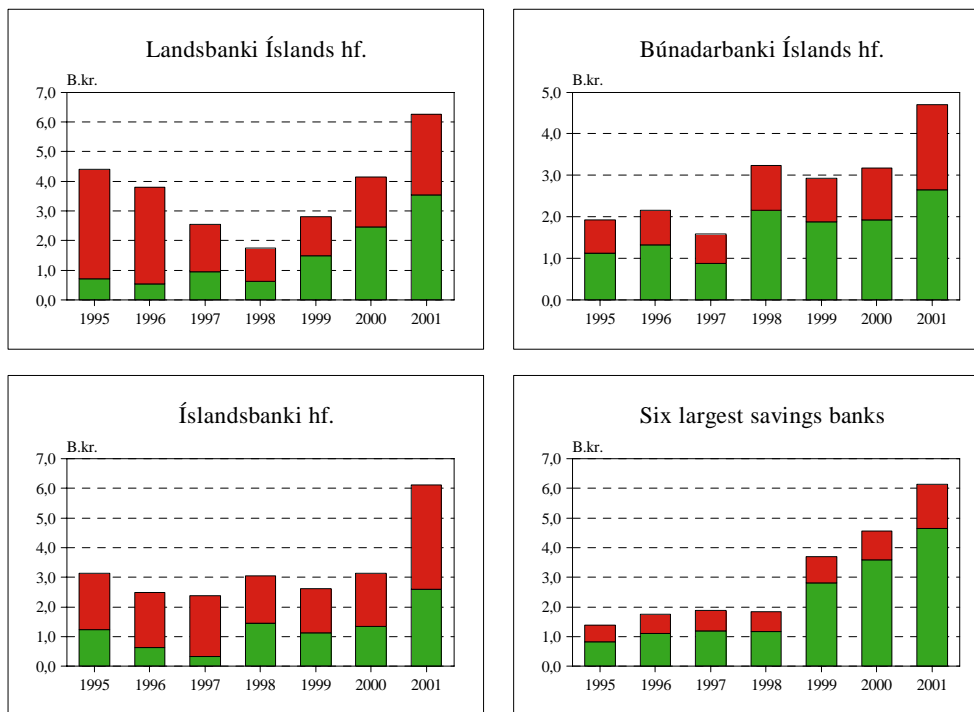
economic downswing are still emerging. The non-performing loan stock has increased, but so have provisions to loan loss reserves. Loan losses can therefore

be expected to eat into the profits of commercial banks and savings banks in the near term.

Chart 4

Provisions to specific loan loss account and non-performing loans less provisions to specific loan loss account 1995-2001

■ Non-performing loans less provisions to specific loan loss account
■ Provisions to specific loan loss account



Source: Financial Supervisory Authority.