Gambling Debt

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Már Wolfgang Mixa was one of those reviled Icelandic bankers, but unlike most of his colleagues, he worked from the inside trying to warn against the insanity. Now he’s finishing his PhD in cultural finance. In the course of writing this chapter, he was appointed to the Special Investigative Committee to study the fall of the savings banks. Here he offers a unique perspective, from interviews with insiders and from the inside himself, on what went wrong and how.

The Icelandic banking system, which had no history in investment banking, engulfed Icelandic society during a period I refer to as the Manic Millennium (Mixa 2009). Its seeds were sown during the mid-1980s, took root in 1994, and reached full bloom from 2003 to 2008. In the midst of a transformation in ideologies and a revolution in communication technologies, the distinction between investment banker and Icelander was sometimes blurred; the qualities of investment bankers at times reflected on Icelanders as a whole (Loftsdóttir 2009).

The financial community thus began defining the behavior and perception of what an Icelander was. Conversely, Icelanders increasingly saw themselves as risk-takers, a view that was reinforced, at least for a few years, by the market. But few Icelanders, including bankers, had any idea how high the risk was or how far prices had diverged from their intrinsic value.

In this chapter I examine the environment in which Icelandic banks and bankers developed their business ideas and practices during the boom years. I also
discuss how national and international factors concealed what should have been obvious to anyone with a minimum of financial savvy, namely that Icelandic bankers in general were dangerously inexperienced in the rapidly growing international investment market, and how this oversight lead to the demise of the Icelandic banking system, one of the biggest financial disasters in history, dwarfing well-publicized debacles such as Enron and WorldCom.

A BANKER’S LIFE

My Icelandic banking career began in early 1997. My first job was in a new department that had recently been created and that would become a blend of brokerage and investment banking. There were hardly any employees, but we had many desks and chairs side by side and twice as many computer screens on the desks, an unusual sight in 1997. There was a real difference between the people working there and other bankers I had worked with. Our attire was international business suits, not the old-fashioned dress code for men or the bank uniforms worn by almost all women. The meeting rooms were simple in setting yet private, in stark contrast to either the customer service areas people were used to when discussing banking services or the formal bank manager offices where people tried to provide loans (bearing negative interest rates) within a restrictive and localized banking environment. While most of the workers had university business degrees, most had no investment banking experience. Financial terms were most often English slang, both because it sounded more modern and because Icelandic hadn’t yet developed a special language around financial markets.

With this limited experience, there was little training. The previous year, when working at Dean Witter, I had to take a three-month course and complete a nationwide exam before selling securities to customers. In Iceland I received a one-day training limited mostly to how the trading system worked before being set up in front of a computer to trade on behalf of customers and the bank without any written limits.

RISKS EXISTA

During the economic boom of 2003 to 2008, no one in Iceland, neither the general public nor most bankers and investment managers, fully realized the risks associated with fast, exponential growth. The investment company Exista illustrates how sociological factors blinded even the most financially savvy people.
Exista was formed by Kaupthing Bank in cooperation with Iceland’s savings banks, which owned Kaupthing before its shares were spun off. In 2003 the brothers Ágúst and Lýður Guðmundsson (known as the Bakkavör brothers) became Exista’s largest shareholders, and by the end of 2007, they owned 45.2 percent of its shares via their holding company (Exista 2007). Savings banks were the second-largest shareholder, with a combined 16.2 percent ownership via direct holdings and its Kista holding company. Exista was by no means small, with total assets at year end 2007 amounting to 8 billion euros; about half of Iceland’s annual GDP using the currency rate of the time.

Exista invested the bulk of its capital in very few companies and mostly in its largest shareholder’s own company, the food producer Bakkavör, and their main associate, Kaupthing Bank. The largest holding was, however, the insurance company Sampo Group, which was rumored to be a take-over target of Kaupthing. The combined book value of Kaupthing and Sampo was 4.7 billion euros, nearly 60 percent of Exista’s total assets. Bakkavör accounted for approximately 7 percent of total assets; hence two-thirds of Exista’s capital was sitting in three companies, all listed on public stock exchanges.

Exista was a big shareholder in those three companies, holding 39.6 percent of Bakkavör’s stock, 23.7 percent of Kaupthing’s stock, and 19.98 percent of Sampo’s stock (20 percent was the threshold regarding obligations related to the control of the company). Essentially, Exista had almost no exit route if markets took a nosedive.

The leverage and thus risk of Exista was alarming. Judging by the book value, the equity ratio at year end 2007 was 29.5 percent, down from 43.2 percent the prior year. In a report in the business newspaper Viðskiptablaðið regarding Icelandic holding companies, Sigurður Jónsson (2009) points out that those equity ratios may be normal for companies that actually produce goods, especially consumer staples yielding relatively constant revenues, but not for investment companies that are wiped out in the next downturn in stock markets. For some perspective, the lowest equity ratio since the first quarter of 2003 of Sweden’s main investment holding company, Investor AB, is 77 percent. Warren Buffett’s investment holding company, Berkshire Hathaway, generally has an equity ratio around 100 percent, meaning that it has no net liabilities (Buffett and Clark 1997; Hagstrom 2005).

The report refers to an interview in Viðskiptablaðið in early 2006 in which Lýður Guðmundsson (then the current owner) said that Exista aimed at investing in companies through leveraged buyouts. A research report titled Exista hf.: Right Place, Waiting for the Right Time (Ógmundsdóttir and Pétursson 2007) confirms this. The report is the only detailed one regarding
Exista that was publicly distributed and, not surprisingly, since its analysts were employed by Kaupthing, contained a recommendation to buy. It shows that while Exista’s assets swelled in size, growing fourfold in a span of two years, its liabilities multiplied even more; they were fivefold during the same period. With an immensely leveraged balance sheet, the meager profits of the underlying investments actually appeared as substantial profits, pleasing the shareholders who seemed oblivious of the associated risks. However, given the historical volatility of stock markets, where valuations fall every now and then more than 40 percent (which has already happened twice this century), it is difficult to see how this strategy would not have ended by crashing and burning.

Despite the obvious risk associated with Exista, no one in the public or banking sectors at home or abroad seemed to notice. More alarming was that its stock was a huge base of equity of many savings banks in Iceland and its rise in market value the major source, in most cases the sole source, of temporary profits during the peak of the Manic Millennium. A case in point is the Savings Bank of Keflavík (Sparisjóður Keflavíkur 2007), which had three-quarters of its shareholder equity directly and indirectly in Exista. From year-end 2002 to year-end 2006 it had more than doubled its balance sheet. Other savings banks had similar stories, recklessly lending money from extremely fragile balance sheets.

Financially the Manic Millennium resembled the Roaring 1920s in the United States in many ways (Mixa 2009). During both periods, there was an explosion in the formation of investment trusts (Fridson 1998), many of which leveraged themselves, frequently buying shares of the issuing companies or their affiliates at prices as much as double their intrinsic market value (Galbraith 1997). Kaupthing’s research report, paradoxically, shows that the price-to-book ratio was 1.5 at the time of writing. Put another way, people were paying at least 1.5 times the amount of money for a few stocks generally available on the open market because of the company’s representation of success built upon reckless risk. In the end equity investors lost everything, and bondholders lost a sizable percentage of their lending, since Exista’s crash was also the single biggest company bond loss among Icelandic pension funds (Landssamtök Lifeyrissjóða 2012).

**SETTING THE STAGE FOR THE MANIC MILLENNIUM**

So what kind of environment creates and promotes the likes of Exista? It has been said that the four most expensive words in the English language are
“This time is different.” Those words certainly applied to Iceland during the buildup of the bubble that Exista thrived in. Iceland is special because it had no real history of commercial banking and absolutely none of investment banking. For a long time it was relatively isolated from other Nordic nations and Europe, with its population spread in rural areas and its banking localized. After the Bank of Iceland (Íslandsbanki) went bankrupt during the Great Depression, it became a highly regulated system similar to those of Nordic nations, with political connections and governmental policies dictating which industries should receive preferential treatment (Sigurjónsson and Mixa 2011; Jonung 2008; Englund 1999). Foreign currency restrictions became the norm in Iceland, and Icelanders traveling abroad, for example, had to specifically apply for currency for their travel expenses. Real interest rates were often negative, meaning that access to money was an asset in itself, with demand constantly higher than supply. Specific interest groups thus began creating “their” banks during the next decades, their names reflecting the groups they mainly served and lent to rather than promoting any specialization in lending (Sigurður jóhannesson 2004). Some of these include the Bank of Industry (Iðnaðarbankinn), formed in 1953; the Icelandic Bank of Commerce (Verzlunarbanki Íslands), formed in 1963; and the People’s Bank of Iceland (Alþýðubanki Íslands), formed in 1971 by the labor unions (Ásgeir Jónsson 2009).

This restrictive environment began to change very slowly during the mid-1980s. Domestic bank rates were fully liberalized in 1986 and restriction on capital movements fully abolished in 1995. A year earlier, Iceland had joined the European Economic Area (EEA), which also liberalized foreign direct investment within parameters of the EEA agreement (Mixa and Sigurjónsson 2010), breaking down the currency restrictions and connecting the country’s economy globally. This development marked two watershed moments: it opened the door to the internationalization of financial markets, and it set up the same kind of financial liberalization that had befallen the Bank of Iceland in 1930. These innovations were aimed at making efficient a banking system that had been bloated and inefficient for years. In Iceland this was further amplified with its 1994 EEA membership.

The trend in international banking was to combine traditional banking and investment banking. Traditional banking revolves mainly around basic lending procedures, and banks make money from traditional banking services, such as ATM services, checking accounts, and lending. The interest rate differential—lending, say, at an interest rate of 6 percent but paying on average 3 percent for saving accounts—is usually the prime source of profits of such banking. Investment banking, however, is focused on raising money
for companies, an act that often involves investing in other companies. For a long time, such companies were owned by owners, who, like in-law firms, guarded their interests with great care since their own money was on the line (Lewis 2010).

Unlike traditional banks, investment banks do not raise money from the public via deposits but, instead, almost entirely through what is known as long-term investments. The traditional banking that Icelanders were accustomed to was more like the grease for the economy, with short-term funding the norm. There is, however, the inherent danger that depositors may demand their money back. That’s what deposit insurance is made for. By providing such programs, which became universal following the Great Depression, governments placed restrictions on banking practices to dampen the kind of speculative behavior that was rampant during the 1920s (Galbraith 1997; Sobel 1968; Bruner and Carr 2007), justified by the fact that taxpayers’ money would fund depositors’ losses. While walls between US investment and commercial banking had been in place for decades, there had never been a need to set them up in Iceland because no investment banking existed. Thus, Icelandic banking entered the international arena with adrenalized risk-taking and no restrictive shackles in place, with the chance to act like investment bankers yet funded with deposit money backed by the government.

PRIVATIZATION—A WORLD OF EFFICIENCY

The privatization that had begun in 1992 was going full bore by 2002. Two of Iceland’s main banks had been partially privatized in 1998, just a year after my Icelandic banking career began. The large number of shareholders made it look like the banks were still owned by the people of Iceland. Just four years later, though, individuals and groups that had little if any banking experience but excellent political connections were allowed to buy a controlling stake in each bank. This new dynamic changed the mission of the banks from service to growth. The banks’ new goal was to expand their balance sheets and become big players (Sigurjónsson and Mixa 2011). One CEO remarked to one of the board members that he wanted to duplicate Merrill Lynch, which he had recently visited. The main investor of the Central Bank of Iceland, who also became chairman of the board, declared in a television interview shortly after the privatization that he was determined to make his bank the biggest one of the three.

As Icelandic bankers went on acquisition sprees across Europe, the media, increasingly owned by the same bankers (Áskelsdóttir 2010), began reporting
on them as Vikings pillaging on foreign shores, dubbing the bankers “Business Vikings.” Despite having banking roots that were localized and regulated like Nordic banks, Icelandic bankers (at least the ones deemed successful during the boom years) were described in the media as having greater financial expertise and working more quickly than bankers in most other nations (Loftsdóttir 2009). The public believed this, despite the fact that modern banking in Iceland was only a few years old. I was considered one of the most experienced investment bankers in the country, yet had been a novice just a few years earlier.

DOMESTIC AND FOREIGN PERCEPTION

Public awe of the “brilliance” of its bankers is a common phenomenon during the buildup to financial crashes (Englund 1999; Gleeson 1999; Chancellor 2000). Galbraith (1997) states that the mood is far more important than the interest rate during a boom. He adds that the prerequisite of a boom is trust in leaders and in the benevolence of others to create some sort of conviction that ordinary people should be rich. In Iceland the media became a central player in creating such trust. The Icelandic tabloid Séð og heyrt focused on businessmen and politicians, the latter becoming ever less relevant during the Manic Millennium. In an article published barely half a year before the collapse, pictures taken at the Business Conference 2008 show politicians mingling with businessmen at the conference. The article quotes one CEO saying, “It was enjoyable seeing all the politicians there. It is good that such a good relationship exists between politicians and the business community” (Jónsson 2008, 19).

The country was engulfed in the developments of financial markets, and owners of the banks promoted their interests via the media they largely owned. A reinforcing cycle developed in which those who sought the most risk became media heroes. The perception of Icelandic bankers being the best and fastest was promoted inside as well as outside the banks. An internal video at Kaupthing, entitled “What Is Kaupthing?” (Kaupþing, n.d.), emphasized the values of acting quickly. It starts with images from the United States, such as Martin Luther King Jr. demonstrating in Washington, Bill Gates, and a launch to the moon and juxtaposes them to scenes from Tiananmen Square and the fall of the Berlin Wall, coupled with the written and spoken words “We can.” The narrator then says; “We thought we could double in size and we did, every year for eight years,” and a few seconds later in a reference of winning out over the authority of a rigid state, the narrator says, “We think we can grow by outwitting bureaucracy, by moving faster, by being flexible . . .” The message was clear: growth mattered.
The Financial Supervisory Authority had big problems catching up with the new environment. Simple regulations separating the bank’s proprietary investments from investments on behalf of their clients, for example, had just been enacted in 2002 (Fjármálaeftirlitið 2002), with more separation between the operation of banks and mutual funds coming in 2003 (Fjármálaeftirlitið 2003). The staff of the supervisory agency did not grow in nearly the same proportion as the ranks of the financial industry. It was common knowledge in the industry that the best workers were snatched up by the banks when they began learning how to question the banks’ operations.

Thus bankers learned slowly but surely that making deals quickly counted the most. A former Icelandic banker who headed one of the big three banks told me that when he first arrived in 2003, he had lots of ideas about how to improve the bank’s operations and efficiency. By 2007, he was amazed at how focused his coworkers had become on simply getting deals together with little due diligence. Within a few years he had gone from being considered an aggressive banker to being viewed as a “fuddy-duddy.”

This was not a phenomenon exclusive to Iceland. An international banker I interviewed in London gave an example of a prudent banker working the numbers to reach a decision. The banker across the street decided to skip the number-crunching and focus instead on getting the deal done quickly and simply trusting the market. Bankers’ confidence in the market price blinded them to research done by ratings agencies, such as Moody’s, Standard & Poor’s, and Fitch (Lewis 2010). Another international banker told me that finance professionals all over the world lost sight of their role in an industry that rewarded short-term personal greed and punished long-term value. Worldwide, central figures in the finance industry, such as bankers, were able to claim just enough knowledge to keep their power by getting deals done (as opposed to putting thought into them) but not enough knowledge to take responsibility (Davies and McGoey 2012), something that became apparent after the crash.

GOOD AND BAD BANKERS

In his 1989 exposé, Liar’s Poker, Michael Lewis describes the person who makes the most money as a “Big Swinging Dick.” No matter what happened, he ruled. One experienced banker I interviewed felt the same about what happened in Icelandic banking at the time: Inexperienced bankers powered manic growth while making easy money. Meanwhile prudent, more experienced bankers were sent to the sidelines. At Icebank’s trading desk, where I
worked in 2008, the combined banking experience of the twelve to fourteen employees there was barely fifteen years, with no one having worked in banking for more than two years. They were handling interbank loans amounting to 20 percent of Iceland’s GDP and lost almost all of it during the 2008 meltdown. Without the anchor of experience, it was easy to be convinced that all was well. Most of the experienced bankers I interviewed agreed that young people could be easily molded. One Icelandic banker quoted another as saying that twenty-five was old for a bank employee.

This inexperience may also explain how stratification within the banks developed easily, with the top layer keeping information from the rest. Only a very few people knew the dire state of the banks for the longest time. When I expressed concerns to an Icebank employee in April 2008, I had to backpedal quickly when I saw how shocked my coworker was at what I considered a casual remark. After that, I made sure that I expressed my concerns only to persons who had some knowledge of the precarious state of the bank. Little by little, a small group would meet regularly in a specific room to make sure that our talks were limited to a small circle.

These small, highly stratified layers made the deals of the primary owners and bank associates a priority over the banks’ normal operations. Many loans were made to holding companies with close ties to the owners of the banks and their cronies. As Figure 4.1 demonstrates, between 2005 and 2008 the robust increase of household loans looks tame compared with the frenzied rise in loans to holding companies.  

In one glaring example, bankers lent the equivalent of well over $100 million to holding companies for the sole purpose of buying a controlling stake in a savings bank. The owners of the holding companies were business partners of the biggest shareholder (another savings bank) of the bank in question and the top management team of the savings bank being bought. With the exception of one buyer, the people involved only had to lay out costs connected with the creation of the holding companies, an amount estimated to total $100,000. Practically the entire purchase price was lent by other savings banks, and shares in the bank were the sole collateral. This meant that if the bank remained successful (as it had been in previous years), the buyers would become millionaires. Since the bank went bankrupt shortly afterward, each of the new owners (with one exception) lost what amounted to approximately $10,000.  

Suspicious of such cronyism entered my mind when I was asked in early 2008 to write a memo about whether it was prudent to lend money to a holding company whose only purpose was investing in stocks, which was also their
only collateral. I asked why the bank didn’t simply buy shares in the companies themselves, reaping the rewards if the stocks rose in value. Wouldn’t this be more valuable than getting the loan back with some interest? But of course the bank stood to lose money if the stock value decreased, I explained. I was never asked to write such a memo again.

Many people I interviewed, as well as coworkers, expressed bitterness at having fought to keep the banks afloat for what they then considered a just cause, only to find out that they were actually fighting for the interests of small groups. It was amazing how so many bankers were kept in the dark.

Interviews with other mid-level foreign bankers about their Icelandic counterparts have been rather positive. One banker specifically said that the myth of Icelandic bankers moving so quickly on deals did have some substance, explaining that the Icelanders were willing to do what it took to get business going and were in general “not out to get me.” Another Nordic banker said that, in his experience, business in Iceland was not materially different from business in other Nordic countries with the exception of the relative

**Figure 4.1.** Increase in lending to Icelandic holding companies compared with households, 2005–2008. Data based on Central Bank of Iceland 2009.
lack of experience and the strong appetite for risk. This view does not, how-
ner, apply to the top level of bankers. One foreign banker called them crooks,
while another one talked at length about how they lied to maintain business
relationships. Tony Shearer, CEO of Singer & Friedlander when Kaupthing
bought the company, described Icelandic top-level bankers with whom he
worked as being very confident of themselves and their capabilities (personal
communication, January 27, 2012). Despite Shearer’s decades of international
banking experience, the Icelanders who bought his company never asked his
advice on any matter.

“BAD” BANKERS WITHIN A UTOPIAN ECONOMY

Iceland was like its farmers’ cows freed in the spring after being locked
inside the barn all winter, full of life but not necessarily managing freedom
very well. Icelanders embraced the free market mantra that they believed
entailed harmony and stability, something Cassidy (2009) argues was built on
an illusion. Neoliberalism was initially built upon the concept of freedom, the
argument that governments could not decide what was best for their citizens,
and slowly the argument evolved until the efficiency of the market was in the
front seat (Davies and McGoe 2012). Icelanders justified the privatization of
banks not only because it increased efficiency but also because of the implied
declaration of nationalistic freedom. As Cassidy (2009) puts it, by privatiz-
ing the banks the way they did, neoliberal proponents created free markets
that contained incentives for individuals and groups to act in ways that were
individually rational but in the end damaging to themselves and others. It
is also no secret that the main owners of the new banks had political ties. It
became general knowledge that being associated with the Independence Party
enhanced one’s chances of being hired at the Central Bank of Iceland, as was
the case with a former director of the Independence Party becoming one of
the bank’s board members.

Forces in the top levels of Icelandic business and politics thus had great
incentives to embrace the neoliberal movement by handing the banking sector
and many national treasures over to their cronies. It was essential that the pub-
lic followed suit. By increasing bank profits, improving efficiency, and aban-
donning the shackles of a restrictive past, the public was willing to go along.

These developments opened certain doors to liberating the financial system.
What was different about the liberalization process in Iceland, judging from
the behavior of Icelanders and citizens of other Nordic countries, can be par-
tially explained by the fact that the Nordic countries didn’t throw those doors
wide open. In addition to having learned their lessons from the financial crisis of the early 1990s, the Nordic countries did not have as much to prove to the world as Iceland, which desperately wanted to be a player on the international stage (Loftsdóttir 2010; 2012b). The Icelandic banking system was opened to corruption without the necessary accountability. Like the general public, most bankers were simply part of a process that enabled those at the top with ties to politicians (Vaiman, Sigurjónsson, and Davidsson 2011) to concentrate on their self-interests while sacrificing the long-term interests of the nation.

THE MOMENT OF TRUTH

Chronic nationalism and the feeling of prosperity made Iceland particularly vulnerable to the economic boom and bust, but it is not the only country to have suffered this tragedy. Following the breakdown of the Iron Curtain in 1990 and the subsequent fall of communism, a belief in the superiority of capitalism reigned worldwide (Steger and Roy 2010). Keynesian economics, which was crafted after the Great Depression and gave governmental controls their place, gave way to free market views, which had been gathering steam since the 1970s (Fox 2009). The collapse of communism shifted the ideological balance, giving neoclassical ideologies—free markets govern themselves best—a strong foothold. The new ideology was amplified in Iceland in 1994 when it gained EEA membership, making it more globalized and simultaneously susceptible to international trends. International phone communications during that time became much less expensive, and the rise of the Internet transformed Iceland from a country in isolation to one in constant touch with the world. The domination of capitalism and increased communication potential set the stage for the irrational optimism that Shiller (2001) lists as a precipitating factor of a financial bubble. When such a trend persists, a representation of the past amplifies the general view of future trends (Kahneman and Tversky 1982). This is consistent with the insights of Soros (2003): financial markets operate with a prevailing bias, a dynamic that validates this bias by influencing not only market prices but also the assumed fundamentals that market prices should reflect (and that may actually transform toward the prevailing bias). This is amplified until the moment of truth, when people stop believing the hype but may still participate in the madness until they swiftly come to their senses.

Reports after the crash indicate that most politicians were in the dark about the situation until early 2008. The light flickered on following an internal conference at the Central Bank of Iceland in February 2008, when grim warning
signs of the impending crisis were announced. The day after the meeting, a Central Bank of Iceland internal memo was circulated, expressing shock over the negative views that foreign senior bankers had expressed during a recent visit. The memo states, for example, that the foreigners said Glitnir bankers were both desperate and inexperienced and Kaupthing bankers were not to be trusted. When Prime Minister Geir Haarde announced a state of emergency at the height of the crash on October 6, 2008, and declared “God Bless Iceland!” my fellow Icebank employees stared at the television screen in utter disbelief. It was the beginning of the end.

NOTES
1. The combined balance sheets of the banking system was approximately the same as the amount of Iceland’s gross domestic product (GDP) in a single year around the millennium, but had grown to around seven to eight times that figure in 2007 (Halldorsson and Zoega 2010).
2. I had worked at various positions at Landsbanki Íslands from 1986 to 1987 and as a summer employee from 1988 to 1992.
3. Dean Witter bought Morgan Stanley two years later and became among the biggest investment houses in the world.
4. This information was derived from Exista’s 2007 annual report (Exista 2007) and other annual reports from smaller savings banks, which have limited general availability.
5. Holding such a large percentage of the outstanding stock meant that attempts to liquidate the assets would drive the market price quickly down unless a buyer could be found for a huge share. Such a buyer would likely be acutely aware of this and demand a discount unless other interests were also involved.
6. The equity ratio is a financial ratio indicating the relative proportion of equity used to finance a company’s assets. The less it is, the more risk is associated with the financing of the company. If total assets are, for example, $100, of which $60 is financed with bonds and loans, then the equity ratio is 40 percent. If merely $30 is financed with bonds and loans, the equity ratio has gone up to 70 percent, meaning the company is less reliant on the “understanding” of lenders if losses begin piling up.
8. Warren Buffett is arguably the world’s most famous investor, becoming one of the richest people in the world through shrewd investments.
9. Its balance sheet was ISK 18.9 billion at year end 2002 and ISK 48 billion four years later. Its growth in real terms was, however, slightly more than double since the combined inflation during that period was 19 percent.
10. This was also done via issuances of subordinated debt, which can be used to conceal the fragility of balance sheets.

11. A ratio that shows the market price of a stock compared to the book value of the owner’s equity.


13. Some people argue about the state of investment banking prior to the crash in 2008, which at that point relied to a great degree on short-term lending funds, but that was not the traditional way of investment bank funding.

14. The Glass-Steagall Act, enacted by the US Congress in 1933, separated investment banking and commercial banking following the failures of some banks that had invested heavily in the stock market; it was repealed in 1999.

15. This is from a confidential source. The CEO’s name and company will remain anonymous.

16. This person will remain anonymous.

17. Figures are available only from early 2005.

18. At the time of writing, this information was confidential but is expected to become public at a future date.
