BARCLAYS CAPITAL

RESEARCH

Icelandic banks

After our Reykjavik Roadshow: still nervous near term

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Summary

- Barclays Capital ran an Icelandic bank credit investor roadshow in Reykjavik on 29-31 March, during which we saw the three principal banks (Kaupthing, Landsbanki and Glitnir) as well as the regulator FME, and the Icelandic Central Bank. This note is a summary of our impressions from those meetings and updates our view on the sector with some trade ideas.
- We found management at the banks increasingly eager to listen to credit investor concerns, and for the first time appeared to be prepared to modify strategy/expansion ambitions in response. All banks have also made some progress in ensuring near-term liquidity by seeking alternative funding sources. However, the key risks (liquidity, equity and currency) are unchanged and we remain bearish. We restate the banks' positions in relation to these risks by focussing on the parent bank (solo) position, rather than consolidated figures.
- At current spreads, we believe the market is pricing in too low a probability of a crisis or a serious asset price correction. As such, we believe that the upside for spreads is far smaller than the potential downside. We analyse the potential outcomes for spreads, and recommend long protection funded with long cash positions. We recognise that Glitnir has the lowest risk profile of all three banks. However, since we believe the risks are more systemic than micro, we prefer diversifying risk across the three banks rather than focussing on one.

Figure 1: Bonds/CDS

	Issuer	Structure	Cpn (%)	Maturity (call)	Swaps
Cash	KAUP	Senior	FRN	25 May 10	E+90/80
			FRN	17 Aug 12	E+105/95
	(Findan)		FRN	23 Mar 10	E+50/40
		Tier 1	5.901	perp. (Jun '14)	Z+233/208
	ISBAIR	Senior	FRN	27 Jan 10	E+65/55
	LANISL	Senior	FRN	19 Oct 10	E+85/75
			FRN	20 Jun 12	E+98/90
CDS	Iceland Sovg.	10 yr Senior			24/27
	KAUP	5 yr Senior			77/82
	ISBAIR	5 yr Senior			56/61
	LANISL	5 yr Senior			75/80

Source: Barclays Capital.

Please read carefully the important disclosures at the end of this publication.

Trades: We still recommend shorts

We continue to believe that given the issues outlined above, the risks to valuations now remain on the downside.

Current spreads imply only a 7% chance of a major correction/ liquidity crunch

We are going on the assumption that the outcome is binary over the next 12-18 months. We identify two scenarios:

1) **Best case:** Nothing "bad" happens.

2) **Worst case:** Current liquidity pressures become acute, more liquidity lines are closed or fail to roll-over, confidence falls further and/or there is a significant (50%?) equity market correction/financial crisis. The asset bubble built up over the last three years bursts. This leads to bank losses on direct domestic equity holdings as well as margin calls and forced selling of equities held as collateral, which itself could lead to rapidly deteriorating loan asset quality. The asset price fallout need not be immediate (it could take two to three years) but the near-term impact on valuations in this scenario could be violent due to the uncertainty. Although we do not wish to draw direct comparisons, it is interesting to note that during the Nordic banking crisis, in the early 1990s, equity prices fell between 40% and 67% (BIS, Sandal 2004).

Figure 2: Scenario analysis (3-bank average)

		Aggressive		Conservative	
		Concerns alleviated	Crisis/distress	Concerns alleviated	Crisis/distress
5y Snr CDS	Current	67 bp	67 bp	67 bp	67 bp
(3 bank avg)	12 mth	32 bp	500 bp	32 bp	250 bp
	Change	**-35 bp**	**+433 bp**	**-35 bp**	**+183 bp**
Probability	Implied	93%	7%	84%	16%
	Our view	80%	20%	80%	20%

Source: Barclays Capital. See appendix for simple scenario probability calculations.

In Figure 2, we show what we believe to be the likely valuation impact of each of the two scenarios. If nothing bad happens, we believe average Icelandic bank spreads will slowly migrate towards the 30 bp mark for 5 yr CDS. In the worst case, a financial crisis could potentially lead to banks widening to an average of 500 bp, say. Assuming the market is pricing in these outcomes efficiently, the implied probability built in for a "crisis" right now is only 7%. We would argue the probability of a shock event is actually closer to 20%. This suggests a very cautious view.

Even using 250 bp as the downside risk suggests caution

Even if we use a more limited downside risk for spreads as a worst-case scenario (250 bp rather than 500 bp), current spreads still imply what we see as too low a probability of a systemic liquidity/equity market collapse.

Options market: if you could buy vol we would…

A long volatility trade would prove almost impossible given the lack of liquidity

We investigated the opportunities available in the options market to express our long volatility view. Our preferred trade would be a straddle using CDS options. This would be a negative carry trade, but one where investors would benefit from either a deterioration or recovery in CDS valuations over a given time period. Unfortunately, the lack of liquidity in the credit swaptions market makes this trade almost impossible, and anyway, would likely be extremely expensive to put on. We also considered using equity options as a way to short the equity market, but once again there appears to be no liquidity on either the banks or the Icelandic index itself.

… So we would still be buyers of protection

Short Icelandic banks; diversifying across the sector

Our conclusion is that at current levels, we would still be short Icelandic banks. Since we continue to view the key risks as systemic, we would buy protection on all the banks. It is true that fundamentally we would tend to agree with the market view that Glitnir has the strongest risk profile but in the worst-case scenario, all the banks would likely be tarred with the same brush and valuations would probably weaken equally across the market. Perversely, this might imply that the most efficient short risk trade is to buy Glitnir protection since it is cheapest. We don't disagree, but prefer to diversify across the banks, possibly paying a little more for protection on average, but offsetting the negative carry with long cash positions.

Figure 3: Funding the short trade on Iceland

Position	Ticker	Type	Mat/Call Date	PV01 (€K/10m)	Price	Z
Short	Icelandic Banks	5 yr CDS	20-Jun-11	4.4	--	67
Long	BCPN	Tier 1	13-Oct-15	7.15	94.16	94
Long	AAB	Tier 1	10-Mar-16	7.57	96.28	67
Long	CRLOG	Core Tier 1	16-Mar-11	4.3	99.68	87
Long	FIH	FRN Sen	23-Mar-10	3.66	98.69	48

Source: Barclays Capital, Bloomberg.

PV01 Neutral Trades:			
For every €10mn notional of short 5 yr CDS portfolio, notional required is :			
Pos	**Notional (€ mn)**	**Net Z carry**	**Net PV01 (€ K)**
BCP Tier 1	6.2	-9	0
ABN Tier 1	5.8	-28	0
CRLOG Tier 1	10.2	22	0
FIH Sen	12	-9	0

Source: Barclays Capital, Bloomberg.

Carry Neutral Trades			
For every €10mn of short 5 yr CDS portfolio, notional required is:			
Pos	**Notional (€ mn)**	**Net Z carry**	**Net PV01 (€ K)**
BCP Tier 1	7	0	0.69
ABN Tier 1	10	0	3.17
CRLOG Tier 1	8	0	-1.09
FIH Sen	14	0	0.71

Source: Barclays Capital, Bloomberg.

Funding the long protection to neutralise carry

We recognise that going outright long CDS in Icelandic banks is a fairly expensive trade, so we suggest funding the position by going long cash in bonds that are good hedges or in names that investors like. We recommend:

- FIH (Kaupthing's Danish subsidiary): Stable credit, ring-fenced from parent in case of crisis but trading cheap on sympathy/contagion.
- Credit Logement (Aa3/A+/A+): Leader in French mortgage guarantee business, with support from ownership structure (BNP, Credit Lyonnais, and SG). The 5 year core deal is a great match for 5 year CDS and, in our view, trades some 20 bp+ too cheap.
- BCP (A1/A/A+): Biggest bank in Portugal attempting to buy fourth biggest using equity issuance. Deal would support fundamentals and calm international expansion, which would be good. Tier 1 trades some 10-15 bp too cheap in our view.
- ABN (Aa3/AA-/AA-): Low-beta, well diversified name with some spread in Tier 1-land. Not much upside, but equally limited downside risk.

The signal to unwind shorts/go long risk?

Watch for the turning point

As we have previously stated, there are a number of principal factors that we will be monitoring carefully in order to help us identify the turning point:

1) Growth of alternative funding sources:

   The strengthening of the customer deposit base, the use of securitisation or covered bond issuance could be ways of diminishing the dependence on unsecured wholesale funding, and thus limit re-financing risk. This has started to happen, but is far from offsetting re-financing risk.

2) Injection of foreign capital into shareholder base:

   A strengthening of the equity capital bases of the banks, particularly through the injection of foreign moneys, would be a strong positive signal for credit investors.

3) Reduction in risk exposure:

   The banks' securities portfolios are large in relation to their overall size. In our view, a reduction would be a welcome sign that risk appetite is being curbed. In addition to direct exposure, however, we would probably need to see a moderation in the indirect exposure to the domestic equity market in particular which makes loan books look vulnerable.

4) Sale of assets:

   The banks always have the option of selling assets to reduce liquidity pressures before they run any serious risk of defaulting on their obligations.

Why Iceland has seen little foreign equity interest so far

Figure 4: ICEX Equity ownership

35%	Companies (domestic)
21%	Foreign Institutions (many will be Icelanders based elsewhere)
13%	Banks
12%	Individuals
9%	Pension Funds

Source: Central Bank of Iceland.

Wider foreign institutional ownership of Icelandic equities would help alleviate some of the domestic leverage concerns, and make the market less apparently insular. For the banks, in particular, it would also help calm fears that their equity bases are built on domestic capital gains, and might act as a balance against the relatively high domestic P/E valuations. Icelandic banks are aware of the potentially positive effect of inviting foreign capital. Here are some of the reasons they gave as to why it has been slow in coming:

- The currency (ISK) has tended to be volatile;
- Growth has come very quickly, so analyst-following is still nascent;
- Trade settlement issues (Iceland is T+1 not T+3);
- Positioning Iceland: a mature or growth economy? It could fit in either category.

Net impression: risks still on the downside

The objectives for our trip could be summarised in three points:

- To gain a sense that the banks' managements were prepared to modify their strategies (funding as well as operating) in response to credit investor concerns;
- To gain better understanding of the dimension, nature and management of risks: liquidity, equity and credit. In particular, we wanted to understand the degree of indirect exposure to equity risk and the country's flexibility to withstand shocks.
- To gain comfort on the rigour of regulatory oversight.

On management: we sensed they are listening; a positive

For the first time since we have been covering the Icelandic banks intensively, we got a definite sense that senior management was listening, and had accepted the fact that the pace of asset and funding growth needed to slow. Kaupthing, for example, will not be funding in the euro currency public market this year, and all banks seemed to have delayed or shelved plans to make further acquisitions this year at least.

On understanding the risks: we still feel nervous; no change

One of our main concerns has centred on the ability and/or willingness of Icelandic banks to understand all the risks (direct, indirect, systemic) that are building up around them. We are particularly worried about the amount of indirect equity exposure that banks hold through lending to investment companies/vehicles and others, which are then on-invested in equities, essentially double leveraging. We came away with the view that there is excessive focus on collateral and loan-to-value ratios and less measurement of ability to service debt. See key risks overleaf.

On regulatory strength: mixed impressions; neutral

Bank regulator meeting raised concerns, although the Central Bank provided confidence that oversight is strong

We came away from our meeting with the bank regulator (FME) with the sense that it was largely unaware of – and had no measure for – some of the principal risks in the system, including equity exposure and leverage. However, the efficacy of the meeting was hampered by the language barrier, whilst the meeting with the Central Bank, which included Financial Stability representatives, made us confident that their oversight was in fact fairly strong. The Central Bank has been active in the last year or two in discussing (and publishing) the risks of an over-heated domestic economy, and the impact of systemic leverage on the banks. The tightening in monetary policy in the last few years (see Figure 10) exemplifies the concern.

Figure 5: Spreads: our post-roadshow investor poll

	Current	Average		
		1 mth	3 mth	12 mth
Kaupthing 5 yr Snr CDS	77/82	79	89	118
Glitnir 5 yr Snr CDS	56/61	57	66	42
Iceland 10 yr Snr CDS	24/27	27	30	20
ICEX	5711	5400	5138	4850
ISK/€	90	92	94	88

Source: Barclays Capital.

The key risks revisited

Below we revisit what we see as the three principal risks using the most recent disclosures we have been given and using, where possible, parent bank, rather than group consolidated figures. The latter are of limited help in distress and we explain why.

1. Refinancing risk

Desire to fund asset growth increases the challenge

This risk will not go away until all three banks have demonstrated that they have a sustainable liability profile diversified across maturities, structures, markets and currencies. This will take time, and although the current focus on the private placement market is a welcome one, the next six to twelve months are key. Remember, the banks don't simply want to refinance outstandings, they want to increase their funding to fuel asset growth. This doubles the challenge. In Figure 6, we provide refinancing requirements for the three banks.

Figure 6: Funding needs at parent bank (including CP/MM)

€ mn	KB	LB	Gli
Obligations falling due:			
2006	2,800	2,100	600
2007	3,600	2,500	2,700
Liquidity:			
Raised so far 2006	1,800	1,100	1,400
Cash balances	234	1,300	270
Committed lines (undrawn)	603	NA	535
Loans maturing 2006	4,246	1,000	1,600

Note: Re-financing in 2006 includes all commercial paper and money market instruments. Kaupthing cash includes €223mn of cash which is classified as loans to financial institutions. Glitnir cash balance includes €134mn of money market placements. Loans maturing in 2006 for Glitnir refers to loans maturing as of 20 March 2006. Landsbanki parent cash balance given by company, no further breakdown known.
Source: Most recently available company disclosures, using figures for parent where available.

2. Equity exposure

Equity exposure is the next biggest risk. Figure 7 shows what we know about direct and indirect exposures. In our meeting, the Central Bank suggested it was concerned by the notion of "double-counting" of profits due to the heavy involvement of investment companies (some listed) in the domestic equity market.

Figure 7: Equity exposure at parent bank

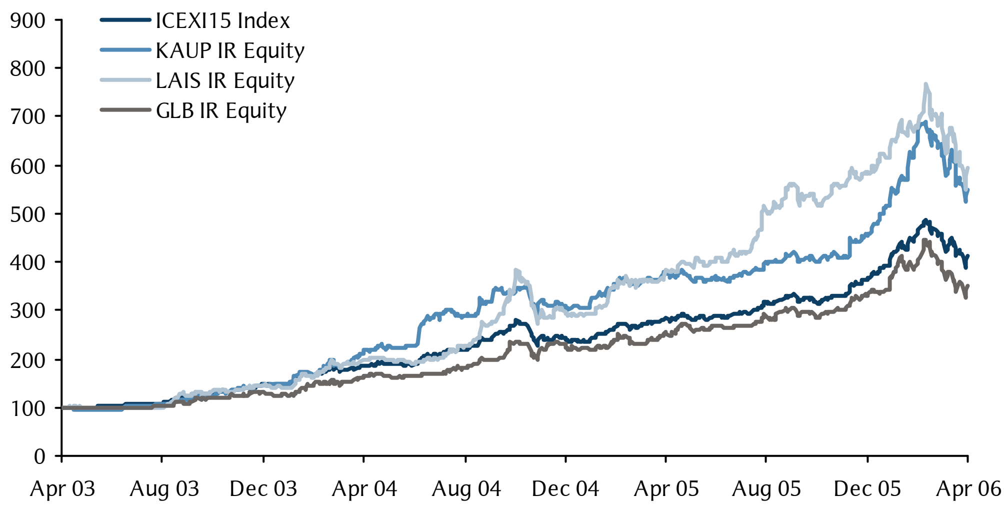
€mn		KB	LB	Gli
Direct	Gross	2,200	1,700	1,100
	Net	1,300	790	350
	of which Iceland	790	322	40
	Net as % Tier 1	54%	47%	28%
Equity Collateral on loans		9%	NA	12%

Note: Kaupthing Iceland equity exposure includes €300mn for a convertible and €150mn for unlisted securities.
Source: Most recently available company disclosures, using figures for parent where available.

Leveraged share purchases: a challenge for risk management

An important element in support of rising Icelandic stock market valuations in recent years has been the use of debt to invest funds in equities. This may be done through formal collateralised lending, or less formally through normal borrowing relationships. Although the former can be measured and controlled, the latter cannot be measured accurately and exposes the banks to significant risk. This is a concern for us given the equity asset price bubble that appears to have characterised Iceland of late. However, to the extent that the banks are able to monitor and measure the risk, controls do appear to be in place, even if these are yet to be tested in distress. Kaupthing, for example, makes margin calls once equity held as security falls to between 135-150% coverage. If additional margin is not provided within two business days, the collateralised shares are sold. Shares pledged as collateral, together with acquired shares, are all held under the bank's name at the Icelandic depositary registry. As such, shares pledged once cannot be used for leverage elsewhere under any circumstances. Collateral arrangements are also strict for derivative contracts (total return swaps, forwards), which equity collateral accepted but after a haircut. Again, however, the unquantifiable risks remain: the impact on counterparty credit quality (predominantly domestic) should the market for the securities deteriorate significantly.

Figure 8: Icelandic equity performance during LTM



Source: Bloomberg.

3. Currency risk

Currency exposure remains a risk, although relative to risks one and two above, is probably less acute. We have become more confident that the downside from here is, on balance, more measurable than for the other two risks. Throughout our meetings, economists from separate organisations predicted further falls of up to 10%, although again, there are risks to the downside. The principal impact on ISK depreciation is probably on the banks' regulatory capital position given that Icelandic bank risk-weights are now predominantly foreign-currency denominated while capital is substantially still ISK (Figure 9).

Figure 9: ISK depreciation impact on total capital ratios

	KB	LB	Gli
Tier 1	9.40%	11.90%	9.90%
Total Capital	12.20%	13.10%	12.60%
30% ISK fall on Total Cap	**-0.70%**	**-1.10%**	**-1.5%**
Foreign currency lending			
% parent bank loan book	59%	66%	40%
% to unhedged customers (parent bank)	11%	13%	7%

Note: Kaupthing unhedged customers includes 2.2% of customers who receive ISK only income, but are market dominant players.
Source: Most recently available company disclosures, using figures for parent where available

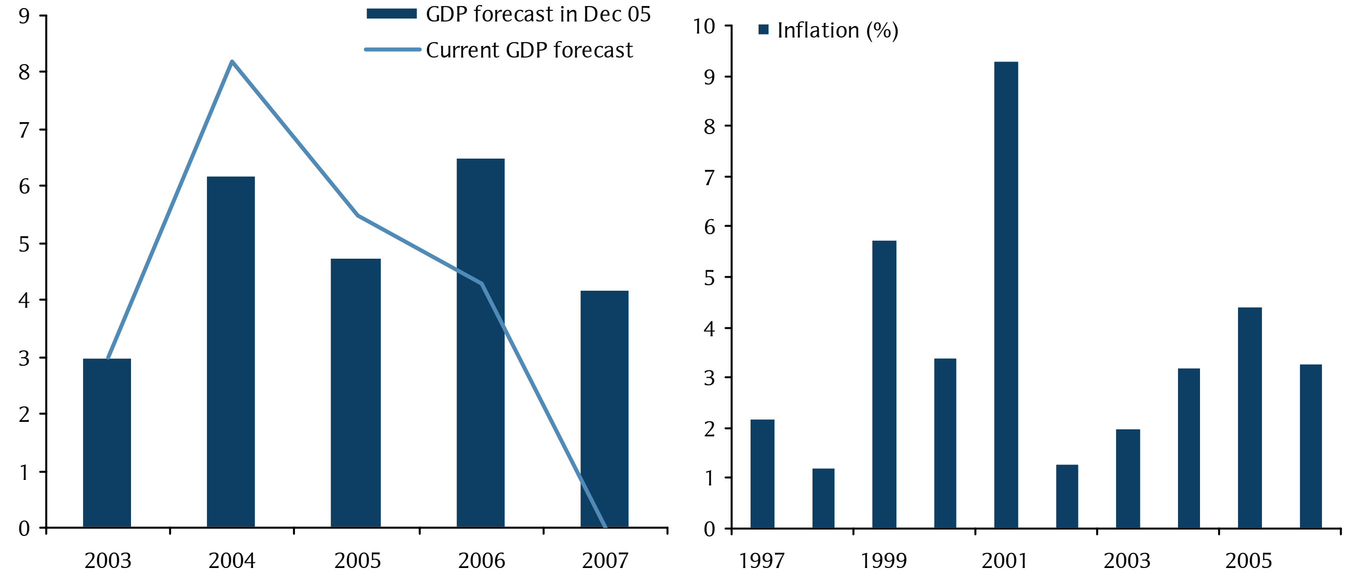
International subsidiaries do not help in distress

Icelandic banks appear to have almost no ability to bleed liquidity from their foreign regulated subsidiaries, even if they wanted to

Much of the market commentary concerning the banks' fundamentals has centred on using consolidated accounts. In particular, the banks themselves are keen to defend their expansionary strategy by suggesting that it will help diversify both their asset side and their funding mix. We would highlight that although this type of diversification/expansion may be beneficial for equity valuations, for our purposes, as credit analysts, it is not that helpful. Fixed income investors are exposed to legal entities alone. In this case, exposure to the Icelandic banks means exposure to the parent bank in Iceland. Dividend upstreaming from subsidiary to parent is helpful, and can ease liquidity pressures, but they are not dependable, and in itself, depending on equity dividend income to pay debt coupons is leverage. Unless the parent has a call on the assets/liquidity of its subsidiary, the benefit of holding that subsidiary is otherwise useless in a distress event. It has been made abundantly clear from our conversations with the Icelandic banks, if we didn't already know, that they have almost no ability to bleed liquidity from their foreign regulated subsidiaries, even if they wanted or needed to. Kaupthing's plans to seek deposit funding at subsidiary FIH in Denmark, and Glitnir's ownership of BN Bank in Norway do not diversify the parent bank's own (solo) funding sources. They make the consolidated liquidity ratios look better (deposits/loans) but they are no real comfort to us as credit analysts. Equally, disclosing consolidated cash/liquid asset positions is meaningless since the parent bank creditors have no call on subsidiary assets. This fact seems to have been lost in recent commentary, and also seems to be conveniently ignored by bank management. We have asked the three banks for detailed parent bank (solo) unconsolidated accounts.

Macro economy: contraction in 2007?

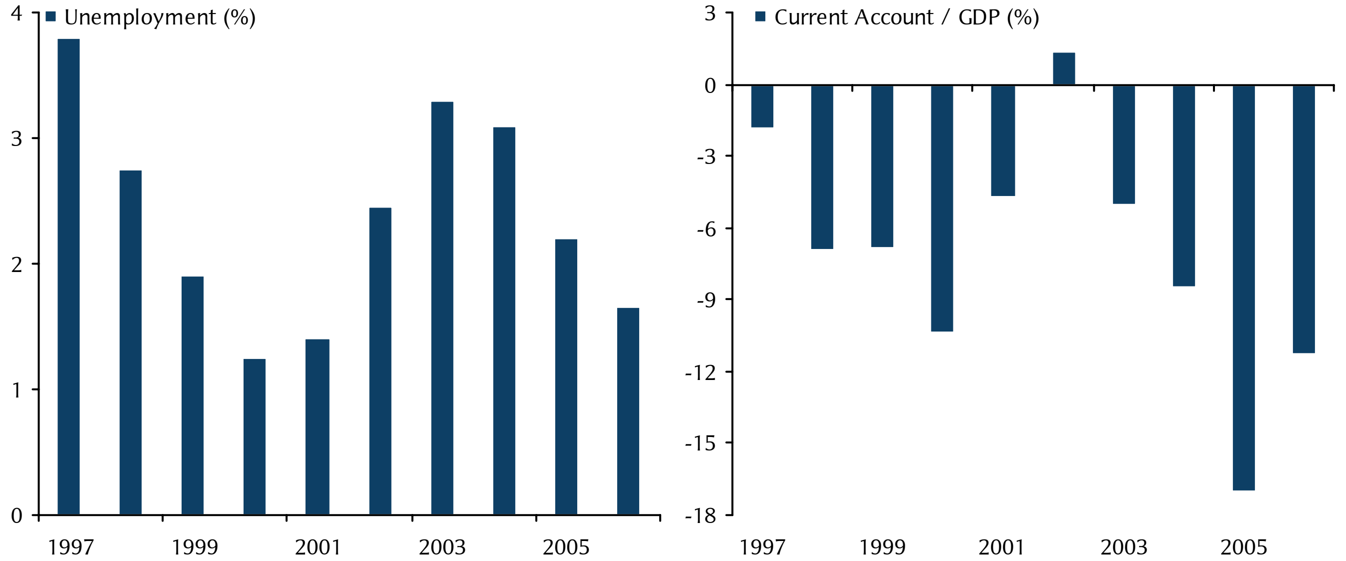
Figure 10: Iceland economic indicators and forecasts



Source: Glitnir, OECD, Icelandic Central Bank.

According to OECD and Central Bank estimates, key economic indicators in Iceland will moderate in 2006 and further in 2007, with GDP growth slowing to zero or below with a reduction in the current account deficit. The OECD seems to be factoring in a somewhat softer landing than others within Iceland, although the figures and forecasts below were published ahead of the recent ISK depreciation. Glitnir, for example, is forecasting an increase in inflation (to 4.7%), rather that a decrease per OECD, due to ISK weakening, and expects the country to contract mildly (ie, small negative GDP growth in 2007) after some 4% growth this year. That said, most of those we met seemed confident of a necessary but ultimately affordable correction in principal macroeconomic indicators, and we came away believing that the economy had greater built-in flexibility that we had previously assumed, based on a track record of withstanding previous currency shocks, flexibility of labour force and inflow of migrant workers. That said, the current level of leverage built up now poses additional risks of a hard landing this time, which partly explains the monetary policy (tightening response). Longer term, most market commentators appear to agree that the prospects for the economy do appear good.

Figure 11: Iceland economic indicators and forecasts – part 2



Source: Glitnir, OECD, Icelandic Central Bank.

Take-aways from individual meetings

Glitnir

- Strategy is really that of a niche player exporting specific strengths (food/seafood, sustainable energy, shipping) elsewhere. Its two home markets are Iceland and Norway. Inorganic expansion has focused on Norway (cultural/commercial ties) where the purchase of BN Bank was driven more by diversification than niche.
- The next two years will see the conclusion of Norwegian expansion and integration, with the possible market extension to Sweden.
- Large exposures represent 82% of Tier 1 and are a measure that S&P wants to see fall; and this is a focus. One of these loans is to one of the bank's largest shareholders. The 20 largest exposures represent 140% of Tier 1.
- Group RoE target is a fairly conservative 14%, suggesting risk-appetite is fairly low among shareholders.
- Almost 50% of the parent bank's international funding (which itself makes up the lion's share of parent liabilities) is in the form of private placements, a strategy Glitnir believes will pay off given the recent difficulties in the public euro markets.
- Like for Kaupthing, Glitnir had extendables in US$ which did not get extended a few weeks ago.
- Rise in funding costs can at least in part be passed onto borrowers.
- Total return swaps to local investors – requires customers post collateral equal to 40% of margin requirement.

Kaupthing

- Relationship with 21% shareholder Exista will change so that Kaupthing's own 19% cross-shareholding (in Exista) will be sold (later this year?), although the exact mechanics of that sale seem yet to be worked out.
- Market risk is being reduced and we should see a reduction in the net equities exposure with the first-quarter results.
- S&P rating? Possibly. The bank has obviously been in conversations with the agency and the publication of the rating will probably depend on how good it is. Our guess is that an A- rating would work for the bank, but otherwise no.
- Listing in London to attract more foreign equity capital? Not a near-term probability, in our view, since this would probably need to move its headquarters, which would most likely be politically difficult.
- Management is anticipating GDP growth to be lower but still positive in 2007, at 1-2%.
- The 20 biggest loan exposures total ISK200bn, similar to book equity. The biggest related party exposure is the €300mn Bakkavor convertible Kaupthing owns.
- Loan book was said to be more or less the same quality across Iceland and Denmark (an interesting statement, in our view), and on balance is broadly the same as the average for those countries. Substantially all exposures are in the upper third of internal ratings.
- No acquisitions to be made this year, with the focus being placed on allowing the funding market to settle down and the integration of recent purchases.

- The parent bank's mortgage book is loss making, essentially used as a loss-leader and a method of going "long inflation" since mortgages are inflation-linked.
- Strategy is driven by ambition to be a corporate/wholesale bank. However, in our view the trouble is that this makes it more sensitive to rising funding costs since margins are tighter and competition often fiercer.
- Treasury has put on a big Krona short (eg, long €900mn) in its trading book to hedge against risk of devaluation in Q1.

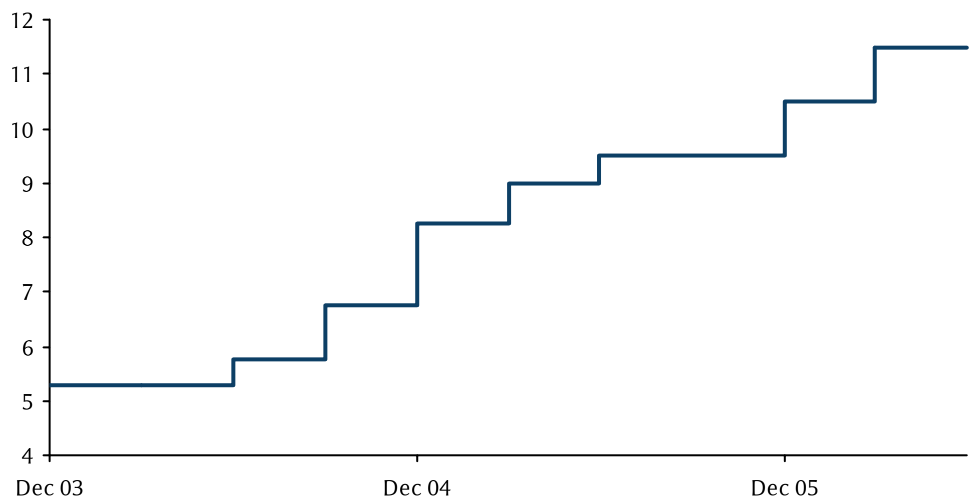
Landsbanki

- The most mature management team of the three, with the two co-CEO's averaging somewhere in the late 40s (?) compared to Kaupthing and Glitnir CEOs in the mid-30s.
- Biggest branch network in the country (42%) and together with Kaupthing, Landesbanki holds the greatest domestic market presence.
- The bank's expansion strategy has focused on building SME to mid-corporate specialty finance/brokerage businesses in UK/Ireland and elsewhere in Europe. Its ambition is to grow non-Icelandic earnings to 50%, from the current 30%, within two years. Landsbanki is the most Icelandic-centric of the three big Icelandic banks.
- The company believes the right level for 5 yr senior CDS is in the 30-40 bp region.
- The suggestion from the company was that further M&A is unlikely in 2006, although unlike the other two banks, Landsbanki was not as categorical about this. However, if they do occur, they are likely to remain small, and in line with recent buys.
- Shareholder structure not likely to change (Samson Holdings 40%) any time soon. We were made to understand the bank has helped finance holdings in Straumur equity by Samson and/or the latters' owners, highlighting related party exposures.

FME (Bank Regulator)

- FME does not supervise/regulate investment companies unless they are significant owners of banking assets, eg, Samson.
- FME stated it was "comfortable" with the concept of leverage (ie, investment companies/customers borrowing to fund equity investments) in so far as it did not pose a systemic threat, in their opinion.

Figure 12: Icelandic repo rate (%)



Source: Barclays Capital, Statistics Iceland.

Icelandic Central Bank

- The Central Bank came across as far less sanguine than the FME. It has been warning of an overheated economy for some time and the need for a correction.
- The Financial Stability team asked bank management to moderate the speed on wholesale funding last year and extension of their liability maturities.
- It believes the ISK has been 20% overvalued until recently. It also sees GDP growth slowing to a low of 0.4% in 2007 before speeding up again.
- The Central Bank targets an inflation rate of 2.5%.
- Although it has tended to perceive the financial system domestically as broadly sound, it sees an increase in the yields demanded by international credit investors as a necessary evil and a positive check on the banks.
- Importantly also, the Central Bank, together with the FME has monitored the virtuous circle of equity valuations in play, whereby leverage has helped exacerbate domestic equity price inflation. It fears that a downward correction in the equity market could spark a vicious cycle of selling. This is precisely one of the key risks we have been highlighting.
- The ability of market participants to short the equity market (currently not permitted) is under discussion.
- State support for banking system in crisis: "although the Central Bank can act as lender of last resort there is no guarantee it would do this". That said, with national debt so low, Iceland could afford to bail out the banks to the tune of half the national GDP (€13bn in 2005) and still have a debt to GDP ratio better than Italy.
- On support, we understand Iceland has in place Memorandi of Understanding with other Nordic Central Banks which would likely lead to help forthcoming should it ever be required, although we have not been made privy to details.

Appendix

Here is a summary of the simple scenario analysis (Figure 2) used to ascertain probabilities implied by current market levels.

P(Downside) = Upside / (Downside + Upside)
P(Upside) = Downside / (Downside + Upside)

Where
P(Upside) + P(Downside) = 1
*P(Upside)*Upside = P(Downside)*Downside*

Assuming	*Assuming*
Upside = 35	*Upside = 35*
Downside = 433	*Downside = 183*
Then	*Then*
P(Downside) = 7%	*P(Downside) = 16%*
P(Upside) = 93%	*P(Upside) = 84%*

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