



Εik

---

# Annual Report 2008

---

23 November 2009

---

Replaces Annual Report of 27 February 2009

---

[www.eikbank.com](http://www.eikbank.com)



**Eik Banki P/F**

Yviri við Strond 2  
P. O. Box 34  
FO-110 Tórshavn  
Faroe Islands

Tel : +298 348000  
Fax : +298 348800  
eik@eik.fo  
www.eikbank.com

Registered address Tórshavn  
Established 24 August 1832

Registration No. 3293  
VAT No. 516244

Reg No. (Danish banks) 9181  
BIC/SWIFT EIKB FO TF

**Eik Banki Securities****Share**

Stock Exchanges VMF Market on Nasdaq OMX Iceland  
Nasdaq OMX Copenhagen  
ISIN code FO0005702340  
Bloomberg EIK IR / EIK DC  
Share Capital DKK 812,927,400  
No. of Shares 8,129,274

**Subordinated Debt**

Stock Exchange Nasdaq OMX Copenhagen  
ISIN code DK0030034426  
Bloomberg FOROYA 5.385  
Amount DKK 150,000,000  
Interest 5.385 per cent

**Senior Debt**

Stock Exchange	Nasdaq OMX Copenhagen	
ISIN	DK0030152111	DK0030168380
Bloomberg	FOROYA 3	Foroya 3.43
Amount	DKK 666,000,000	DKK 300,000,000
Interest	3.00 per cent	3.43 per cent

**Investor Relations**

Finn Danberg, Director, Group CFO & Head of Investor Relations  
Tel: +298 548610 · e-mail: finn.danberg@eik.fo

**Management**

Marnar Jacobsen, CEO  
Chief Managing Director  
marnar.jacobsen@eik.fo

Bjarni Olsen  
Managing Director  
bjarni.olsen@eik.fo

**Board of Directors**

Frithleif Olsen  
Chairman

Odd Arild Bjellvåg  
Deputy Chairman

Finnbogi Niclasen  
Rólfant Vidtfeldt  
Mathea Hilduberg  
Jákup Egil Jensen  
Petur Hammer  
Tórmund A. Joensen  
Rakul Dam  
Gert Langgaard  
Fía Selma Nielsen

**Board of Representatives****Suðuroy**

Mikkjal Hammer  
Petur Hammer  
Marianna Jacobsen  
Páll Michelsen  
Finnbjørn Nielsen  
Knútur Nygaard

**Eysturoy**

Olaf Fríðheim  
Regin Gregersen  
Álvur Hansen  
Leif Høj  
Alice Højsted  
Oluffa Joensen  
Sofus D. Johannesen  
Frithleif Olsen  
Eyðun Rasmussen  
Høgni á Reynatrøð

**Sandoy**

Poul Klementsén  
Elisabeth Myllhamar  
Jonna Krog Poulsen  
Kristoffer Poulsen  
Jákup Martin Sørensen  
Rólfant Vidtfeldt

**Vågoy**

Gitta av Kálk  
Heini Nielsen  
Sigfríður Dam Olsen  
Herluf Sigvaldsson  
Tórhallur Simonsen  
Sveinur Thomasen

**Norðstrey moy**

Elna Debess  
Marian Jacobsen  
Bergur Robert Dam Jensen  
Gunnbjørn Joensen  
Ragnar Petur Joensen  
Karl A. Olsen

**Norðoyggjar**

Finn Baldvinsson  
Jógvan í Beiti  
Jórun Gardar  
Jonhard Larsen  
Eliesar N. Lydersen  
Dánjal Jákup Meinertsson

**Suðurstrey moy**

Odd Arild Bjellvåg  
Hans Johannes á Brúgv  
Debes Danberg  
Hans Andrias Djurhuus  
Bent Jacob Højgaard Hansen  
Jóhannes Martin Hansen  
Poul Gert Hansen  
Jákup Egil Jensen  
Jóan Pauli Joensen  
Líggjas Joensen  
Olga Kallsberg  
Oddvǽ Nattestad  
Marita Simonsen  
Birgir Sondum  
Jákup í Stórustovu

**Appointed according to § 6.6 in the Articles of Association**

Frithleif Olsen  
Kjartan Mohr  
Bárður S. Nielsen

**External Auditor**

Hans Laksá,  
State-Authorised Public Accountant

**Internal Auditor**

Sigmund Frederiksen  
Chief Auditor

---

---

---

## Contents

---

---

Corrected Annual Report 2008	7
Result Highlights 2008	11
Five Year Summary	13
Management Review	19
Statement by the Management	54
Annual Accounts 2008	55
Auditor's Report	75
Accounting Principles	79

---



---

## Corrected Annual Report 2008

---

---

## Corrected Annual Report 2008

9 November 2009, The Danish Securities Council requested that Eik Banki issue a corrected version of the 2008 consolidated and Annual Report 2008 of Eik Banki P/F. The Bank's management has decided not to appeal the Securities Council's decision. Thus, two versions of the Bank's Annual Report 2008 exist, and we hereby declare that the previous version of the Annual Report 2008, dated 27 February 2009, no longer is valid.

The Danish Securities Council's report points out certain shortcomings in some of the items in the Annual Report, where the Bank, in the process of changing accounting principles in 2008, has not followed the new accounting principles sufficiently. Therefore, the Bank is requested to issue a restated Annual Report 2008.

The shortcomings primarily pertain to the Bank not having reassessed the balance at year begin 2007 and year begin 2008 as requested by the new accounting principles. This means that the reassessments, originally conducted in 2008, should be registered by 1 January 2007.

The expected effects of the changes to total assets, equity and the result, was described in the 1-3 Quarter Report, page 16. However, the Danish Securities Council demands that at fair value adjustment of DKK 35 million, which the Bank had expected to be included in the income statement for 2008, should be registered directly on the equity, as of 1 January 2008. Hence, the effect in the table on page 9 deviates from our previous announcement.

The total effect to Eik Banki Group's total assets at year end 2008 amount to DKK +41 million or 0.19%. The total effect to equity at year end 2008 amounts

to DKK +1 million or 0.06%. The total effect on result amounts to DKK +10 million in 2007, and DKK -48 million for the year 2008.

The shortcomings affect the following items:

1. Fair value adjustments
2. Comparative figures 2007
3. Goodwill
4. Note for collective impairments
5. Note for domicile properties

Lacking fair value adjustments stem from Eik Banki not having reassessed the value of domicile properties as of 1 January 2007, but register in fair value adjustments in 2007 and 2008 in stead. Furthermore, the Bank has not made fair value adjustments on loans and deposits and derivative financial instruments, which have been used to cover interest risk of fixed rate loans and deposits.

As the Bank has not made fair value adjustments as of 1 January 2007, certain comparative figures for 2007 are corrected in this Annual Report.

Goodwill from associated undertakings must according to the new accounting principles be included in holdings in associated undertakings and not as previously in intangible assets. This procedure was followed in 2007 and 2008, but not as of 1 January 2007. The Bank decided when changing accounting principles not to reverse previously depreciated goodwill for 2007 and 2008. An impairment test of these items shows that goodwill value is higher than previously impaired, and therefore, the excess deprecated amount has been reversed.

Furthermore, the specifications in note 14 on intangible assets (goodwill), collective impairments



DKK million		Eik Banki P/F	Group	Eik Banki	Group
Balance Sheet	Note	2007	2007	2008	2008
<b>Assets</b>					
Loans and other claims at amortised cost	9	-46	-46	+ 16	+ 16
Holdings in associated undertakings	12	+ 162	+ 162	+ 2	+ 2
Intangible assets	14	-149	-149	+ 6	+ 6
Land and buildings	15	+ 31	+ 31	-	-
Deferred tax assets	17	-5	-0	-1	-1
Other assets	18	-4	-4	+ 18	+ 18
<b>Total assets</b>		<b>-11</b>	<b>-6</b>	<b>+ 41</b>	<b>+ 41</b>
<b>Liabilities</b>					
Other liabilities	21	-4	-4	+ 26	+ 26
Provisions for deferred tax	17	-	+ 5	+ 8	+ 8
Subordinated debt	22	-	-	+ 6	+ 6
<b>Total liabilities</b>		<b>-4</b>	<b>+ 1</b>	<b>+ 40</b>	<b>+ 40</b>
<b>Equity</b>					
Share capital		-	-	-	-
Guarantee capital		-	-	-	-
Share premium reserve		-	-	-	-
Other reserves / Revaluation reserve		+ 27	+ 27	+ 4	+ 4
Retained profit		-35	-35	-3	-3
<b>Total equity</b>		<b>-7</b>	<b>-7</b>	<b>+ 1</b>	<b>+ 1</b>
<b>Total liabilities</b>		<b>-11</b>	<b>-6</b>	<b>+ 41</b>	<b>+ 41</b>
<b>Income statement</b>					
Interest income	1	-3	-3	-	-
Fee and commission income	3	-	-	-35	-35
Market value adjustments	4	-3	-3	-15	-15
Depreciation and write-down of intangible and tangible assets		+ 13	+ 13	+ 4	+ 4
Taxes	7	+ 4	+ 4	-2	-2
<b>Net profit for the year</b>		<b>+ 11</b>	<b>+ 11</b>	<b>-48</b>	<b>-48</b>

(note 9) and domicile properties (note 15) were not adequately detailed and have therefore been corrected accordingly.

changes entail consequent changes to other figures, e.g. taxes and ratios, which therefore have been amended in the new issue of the Annual Report.

The restatement of the Annual Report entails changes in certain items in 2007 and 2008. Some of these

The effect on amended items for 2007 and 2008 are listed in the table above.

---

Another consequence of the Danish Securities Council's decision is that comments on the accounting development in the Management Review have been changed in accordance with the corrected numbers throughout the review. The contents of the Management Review has, however, not been changed, with the exception of 'Events after the end of the financial year' and partly 'Economic Outlook 2009'. In these sections, the reader must notice that 'Events after the end of the financial year' now concerns the period until 23 November 2009, which the Bank regards being pertinent to the 2008 accounts. 'Economic Outlook 2009' has been revised in accordance with relevant events that have occurred since year-begin.

---

---

## Result Highlights

---

2008

---

## Highlights

---

### 2008 Result – Highlights

- The result after taxes is a loss of DKK 362.0 million
- Negative value adjustments of securities and currencies are DKK 261 million
- Impairments are DKK 553.7 million corresponding to 2.9 per cent of total loans and guarantees
- Basic operation shows progress. The result before market value adjustments, impairments and taxes is DKK 353.3 million, an increase of 10.6 per cent
- Well diversified loan portfolio of which project financing for real estate is 6.5 per cent of total loans and guarantees
- Considerable progress in mortgage credits
- Solvency is 10.6 per cent and core capital ratio 7.5 per cent
- Liquidity is 4.8 billion, which corresponds to an excess cover of 164.2 per cent

### Outlook 2009

Since 27 February the bank has downgraded the estimated result for 2009 to a loss after taxes of approximately DKK 150 million.

In the previous Annual Report 2008 Eik Banki Group expected the result for 2009 before market value adjustment, impairments and taxes but included guarantee cost for Credit Package I to be DKK 350 million.

---

---

## Five Year Summary

---

2004–2008

---



## Five Year Summary Income Statement

Group DKK Million	2008	2007	2006	2005	2004
<b>Income Statement</b>					
Interest income	1,381	912	485	341	267
Interest expenses	869	539	210	108	68
<b>Net interest income</b>	<b>512</b>	<b>373</b>	<b>275</b>	<b>233</b>	<b>199</b>
Fees, commissions and dividend	231	220	106	65	24
Market value adjustments	-261	189	86	46	88
Other operating income	26	20	15	13	13
<b>Profit on financial operations</b>	<b>508</b>	<b>802</b>	<b>482</b>	<b>357</b>	<b>324</b>
Staff costs, administrative expenses and other operating expenses	390	342	230	180	125
Depreciations and writedowns of intangible and tangible assets	17	12	26	15	9
Impairment of loans and other claims	554	37	-34	6	87
Income from associated and subsidiary undertakings	-8	60	48	9	8
<b>Profit before taxes</b>	<b>-461</b>	<b>471</b>	<b>308</b>	<b>165</b>	<b>111</b>
Taxes	-99	68	57	38	5
<b>Net profit</b>	<b>-362</b>	<b>403</b>	<b>251</b>	<b>127</b>	<b>106</b>

Comparative figures for 2004-2006 have not been adjusted according to the new accounting principles.

## Five Year Summary Balance Sheet

Group DKK Million	2008	2007	2006	2005	2004
<b>Balance Sheet</b>					
<b>Assets</b>					
Cash in hand, claims on central banks and credit institutions	2,795	3,130	1,656	467	378
Loans and other advances	15,688	15,570	8,271	6,551	5,053
Securities	2,203	2,050	1,332	1,232	696
Tangible assets	142	147	136	125	121
Other assets	927	679	433	246	246
<b>Total assets</b>	<b>21,755</b>	<b>21,576</b>	<b>11,828</b>	<b>8,621</b>	<b>6,494</b>
<b>Liabilities</b>					
Debt to credit institutions	5,081	5,412	4,071	2,994	1,277
Deposits and other liabilities	14,135	13,263	6,116	4,483	4,195
Other liabilities	408	361	282	227	195
Subordinated debt	454	448	150	0	0
Equity	1,677	2,092	1,209	917	827
<b>Total liabilities</b>	<b>21,755</b>	<b>21,576</b>	<b>11,828</b>	<b>8,621</b>	<b>6,494</b>
<b>Off-balance-sheet items</b>					
Total guarantees, etc.	1,890	1,091	842	394	277
Other commitments	170	111	320	2	1
<b>Total off-balance-sheet items</b>	<b>2,060</b>	<b>1,202</b>	<b>1,162</b>	<b>396</b>	<b>278</b>

Comparative figures for 2004-2006 have not been adjusted according to the new accounting principles.

## Five Year Summary Key Ratios

### Group

		2008	2007	2006	2005	2004
<b>Ratios 1)</b>						
<b>Solvency and capital ratios</b>						
Solvency ratio		10.6%	13.7%	11.0%	11.0%	15.2%
Core capital ratio		7.5%	10.8%	10.8%	13.3%	14.9%
<b>Earning ratios</b>						
Return on equity before tax	ROE	-24.2%	28.4%	28.9%	18.8%	14.1%
Return on equity after tax	ROE	-18.8%	24.1%	23.6%	14.5%	13.6%
Return on assets after tax	ROA	-1.7%	1.9%	2.4%	1.7%	1.8%
Return on risk weighted assets after tax	RORWA	-2.3%	2.6%	2.8%	2.0%	2.2%
Income/cost ratio		0.52	2.22	2.38	1.81	1.51
<b>Shares</b>						
Average number of shares (1,000)		8,129	7,621	6,953	6,793	6,793
Number of shares end period (1,000)		8,129	8,129	7,113	6,793	6,793
Share price end period		95.00	520.00	502.00	184.50	115.50
Share price high		517.00	791.00	502.00	115.25	132.50
Share price low		89.00	461.00	184.50	184.50	95.50
Average share price		303.00	626.00	343.25	149.88	114.00
Earnings after tax per share	EPS	-44.29	49.55	36.00	18.60	15.80
Share price end period / Earnings after tax per share	P/E	-	10.49	13.94	9.92	7.31
Average share price / Earnings after tax per share	Avg. P/E	-	12.63	9.53	8.06	7.22
Dividend per share		0.0%	2.1%	1.0%	2.7%	4.3%
Dividend Payout Ratio	DPR	0.0%	20.7%	14.2%	26.8%	31.7%
Dividend per share (avg.)	DPS avg.	-	10.67	5.12	5.00	5.00
Book value per share	BVPS	206.90	280.75	171.60	135.00	121.70
Share value by year end / Intrinsic share value	P/B	0.46	1.85	2.80	1.30	0.90
<b>Market risk ratios</b>						
Interest rate risk		1.7%	3.9%	1.6%	4.2%	2.8%
Foreign exchange risk		8.9%	16.6%	16.4%	11.3%	25.2%
Risk weighted assets / Total assets		71.1%	72.6%	76.4%	75.1%	76.3%
<b>Liquidity ratios</b>						
Loans, advances and impairments in proportion to deposits		115.6%	119.5%	138.7%	152.5%	130.6%
Excess liquidity cover relative to statutory requirement		164.2%	103.4%	125.1%	80.1%	71.3%
<b>Credit risk ratios</b>						
Large loans as percentage of capital base		229.5%	144.1%	224.9%	102.6%	61.3%
Part of outstanding loans at reduced interest	NPL	3.6%	0.6%	0.7%	2.4%	3.9%
Impairments percentage	LLR	3.6%	1.4%	2.3%	4.0%	7.4%
Loan loss reserve / Non-performing loan ratio	LLR/NPL	101%	220%	329%	167%	190%
Write-offs and impairments during the period		3.0%	-0.1%	-0.3%	0.1%	1.5%
Total loans in proportion to equity		9.3	7.3	6.8	7.1	6.1
Increase of loans		0.5%	88.8%	26.3%	29.7%	30.0%
<b>Other ratios</b>						
Increase in deposits		6.6%	116.8%	36.4%	6.9%	10.8%
Increase in balance		0.6%	82.8%	37.2%	32.8%	25.0%

Comparative figures for 2004-2006 have not been adjusted according to the new accounting principles.

### Explanation of ratios

1) See explanation of ratios on page 18

## Five Year Summary Key Ratios

### Eik Banki P/F

	2008	2007	2006	2005	2004
<b>Ratios 1)</b>					
<b>Solvency and capital</b>					
Solvency ratio 2)	18.2%	21.9%	14.3%	14.4%	19.0%
Core capital ratio 3)	13.7%	17.6%	14.1%	17.4%	19.0%
<b>Earnings ratios</b>					
Return on equity before tax	-20.9%	26.7%	26.4%	17.5%	14.1%
Return on equity after tax	-18.8%	24.1%	23.6%	14.5%	13.6%
Income / cost ratio	0.11	2.89	2.92	2.07	1.51
<b>Market risk</b>					
Interest rate risk 8)	1.3%	1.7%	0.9%	3.7%	2.4%
Foreign currency risk 9)	5.4%	12.3%	14.4%	10.2%	24.4%
<b>Liquidity ratios</b>					
Loans, advances and impairments in proportion to deposits	135.9%	132.3%	95.1%	113.4%	111.2%
Excess liquidity cover relative to statutory requirement	184.6%	54.5%	100.9%	52.4%	80.6%
<b>Credit risk</b>					
Large loans as percentage of capital base 10)	123.8%	106.0%	122.2%	58.4%	72.2%
Part of outstanding loans at reduced interest 11)	NPL 3.0%	1.1%	1.1%	3.4%	5.1%
Impairments percentage	LLR 3.5%	2.2%	3.0%	5.4%	9.4%
Write-offs and impairments during the period	2.0%	-0.2%	-0.6%	0.0%	2.0%
Total loans in proportion to equity	4.9	3.7	4.3	4.8	4.7
Increase in loans	3.9%	52.8%	17.1%	13.4%	0.6%
<b>Other ratios</b>					
Increase in deposits	2.9%	8.6%	36.4%	6.6%	2.7%
Increase in balance	-5.6%	33.8%	36.9%	50.7%	1.2%

Comparative figures for 2004-2006 have not been adjusted according to the new accounting principles.

### Explanation of ratios

1) See explanation of ratios on page 18

## Five Year Summary Analysis of Key Ratios

### Solvency and capital ratios

$$\text{Solvency 1)} = \frac{\text{Capital base} \times 100}{\text{Total risk weighted assets}}$$

$$\text{Core capital ratio 1)} = \frac{\text{Core capital less statutory deductions} \times 100}{\text{Total risk weighted assets}}$$

### Earning ratios

$$\text{Return on equity before tax 1)} = \frac{\text{Profit before taxes} \times 100}{\text{Equity (avg.)}}$$

$$\text{Return on equity after tax 1)} = \frac{\text{Net profit} \times 100}{\text{Equity (avg.)}}$$

$$\text{Return on assets after tax} = \frac{\text{Net profit} \times 100}{\text{Total assets}}$$

$$\text{Return on risk weighted assets} = \frac{\text{Net profit} \times 100}{\text{Total risk weighted assets}}$$

$$\text{Income/cost ratio 1)} = \frac{\text{Operating income}}{\text{Operating expenses}}$$

### Shares

$$\text{Earnings after tax per share year end 1)} = \frac{\text{Net profit} \times 100}{\text{Avg. number of shares}}$$

$$\text{Share price year end/ Earnings after tax per share} = \frac{\text{Share price year-end}}{\text{Earnings after tax per share}}$$

$$\text{Average share price/ Earnings after tax per share} = \frac{\text{Average share price}}{\text{Earnings after tax per share}}$$

$$\text{Dividend per share} = \frac{\text{Dividend}}{\text{Number of shares}}$$

$$\text{Dividend payout ratio} = \frac{\text{Dividend}}{\text{Net profit}}$$

$$\text{Dividend per share (avg.)} = \frac{\text{Dividend}}{\text{Number of shares (avg.)}}$$

$$\text{Book value per share} = \frac{\text{Equity}}{\text{Number of shares (avg.)}}$$

$$\text{Share value by year end/ Intrinsic share value} = \frac{\text{Share price year end}}{\text{Book value per share}}$$

### Marked risk ratios

$$\text{Interest rate risk 1) \& 2)} = \frac{\text{Interest rate} \times 100}{\text{Core capital less statutory deductions}}$$

$$\text{Foreign exchange risk 1) \& 3)} = \frac{\text{Exchange indicator 1} \times 100}{\text{Core capital less statutory deductions} \times 100}$$

$$\text{Risk-weighted assets / Total assets} = \frac{\text{Total risk weighted assets} \times 100}{\text{Total assets}}$$

### Liquidity ratio

$$\text{Loans, advances and impairments in proportion to deposits 1)} = \frac{(\text{Loans} + \text{impairments}) \times 100}{\text{Deposits}}$$

$$\text{Excess cover relative to liquidity requirement 1)} = \frac{\text{Excess liquidity after fulfilment of FIL, s. 152 (no2)}}{10\% - \text{statutory adequacy}}$$

### Credit risk ratios

$$\text{Large loans 1) \& 4)} = \frac{\text{Large loans} \times 100}{\text{Capital base}}$$

$$\text{Part of outstanding loans at reduced interest 1)} = \frac{\text{Loans at reduced interest} \times 100}{\text{Gross loans} + \text{guarantees}}$$

$$\text{Impairments ratio 1)} = \frac{\text{Impairments} \times 100}{\text{Gross loans} + \text{guarantees}}$$

$$\text{Impairments/loans at reduced interest} = \frac{\text{Impairments} \times 100}{\text{Loans at reduced interest}}$$

$$\text{Write-offs and impairments during the year 1)} = \frac{\text{Write-offs and depreciation during the year} \times 100}{\text{Gross loans} + \text{guarantees}}$$

$$\text{Total loans in proportion to equity 1)} = \frac{\text{Total loans}}{\text{Equity}}$$

$$\text{Increase in loans 1)} = \frac{(\text{Loans year end} - \text{loans year begin}) \times 100}{\text{Loans year begin}}$$

### Other ratios

$$\text{Increase of deposits 1)} = \frac{(\text{Deposits year end} - \text{Deposits year begin}) \times 100}{\text{Deposits year begin}}$$

$$\text{Increase of balance 1)} = \frac{(\text{Balance year end} - \text{Balance year begin}) \times 100}{\text{Balance year begin}}$$

### Explanation of key ratios

- 1) Prepared in accordance with the regulations issued by the Danish Financial Supervisory Authority
- 2) Interest rate risk is based on the premise that the effective interest rate fluctuates 1 per cent and that the fluctuations in DKK are calculated in comparison to core capital less certain adjustments.
- 3) Foreign exchange risk is the higher amount of assets or liabilities in currency and is calculated in per cent to core capital less certain adjustments
- 4) Outstanding balances greater than 10 per cent after deductions for secure requirements in per cent to capital base.



---

# Management Review

---

2008

---

## Dear Shareholder

2008 was in many ways an unprecedented turbulent year for most banks in the global financial community including Eik Banki.

The economic crisis, initiated by a financial crisis in the United States in 2007, is now affecting the global economy. Although the economies on the Faroe Islands and in Denmark, where Eik Banki Group has its main activities, are fundamentally sound, the Faroese and Danish economies are profoundly marked by the crisis.

Not only is Eik Banki the largest bank on the Faroe Islands. The Bank is furthermore the only Faroese bank with extensive activities abroad. Therefore, it could hardly be avoided that the Group would feel the punches of the rough global landscape to at greater extent than its local counterparts.

Unfortunately, the harsh circumstances have taken its toll on the share prices and it has been a troublesome year for most investors. The Eik share fell from the share price of 520 by year-end 2007 to a share price of 95 by year end 2008. This corresponds to a decline in market value of DKK 3.4 billion from DKK 4.2 billion to the meagre amount of DKK 0.8 billion

The year began with a heavy fall in share prices on the stock exchanges. SPRON, in which Eik Banki was the biggest shareholder, continued to fall clear through to October 2008, when Eik Banki sold the shares, while Atlantic Petroleum in which Eik Banki is one of the major shareholders, particularly fell during the last quarter of 2008. The decline in share prices in general, and those shares in particular, has had a significant impact on Eik Banki's profit and loss account reducing the result by DKK 261 million.

Otherwise, first half of 2008 was quite a regular

year as regards operations. However by mid-year, liquidity began ebbing out on the market. Banks were losing trust in one another, resulting in a liquidity crisis by the end of September and the beginning of October, leading to the Danish government providing a two-year state guarantee towards all simple demands against financial institutions, removing the impediment to liquidity.

While the need for provisions and impairments on the loan portfolio was limited the first three quarters of the year, circumstances changed significantly during the fourth quarter. Quite suddenly, major Danish real estate customers encountered financial difficulties, most generally as they were unable to refinance due to loan engagements with other financial institutions. This led to total impairments of a little over DKK 100 million on two Danish real estate companies which went into bankruptcy. In addition, Eik Banki Group was compelled to impair loan engagements related to a Danish and an Icelandic financial institution with approximately DKK 155 million. Of total impairments in 2008 of DKK 554 million, impairments in the fourth quarter amounted to DKK 453 million.

Thus, in 2008 Eik Banki Group has a total loss due to depreciations and impairments on its loan portfolio of DKK 815 million.

Core business has, despite increasing financial costs, been favourable in 2008. The result prior to value adjustment, impairments and taxes was DKK 353.3 million, compared to DKK 319.4 million in 2007, a total progress of DKK 34.0 million.

Undoubtedly, 2009 is going to be a particular challenging year. However, with Credit Package II from the Danish government in place, hopefully it will be possible to provide loans and credits to keep the activities in the industry going, when profitable.

## Management Review

---

Consequently, the Board of Directors has decided, despite the sound solvency at year-end, to request the extraordinary General Meeting on 28 February for the authorisation to take out hybrid core capital to enable the Bank to join in Credit Package II, if the Board of Directors finds it advantageous, and thereby strengthen its solvency. This provides us with an extra fender.

The participation does, however, not come free of charge. Credit Package I will cost Eik Banki Group approximately DKK 74 million yearly in guarantee provisions and the Group may need to pay up to DKK 197 million until 30 September 2010 for potential losses of other financial institutions, which are members of the Private Contingency Association. In addition, there is the cost of Credit Package II. Based on the figures in this Annual Report Eik Banki Group has the possibility to receive up to DKK 480 million in hybrid core capital according to Credit Package II. In case Eik Banki Group decides to exploit this possibility to a full extent, collective yearly interest will be approximately DKK 48 million. In this case, core operations will be weighed down by DKK 122 million in current expenses in addition to up to a total of DKK 197 million the next two years, due to potential losses from other financial institutions members of the Private Contingency Fund.

Despite the dire straits, Eik Banki Group is ready to embrace the challenges. Eik Banki has, as mentioned previously, a strong core operation one of the reason being our strong market position. On the Faroe Island, Eik Banki is the only financial institution offering mortgage credits along with eKort, a credit card loyalty concept, and LimaGreiðslan, a popular electronic membership administration system offered to e.g. local sports clubs and other associations, differentiating us from our competitors. In Denmark, we own the largest internetbank and core business there is in line with our expectations. Therefore, we expect a continued strong core operation for 2009. We expect the result, prior to value adjustment, impairments and taxes and a potential participation in Credit Package II, to be DKK 350.0 million, compared to DKK 353.3 million for 2008.

Standing on the verge of 2010, we can note that the year 2009 also was turbulent and the Bank expects a DKK 150 million loss after taxes for the year 2009.

We wish to extend a profound thank you to our employees and customers for the confidence shown in Eik Banki Group during this unusual and turbulent year.

Kind regards

Marner Jacobsen, CEO

Bjarni Olsen, Managing Director

---

## Management Review

### Strategy

- The mission of Eik is to work to the benefit of its customers by providing services where the core values are security and user friendliness.
- The Bank's vision is to be the most user friendly financial institution on the Faroe Islands.

Based on the above mentioned mission and vision, Eik Banki's aim is to:

- Create financially viable and competitive results
- Provide our customers with excellent advice, based in the customer's actual needs, enabling the customer to make financially viable decisions
- Create lasting and profitable relations with our customers
- Create an inspiring working environment, where all employees work together in a positive spirit
- Work to the benefit of the Faroese society

Since the 1990s, the above have been the guidelines of Eik Banki. In order to achieve these goals, Eik Banki has set more specific goals within each of the above mentioned areas.

Obviously it has been necessary to revise and set forth new tangible goals whenever a goal has been reached. However, the mission, vision and overall guidelines have remained unchanged during this period. The overall financial target has also remained unchanged i.e. an annual return on equity of 15 per cent and to spread risk. In this connection, the Balanced Scorecard system has proven to be a useful tool.

#### 1999 – 2004

Emphasis has shifted in relation to objectives. During the years 1999 to 2004, emphasis was laid on further enhancing the personal and professional skills of the Bank's employees. Education was to be emphasised and the Bank aimed to attract ambitious employees.

Formally, the Bank has had and still has as its goal that those employed by the Bank acquire personal and professional development in a way that if they should decide to leave the Bank, they possess a higher level of professional education and personal skills than when they began their employment with Eik Banki.

During this period, automations of the payment system have been made. HeimaGreiðslan i.e. the net bank was developed and implemented, the branch network was rescaled and the number of employees was reduced.

The Bank was converted from being a self governing institution to being a limited liability company, a substantial effort was made to establish the Markets Department, and investments were made in different companies. These activities took place mainly on the Faroe Islands.

This was the period, when the framework was laid for the Bank enabling it to continue as a modern financial institution with well educated and highly competent employees.

#### 2004 – 2008

The years 2004 – 2008 have been a period of growth. Emphasis was laid on growth, development, profitability and risk spreading. During this period, the Bank strived to increase international activities to grow and diversify, thereby also spreading risk. The goal was for a substantial part of the income to originate abroad. Furthermore, the Bank worked to strengthen the services portfolio, especially within the areas of securities trading, pensions and credit cards.

On the organisational side it was decided that Sparikassagrunnurin, now Eik Grunnurin, should decrease its share hold in Eik and the Bank was to be listed on the stock exchange.

The Bank has to a wide extent reached its objectives.



#### Favourable core business in 2008

Core business has proven to be favourable in 2008. The result prior to value adjustment, impairments and taxes was DKK 353 million compared to DKK 319 million in 2007 a total progress of DKK 34 million.

## Management Review

During this period, the Bank has strengthened its market position, and is now the largest bank on the Faroe Islands. Furthermore, the Bank has extensive activities in Denmark.

On the Faroese market, the Bank strengthened its position through the agreement with BRF Kredit in 2005, making the Bank the only bank on the Faroe Islands to offer mortgage credit. The Bank also launched the eKort differentiating the Bank as being the only bank to offer a credit card loyalty concept on the Faroe Islands. For associations, local clubs and so on the Bank developed and launched LimaGreiðslan, a popular electronic membership administration system, consolidating its competitive advantages within these areas vis-à-vis its local competitors. Additionally in 2007, the subsidiary Inni bought Sethúsasølan and consequently consolidated its already strong position on the domestic market within real estate. Finally, the Bank acquired Kaupthing Bank's Faroese operation in 2007, hereby increasing its market position and in particular consolidating the areas of Investment Banking and Asset Management, where Eik Banki today by far holds the strongest position on the Faroe Islands. Altogether, Eik Banki has developed a wide range of services for its customers and simultaneously gaining market shares on the Faroese market.

Eik Banki acquired Eik Bank Danmark in 2004 and in 2007 SkandiaBanken the largest internet bank in Denmark was acquired and merged with Eik Bank Danmark, thereby expanding the foundation of the Bank. Furthermore, the companies Privestor and Finansnyt were acquired and merged with Eik Bank Danmark, in order to strengthen the analysis and asset management divisions of the Bank. The auto financing department was later divested in order to minimise risk in relation to car loans.

The composition of the ownership of Eik Banki P/F changed during this period. At year-begin 2004, Eik

Grunnurin owned 94.1 per cent of the share capital, and at year-end 2008, Eik Grunnurin owned 52.3 per cent of the share capital. The Bank was listed on 11 July 2007.

During this period, financial results were very favourable with the exception of 2008, and the Bank has managed to create a highly interesting platform from which to develop its activities in the coming years. However 2008, has been a distinctive and abnormal year, with results, which do not match the results of previous years.

Table 1 illustrates key figures depicting the development in the Group during this period.

Furthermore, the level of employee education within the Group is considerably enhanced during this period. A growing number of employees have undergone further education on graduate level, and a larger number of employees already hold a bachelor or masters degree. The same is valid in relation to professional experiences, as international acquisitions and activities have provided our employees with competencies of which the Group will reap the benefits from in time to come.

During this period the Bank got a new brand identity and name, resulting in a common name for its domestic and international markets and a clear identity for our retail- and corporate business banking activities.

### 2009 – New Goals and Target Areas

As previously mentioned, the Bank has a very interesting, diversified and strong platform to build on.

In 2009, main emphasis will be on reaping the benefits of the synergy effects within the Group. This will be done by reducing the number of double functions within the Group, and re-organise the leadership structure in a way that it invites to further and closer cooperation within the Group.

### Disappointing 2008 result

Results from core operations are good. However, the annual result is far from sufficient.

The result before taxes was a deficit of DKK 461 million, against a profit of DKK 472 million in 2007. Net result for the year was

a loss of DKK 362 million compared to a profit of DKK 403 million in 2007.

The main reasons for the loss are negative market value adjustments and impairments of loans.



## Management Review

Another focus area is Information Technology. In 2008, the Bank negotiated with Bankernes Edb Central (BEC) about centralising all IT activities with BEC. In February 2009, however, it was realised that the negotiation had entered into a dead lock, mainly as the financial conditions previously agreed upon were no longer present.

Alternatively, the Bank has taken up negotiations with Skandinavisk Data Center (SDC), an IT provider for banks in Denmark, Norway and Sweden. Provided the negotiations are successful, the Bank expects to transfer all IT activities of Eik Banki and Eik Bank Danmark to SDC during the second half of 2010. The transfer of IT activities is expected to reduce IT expenses for Eik Banki in particular. Furthermore, a common platform will enable greater synergies between Eik Banki and Eik Bank Danmark. However, the shift to a new IT provider will be quite resource demanding during 2009 and 2010.

In a long-term perspective, the conversion will secure Eik Banki Group with an IT platform, which is quite new and which can run transnationally. As a result the Bank will have a system, which takes into consideration customers services such as multilanguages and multicurrencies and regulations across borders. Furthermore, the competencies and the systems the Bank already possesses within

internet banking will enable us to operate our banking activities efficiently.

This will improve the Bank's competitive advantages and at the same time enhance the Bank's position for an active participation in the consolidation, which is expected to take place within the Nordic financial market during the next years.

On the Faroese market the objective is to retain the present market share maintaining focus on efficiency. On the Danish market the aim is to increase market share. This will be realised by marketing the Bank with the objective to increase customer base simultaneously as the Bank is working on developing better systems to increase sale to its present customers. If the right opportunity presents itself, the Bank is also keen on acquisitions on the Danish market.

On the Nordic market the target is to establish internet banking activities over time, preferably through a strategic acquisition.

The purpose of the internet strategy is to benefit from the potentials of the international standardisation including standardisation of financial services and the fact that more and more public and private services are being digitalised.

Table 1  
Five Year Summary, Group 2004-2008, selected key ratios

	2008	2007	2006	2005	2004
Result after taxes DKK million	-362	403	250	127	107
Return on equity after taxes	-19.2%	24.4%	23.6%	14.5%	13.6%
Core operations DKK million 1)	361	259	140	115	102
Balance DKK million	21,755	21,576	11,828	8,621	6,494
Average number of full time equivalents	353.8	318.7	245.7	219.7	205.0

1) Result before value adjustments, impairments, result from capital holdings and taxes



### Most retail customers are low debtors

The loan portfolio of Eik Banki Group is well dispersed, which is reflected for instance in the loan portfolio to retail customers.

Collectively, retail customers have a loan portfolio of DKK 8.4 billion from Eik Banki

## Management Review

### Goals

A list of strategic goals, realised goals and new goals.

2009 ->		
<ul style="list-style-type: none"> <li>- Benefit from synergies within Eik Banki Group</li> <li>- Reduction of double functions</li> <li>- Reorganisation of Management to further enhance cooperation</li> <li>- Common IT-provider to integrate IT activities</li> <li>- Benefit from international standardised and digitalised financial services</li> <li>- IT-platform which can be used transnationally</li> <li>- Retain marketshare on the Faroe Islands</li> <li>- Focus on efficiency</li> <li>- Increase market share in DK through potential acquisition</li> <li>- In-depth sale to existing customers</li> <li>- Increase market share for internet bank activities through potential acquisition in the Nordic countries</li> </ul>		
Period	Goals	Realised Goals
<b>2004-2008</b>	<b>Period of Growth</b> <ul style="list-style-type: none"> <li>- Period of Growth</li> <li>- Increase market share on the Faroe Islands and internationally</li> <li>- Considerable income increase derived from international activities</li> <li>- Focus on development, efficiency and spreading risk</li> <li>- Expand range of products and services</li> <li>- Reduce holdings of Eik Grunnurin in</li> <li>- Eik Banki P/F</li> <li>- Listing of Eik Banki P/F</li> </ul>	<ul style="list-style-type: none"> <li>- Eik is the largest bank on the Faroe Islands with a balance of DKK - 21.7 million ultimo 2008</li> <li>- New name and brand in December 2006</li> <li>- New product mortgage credit for private real estate in November 2005</li> <li>- LimaGreiðsla in 2005 and <del>ekort</del> in 2007</li> <li>- Acquisition of Eik Bank Danmark in 2004</li> <li>- Acquisition of SkandiaBanken etc. in 2007. Eik Banki now operates the largest internet bank in Denmark</li> <li>- Acquisition of Kaupthing's Faroese branch in 2007</li> <li>- Acquisition of the real estate company Sethúsasølan in 2007</li> <li>- Eik Grunnurin holds 52.3 per cent of the shares in Eik Banki P/F ultimo 2008</li> <li>- Eik Banki is listed on Nasdaq OMX the Nordic Exchange in Copenhagen and Iceland in 2007</li> </ul>
<b>1999-2004</b>	<b>Preparing for Growth</b> <ul style="list-style-type: none"> <li>- Develop professional business mentality</li> <li>- Develop professional educational skills</li> <li>- Attract well educated employees to Eik Banki</li> <li>- Automisation</li> </ul>	<ul style="list-style-type: none"> <li>- Conversion from selfgoverning institution to a limited liability company in 2002</li> <li>- All employees undergo further and higher bank and financial educations</li> <li>- Academics and specialists are employed</li> <li>- The branch structure is adjusted and made more efficient</li> <li>- Adjustment in the number of employees</li> </ul>

Group. Private customers with loan below DKK 1 million constitute a little over 60 percent of this amount.

#### Strong solvency in Eik Banki

By year-end 2008, group solvency was 10.6 percent compared to 13.7 at year-end 2007.

The solvency for the parent company Eik Banki P/F is 18.2 percent compared to 21.9 per cent at year end.

The statutory minimum requirement is 8 percent. The solvency illustrates the strength of the Bank and its ability to resist potential losses.

## Management Review

### The Financial Year 2008

As of 1 January 2009, the International Financial Reporting Standard (IFRS) came into force on the Faroe Islands. Based on the Financial Business Act, however, for 2008 Eik Banki has decided to apply the Danish accounting principles, which in many ways are similar to those of IFRS. Thus, Eik Banki has altered its accounting principles for 2008, which implies that a comparison to previous years ought to be made with precautions. On the other hand, the financial account is now comparable to those of most Danish financial institutions. The change in accounting principles has affected the result after taxes positively with DKK 92 million mainly deriving from the value adjustment of the Eik share being booked directly on to equity.

Results from basic operations are good. However, the annual result is far from satisfactory. The result prior to value adjustment, impairments and taxes is DKK 353.3 millions compared to DKK 319.4 millions last year. Primo 2008 it was expected that the figure would be DKK 335 million, however, by the end of third quarter the estimation decreased to DKK 300 million due to increased funding costs and the payment to Credit Package I. The main reason that the result prior to value adjustment, impairments and taxes is better than estimated is due to a more favourable operational result than first expected.

2008 has more than any year before been gloomed by the omnipresent financial crisis and following economic crisis. Thus 2008 was a turbulent year for Eik Banki Group, which has international activities and by Faroese standard is a large financial institution.

Net interest, fees and commission increased from DKK 593.0 million in 2007 to DKK 743.1 million in 2008, which is an increase of DKK 150.1 million or 25.3 per cent.

Market value adjustments in 2008 amounted to a

deficit of DKK 261.1 million against a profit of DKK 188.9 million in 2007.

Net profit on financial operations and other holdings were decreased by DKK 361.7 million, i.e. 42.0 per cent from DKK 861.5 million in 2007, to DKK 499.8 million in 2008.

Total employee and administration expenses were DKK 370.6 million in 2008 compared to DKK 340.7 million in 2007, an increase of DKK 29.9 million or 8.8 per cent. The main reason being the acquisition of SkandiaBanken, Privestor and Finansnyt, Sethúsasølan and the acquisition of Kaupthing's Faroese branch, which were not to their full extent incorporated in the figures for 2007. Other operating expenses of DKK 19.5 million comprise mainly the payment for Credit Package I.

Write-down and impairments were DKK 553.7 million in 2008. This corresponds to 3.0 per cent of total loans and guarantees. Total impairments at year-end 2008 were DKK 669.5 million. Collective impairments were DKK 46.5 million, while individual impairments were DKK 623.0 million.

The result before taxes was a loss of DKK 461.4 million, against a profit of DKK 471.7 million in 2007. Net result for the year was a deficit of DKK 362.0 million compared to a profit of DKK 403.4 million in 2007.

Eik Banki is the largest bank on the Faroe Islands and the domestic market is still the largest single field of operation.

Despite the current gloomy prospects, Eik Banki maintains its objective to expand and diversify its overseas activities to increase income and spread risk. This also strengthens our position in the domestic market considerably, as we gain inspiration from our international activities, exploiting these to the benefit of our Faroese customers. Simultaneously, the many

#### Eik is a different bank

Eik has a strong position on the Faroese market with a market share of over 50 percent. The most probable reason being that Eik is a different Bank.

On the Faroe Islands, customers are offered HeildarPrát, which is an advisory

concept including the whole financial life cycle of the customer. Eik Banki is the only bank to offer mortgage credits, *e-kort* (Mastercard including a loyalty concept) and LimaGreiðsla (a popular electronic membership administration system).

Furthermore, Eik Banki is the only Faroese

bank with extensive activities abroad, and is the owner of the largest internet bank in Denmark encompassing over 110.000 customers.

User friendliness, innovation and professionalism are the cornerstones of Eik Banki's activities.

## Management Review

miscellaneous activities contribute to a challenging and exciting atmosphere for Eik Banki's employees.

Return on equity year-begin was minus 16.9 per cent. Naturally, this is far from satisfactory as the target is an annual 15 per cent. Return on equity, calculated as the average equity at year-begin and year-end, is minus 19.2 per cent. After tax earnings per share were minus DKK 44.53, compared to DKK 49.62 in 2007. To calculate, the median per share throughout the year is used. Eik Banki has, by participating in Credit Package I, renounced the possibility to pay out dividend before 30 September 2010 and the Board of Directors proposes to the Annual General Meeting that no dividend is paid out in 2009 accordingly.

The balance for 2008 is nearly unchanged from year-begin to year-end from DKK 21.6 billion to DKK 21.8 billion. The same applies to the loan portfolio, which increased from DKK 15.6 billion to DKK 15.7 billion. Deposits increased by DKK 872.2 million or 6.6 per cent from 13.3 billion to DKK 14.1 billion.

Equity is by year-end 2008 DKK 1.7 billion compared to DKK 2.1 billion last year.

Group solvency is 10.6 per cent compared to 13.7 at year-end 2007. The solvency for the parent company Eik Banki P/F is 18.2 per cent compared to 21.9 per cent in 2007. The statutory minimum requirement is 8 per cent.

Core capital by year-end is 7.5 per cent and 13.6 per cent for the Group and Eik Banki respectively.

Liquidity remains very good. Liquidity at year-end 2008, calculated as cash-in-hand, sight deposits in other banks, certificates of deposit in the Danish Central Bank and securities was DKK 4.8 billion. Furthermore, drawing rights with the Danish Central Bank should be included. In relation to short-term liabilities due within one month, liquidity was 57.3

per cent and in relation to total liabilities it was 21.8 per cent. For 2007, the corresponding figures were 43.6 and 21.8 respectively. Statutory minimum requirements are 15 per cent and 10 per cent, respectively. Excess cover compared to statutory minimum requirement is 164.2 per cent.

The number of employees in Eik Banki Group converted to full-time equivalent was 330.4 compared to 327.5 at the beginning of the year. The Number of full-time employees increased by 2.9, or 0.9 per cent.

### Events After the End of the Financial Year

Eik Banki published originally the Annual Report 2008 on 27 February 2009 and therefore shall the management review be read as if this new Annual Report 2008 were published with the changes on 27 February 2009.

However we draw the attention to the fact that Eik Banki Group in the period from 27 February 2009 until 23 November 2009 has published 1 Quarter Report 2009, Half Year Report 2009 and 1-3 Quarter Report 2009.

In connection the expected result for 2009 has been downgraded to a loss after taxes of approximately DKK 150 million. Originally Eik Banki Group expected a result prior to market value adjustments, impairments and taxes to be DKK 350 million.

Eik Banki Group has under Credit Package II scheme applied and received DKK 625.5 million in hybrid core capital from the Danish State. Eik Bank Danmark A/S received DKK 295.3 million at the end of June 2009 and Eik Banki P/F received hybrid core capital on 3 November 2009. Based on the figures in 1-3 Quarter Report 2009 this has strengthened the Group Solvency Ratio to 12.9 per cent.

Eik Banki Group reiterates its earlier estimated total cost of DKK 141 million for its participation in Credit



## Management Review

Package I. Furthermore, Eik Banki Group has provided guarantees of DKK 188 million for other banks' losses. Consequently, the total costs for Credit Package I could amount up to DKK 329 million for the Eik Banki Group.

No other events of significance for the Annual Report 2008 have occurred after 31 December 2008.

Eik Banki has not been involved in any significant law suit or arbitration procedures that are expected to have a deteriorating impact on the result, and Eik Banki has no knowledge of any such matters being underway.

During the second half of 2008, the financial costs have increased considerably due to the instability on the international financial markets and the cost in connection with the participation in the Credit Packages I & II. Risk of loss has increased due to the deterioration in the international economy. Besides this, Eik Banki has no knowledge of possible trends, uncertainties, demands, obligations or events that could be expected to have a significantly negative impact on the prospects of Eik Banki.

### Economic Outlook as of 27 February 2009

The crisis on the financial markets accelerated in 2008, and following the bankruptcy of Lehman Brothers in September 2008, the situation on the financial market became critical. The trust among the banks vanished and the money market, vital to the financial system froze. Experts rank the financial crisis to be the most serious crisis since the infamous crisis of 1930s. The effects on the world economy grew continuously worse and it can now be established that the world economy is riding on a very low tide

Central banks around the world have made great efforts to relieve the situation. The Federal Reserve has lowered the interest down to 0.25 per cent and the European Central Bank, ECB, has decreased its rate to 2 per cent. Also the Danish Central Bank lowered its interest, however, the crisis entailed that

the interest margin to the euro zone increased from 0.25 per cent to 1.75 per cent in October 2008, when the financial crisis peaked. Following, the interest margin tightened and by year-end 2008 it was 1.25 per cent. Besides declining interest, the governments in a number of countries have taken several steps, which together with the lowering interest hopefully will improve the state of the financial system well-being and that of the world economy as a whole.

Undoubtedly 2009 will be a challenging year. To date no positive signs have appeared regarding the economic development and the situation within the financial system is still stressful. ECB is expected to continue to lower its leading interest. Albeit the great uncertainty, many financial experts estimate that signs of improvement will appear during the second half of 2009.

The foundation beneath the Faroese and Danish economy to resist economic decline is strong. Although increasing, unemployment is still low. By year-end 2008 the unemployment was 1.8 per cent on the Faroe Islands and 2.1 per cent in Denmark.

The economic development on the Faroe Islands is amongst other tied to the fishing industry, which in 2008 showed a decline due to poorer prices and decreased catch as well as record breaking oil prices during most of the year curbing the activities on some parts of the fleet.

Although the oil price has fallen to a fairly low level in 2009 with the prospect of remaining low throughout the year, the low prices for cod and haddock indicate that the inshore fishing fleet most likely will have a difficult year in 2009, while the fleet fishing in international waters can be expected to obtain a more optimistic result, on more or less the same level as 2008. If these estimations remain as projected, combined with a continuous low interest and low oil prices, prospect for the Faroese economy are fair.

### Naturally Eik Banki feels the punches of the rough global landscape

Eik Banki is the only Faroese bank with extensive activities abroad.

These last months, the waves have been high on the open sea where Eik is operating. Thus, naturally it was expected that Eik

would feel the punches of the rough global landscape to a greater extent than its local counterparts.

Eik Banki maintains its strategic objective to spread its risk beyond the Faroese economy.





## Management Review

Table 2

## Distribution of shareholders

No. of shares	No. of shares	In pct. of share capital	No. of share holders	In pct. of share holders
1-999	931,971	11.46%	11,015	97.66%
1,000 – 9,999	571,071	7.02%	241	2.14%
10,000 – 99,999	289,905	3.57%	14	0.12%
100,000 <	5,723,339	70.40%	8	0.07%
Own shares	315,086	3.88%	1	0.01%
<b>Total registered</b>	<b>7,831,372</b>	<b>96.34%</b>	<b>11,279</b>	<b>100.00%</b>
Unregistered	297,902	3.66%		
<b>Total</b>	<b>8,129,274</b>	<b>100.00%</b>		

On the threshold to 2009, the Danish economy is showing clear signs of descending house prices and increasing unemployment. On the other hand, indications are that the policies of the Danish government will be that of a considerable expansionary fiscal policy with the objective to create ascending demands within the Danish society. This, together with the sound basic foundation of the Danish economy, entails that we estimate the outlooks of the Danish economy to be fair.

Subsequently, we do not expect an economic collapse neither for the Faroese nor the Danish economy. However, the global economic crisis and the insecurity entail that the estimation on the Group's 2009 results are considerable more uncertain than previous years.

Based on the above, Eik Banki Group originally estimated the result prior to market value adjustment, impairment and taxes to be DKK 350.0 million against DKK 353.3 million in 2008.

The expected result after tax for 2009 is in 1-3Q Report 2009 downgraded to minus DKK 150 million.

## Investor Relations

Disclosure and transparency are vital elements in creating and maintaining close relations to investors, analyst, and other interested parties. As a listed company Eik Banki aims to secure that the miscellaneous stakeholders on the market are given a regular and balanced access to correct and adequate information on Eik Banki Group, heeding regulatory demands.

Eik Banki Group emphasises its Investor Relations policy, dedicated to its relations to potential investors, shareholders and other stakeholders, which take a natural interest in Eik Banki's activities.

### The Eik Share

According to the Articles of Association, shareholders may state their opinion and promote suggestions at the Annual General Meeting (AGM). However, shareholders do not hold voting rights at the AGM. The voting rights are held by the Board of Representatives.

Shareholders holding one per cent or more of the share capital are on the other hand entitled to appoint their own member to the Board of Representatives.

### Liquidity remains very good

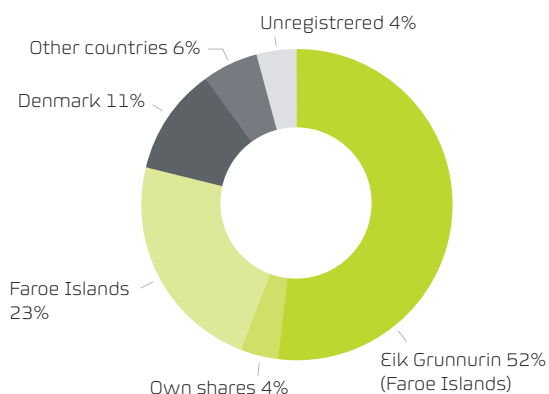
Although the present financial and economic crisis was initiated as a liquidity crisis within the international financial world, Eik Banki Group has retained a sound liquidity. By year end liquidity was DKK 4.8 billion. Furthermore, drawing rights with the Danish Central Bank should be included.

Liquidity is calculated as cash-in-hand, sight deposits in other banks, certificates of deposit in the Danish Central Bank and securities.

Excess cover compared to statutory minimum requirement is 164.2 percent.

## Management Review

Figure 3  
Shareholders by Countries  
31 December 2008



The number of votes for these members is capped to 2.5 per cent of the collected votes of the members of the Board of Representatives elected by the representative districts.

Furthermore, the Articles of Association state that no shareholder other than Eik Grunnurin may hold more than 10 per cent of the total share capital of Eik Banki.

In 2008, elections were held to the Board of Representatives now counting 55 members including the 6 members from the new representative district of Norðoyggjar, the northern most islands of the Faroe Islands. A significant exchange took place within the Board of Representatives. This time, fully 33 new members were elected to the Board of Representatives. The representative district of Norðoyggjar elected for the first time 6 members. Shareholders elect members to the Board of Representatives every fourth year. Next election will be held in 2012.

In addition to the members elected by the Board of Representatives, are the members appointed by the major shareholders according to the Articles of Association. In addition to Eik Grunnurin, one major shareholder appointed its member to the Board of

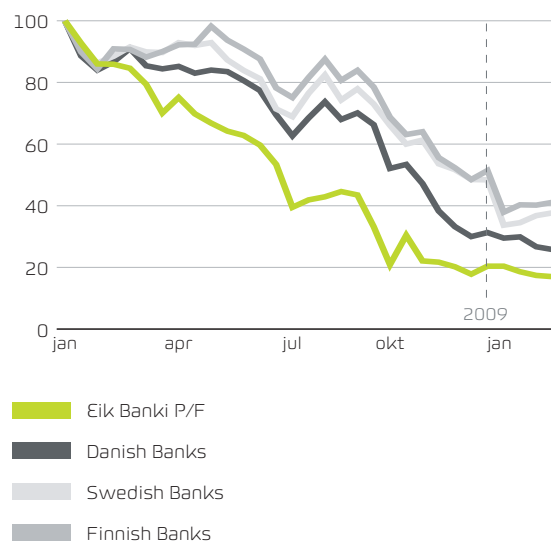
Representatives amounting total members to 57. In 2009, besides Eik Grunnurin, two major shareholders have appointed additional members to the Board of Representatives increasing the number to 58.

The Board of Directors has made proposal for changes to the Articles of Association expanding voting rights of major shareholder. Similarly it is proposed that the boundary to appoint their own member is lowered from one per cent of total shares to 40,000 shares, corresponding to approximately 0.5 per cent of total shares.

Additionally, a proposal to reduce the number of Board members elected at the AGM from 7 to 6 has been presented by three members of the Board of Representatives. It is further suggested that the election period is abbreviated from 4 to 3 years.

The proposal for these and other changes to the Articles of Association were published in stock exchange announcement no. 3 on 7 February 2009 and will be

Figure 4  
Development in Eik share and Nordic banks



## Management Review

presented at the Extraordinary General Meeting on 28 February 2009 cf. Stock Exchange Announcement no. 5 of 13 February 2009. See also the section on Corporate Governance, describing changes to the Articles of Association in more detail.

### Distribution of Shareholders

At year-end 2008, Eik Banki had 11,279 name registered shareholders in 29 countries. An increase of 551 shareholders or 5.1 per cent compared to year-end 2007.

96.3 per cent are holding registered by name while 3.7 per cent are not registered by name as illustrated in table 2.

At year-end 2008, only one shareholder had informed Eik Banki that its share holdings in Eik exceeded 5 per cent of total share capital. This was Eik Grunnurin, which at year-end held 52.3 per cent of the shares in Eik Banki.

Of the total share capital including Eik Grunnurin and own shares, approximately 79 per cent is held by Faroese investors and 17 per cent is held by foreign investors. The remaining 4 per cent is owned by unregistered shareholders, as illustrated in figure 3. The majority of the foreign shareholders are Nordic shareholders. A small number of the foreign shareholders hold between 1 to 5 per cent.

### Share Price and Comparison

During 2008, global stock exchanges were characterised by a rather declining curve, effecting especially shares within the financial industry. The Eik share has fallen by 81.6 per cent since the beginning of 2008. The share price of the Eik share was 95 by year end 2008 equivalent to a market value of DKK 772 million.

Looking at the index representing Nordic bank for instance the Danish, the development of the Eik share is quite similar. The collective index for all Danish

banks, illustrated in figure 4, has not suffered as drastic a drop, mainly because the larger Danish banks, which make up a significant portion of the index, have not been affected in the same way as the small and MidCap banks.

Average daily turnover of the Eik share in 2008 was approximately **4,590 shares, equivalent to DKK 3.1 million**. Corresponding to a significantly smaller amount than in 2007, when the turnover was 5.900 shares.

### Dividend Policy

Every year, the Board of Directors decides on dividends, capital structure and so on and makes proposals regarding these issues at the AGM. Dividend is distributed according to the given circumstances. As a main rule however, Eik Banki strives to distribute a constant yearly dividend. In 2008, Eik Banki paid a dividend of DKK 10 per share equivalent to 20.6 per cent of the annual result for 2007.

On 7 October 2008, the Board of Directors in Eik Banki agreed that Eik Banki Group should continue as member of the Private Contingency Association and participate in Credit Package I established by the Danish Government on 10 October 2008.

One of the conditions stipulated by the Danish government was that the financial institutions during the time until 30 September 2010 were not to pay out dividend or organise any systematic procedures regarding the re-purchase of own shares.

Subsequently, no dividend will be distributed to shareholders in 2009.

Eik Banki has no systematic procedures for the re-purchasing of own shares. However, the Board of Directors is entitled to buy up to 10 per cent of the shares.

### New IR Sites in Several Major Languages

The Investor Relations site for Eik Banki Group

### The Youth Branch

At Eik Banki's youth branch in Torshavn, advice as well as surroundings have been tailored for the young customers.

## Management Review

is an important gateway for investors and other stakeholders who wish to learn more about Eik and the Eik share.

Geographically, the Faroe Islands are remotely located, making it all the more important for Eik Banki to disclose its activities and other relevant affairs concerning investors and stakeholders through its web page. Investors look mostly to the web page when seeking their initial information about Eik Banki Group. Particularly foreign investors make use of this possibility.

Therefore in 2008, Eik Banki has made a special effort to develop and elaborate its Investor Relations site in English. The result is a new version of its Investor Relations sites in English including microsites in other major languages such as Spanish, German and Danish.

The new Investors Relations pages fully comply with the basic requirements to investor relations and comprise for instance financial reports, financial calendar, stock exchange announcements, share profile, disclaimer, organisational structure, Corporate Governance and Risk Management including Anti-money Laundering policy.

The objective is to create transparency for all our users.

The Investor Relations sites can be visited using the following link: [www.eikbank.com/ir](http://www.eikbank.com/ir)

### Webcast on the Website

Eik Banki is part of the MidCap+ index on Nasdaq OMX Nordic Exchange Copenhagen. This entails that the Bank has committed itself to broadcasting two webcasts on its website semi-annually, as a minimum.

Eik Banki has decided to produce and send webcast in conjunction to financial report announcements. The webcasts are produced in Faroese, English and Danish.

### Stock Exchange Announcements 2008

No.	Date	Regarding
1	11-01-2008	Notice To Convene Extraordinary General Meeting
2	25-01-2008	Minutes of Extraordinary General Meeting
3	25-01-2008	New Employee Board Member
4	08-02-2008	Notice To Convene Election Meetings
5	21-02-2008	Annual Accounts 2007 for Eik Banki P/F
6	28-03-2008	Notice to Convene Annual General Meeting
7	28-03-2008	Proposed Guidelines for Incentive Pay
8	10-04-2008	New Employee Board Members
9	11-04-2008	Minutes of Annual General Meeting
10	14-04-2008	Dividend Announcement
11	24-04-2008	First Quarter Report 2008
12	04-06-2008	New Syndicated Term Loan Facility
13	26-06-2008	Cooperation with BEC
14	24-07-2008	Half-Year Report 2008
15	24-07-2008	Insider Trading
16	22-10-2008	Change in Management of subsidiary
17	07-10-2008	Eik Banki Joins Government-backed Deposit Guarantee Scheme
18	20-10-2008	Suspension of Market Making on Nasdaq OMX Iceland
19	24-10-2008	1-3Q Report
20	29-10-2008	Insider Trading
21	29-10-2008	Insider Trading
22	29-10-2008	Insider Trading
23	29-10-2008	Insider Trading
24	29-10-2008	Insider Trading
25	07-11-2008	Insider Trading
26	18-11-2008	Insider Trading
27	22-12-2008	Insider Trading
28	30-12-2008	Financial Calendar 2009



### More homes financed with mortgage credits

Eik Banki is the only Faroese bank offering mortgage credit to finance private homes. During 2008, the interest margin between mortgage credit and traditional financing for private homes was noticeable, leading

to an increasing number of our customers preferring mortgage credit.

In 2008, DKK 438 million were advanced as mortgage credit and at year end total mortgage credit amounted to DKK 670 million.

## Management Review

### Board of Directors' and Management's positions of trust in Faroese companies and Foundations

Board of Directors	Position	Company
Frithleif Olsen, Chairman	Chairman	Eik Grunnurin
Mechanic	Chairman	P/F Mest
	Chairman	P/F 13. februar 1997
	Board Member	P/F Kósin
	Board Member	P/F Fastogn
	Board Member	P/F Atlantic Fishing
	Board Member	P/F Atlantic Prime Production
	Managing Director	P/F Frithleif Olsen
	Managing Director	Sp/F PP Invest
Odd Arild Bjellvåg, Deputy Chairman	Deputy Chairman	Eik Grunnurin
Graduate Diploma in Business Administration	Board Member	P/F Notio
	Board Member	P/F 13. februar 1997
	Managing Director	Sp/F Grønnskoðaravirkið Lít
Finnbogi Niclassen	Managing Director	Vága Floghavn P/F
Shipmaster	Board Member	P/F 13. februar 1997
	Board Member	Eik Grunnurin
Petur Hammer	Board Member	Eik Grunnurin
Building Technician	Board Member	Sp/F Coma Pack
	Board Member	Suðuraling
	Managing Director	Sp/F Petur Hammer
Jákup Egil Jensen	Board Member	Eik Grunnurin
MSc in Business Management		
Rólant Vidtfeldt	Board Member	Eik Grunnurin
Plummer	Board Member	Sp/F Bil og Maskinverkstaðið
	Board Member	Sp/F Rólant Vidtfeldt
	Managing Director	Sp/F Rólant Vidtfeldt
Mathea E. Hilduberg	Board Member	Eik Grunnurin
MSc in Business Administration	Board Member	Vágatunnilin P/F
	Board Member	GreenGate Incoming P/F
Tórmund A. Joensen	Board Member	Eik Grunnurin
Finance Education		
Gert Langgaard	Board Member	Eik Grunnurin
Finance Education		
Rakul Dam	Board Member	Eik Grunnurin
Finance Education		
Business Studies Staff Development		
Fía Selma Nielsen	Board Member	Eik Grunnurin
Finance Education (Finansøkonom)		
Management		
Marner Jacobsen, Managing Director	Chairman	P/F Elektron
MSc in Economics	Chairman	P/F Inni
	Deputy Chairman	P/F Virðisbrævamarknaður Føroya
Bjarni Olsen, Managing Director	Managing Director	P/F 13. februar 1997
MSc in Economics	Board Member	P/F Inni



### Investor relations site in several major languages

International customers, investors, funding partners and other business partners and stakeholders have now been given an improved and easier gateway to information about Eik Banki Group and the Faroe Islands in general. Eik Banki has elaborated

and considerably strengthened its English Investor Relations site: [www.eikbank.com/ir](http://www.eikbank.com/ir). The new pages fully meet the basic requirements to investor relations. The main language is English. However the microsites concerning Eik Banki Group in general and specific information on the Faroe Islands are in Spanish, German and Danish.

## Management Review

### Investor Relations Policy

Eik Banki Group has an ostensible Investor Relations policy primarily to ensure that all relevant information and information liable to affect the share price of Eik Banki, is made available to all interested parties simultaneously. The Investor Relations policy is a tool to create and enhance amongst other confidence in Eik Banki's activities.

The Investor Relations policy furthermore specifies how information liable to affect the share price is made public, and who is responsible for the Investor Relations area always being optimal and in accordance with legal requirements.

Finn Danberg, Director, Group CFO is Head of Investor Relations in Eik Banki Group.

### Stock Exchange Announcements

#### Financial Calendar 2009 1)

27 February 2009	Annual Report 2008
28 February 2009	Extraordinary General Meeting
20 March 2009	Annual General Meeting
05 May 2009	First Quarter Report 2009
24 July 2009	Half Year Report 2009
30 October 2009	Nine Month Report 2009

1) The silent period commences 3 weeks prior to the announcement of financial reports.

### Corporate Governance

The Faroe Islands do not have recommendations on Corporate Governance guidelines. However, in connection with the preparations concerning the listing of Eik Banki on 11 July 2007, the Board of Directors of Eik Banki approved rules on Corporate Governance that comply with such recommendations in Iceland, which is Eik Banki's primary listing.

The Corporate Governance rules of Eik Banki include 8 different stipulations:

1. Responsibilities
2. Rules of procedure of the Board of Directors
3. Obligation to inform the Board of Directors
4. Evaluation of performance
5. Independent board members
6. Stipulations on the board members' independence of the company
7. Subcommittees of the Board of Directors
8. Arrangement regarding share options in Eik Banki

Eik Banki complies with most of these recommendations. In the few cases that the Bank does not comply, the reasons are explained in accordance with the 'Comply or Explain' principle. The Board of Director's opinion on the individual points is available on the Bank's website [www.eikbank.com/cguk](http://www.eikbank.com/cguk)

### Changes to the Articles of Association

In the Articles of Association for Eik Banki P/F there are ownership limitation and capped voting rights. This is not in congruence with the guidelines on Corporate Governance. At the Board of Representative's meeting on 7 February 2009 (cf. Stock Exchange Announcement no 3/2009), the Board of Directors presented the Representatives with proposals to amend the Articles of Association.

- The right of major shareholders to appoint a member of the Board of Representatives is changed so that the limitation is lowered from 1 per cent of the share capital to 40,000 shares, equivalent to 0.5 per cent of the total share capital
- The cap over voting rights to the election to the Board of Representatives as well as major shareholders voting rights at the General Meeting is raised from 2.5 per cent of the representatives' votes to 5 per cent of the total number of shares
- The adoption of an additional requirement that 2/3 of the share capital must be represented for the General Meeting to be quorate to adopt amendments to the Articles of Association
- Remuneration of Members of the Board of





## Management Review

Representatives is reduced to only including those representatives who have been elected in the districts

- Amendment of the Election Rules – the shareholder may only elect one candidate at the election to the Board of Representatives
- Other minor amendments and consequential changes to the Articles of Association

With these changes the Board of Directors estimate that the rights of the individual shareholder is further improved, simultaneously as the necessary precautions are taken so that no individual shareholder gains conclusive impact on Eik Grunnurin.

Furthermore, proposals to amendments were presented by 3 members of the Board of Representatives suggesting the following:

- Reduction in the number of Board members elected by the General Meeting from 7 to 6.
- The term of office will be reduced to 3 years. Following the reduction, 2 Board members will be up for election every year. The current rotation will be maintained, with 3 years instead of 4.

The members presenting the suggested amendments wish to ensure a better relation between the number of Board members elected at the AGM and those elected by the employees. If the proposal is adopted it will reduce the number of Board members elected by the employees by one member, when the election takes places in 2012. Subsequently, the number of Board members is reduced to 9 of which 6 are elected at the AGM and 3 by the employees. Furthermore, the members presenting the suggested amendments estimate that an election period of 3 years is more appropriate.

The proposed amendments will affect Articles 5, 6, 14 and 15 in the Articles of Association, and Articles 5 and 6 in the Election Rules for Eik Banki P/F. Furthermore, minor changes have been proposed

to Articles 2 and 5 in the Articles of Association and transitional rules have been added in a new Article 21.

The proposed amendments will be presented at the Extraordinary General Meeting on 28 February 2009, see Stock Exchange Announcement no. 5/2009.

## Risk Management

Risk management is an activity to be observed on a long-term basis. Risk is an integral part of total banking activities and therefore it is not possible entirely to avert situations leading to financial losses, which mainly should be covered by a sufficient interest margin as well as services, fees and commissions. Furthermore, the investment income the Bank makes must outweigh the risk carried by these investments.

The strategic objective of risk management is to project the activities in a way which prevents the Bank from contracting or encountering risks larger than those stipulated by the Board of Directors and those necessary to reach the long-term strategic goals of the Group.

Increased risk can originate from internal factors such as new services, products, procedures and guidelines as well as from miscellaneous external factors.

The Board of Directors stipulates the overall Risk Management policy for all significant risk areas. These can be divided into credit risk, market risk, liquidity risk and operational risk.

The Board of Directors stipulates and determines the main rules as to how risk management and monitoring procedures are to be organised and implemented. The rules and policies are re-evaluated yearly.

Eik Banki's risk management is further developed continuously. Procedures are developed to affirm,

### The good conversation

HeildarPrát is the foundation of the advisory concept for Eik Banki's customers.

With HeildarPrát the customer and customer consultant touch upon all financial aspects of consequence for the customer.

This ensures a good all round advice regarding all financial aspects of every day life.

## Management Review

document, and report risk factors within the various risk areas. Procedure development is meant to support the infrastructure of the risk management.

Risk management is centralised and organised in the Credit Department of Eik Banki. The responsibility of the risk management unit is to ensure regular control and monitoring of risk and that adequate procedures are in place within the different areas of risk management. Only employees with the proper authorisation may assume risk and these are obligated to follow all proper procedures. As part of the risk management duties, the Credit Department must report from the various types of risks on a regular basis.

In addition to the regular internal control and internal auditing, with reference to the Board of Directors, which holds the overriding control of the Group, the Bank also has an external auditor appointed at the AGM. Furthermore, Eik Banki and Eik Bank Danmark are under the supervision of the Danish Financial Supervisory Authority, [www.finanstilsynet.dk](http://www.finanstilsynet.dk).

### Credit Risk

Credit risk is the risk of losses when customers become unable to meet their responsibilities towards Eik Banki.

The credit policy is the main tool to ensure that the credit risk is under control at any time. The credit risk is monitored by performing an individual credit evaluation of the customer's financial state.

The individual risk is evaluated and the vital concepts are ability to pay, attitude to repayments, and guarantees.

Retail customers are required to meet certain conditions such as a sufficient margin for personal disposals and guarantees. When loans are provided with a variable interest rate, it is taken into consideration whether borrower is able to repay the loan if the interest were

to increase. Furthermore, requirements are placed, when necessary, that borrower covers the interest risk with for instance an interest cap or fixed interest.

Loan engagements with our corporate business customers are re-evaluated every year based on the latest annual report. The evaluation includes company outlook and the development within the relevant industrial sector. Furthermore, the company's financial development is evaluated on a regular basis.

The credit departments in Eik Bank Danmark and Eik Banki P/F monitors changes in total overdrafts and arrears and reports these within the Group.

Every quarter an evaluation is made concerning the need for provisions and impairments for each individual customer. The Credit Department has the overall responsibility for this particular function within the Group.

### Distribution of Loans

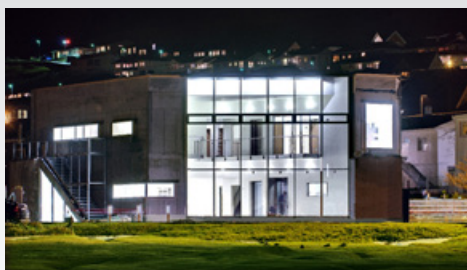
The risk is limited by spreading the loan portfolio geographically, by objectives, and on various industries. Geographically 52 per cent of the loan portfolio is provided on the Faroe Islands, 43 per cent in Denmark and 5 per cent in other countries. For the same period last year the distribution was 49 per cent, 46 per cent, and 5 per cent, respectively.

Total Group loans at year-end 2008 constituted 52 per cent corporate lending, 46 per cent retail lending, and 2 per cent to the public sector. The corresponding distribution in 2007 was 53, 45 and 2 per cent, respectively.

The distribution of the loan portfolio in figure 5 is based on the loan objective. Therefore, the division is not compatible with the division of loans in Note 9, which is based on the debtor's primary field of industry.

### Fisheries

Fisheries illustrated in figure 5 includes mainly fisheries. More specifically ship loans within nearly all types



### New Premises for our branch in Klaksvík

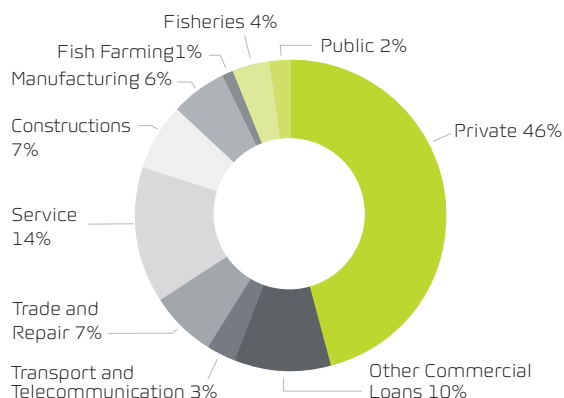
Eik Banki now has a beautiful and worthy branch in Klaksvík to be used as a central unit to provide service and further enhance customer relations with all our customers in the Northern islands.

The new building is located in Bøgøta in



## Management Review

Figure 5  
**Group Loan by Sector and Industry**  
31 December 2008



of fishing vessels: factory trawlers, seine vessels, lining vessels, freshers, pair trawlers, prawn trawler, netting vessels and fishing boats.

### Fish Farming

The engagements are distributed to miscellaneous fish farms located on Suðuroy, Vágoy, Streymoy and Eysturoy and these are therefore rather widely dispersed. Loans to the fish farming industry have been advanced to finance the fish and production tools.

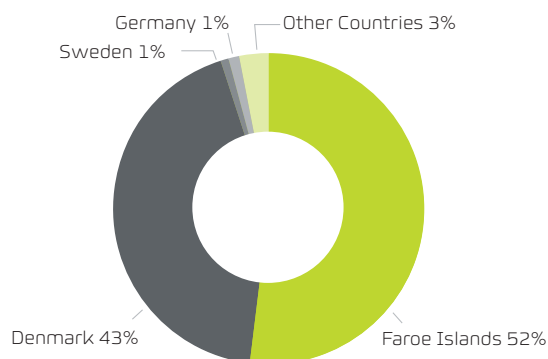
### Manufacturing

Loans to manufacturing have mainly been advanced to the fish product industry, ship yards, forges, pre-cast production, food production and material production as well as other minor industrial companies. The fish product industry is mainly production of fish feed, fish meal, fish oil, dried fish produce, salted fish products and fresh fish products.

### Construction

Loans to the construction industry comprises project financing as well as loans to companies working within the construction industry and smaller entrepreneurial firms.

Figure 6  
**Group Loan per Country**  
31 December 2008



The project financing comprises building plots, buildings under construction, reconstruction or major restoration, including real estate that has been completed but not sold. The largest part of Eik Banki's project financing is in this category and in the category 'service firms'.

### Commerce and Repairs

Loans in commerce and repairs comprises retail and wholesale, i.e. shops and firms selling fish products, computers and programming, cars, food, fuel, furniture and clothing, as well as firms that specialise in different kinds of maintenance and repairs.

### Transport and Communication

Loans to transport and communication comprise transportation of people and goods on land, at sea and by air, and telecommunication. Moreover this category comprises less obvious industries such as frozen goods storage and sand-pump dredgers.

### Service Firms

Loans to service firms comprise firms that provide services of different kinds for instance leasing companies renting real estate to corporate and private purposes, consulting firms, IT services, marketing

the center of Klaksvík. The opening was on the 1 December 2008 and over 200 people visited the new building at the public reception.

The building was drawn by the architectural firm of Árni Winther.

Eik Banki now has 15 branches throughout the Faroe Islands.

## Management Review

agencies, hotels and restaurants, and entertainment businesses.

### Other Industries

This category comprises businesses that are not included in any of the above categories, for instance loans to financial institutions and investment companies making various types of investments, and undefined loans to different businesses.

### Public Institutions and Associations

The category mainly comprises loans to the Faroese public sector, i.e. the Faroese public administration, municipalities and partly-government-owned companies such as the Postal Service, the National Faroese Transport Company and public sub sea tunnels. The Faroese government holds an Aa2 rating with a steady outlook from Moody's. Eik Banki Group has not provided any loans to the Danish government.

### Loans to Retail Customers

The Eik Banki Group has more than 130,000 customers on the Faroe Islands and in Denmark, and 46 per cent of the Group's total loans are advanced to retail customers. A full 36 per cent of total loans are advanced to departments and private homes. The majority is provided under mortgage credit conditions with first priority in private houses and departments.

Providing mortgage credit directly differentiates Eik Banki Group from other banks on the Danish market, where mortgage credit usually is provided through a mortgage credit institution.

First priority loans are usually regarded as secure loans and figure 7 below illustrates how the mentioned home loans, including mortgage credits, are distributed according to size.

58.5 per cent of the loan portfolio amount, representing 85.4 per cent of the loans, are loans with a remaining debt below DKK 1 million. Only 10.6 per

cent of the total loan portfolio represent loans larger than DKK 2 million.

Average residential debt loan in Eik Banki Group is DKK 538,000. The average residential loan amounts to DKK 455,000 and DKK 717,000 on the Faroe Islands and in Denmark, respectively. At year-end 2008, the average house price in Tórshavn, the capital of the Faroe Islands was DKK 2.1 million, while a house of 140m<sup>2</sup> in Copenhagen had an average price of DKK 2.9 million. The average house price for all of the Faroe Islands and Denmark was DKK 1.4 million and DKK 1.8 million respectively.

### Large Engagements and Credit Gearing

Figure 8 illustrates the development of lending in proportion to equity, the so-called credit gearing. And the increase in lending and large advances compared to base capital is also illustrated.

At year-end 2008, the credit gearing was 9.4, which means that for each Danish Krone in equity, Eik Banki provided a loan of DKK 9.40. Credit gearing has been fairly constant despite the fairly high 26.3 – 30.0 per cent increase in lending in 2004-2006 and 88.6 per cent in 2007 as illustrated. The large 2007 increase, stems from the acquisition of SkandiaBanken and Kaupthing Bank's Faroese operation. The increase in the loan portfolio for 2008 is 0.5 per cent.

Large engagements in comparison to base capital i.e. loans larger than 10 per cent of base capital were 230.1 in 2008 compared to 144.1 per cent in 2007.

The increase in credit gearing and large engagements derives from the contraction in capital base due to the negative result in 2008, and not from any substantial growth in large loan engagements.

The large engagements are distributed between the oil industry, real estate property, ship building, fishing industry, investment companies and trade.

### Credit packages provide security for customers

The Faroese financial institutions also have the possibility to participate in Credit Packages I & II offered by the Danish Government. Eik Banki Group has, despite its good solvency, decided to participate in Credit Package I. A pending participation in

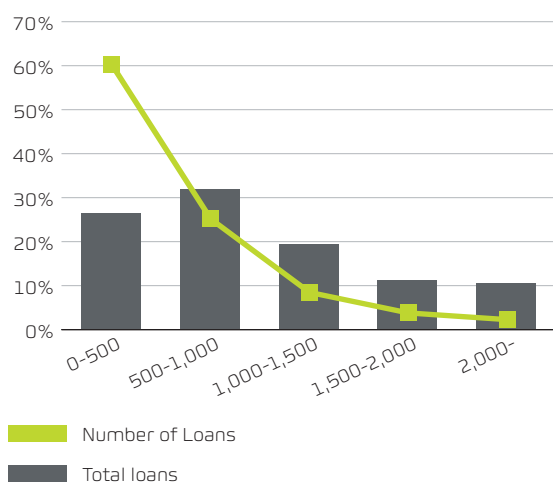
Credit Package II shall be decided before 30 June 2009.

The primary objective of the Credit Packages are to secure the foundation of the financial system within the Kingdom of Denmark, which Eik Banki is part of. Credit package I provided security for all

deposits in the Eik Banki Group, and credit package II provides access to hybrid core capital.

## Management Review

Figure 7  
Mortgages by Size (DKK 1,000)



### Project Financing

A certain kind of financing that has received considerable media attention is project financing of buildings with the objective to sell or lease. This can be financing of land plots, real estate under construction, reconstruction or major restoration, including real estate, which has been completed but not sold. The buildings may be intended for offices, retail stores or flats and therefore project financing belongs to different categories in figure 5. The majority of the Group's project financing is within the category construction and service firms.

Project financing in Eik Banki Group constitutes 7 per cent of total loans, corresponding to DKK 1.2 billion. The table below illustrates the composition of the project financing.

The table illustrates that 56 per cent of the project financing is provided in Denmark, 20 per cent on the Faroe Islands, and 24 per cent in other countries. The majority of the project financing 34.4 per cent is provided with the objective to build residential homes.

### Financing of Corporate Industry Buildings

20 per cent of the Group's total loans have been advanced to corporate real estate of companies in the above categories.

Roughly half of the loans are loans to corporate real estate, which are typically leased to bona fide lessees on long-term leasing agreements in which the rent covers the loan payments. The interest risk is usually also fully or partly covered.

The other half of the loans have been advanced to corporate properties, where the property is part of the core operation of the business, such as warehouses, production buildings and office buildings.

### Impairments

In the latter part of 2008, the market conditions under which Eik Banki operates changed significantly. The financial crisis causing a lack of liquidity in the financial sector coincided with a decrease in the estate value. As a result numerous companies encountered financial difficulties due to lack of liquidity, e.g. because of due loans, which could not be refinanced. The result was a suspension of payments ending in bankruptcy. Furthermore, there was the break-down of the financial sector in Denmark and Iceland causing the inability of banks and other financial institutions to meet their due payments.

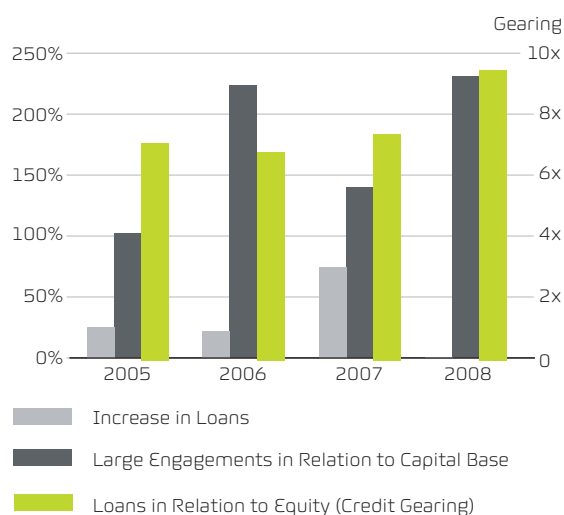
This resulted in total write offs and impairments in 2008 of DKK 553.7 million against DKK 36.6 million in 2007. The main reason being the global financial crisis and economic recession, which accelerated especially during the second half of 2008.

Total Group loss mainly derived from losses of a single Icelandic and Danish financial institutions as well as the bankruptcy of two major Danish real estate companies. Write offs and impairments on retail customers have, however, not been necessary to a similar extent, as retail customers still have the strength and the will to pay.



## Management Review

Figure 8  
Credit Risk Development



In Eik Banki write offs and impairments amounted to DKK 201.0 million, corresponding to 2.0 per cent of total loans on the Faroe Islands. In Eik Bank Danmark, total depreciations and impairments amounted to DKK 352.6 million, corresponding to 4.4 per cent of Eik Bank Danmark's total loans.

Based on the current development and the overall prospects for the economic development in Denmark and the Faroe Islands, it is expected that the level of impairments for financial institutions in 2009 will be higher than normal, however, not at the same level as in the fourth quarter of 2008, when impairments

were exceptionally high due to the poor state of the market and global economy.

At year-end 2008, total impairments of Eik Banki was DKK 354.3 million. The corresponding figure for Eik Bank Danmark is DKK 315.2 million. In total, the Eik Banki Group impairments amounted to 669.5 million at year-end 2008, corresponding to 3.6 per cent of total Group loans.

The impairments for 2008 cannot be compared to those of 2007 as Eik Banki has adopted new accounting principles for impairments but not provisions for losses. The changes in the accounting principles has entailed a total reversal of DKK 64.9 million of which DKK 50.5 million has its impact by year begin, while the remaining amount DKK 14.4 will have its impact in the present year.

### Market Risk

Market risk consists of interest rate risk, currency risk and share risk. Market risk is the risk that the value of assets and debt as well as entries outside the balance will be affected by market factors, such as economic upswings and downswings and movements in the stock market, the currency market, and the interest rate market.

The market risk is managed on Group level. Eik Banki's exposures are mainly due to its own holdings, but also due to the commercial activities on the Faroe Islands as well as in Denmark.

Table 9  
Project Financing

DKK million	Residential homes	Offices	Retail	Recreational	Land Plots	Total	Per cent
Denmark	171	247	123	34	94	669	55.8
Faroe Islands	226	0	0	0	17	243	20.3
Other countries	16	0	42	215	15	288	24.0
<b>Total</b>	<b>413</b>	<b>247</b>	<b>165</b>	<b>249</b>	<b>126</b>	<b>1,200</b>	<b>100</b>
<b>Per cent</b>	<b>34.4</b>	<b>20.6</b>	<b>13.8</b>	<b>20.8</b>	<b>10.4</b>	<b>100</b>	



### Negotiations about a new IT-provider

Eik Banki has entered negotiations concerning a new IT-provider.

In June 2008 negotiations were initiated with Bankernes EDB Central (BEC). Negotiations discontinued and were subsequently resumed with Skandinavisk

Data Center (SDC) about a future cooperation.

The objective is that SDC becomes the main IT-provider for Eik Banki Group.

## Management Review

### Interest Rate Risk

Interest rate risk is the risk of financial loss due to ascending or descending interest rates. The interest rate risk is measured as the expected loss caused by depreciation of the securities, if the interest curves are displaced in parallel by one per centage point up. For callable bonds the Danish Financial Supervisory Authority's deductible factors are used in order to take into account the shorter duration.

The interest rate risk from fixed interest rate loans is usually hedged. The greatest interest rate risk lies in the holdings of fixed interest bonds. Those holdings are adjusted within certain limits in accordance with the interest outlook.

The interest rate risk has decreased from 3.9 per cent in 2007 to 1.7 in 2008.

### Currency Risk

Currency risk is the risk of loss due to fluctuating exchange rates.

As a main rule, Eik Banki's policy is to hedge currency risks with the exception of the currency risk between the Danish Krone and the Euro, which is only hedged under special circumstances.

The currency risk is calculated as the larger amount of either currency assets or debts and is determined as a per centage of the core capital less certain adjustments, corresponding to currency indicator 1 of the Danish Financial Supervisory Authority. At year-end 2008, the currency risk was 8.9 per cent, compared to 16.6 per cent at year-end 2007. Thus currency risk has decreased in 2008 mainly as a result of a decrease in the outstanding currencies.

### Share Risk

Share risk is the risk of loss due to fluctuations in share prices. The share risk is managed by carefully controlling and monitoring the share portfolio.

The share risk of Eik Banki Group has declined considerably during 2008 partly as shares have fallen in value and share holdings in Investea was reduced from 26.9 per cent to 4.5 per cent.

At year-end 2008, the total share portfolio amounted to DKK 287.7 million, of which DKK 112.5 million were listed shares and DKK 175.2 million were unlisted shares.

The corresponding figures for 2007 were DKK 503.5 million in the total share portfolio, of which DKK 442.0 million were listed shares and 61.5 million unlisted shares.

The decrease of listed shares in the share portfolio is partly owed to the decreasing share price of the Atlantic Petroleum share and partly to the decreasing price of the SPRON share, and the transferring of the SPRON shares in the fourth quarter of 2008.

In addition to the above mentioned shares, the Eik Banki Group at year-end 2008 had holdings in associated and subsidiary undertakings amounting to DKK 66.4 million and DKK 8.5 million, respectively. In 2007 these capital holdings were DKK 356.9 million and DKK 6.5 million respectively.

The shareholding in Investea, which previously was an associated firm, is now entered under unlisted shares.

### Liquidity Risk

Liquidity risk is the risk of loss due to a considerable increase in interest expenses from raising liquid funds, causing the Bank to reduce its activities, or even rendering the Bank unable to meet requirements towards depositors due to a lack of available funds.

The purpose of controlling the liquidity is to ensure that the Group at all times has the means to meet current as well as future debt obligations. The purpose is also to ensure that the Group does not



### Carola's Christmas concert

The Swedish gospel singer and dual winner of the Eurovision Song Contest Carola Häggkvist held a Christmas Concert in Tórshavn on 1 December 2008 igniting the Christmas spirit in the Faroese capital. Eik Banki was the main sponsor for the concert and Five Star Entertainment organised

the event. The concert was held in the Hoyvíkshøllin, gathering a large crowd of cheerful people.

## Management Review

generate an excessive need to raise liquid funds in the future.

The liquidity risk is controlled by a regular assessment of liquidity compared to the current and future needs and legal requirements. The liquidity is also controlled with internal transaction costs within the Group, for instance intra-group liquidity accounts.

On a regular basis, the Eik Banki Group makes liquidity projections based on the expected conditions.

The current liquidity projection shows good liquidity enabling the Bank to measure up to all requirements, and at the same time maintain a sound loan activity.

Eik Banki also regularly performs stress tests of the liquidity conditions in order to see how the liquidity is affected. Stress tests are made to ensure that the Bank is capable of taking necessary steps in due time to prevent a possible negative impact on the liquidity requirements, or should unexpected circumstances arise.

In September 2008, the Danish Central Bank allowed financial institutions with a high solvency ratio to take out loans amounting up to DKK 800 million. Eik Banki took advantage of this opportunity, and currently has a drawing right of DKK 800 million in the Danish Central Bank.

At year-end 2008, liquidity, calculated as cash-in-hand, sight deposits in other banks, certificates of deposits in the Danish Central Bank and securities, was DKK 5.7 billion. Excess liquidity cover relative to statutory requirements is 164.2 per cent.

### Operational Risk

Operational risk is the risk of financial loss due to insufficient and inefficient internal processes and procedures, human errors, IT-failures, or external factors. Examples of operational risks are fire, storm, burglaries, bank-robberies, mistakes in money-transfers and so on.

To protect the Group against operational risk, internal processes and procedures are examined regularly. Furthermore, they are monitored through internal and external audits as well as the Danish Financial Supervisory Authority. In order to safe-guard against IT-risk, the Board has agreed upon an IT security policy and set goals for the safety and contingency procedures in this area.

Eik Banki Group's banking systems are operated by the providers Elektron P/F and BEC A/S. Furthermore, the banks co-operate with industry companies such as PBS and VP, which run the basic infrastructure of the financial industry. All the companies mentioned, have internal and external auditors and are under the supervision of the Danish Financial Supervisory Authority.

Together with the main provider of banking systems Elektron, Eik Banki is a member of the Information Security Forum (ISF). The ISF safety standard 'The Standard of Good Practice for Information Security' is used as a scale for the desired level of security, however, exceptions are made where it is considered appropriate.

Through continuous monitoring, measures are taken to identify risks that might have a negative impact on the Bank.

### Basel II

From 1 January 2007, Danish banks were obligated to comply with the new Basel II rules, made to ensure that banks have the necessary solvency at any given time. The new rules replace the current rules. The change from the current rules is that the requirements regarding capital is individualised between the banks to reflect to a greater extent the risks that each bank assumes.

The Basel II rules have been effective on the Faroe Islands since 1 January 2009. Eik Banki, however, has



### Faroese stories on film

On 19 September 2008, an important part of the Faroese film treasure was released on DVD. The release, titled 'Faroese Stories', is based on film clippings dating back 100 years, recorded by Faroese people, and foreigners who have visited the islands.



## Management Review

made use of the transfer rules authorising the Bank to postpone the enforcement of the rules until 1 January 2010.

### Anti-Money Laundering Policy

Eik Banki has taken all necessary measures to comply with the valid rules and regulations on Anti-Money Laundering and Financing of Terrorism. Consequently, Eik Banki has defined and applied its policy on Anti-Money Laundering and the Financing of Terrorism. Branches and subsidiaries of Eik Banki are similarly required to comply with the above rules and implement the stated policy.

To comply with the applicable legal requirements regarding Anti-Money Laundering and Financing of Terrorism, Eik Banki has established adequate procedures of customer due diligence, reporting, record keeping, internal control, risk management and communication to forestall and prevent activities related to money laundering or financing of terrorism.

## Funding and Liquidity

### Main Funding Sources

The activities of Eik Banki are based on various funding sources with a continued emphasis on equity and deposits. Eik Banki has a continued focus on the maintenance and development as regards access to alternative financial sources.

Currently, Eik Banki Group mainly operates with the following funding sources:

1. Share capital
2. Supplemental capital
3. Deposits
4. Syndicated and bilateral loans
5. Foreign loans with Eik Banki as guarantor
6. Mortgage credits
7. Debt Bonds

### Share Capital and Supplemental Capital

Equity and supplemental capital help increase the solvency, which should always be at the minimum statutory requirement of 8 per cent.

Including the 2008 result and calculated according to § 124 section no. 1 of the Danish Financial Business Act, the capital base is DKK 1,630 million. The capital base is divided into core capital less deductions and supplemental capital as illustrated in figure 11.

The supplemental capital, i.e. subordinated capital infusion, may according to the law be up to 100 per cent of the core capital after deductions. Currently, the supplemental capital constitutes 40.9 per cent of core capital after deductions. In 2007, supplemental capital constituted 28.0 per cent.

Eik Banki has not increased its share capital or raised supplemental capital in 2008. In 2007, the share capital of Eik Banki was increased by DKK 101.6 million corresponding to a market value of DKK 584.3 million in addition to EUR 40 million of subordinated capital infusion, strengthening the Bank's capital base considerably. The deteriorating turn and poor prospect on the global financial market has made it nearly impossible for financial institutions to increase share capital or raise supplemental capital in 2008.

Credit Package II, agreed on by the Danish Government on 3 February 2009 opened the possibility for financial institutions within the Kingdom of Denmark, to obtain hybrid core capital from the Danish state.

A financial institution's core capital is composed by equity and possible hybrid core capital, which to an extent is equivalent to regular equity. The main difference is that the hybrid core capital accumulates interest entered as an expense over operations, while the annual result is added to equity belonging to shareholders.

The entire material has been digitalised, edited and published in order for the common man to get a new and different insight into the history of the Faroe Islands as experienced in every day life. 'Faroese Stories' have been published in Faroese and Danish in the Faroe Islands and in Denmark. The project of collecting and editing the

rare clippings was organised by Substanz Nordisk film. Eik Grunnurin (the Eik Fund) released the DVD.

More information is available on [www.foroykskarsogur.fo](http://www.foroykskarsogur.fo)

## Management Review

Hybrid core capital is subordinated to all other supplemental debt. And there are distinct stipulations as to the conditions under which the loan is to be included in the core capital. For instance, the loan must have an infinite repayment period, debtor may cancel the loan no sooner than ten years after the signed agreement, and repayment can only take place after permission is granted from the Danish Financial Supervisory Authority. Special conditions adhere to the core capital the Danish government provides and financial institutions, which receive hybrid core capital from the Danish government, are assigned limitations.

The Board of Directors of Eik Banki has proposed to the Annual General Meeting that they agree upon that Eik Banki is granted the possibility to exploit this financial opportunity, despite the solvency of Eik Banki Group being 10.6 per cent.

### Deposits

Eik Banki Group is continuously working on maintaining a fine balance between deposits and lending.

The acquisition of SkandiaBanken in 2007 strengthened deposits considerably in relation to other sources of financing, as SkandiaBanken has a surplus of deposits amounting to approximately DKK 1.6 billion.

Group deposits are now DKK14.1 billion compared to DKK 13.3 billion for the same period in 2007.

A considerable part of the deposits are still sight deposits, 49 per cent by year-end 2008 compared to 62 per cent by year-end 2007. However, the majority of the deposits 57 per cent have a balance below DKK 1 million as illustrated in figure 9

At year-end 2008 loans, advances and provisions in proportion to deposits were 115.7 per cent compared to 119.2 per cent at year-end 2007. Loans, advances and provisions in proportion to deposits were at their highest at year-end 2005 i.e. 152.5 per cent. Com-

pared to many Danish banks the loans, advances and provisions in proportion to deposits in Eik Banki Group is considerably lower being an advantageous factor in times like these.

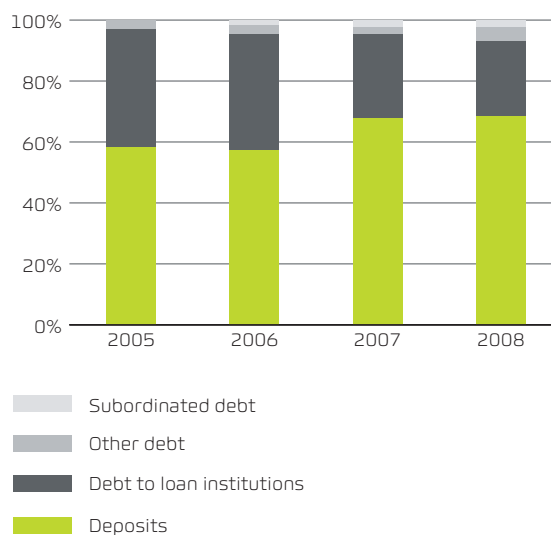
### Bilateral and Syndicated Loans

Of long-term debt to financial institutions, i.e. loans with an original repayment period of no less than one year, four loans are to be refinanced or repaid in 2009. Four loans are bilateral loans of a total of DKK 306 million and one is a syndication loan of EUR 93.5 million.

The bilateral loans are due for payment in the second quarter of 2009 while the syndicated loan is due for payment in the latter half of the fourth quarter. These are expected to be refinanced.

In January 2009, Eik Banki repaid the first DKK 400 million of a DKK 1 billion loan from a Nordic bank. The remaining DKK 600 million could be postponed for another year to January 2010. However, Eik Banki has

Figure 10  
Distribution of Funding



### A book on the roots

In May 2008, all Faroese households received a copy of the book 'Eikrøtur' (Oak Roots), which depicts the history of Eik Banki and its 175 year long history.

Eik Banki was established in 1832 under the name 'Færø Amts Sparekasse', and no other





## Management Review

Table 11  
Capital Base

DKK Million	2008	2007	2006	2005	2004
Core capital less statutory deductions	1,158	1,700	977	860	740
Supplementary capital	475	476	150	0	15
<b>Base capital less statutory deductions</b>	<b>1,633</b>	<b>2,176</b>	<b>1,127</b>	<b>860</b>	<b>755</b>
Deduction in base capital	0	28	131	148	0
<b>Base Capital</b>	<b>1,633</b>	<b>2,148</b>	<b>996</b>	<b>712</b>	<b>755</b>

decided to repay this part of the loan as this was seen as a financial advantage.

By year-begin Eik Banki estimated that the majority of the bilateral and syndicated loans would be refinanced in 2008, although the cost would increase due to the insecurity prevailing on the global financial market. The estimation turned out to be correct, however to a cost somewhat above the original expectations of Eik Banki.

In 2008, the first syndicated loan of EUR 70 million was to be refinanced. Despite the negative trend, the refinancing was successful raising a new syndicated loan of EUR 140 million. The loan is a two year loan. The lead managers were Bayern LB, Danske Bank and Raffaisen Zentralbank (RZB).

#### Foreign Loans with Eik Banki as Guarantor

Eik Banki cooperates with foreign banks in financing loans to clients, issued mainly in foreign currency. The loans are given with Eik Banki as the guarantor on behalf of the customer.

#### Mortgage Credits

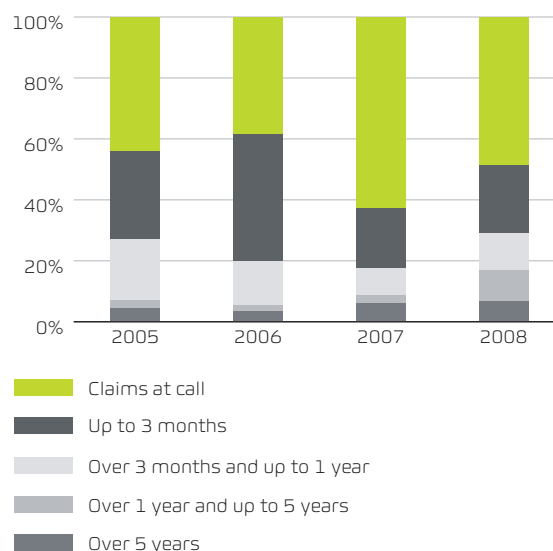
The share of mortgage credits on the Faroese market has increased significantly in 2008, as the interest margin between mortgage credits and traditional residential loans widened significantly.

Since November 2005, Eik Banki has cooperated with the Danish mortgage credit institution BRF Kredit.

Loans are provided with Eik Banki as the guarantor. Mortgage credits were originally 60 per cent of the estimated property value but have since then increased to 80 per cent of the value.

Apart from giving Faroese homeowners alternative methods of financing their houses, providing mortgage credit means that Eik Banki has gained access to an alternative funding source, and thus an opportunity to increase its activities.

Figure 12  
Development in the Composition of Deposits



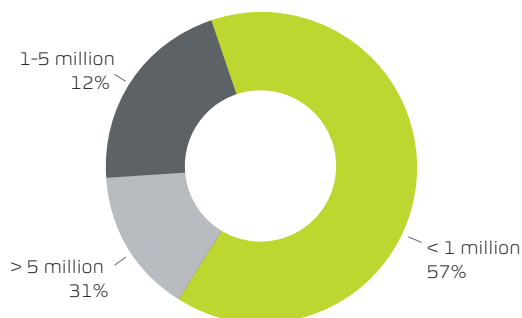
company on the Faroe Islands, has been around for as long as Eik. This means that the book both tells the history of the Bank and gives a clear description of the Faroese society during the last 175 years.

Zakarias Wang is the author of the book, which was published by the Eik Grunnurin.



## Management Review

Figure 13  
Group Deposits Divided According to Size  
31 December 2008



In 2008, DKK 438 million were provided as mortgage credits and collectively mortgage credits amount to DKK 670 million by year-end.

Eik Bank Danmark has in 2008 signed a cooperative agreement with BRF Kredit and subsequently both banks are now advancing mortgage credit from the same provider.

### Bonds Issue

Hitherto, Eik Banki has only had a single bond issue, which took place in 2006 when the Bank issued a subordinated debt bond of DKK 150 million with Danske Bank as lead manager.

On 22 January 2009, Eik Banki announced that the Bank had issued a senior bond, which is registered on Nasdaq OMX Nordic Exchange Copenhagen, as is the first loan. The bond is a bullet loan expanding to 31 August 2010 with a fixed interest of 3 per cent.

The issuance was organised by Nordea Bank Danmark with a denomination of DKK 615 million. Subsequently, the bond issue was increased by DKK 51 million. Danske Bank acted as lead managers.

The benefits of the loan will mostly be used as repay-

ment of a loan of DKK 600 million before due time cf. the section on bilateral loans above.

Furthermore, on 10 February 2009, Eik Banki has issued a non-listed debt bond of DKK 500 million with Danske Bank as lead manager. The bond matures in 2012, but can be cancelled every third month by the investor. The interest is variable and the margin increases every quarter.

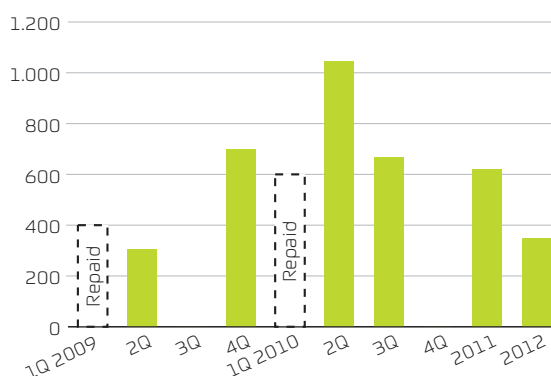
The new bond issue is senior debt and is therefore just like all other debt and deposits, except subordinated capital and equity, guaranteed by the Danish Government until 30 September 2010 according to Credit Package I.

## Eik Banki P/F

Eik Banki P/F is the parent company of the Eik Banki Group.

The main areas of operation of Eik Banki are retail banking, corporate banking, securities trading including pensions and investment banking.

Figure 14  
Maturity of Long Term Debt to Credit Institutions  
DKK Million



### Eik sponsored Bryan Adams concert

Eik Banki supports the idea of welcoming international artists to the Faroe Islands, in order for the Faroese people to gain access to a variety of art.

Therefore, Eik was the main sponsor of a

## Management Review

The overall risk management of the Group is in Eik Banki, which also attends to Group liquidity, provides Group liquidity and so on. The internal audit department also functions as the internal audit department in the subsidiaries.

Eik Banki had a prominent year in 2008 as regards basic operations, however unfortunately with a disappointing annual result.

The basic operation calculated as the result prior to market value adjustments, impairments and taxes shows a progress of DKK 72.2 million corresponding to 41.8 per cent, from DKK 172.7 million in 2007 to DKK 244.9 million in 2008.

Net interest, fees and commission increased from DKK 384.4 million in 2007, to DKK 466.3 million in 2008, which is a DKK 82.0 million increase, i.e. 21.3 per cent. Value adjustments showed a loss of DKK 255.0 million against a DKK 145.2 million gain the year before.

Staff costs and administrative expenses were DKK 217.0 million against DKK 209.1 million in 2007. This is a DKK 7.9 million, or 3.8 per cent increase. Other operating expenses are derived from Credit Package I, which was agreed upon in October 2008.

In 2008, write off and impairments were DKK 201.0 million, corresponding to 3.6 per cent of total loans and guarantees. Of these, DKK 86.5 million are related to international customers.

Impairments, previously called provisions for losses, by year-end 2008 were DKK 354.3. Of these, collective impairments were DKK 18.1 million, while individual impairments amounted to DKK 336.2 million.

The result from associated and subsidiaries in 2008 was DKK 187.6 million a deficit compared to a DKK 143.1 million profit in 2007. The subsidiaries whose

results are included in the accounts are amongst other Eik Bank Danmark with a deficit of DKK 181.2 million and Inni DKK with a DKK 1.7 million profit, respectively.

The result for Eik Banki before taxes was a DKK 398.7 million deficit against a DKK 443.8 million profit in 2007. The result after taxes was a deficit of DKK 362.0 million against DKK 403.4 million, the year before.

The balance at year-end 2008 was DKK 13.7 billion against DKK 14.5 billion the year before. This constitutes a decrease of DKK 0.8 billion. Total loans increased by DKK 0.1 billion, from DKK 8.1 billion in 2007 to DKK 8.2 billion in 2008, whilst deposits increased by DKK 0.2 billion, from DKK 6.1 billion to DKK 6.3 billion. At year-end 2008, off balance figures were DKK 1.8 billion against DKK 1.0 billion, the year before.

At year-end 2008, 252 employees worked at Eik Banki compared to 244 employees the year before. This is an increase of 8 employees. The number of full time equivalents at year-end 2008 was 232.4 against 239.1 at the beginning of the year. Thus the number of full time equivalents has decreased by **6.7 employees**, i.e. 2.8 per cent.

### Retail Customers

2008 has been a year marked by the general state of the society. During the first half of the year, the activity level within the retail customer area can be compared to that of 2007. However, during the second half, Eik Banki has noticed a curb in its activities reflected, amongst other, in the number of residential properties sold, which has diminished significantly, just as the sale of new cars has decreased.

The bleak news, which has been shed almost on a daily basis the last many months, has undoubtedly affected people, resulting in more cautious customer behaviour. The more cautious pattern is noticed by

concert with Bryan Adams in Tórshavn on 4 June 2008.

A large crowd of people enjoyed the event. The tickets were sold via Eik Banki's website.



## Management Review

Eik Banki, as the demand for loans and other credit in general has decreased to some extent.

In 2008, interest rate increased no less than four times, however by year-end there was a decrease in interest rate. The ascending interest rate is most likely the reason for the significantly growing interest in mortgage credit.

### Corporate Business Customers

The increase in the corporate loan portfolio has been relatively low compared to previous years. The main cause being that the conditions for profitable operations within Faroese corporations have deteriorated in general during the course of 2008. Record breaking high oil prices, a decrease in the fisheries in the waters around the Faroe Islands, increased financial expenses resulting in decreasing profitability for large segments of the Faroese industry have entailed that Eik Banki has advanced less loans in 2008 compared to previous years, especially in relation to new projects. Subsequently, the increase in total corporate loans is fairly limited.

Although many industry segments have been troubled in 2008 and a number of corporations doubtlessly will find themselves in financial difficulties in 2009, it is still gratifying that the Faroese industry is reasonably strong financially. The industry should be able to withstand a weakened economy by adjusting expenses to diminishing incomes.

Currently, Eik Banki has a sensible market share within the corporate business segment and diversification amongst the various industry branches is good.

The corporate business area is organised in two departments. Geographically located in Tórshavn, the capital, and Saltangará. Furthermore, the other retail branch offices provide services to our corporate business customers to a certain extent, most often in cooperation with our corporate business

departments. Financial services for fish farming is centralised at the corporate business department in Tórshavn.

### Capital Markets and Securities Trading

Increased risk aversion and the appetite for investment fell dramatically in 2008, caused by the worse financial crisis since the 1930s, ending in a deteriorating world economy and future anxiety.

The result was that the stock markets had one of their most troubled years since the infamous collapse on Wall Street in 1929. On average, shares fell by 38 per cent in 2008. Some markets more others less. Shares in the financial industry were struck particularly hard. Faroese shares, registered on Nasdaq OMX Nordic Exchange in Copenhagen and Iceland, also lost considerable value in 2008.

Faroese shareholders have paid dearly for this. The value of the share deposit fell by large numbers and this has influenced the investment interest. Consequently, in 2008 the buying and selling of shares by both private and corporate investors fell substantially. This has naturally had its impact on the results of Eik Markets.

### Pensions

The tendencies regarding pension the past years continues. A growing number of customers set up pension accounts and deposits increase every year.

Eik Banki has expanded its cooperation with the life insurance company LÍV. Insurance amounts on existing products have increased and the customer is now offered the choice to take out insurance for critical illness through Eik Banki.

The Ministry of Finance continues its elaboration on a common pension system for the Faroese labour market. In this connection, Eik Banki, together with other financial institutions and life insurance



### Peter the Troll visited Eik mascot Bassi

Again this year, all Faroese children were invited to Bassi's birthday party.

This year, the special guest stars were the popular children's characters Peter the Troll and his grandmother, who livened the event even more with their song, dance and funny

## Management Review

companies, has made an effort to influence the process. Eik has particularly emphasised the free choice of the Faroese people, to enable them to choose freely as regards the method of saving as well as the combination of saving and insurance.

### Investment Banking

The activities encompass the selling and buying of companies, mergers, finding interesting firms to invest in, administration of the venture company NOTIO and P/F Fastogn financing real estate, and providing loans to corporations and institutions.

During 2008, the area grew considerably and was a favourable element to Eik's operations. Several firms changed ownerships, capital increases were realised as well as mergers took place.

Eik Investment Banking expects a declining slope in the current activities due to the financial crisis.

### Asset Management

The department was established in January 2008 and is a combination of the previous Eik Banki asset management and the asset management included in the acquisition of Kaupthing Bank's Faroese operation. The department's responsibility is to tend to the securities investments made by Eik's customers. The customers are institutional investors, corporate business investors and private investors. The amounts tended to range from DKK one million and above. In addition to the investment services offered, the services comprise, amongst other, information and briefing to the investors on a regular basis.

### Private Banking

Private Banking is a new department, which is welcoming its first customers in 2009. The department will tend to the private financial matters of selected Eik customers and their families. Emphasis is laid on providing comprehensive wealth management services.

## Eik Bank Danmark A/S

Eik Bank Danmark is a wholly owned subsidiary of Eik Banki. The main areas of activity are Retail Banking, Private Banking, Corporate Banking, Capital Markets and Treasury.

In 2007, Eik Bank Danmark acquired SkandiaBanken A/S with accounting effect as of 1 July 2007, and Privestor Fondsmæglerselskab and the periodical Tidsskriftet Finansnyt, with accounting effect as of 7 August 2007. In December, these companies merged with Eik Bank Danmark.

In 2008, the Bank moved to new premises on Oslo Plads 2 in Copenhagen and has during the year gathered its IT-services under a common IT-platform.

### The 2008 Development

The basic operation of Eik Bank Danmark A/S in 2008 has been good, the result, however, is unsatisfactory. The result is affected by the financial crisis during the latter half of 2008 and the need for impairments of loans and outstanding accounts caused by the financial crisis.

The basic operation, seen as the result before market value adjustments, other operational expenses, impairments and taxes is DKK 121.6 million against DKK 116 million, which was expected at the beginning of the year.

The result before taxes is a deficit of DKK 244.3 million against a profit of DKK 109.4 million in 2007. The result after taxes is a deficit of DKK 181.2 million against a profit of DKK 81.9 million in 2007. The return on equity is minus 26.6 per cent against 16.1 per cent in 2007.

Net interest, fees and commission increased from DKK 208.3 million in 2007 to DKK 270.3 million in 2008, which is an increase of 29.8 per cent. The

sketches. Bassi toured the islands together with Peter the Troll and his grandmother in their very own bus.



## Management Review

increase is mainly derived from the acquisitions that Eik Bank Danmark made in 2007.

Market value adjustments in 2008 were a deficit of DKK 6.1 million against a profit of DKK 43.8 million in 2007.

During 2008, the expenses have increased from DKK 126.8 million to DKK 149.3 million i.e. 17.7 per cent. The increase is mainly a result of Eik Bank Danmark's organic growth following its acquisition of several companies in 2007.

Other operating expenses DKK 7.2 million derive from Credit Package I, which was agreed upon in October 2008.

The financial crisis and the economic recession, which accelerated during the second half of 2008, have had a considerable effect on losses and impairments of Eik Bank Danmark's loans. Losses and impairments were DKK 352.6 million in 2008, corresponding to 4.3 per cent of total loans and guarantees. Lump sum impairments were DKK 18.6 million and individual impairments were DKK 334 million, DKK 74.6 of which are tied to the bankruptcy of an Icelandic bank. Other write off and impairments DKK 100.9 million have been made in connection with the bankruptcy of two large real estate companies, and DKK 58.3 million stem from impairments of the Bank's own deposit of mortgage deeds.

The Bank's total impairments are DKK 315.5 million which equals a 3.9 write-down percentage.

The balance was DKK 9.7 billion against DKK 10.5 billion at year-end 2007, a decrease of 7.6 per cent. Total loans were DKK 7.4 billion against DKK 7.6 billion at year-end 2007, a decrease of 3.1 per cent. 53 per cent of total loans were advanced to retail customers and 47 per cent were provided to corporate customers. Approximately 10 per cent of

total loans are project financing of 15 land properties and real estate projects in Denmark. Project financing is defined as real estate under construction, reconstruction or major restoration, including real estate, which has been completed but not sold.

The Bank has systematically minimised its number of large engagements, including real estate financing. Combined with a declining economy in Denmark, this has caused stagnation in the loan portfolio.

By year-end 2008, Eik Bank Danmark had an excess deposit of DKK 399 million. Deposits have increased by DKK 821 million from DKK 7.1 billion to DKK 7.8 billion, which equals an increase of 10.1 per cent.

In December 2008, Eik Bank Danmark strengthened its capital by taking up DKK 100 million in subordinated debt from Eik Banki P/F. At year-end 2008, the capital base is DKK 749.4 million and core capital is DKK 549.3 million.

The solvency is 13 per cent against 13.8 per cent at year-end 2007, and core capital is 9.6 per cent against 12.2 per cent the year before. The decrease in the core capital is due to the negative result for the year.

### New Rules on Capital Cover – Basel II

From 1 January 2008, the Bank started using the standard method of accounting for credit- and market risk, and the basic indicator method for making up operational risk.

### Retail Banking

The Bank offers its retail customers all regular financial services, as regards deposits as well as loans. In 2008, the Bank entered into an agreement of cooperation with BRF Kredit on providing mortgage credit. Following this agreement, the Bank can offer its customers relevant services and financial advice on mortgage credit. Subsequently, the strategy for real estate financing has been altered from offering



### Faroeese Olympic rower sponsored by Eik

One of the most significant Faroeese sport accomplishments in 2008 took place in Beijing, China.

Faroeese female rower Katrin Olsen represented Denmark in a single sculler together with Juliane Elander Rasmussen.



## Management Review

the customer the most inexpensive home financing to offering our customers through personal financial advice a combination of mortgage credit and home loans.

In 2009, the Bank will emphasise increasing sales to existing customers. The Bank offers personal advice within investments, pensions and estate financing. Personal financial advice is available online, over the phone and under some circumstances at personal meetings with financial advisors.

The plan is a continuous optimising of processes, including service over the net bank. The Bank has initiated a project with the objective to strengthen risk management and sales procedures. The project is scheduled to be finalised during the course of 2009 and is expected to increase the Bank's efficiency and profitability.

The Bank has over 110,000 retail customers, and had in 2008 a net customer growth. Despite the rough competition over retail deposits, the deposits have only decreased by 3 per cent to DKK 6.1 billion. Loans to retail customers have decreased by 2 per cent to DKK 3.5 billion. DKK 2.8 of these, are mortgages.

### Private Banking

The department provides personal and tailored advice to wealthy customers in need of services and advice beyond our regular services.

Relevant net banking customers have also been offered services from the Private Banking Department.

In 2009, the Bank intends to further strengthen the tools for advisory services to the benefit for the customers and the Bank.

### Corporate Banking

The main areas of corporate banking are:

- Real estate financing
- Construction loan- and estate project financing
- Investment credits
- Mortgage deeds financing

The Bank's financing of corporate real estate are made to real estate owners where the real estate is typically leased to bona fide lessees on long-term leasing agreements in which the rent covers the loan payment. Usually, the interest risk is also partly or fully covered. The Bank mainly finances real estates in Denmark, Sweden and Germany.

The loan-portfolio for construction activities is decreasing, as several of the projects have been completed. Due to the negative outlook on the Danish market, the Bank does not expect to undertake any new projects during the course of the next coming 1-3 years. The Bank does not wish to take on the increased risk of price fluctuations on real estate properties, which may be caused by for instance interest rate changes or other external factors that the Bank has no bearing on.

The Bank has some investment credits for purchasing listed securities and mortgage deeds. These investment credits have individualised internal excess cover rules that allow the Bank to sell the securities if the excess cover is no longer present.

Aside from the above mentioned loans, the Bank is to some extent involved in other types of loans, which amount to approximately 11 per cent of total loans and guarantees.

For strategic purposes, the Bank has decided to discontinue all financing of mortgage deeds, as regards purchasing mortgage deeds for the Bank's own deposit as well as investment credits for customers. The Bank expects these activities to be closed down by the end of 2012.

Katrin is the first Faroese participant ever to compete in the Olympics, and Eik Banki sponsored their participation.



## Management Review

### Capital Markets

Capital Markets offers advice and trade with securities, currencies and financial tools. Furthermore, the department offers advice in connection with buying and selling companies as well as advice on procuring own- and foreign funding on the financial market. The activities have furthermore, been expanded to include asset management, as well as advice on all aspects of Investment Banking.

The department's activities have been affected by the customer's declining interest in making investments.

Read more about Eik Bank Danmark on [www.eikbank.dk](http://www.eikbank.dk)

### Inni P/F

Inni is the largest real estate company on the Faroe Islands. The company has over 10 years of experience in buying and selling real estate.

On 5 November 2007, Inni bought the real estate firm Sethúsasølan from the owner Mrs. Hannelena Mittún. This was based on a strategic move to further strengthen the capacity and market share of the firm. The activities of both firms were merged as of 1 January 2008, P/F Inni being the continued company.

The synergy entails that the firm has a broader selection of residential houses for sale without any increase in operational expenses. Despite the decline in the real estate market, the number of deals handled by Inni is approximately the same as the previous year and income has increased compared to 2007.

In addition to its Head Office in Tórshavn, Inni has a branch office in Runavík. In 2008, to be closer to its customers, Inni opened another branch office in Eik's new building in Klaksvík.

By the end of 2008, including the Manager, the real estate firm Inni had six employees.

You can read more about Inni on [www.inni.fo](http://www.inni.fo).

### Other Subsidiaries

Property Bonds 1 was established in 2007 with the objective to make investments in property bonds. The company has not had any activity since its establishment.

The subsidiary 12. juni 2003 P/F has no activity. The company has entered into a solvent liquidation expected to be completed in 2009

The firm was established in 2003 in connection with a troubled fish farm, which subsequently was sold. The company then reared salmon, which Eik Banki acquired from another fish farm. The fish was slaughtered in March 2006, and since then there has been no activity in the company. By year-end 2008, the company's assets were DKK 8.2 million, which are deposited in a bank account. The company has no debts.

Faroe Real Estate is the parent company of Kollafjørð Pelagic, established in 2001 by Kloosterboer Overseas Holland. The objective was to take on pelagic fish for the consumer market. The company went bankrupt and was re-established with Faroese capital. However, it has proven difficult to obtain the necessary quantities and in January 2008 activities ceased.

By the end of 2008, Eik owned all the shares in the company.

### Associated Undertakings and Capital Holdings that are Fixed Assets

In 2008 Eik Banki Group decreased its investments



#### Apprentices auditioned in Eik Banki

Eik regularly accepts apprentices and 2008 was no exception.

This time, 8 young people made it through the eye of the needle after having completed an entrance examination



## Management Review

in associated firms and so on partly as holdings have been sold and partly as the value of the capital holdings has declined.

A company is an associated company when Eik Banki or a subsidiary of Eik Banki controls 20 per cent or more of the votes at the company's General Meeting without having the majority. If the share of votes is less than 20 per cent, the company is a regular holding.

Investments which are either associated with Eik Banki or holdings with less than a 20 per cent influence are normally entered at equity value in the case of non-listed companies. If the company is listed, the investment is entered at market value.

In total, the booked value of Eik Banki's share in associated companies is DKK 38.4 million. The largest of these assets is Nianet.

Nianet was established in 2003 and owns today a complete and nation wide optical fibre providing data and telecommunications services solutions to corporate business customers in Denmark

On 22 May 2008, Eik Banki purchased 30 per cent of the shares in Intrum in Iceland. Intrum Føroyar P/F was established in 2006 and is a debt collection service.

Additionally, Eik Banki owns shares in Elektron and Biotech Invest.

In February, shareholdings in Investea decreased to 4.5 per cent and by year-end the shareholding is 4.5 per cent. By year end 2007 the shareholding of the Eik Banki Group was 26.9 per cent.

During the third quarter of 2008, Eik Banki's shareholdings in four Faroese fish farming companies

acquired by Eik Banki in 2003, were sold to the venture company Notio.

Eik Banki also has holdings of fixed financial assets where the influence is less than 20 per cent. The total book value of these assets is DKK 134.1 million. The most important of these assets is Atlantic Petroleum.

Eik Banki was one of the founders of Atlantic Petroleum back in 1998. The company has started its oil production within English territory during the third quarter of 2008.

The shareholding in the Icelandic savings bank SPRON, which in 2007 was the most significant investment in this group, was divested in 2008.

designed to test their skills at e.g. problemsolving and teamwork.

Sirið Hansen, Dánjal S. Davidsen and Lis Waagstein.

The eight people who started their apprenticeship in 2008 are: Beinta A. Jacobsen, Henny Olsen, Kári Mikkelsen, Tomma Petersen, Rúni Jallson Niclasen,

## Statement by the Management

### Management Statement

The Board of Directors and the Managing Directors have today approved the 2008 consolidated and annual report of Eik Banki P/F.

This annual report replaces the previously presented consolidated and Annual Report for the same year presented on the 27 February 2009.

The annual report for the period 1 January - 31 December 2008, which is prepared by us, is set up in

accordance with the Faroese Banking Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on presentations of consolidated financial statements and in accordance with the guidelines for companies listed on Nasdaq OMX Iceland and Nasdaq OMX Copenhagen.

The annual report gives a true and fair view of the company's assets and liabilities, financial position and profit/loss for the period 1 January - 31 December 2008.

#### **Eik Banki P/F**

Tórshavn 23 November 2009

#### **Managing Directors**

Mærner Jacobsen, Chief Managing Director

Bjarni Olsen, Managing Director

#### **Board of Directors**

Frithleif Olsen, Chairman

Odd Arild Bjellvåg, Deputy Chairman

Finnbogi Niclasen

Rólant Vidtfeldt

Mathea Hilduberg

Jákup Egil Jensen

Fía Selma Nielsen

Petur Hammer

Tórmund A. Joensen

Rakul Dam

Gert Langgaard

---

# Annual Accounts

---

2008

---

## Annual Accounts Income Statement

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
Income Statement						
863,447	598,924	1	Interest income		1,381,411	911,867
570,491	380,472	2	Interest expense		869,276	539,289
<b>292,956</b>	<b>218,452</b>		<b>Net interest income</b>		<b>512,135</b>	<b>372,578</b>
24,655	66,572		Dividends from shares and other holdings		26,932	69,226
155,162	100,689	3	Fee and commission income		216,519	159,530
6,433	1,323		Fee and commission expense		12,462	8,338
<b>466,340</b>	<b>384,390</b>		<b>Net interest and fee income</b>		<b>743,124</b>	<b>592,996</b>
-255,010	145,190	4	Market value adjustments		-261,060	188,904
23,229	8,109		Other operating income		25,692	19,683
<b>234,559</b>	<b>537,689</b>		<b>Profit on financial operations</b>		<b>507,756</b>	<b>801,583</b>
216,993	209,142	5	Staff costs and administrative expenses		370,625	340,731
15,380	10,678		Depreciation and write-down of intangible and tangible assets		17,421	12,465
12,304	0		Other operating expenses		19,458	43
201,030	17,160	6	Impairment of loans and other claims		553,677	36,605
-187,570	143,099		Income from associated and subsidiary undertakings		-7,975	59,923
<b>-398,718</b>	<b>443,808</b>		<b>Profit before taxes</b>		<b>-461,400</b>	<b>471,662</b>
-36,699	40,458	7	Taxes		-99,381	68,312
<b>-362,019</b>	<b>403,350</b>		<b>Net profit for the year</b>		<b>-362,019</b>	<b>403,350</b>
Allocation						
-362,019	403,350		Net profit for the period		-362,019	403,350
651,744	248,394		Brought forward from prior years		651,744	248,394
<b>289,725</b>	<b>651,744</b>		<b>Total amount available for allocation</b>		<b>289,725</b>	<b>651,744</b>
0	81,293		Dividends on shares		0	81,293
0	128,412		Allocated to other reserves		0	113,169
289,725	442,039		Carried forward to next year		289,725	457,282
<b>289,725</b>	<b>651,744</b>		<b>Total allocation</b>		<b>289,725</b>	<b>651,744</b>

# Annual Accounts

## Balance sheet

Eik Banki P/F				Group	
2008	2007	Note	DKK 1,000	2008	2007
Balance sheet					
<b>Assets</b>					
111,049	164,983		Cash-in-hand and demand deposits with central banks	643,322	219,851
2,172,862	3,119,913	8	Claims on credit institutions and central banks	2,151,623	2,910,591
112,790	0	9	Loans and other claims at fair value	218,986	0
8,127,328	7,886,597	9	Loans and other claims at amortised cost	15,468,908	15,570,318
1,418,031	997,396	10	Bonds	1,840,231	1,182,950
218,240	425,982	11	Shares	287,739	503,483
38,356	356,853	12	Holdings in associated undertakings	66,380	356,853
841,737	1,020,831	13	Holdings in subsidiary undertakings	8,522	6,486
183,454	189,408	14	Intangible assets	394,818	405,479
141,290	146,413		Land and buildings	141,816	147,089
141,290	146,413	15	Domicile properties	141,816	147,089
13,174	19,403	16	Other tangible assets	15,552	22,535
0	0		Current tax assets	6,000	6,527
43,795	2,797	17	Deferred tax assets	110,967	0
1,192	0		Assets in temporary possession	3,515	5,113
254,986	122,139	18	Other assets	376,282	229,427
20,268	9,161		Prepayments	20,440	9,504
<b>13,698,552</b>	<b>14,461,876</b>		<b>Total assets</b>	<b>21,755,101</b>	<b>21,576,206</b>
<b>Liabilities</b>					
4,985,846	5,595,298	19	Debt to credit institutions and central banks	5,081,483	5,411,535
6,316,189	6,144,839	20	Deposits	14,135,430	13,263,261
0	0		Issued bonds at fair value	602	602
249,690	178,683	21	Other liabilities	371,239	351,947
0	0		Prepayments	826	199
<b>11,551,725</b>	<b>11,918,820</b>		<b>Total liabilities</b>	<b>19,589,580</b>	<b>19,027,544</b>
1,437	2,300	29	Provisions for pensions	1,590	2,300
13,882	0	17	Provisions for deferred tax	27,032	4,726
545	0		Provisions for loan on collaterals	930	0
0	0		Other provisions	5,006	880
<b>15,864</b>	<b>2,300</b>		<b>Provisions for liabilities and charges</b>	<b>34,558</b>	<b>7,906</b>
<b>454,264</b>	<b>448,392</b>	22	<b>Subordinated debt</b>	<b>454,264</b>	<b>448,392</b>
<b>Equity</b>					
812,927	812,927		Share capital	812,927	812,927
600,427	600,427		Share premium reserve	600,427	600,427
27,266	27,266		Other reserves / Revaluation reserve	27,266	27,266
236,079	651,744		Retained profit	236,079	651,744
<b>1,676,699</b>	<b>2,092,364</b>		<b>Total equity</b>	<b>1,676,699</b>	<b>2,092,364</b>
<b>13,698,552</b>	<b>14,461,876</b>		<b>Total liabilities</b>	<b>21,755,101</b>	<b>21,576,206</b>
<b>23 Off-balance sheet items</b>					
1,654,652	904,109		Guarantees, etc.	1,890,496	1,091,427
161,916	103,482		Other commitments	169,923	110,615
<b>1,816,568</b>	<b>1,007,591</b>		<b>Total off-balance sheet items</b>	<b>2,060,419</b>	<b>1,202,042</b>

## Annual Accounts

### Cash flow statement

Eik Banki P/F				Group
2008	2007	DKK 1,000		2008
				2007
<b>Cash flow statement</b>				
<b>Cash flows from operating activities</b>				
-362,019	403,350	Net profit in the period	-362,019	403,350
15,380	10,678	Depreciations and write-downs	17,421	12,465
201,030	17,160	Impairments for losses on bad debts	553,677	36,605
442,580	-288,289	Market value adjustments of securities	269,035	-248,827
<b>296,971</b>	<b>142,899</b>	<b>Cash flows from operating activities</b>	<b>478,114</b>	<b>203,593</b>
<b>Cash flows from selected financial assets and liabilities</b>				
349,116	2,375,703	Changes in net position to credit institutions and central banks	-745,157	1,620,448
-270,411	-2,224,358	Net changes in loan and deposit	419,668	-189,022
329,921	-651,934	Net changes in securities	532,451	-184,555
-101,571	-13,774	Net changes in other assets and liabilities	-220,767	38,224
<b>307,055</b>	<b>-514,363</b>	<b>Cash flows from selected financial assets and liabilities</b>	<b>-13,805</b>	<b>1,285,095</b>
<b>Cash flows from investment activities</b>				
1,926	-177,305	Changes in intangible and tangible assets	5,567	-394,048
0	584,292	Capital increase	0	0
0	-655,000	Investments in associated companies and subsidiaries	0	0
<b>1,926</b>	<b>-248,013</b>	<b>Cash flows from investment activities</b>	<b>5,567</b>	<b>-394,048</b>
<b>Cash flows from financing activities</b>				
-53,647	534,278	Inflow to equity	-52,766	538,939
0	-81,293	Dividend	0	-81,293
5,872	298,392	Subordinated debt	5,872	298,392
<b>-47,775</b>	<b>751,377</b>	<b>Cash flows from financing activities</b>	<b>-46,894</b>	<b>756,038</b>
<b>558,177</b>	<b>131,900</b>	<b>Total changes in cash flows</b>	<b>422,982</b>	<b>1,850,678</b>
2,212,526	2,080,627	Cash and cash equivalents beginning period	4,396,377	2,545,700
<b>2,770,703</b>	<b>2,212,526</b>	<b>Cash and cash equivalents end period</b>	<b>4,819,359</b>	<b>4,396,377</b>
<b>Cash and cash equivalents beginning period 1)</b>				
164,983	87,498	Cash-in-hand and demand deposits with central banks, etc.	219,851	87,498
657,322	1,131,117	Claims on demands on credit institutions	2,079,958	1,481,256
639,471	149,782	Claims at notice on central banks	1,203,974	149,782
750,750	712,230	Bonds etc.	892,594	827,164
<b>2,212,526</b>	<b>2,080,627</b>	<b>Cash and cash equivalents beginning period</b>	<b>4,396,377</b>	<b>2,545,700</b>
<b>Cash and cash equivalents end period 1)</b>				
111,049	164,983	Cash-in-hand and demand deposits with central banks, etc.	643,322	219,851
245,583	657,322	Claims on demands on credit institutions	804,883	2,079,958
1,198,751	639,471	Claims at notice with central banks	1,548,641	1,203,974
1,215,320	750,750	Bonds etc.	1,822,513	892,594
<b>2,770,703</b>	<b>2,212,526</b>	<b>Cash and cash equivalents end period</b>	<b>4,819,359</b>	<b>4,396,377</b>

- 1) Aside from the above mentioned liquidity, the Bank has an unutilised drawing right of DKK 863.4 million. This will be included in the calculation of liquidity key ratios.

Annual Accounts  
Notes

	Share capital	Share premium account	Own shares	Other reserves / Revaluation reserves	Retained profit	Total
DKK 1,000						
<b>Eik Banki P/F</b>						
<b>1 January 2008</b>	812,927	600,427	0	27,266	651,744	2,092,364
Change of accounting principles					79,849	79,849
Own shares					-133,495	-133,495
Net profit					-362,019	-362,019
<b>31 December 2008</b>	<b>812,927</b>	<b>600,427</b>	<b>0</b>	<b>27,266</b>	<b>236,079</b>	<b>1,676,699</b>
<b>1 January 2007</b>	711,311	118,577	0	162,742	216,133	1,208,763
Change of accounting principles				27,266	-12,318	14,948
Additions	101,616	482,676		128,412	274,939	987,643
Disposals		-826		0	-116,859	-117,685
Transferred between reserves				-291,154	291,154	0
<b>31 December 2007</b>	<b>812,927</b>	<b>600,427</b>	<b>0</b>	<b>27,266</b>	<b>653,049</b>	<b>2,093,669</b>
Change in value own shares					-82,598	-82,598
Transfer of dividend from other liabilities					81,293	81,293
<b>New value 31 December 2007</b>	<b>812,927</b>	<b>600,427</b>	<b>0</b>	<b>27,266</b>	<b>651,744</b>	<b>2,092,364</b>
<b>Group</b>						
<b>1 January 2008</b>	812,927	600,427	0	27,266	651,744	2,092,364
Change of accounting principles					79,849	79,849
Own shares					-133,495	-133,495
Net profit					-362,019	-362,019
<b>31 December 2008</b>	<b>812,927</b>	<b>600,427</b>	<b>0</b>	<b>27,266</b>	<b>236,079</b>	<b>1,676,699</b>
<b>1 January 2007</b>	711,311	118,577	0	94,121	284,754	1,208,763
Change of accounting principles				27,266	-12,318	14,948
Additions	101,616	482,676	86,012		1	670,305
Disposals		-826		-86,012		-86,838
Net profit				113,169	290,181	403,350
Disposal of Dividends					-116,859	-116,859
<b>31 December 2007</b>	<b>812,927</b>	<b>600,427</b>	<b>86,012</b>	<b>148,544</b>	<b>445,759</b>	<b>2,093,669</b>
Own shares to other reserves			-86,012	86,012		0
Own shares to equity					-82,598	-82,598
Transfer of dividend from other liabilities					81,293	81,293
Transferred between reserves				-207,290	207,290	0
<b>New value 31 December 2007</b>	<b>812,927</b>	<b>600,427</b>	<b>0</b>	<b>27,266</b>	<b>651,744</b>	<b>2,092,364</b>
				<b>Number of shares</b>	<b>Nominal value DKK</b>	<b>Proportion of share capital</b>
Own Shares						
Holdings year end, 2007				166,558	16,655,800	2.0%
<b>Holdings year end, 2008</b>				<b>315,086</b>	<b>31,508,600</b>	<b>3.9%</b>

At year end 2008 the share capital was DKK 812.927.400, which is 8.129.274 shares with nominal value of DKK 100

Annual Accounts  
Notes

Eik Banki P/F				Group
2008	2007	DKK 1,000	2008	2007
		<b>Solvency</b>		
1,438,536	1,915,308	Core capital less statutory deductions	1,161,262	1,699,236
1,913,826	2,384,686	Capital base	1,636,677	2,147,046
		Weighted assets not included in trading portfolio including off balance-sheet items	14,419,776	14,384,379
9,757,609	9,804,639			
767,354	1,101,868	Weighted items with market risk	1,010,623	1,300,146
<b>10,524,962</b>	<b>10,906,506</b>	<b>Total risk weighted assets</b>	<b>15,430,398</b>	<b>15,684,525</b>
18.2%	21.9%	Solvency ratio purs. to FIL § 124, 2 no. 1	10.6%	13.7%
13.7%	17.6%	Core capital ratio	7.5%	10.8%
		<b>Capital demand</b>		
841,997	872,520	Capital demand according to FIL § 124, 2 no. 1	1,234,432	1,254,762
1,654,690	2,112,420	Core Capital before statutory deductions	1,654,690	2,112,420
0	0	Own shares	0	0
177,176	189,408	Intangible assets	387,278	405,479
38,979	7,705	Tax assets	106,151	7,705
<b>1,438,536</b>	<b>1,915,308</b>	<b>Core capital less statutory deductions</b>	<b>1,161,262</b>	<b>1,699,236</b>
		<b>Supplementary capital</b>		
448,024	448,392	Subordinated debt	448,024	448,392
27,266	27,266	Revaluation reserves	27,391	27,404
0	6,279	Deductions for holdings purs. to FIL § 139,1 no. 2	0	27,986
<b>1,913,826</b>	<b>2,384,686</b>	<b>Capital base</b>	<b>1,636,677</b>	<b>2,147,046</b>



## Annual Accounts Notes

### Note

#### Income Statement

- 1 Interest income
- 2 Interest expense
- 3 Fee and commission income
- 4 Market value adjustments
- 5 Staff costs and administrative expenses
- 6 Impairments of loans and claims
- 7 Taxes

#### Balance sheet

- 8 Claims on credit institutions and central banks
- 9 Loan and other claims
- 10 Bonds at market value
- 11 Shares
- 12 Holdings in associated undertakings
- 13 Holdings in subsidiary undertakings
- 14 Intangible assets
- 15 Domicile properties
- 16 Other tangible assets
- 17 Deferred tax assets and liabilities
- 18 Other assets
- 19 Debt to credit institutions and central banks
- 20 Deposits and other liabilities
- 21 Other liabilities
- 22 Subordinated debt

#### Other notes

- 23 Off-balance-sheet items
- 24 Contingent assets
- 25 Derivative financial tools
- 26 Credit risk on derivative financial instruments
- 27 Market risk
- 28 Related parties
- 29 Provisions for pensions
- 30 Shareholders holding more than 5 per cent in the Company
- 31 Business segment report
- 32 Shareholdings in Eik Banki of the Board of Directors and Managing Directors at year end

Annual Accounts  
Notes

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
		<b>1</b>	<b>Interest income</b>			
181,643	151,933		Credit institutions and central banks		162,678	88,060
614,127	412,879		Loans and other claims		1,138,774	776,887
53,210	40,856		Bonds		68,620	54,565
14,467	-6,744		Derivative financial instruments		10,993	-7,678
			Of this:			
14,467	-6,487		Currency contracts		15,132	-5,784
0	-257		Interest contracts		-4,139	-1,894
0	0		Other		346	33
<b>863,447</b>	<b>598,924</b>		<b>Total interest income</b>		<b>1,381,411</b>	<b>911,867</b>
		<b>2</b>	<b>Interest expense</b>			
332,859	196,204		Credit institutions and central banks		330,343	207,625
209,428	163,613		Deposits and other debt		510,668	307,174
0	0		Issued bonds		36	0
28,204	20,655		Subordinated debt		28,204	24,419
0	0		Other interest expenses		25	71
<b>570,491</b>	<b>380,472</b>		<b>Total interest expense</b>		<b>869,276</b>	<b>539,289</b>
		<b>3</b>	<b>Fee and commission income</b>			
24,490	5,248		Security trading and custody		44,261	21,115
36,137	25,029		Transfer of payments		44,414	28,938
8,041	13,700		Loan fees		10,952	17,015
18,603	42,112		Guarantee commission		21,082	16,996
67,891	14,600		Other fees and commissions		95,810	75,466
<b>155,162</b>	<b>100,689</b>		<b>Total fee and commission income</b>		<b>216,519</b>	<b>159,530</b>
		<b>4</b>	<b>Market value adjustments</b>			
0	0		Loans and other claims at fair value		2,181	0
-139,403	-5,533		Bonds		-140,055	-1,854
-85,746	180,245		Shares		-95,182	216,147
-23,233	-29,522		Currencies		-24,679	-31,165
-2,887	0		Derivative financial instruments		428	5,776
-3,741	0		Other assets		-3,753	0
<b>-255,010</b>	<b>145,190</b>		<b>Total market value adjustments</b>		<b>-261,060</b>	<b>188,904</b>

Annual Accounts  
Notes

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
		<b>5</b>	<b>Staff costs and administrative expenses</b>			
			<b>Salaries etc. of Board of Directors, Managing Directors and Board of Representatives</b>			
			<b>Mærner Jacobsen, Chief Managing Director</b>			
2,653	2,110		Fixed salary and pension	3,003	2,460	
0	1,792		Bonuses	0	1,792	
<b>2,653</b>	<b>3,902</b>		<b>Total</b>	<b>3,003</b>	<b>4,252</b>	
			<b>Bjarni Olsen, Managing Director</b>			
1,817	1,490		Fixed salary and pension	1,817	1,490	
0	597		Bonuses	0	597	
<b>1,817</b>	<b>2,087</b>		<b>Total</b>	<b>1,817</b>	<b>2,087</b>	
<b>4,470</b>	<b>5,989</b>		<b>Managing Directors total 1)</b>	<b>4,820</b>	<b>6,339</b>	
			<b>Board of Directors</b>			
384	260		Frithleif Olsen, Chairman	384	260	
259	182		Odd Arild Bjellvåg, Deputy chairman	259	182	
136	117		Finnbogi Niclasen	136	117	
136	117		Petur Hammer	136	117	
136	117		Marian Jacobsen	136	117	
136	117		Rólant Vidtfeldt	136	117	
136	117		Mathea E. Hilduberg	136	117	
136	117		Tórmund A. Joensen	136	117	
136	117		Gert Langaard	136	117	
136	117		Rakul Dam	136	117	
107	0		Fíal Selma Nielsen - from April 2008	107	0	
22	0		Inga Dahl - January - April 2008	22	0	
7	117		Bjartur Nolsøe - until January 2008	7	117	
<b>1,867</b>	<b>1,495</b>		<b>Board of Directors 2)</b>	<b>1,867</b>	<b>1,495</b>	
<b>165</b>	<b>41</b>		<b>Board of Representatives 2)</b>	<b>165</b>	<b>41</b>	
<b>6,502</b>	<b>7,525</b>		<b>Total</b>	<b>6,852</b>	<b>7,875</b>	
			<b>Staff costs</b>			
96,789	87,035		Wages and salaries	161,408	145,887	
8,434	7,935		Pensions	13,774	12,181	
8,832	7,332		Social security costs	13,988	11,783	
<b>114,055</b>	<b>102,302</b>		<b>Total</b>	<b>189,170</b>	<b>169,851</b>	
<b>96,436</b>	<b>99,315</b>		<b>Other administrative expenses</b>	<b>174,603</b>	<b>163,005</b>	
<b>216,993</b>	<b>209,142</b>		<b>Staff costs and administrative expenses total</b>	<b>370,625</b>	<b>340,731</b>	
233.6	204.1		Average number of employees, full-time equivalent	353.8	318.7	
232.4	239.1		Employee year end, full-time equivalent	330.4	327.5	
			<b>Audit fee</b>			
1,330	954		Total fee to the public accountants elected by the General Meeting	2,384	1,928	
680	354		There of other services	834	874	

- 1) Managing Directors' notice of termination is 12 months from Eik Banki, and 3 months from Managing Director. Managing Directors are entitled to 18 months remuneration after termination of employment.
- 2) Members of Board of Directors and Board of Representatives are not entitled to any benefits upon termination of employment.

Annual Accounts  
Notes

Eik Banki P/F					Group
2008	2007	Note	DKK 1,000	2008	2007
		<b>6 Impairment of loans and claims</b>			
		No depreciations regarding claims on credit institutions. Impairment are individual and group impairments of significant loans. Group impairments have not been made before 2008 purs. to Accounting Principles.			
		<b>Individual impairments</b>			
163,338		Impairments year begin		189,768	
228,354		Impairments and value adjustment, during the year		561,238	
24,096		Reversal of impairments from previous year		46,265	
1,764		Value adjustment fo acquired assets		5,092	
33,159		Write-offs, not previously impaired		86,874	
<b>336,201</b>	<b>163,338</b>	<b>Total individual impairments</b>		<b>622,959</b>	<b>189,768</b>
		<b>Impairment for groups of loans</b>			
0	0	Impairments year begin		9,768	0
18,117	0	Impairments and value adjustment, during the year		39,913	9,768
0	0	Reversal of impairments from previous year		3,140	0
<b>18,117</b>	<b>0</b>	<b>Total impairments for group of loans</b>		<b>46,541</b>	<b>9,768</b>
8,113	0	Write-offs, not previous impaired		31,310	536
268	0	Payment on previous write-offs		3,517	751
		<b>7 Taxes</b>			
0	39,292	Calculated tax charge on the annual result		-56,328	59,081
-36,686	869	Adjustment in deferred tax 1)		-42,313	9,068
-13	297	Adjustment in calculated tax previous years		-740	163
<b>-36,699</b>	<b>40,458</b>	<b>Total taxes</b>		<b>-99,381</b>	<b>68,312</b>
		1) Deferred taxes are at tax asset of DKK 29.9 million			
		<b>Effective tax rate</b>			
18.0%	18.0%	Company tax rate		18.0%	18.0%
-5.7%	-9.1%	Non-taxable income and non-deductable expenses		4.6%	-4.0%
0.0%	0.0%	Tax of revaluation (booked on equity)		0.0%	0.0%
-3.1%	0.2%	Other		-1.0%	0.5%
<b>9.2%</b>	<b>9.1%</b>	<b>Effective tax rate</b>		<b>21.6%</b>	<b>14.5%</b>
		<b>8 Claims on credit institutions and central banks</b>			
1,198,751	639,471	Claims at notice on central banks		1,548,641	1,203,974
974,111	2,480,442	Claims on credit institutions		602,982	1,706,617
<b>2,172,862</b>	<b>3,119,913</b>	<b>Total claims on credit institutions and central banks</b>		<b>2,151,623</b>	<b>2,910,591</b>
		<b>Claims on credit institutions and central banks</b>			
245,583	248,376	Claims at call		804,883	1,264,285
1,727,279	2,571,537	Up to 3 months		1,250,823	1,446,306
0	0	Over 3 months and up to one year		95,917	0
0	300,000	Over one year and up to 5 years		0	200,000
200,000	0	Over 5 years		0	0
<b>2,172,862</b>	<b>3,119,913</b>	<b>Total claims on credit institutions and central banks</b>		<b>2,151,623</b>	<b>2,910,591</b>
<b>678,529</b>	<b>1,822,069</b>	<b>There of from Eik Bank Danmark A/S</b>			

Annual Accounts  
Notes

Eik Banki P/F					Group
2008	2007	Note	DKK 1,000	2008	2007
		<b>9</b>	<b>Loans and other claims</b>		
112,790	0		Loans and other claims at fair value	218,986	0
8,127,328	7,886,597		Loans and other claims at amortised cost	15,468,908	15,570,318
<b>8,240,118</b>	<b>7,886,597</b>		<b>Total loans and other claims</b>	<b>15,687,894</b>	<b>15,570,318</b>
			<b>Loans and other claims</b>		
200,294	133,791		At call	200,294	198,620
679,901	314,605		Up to 3 months	2,249,796	1,635,062
681,876	653,306		Over 3 months and up to 1 year	1,669,665	2,223,431
3,189,505	2,792,883		Over 1 year and up to 5 years	3,891,920	3,669,573
3,488,542	3,992,012		Over 5 years	7,676,219	7,843,632
<b>8,240,118</b>	<b>7,886,597</b>		<b>Total loans and other claims</b>	<b>15,687,894</b>	<b>15,570,318</b>
			<b>As an objective indication of value impairment has occurred, Eik Banki has partially amortised parts of the Bank's loans</b>		
798,372	0		Loans and other claims before impairments	1,279,887	66,647
336,201	0		Impairments	622,959	26,430
<b>462,171</b>	<b>0</b>		<b>Total loans and other claims after impairments</b>	<b>656,928</b>	<b>40,217</b>
			<b>Impairments for groups of loans and other claims</b>		
7,796,063	0		Loans and other claims before impairments	15,559,321	7,523,976
18,117	0		Impairments	46,541	9,768
<b>7,777,946</b>	<b>0</b>		<b>Total loans and other claims after impairments</b>	<b>15,512,780</b>	<b>7,514,208</b>
			Accumulated provisions on loans, advances, and guarantees in per cent of loans, advances, and guarantees, at the end of the year	3.6%	1.4%
3.5%	2.2%		Non-accrual loans, advances, and guarantees	657,105	106,317
304,063	99,687		Non-accrual loans, advances, and guarantees in per cent of total loans and guarantees	3.6%	0.6%
3.0%	1.1%				
			<b>Loans , advances, and guarantees by sectors and industries, in per cent</b>		
<b>3</b>	<b>2</b>		<b>Total public sector</b>	<b>2</b>	<b>1</b>
			Commercial sector		
0	0		Agriculture, hunting and forestry	0	0
9	9		Fishing	5	5
10	7		Manufacturing, mining, utilities, etc.	5	4
5	4		Building and construction	6	6
5	6		Commerce, restaurants and hotels	4	4
4	4		Transport, post and telecommunicating	3	2
12	10		Credit, finance and insurance	9	8
10	12		Property administration, purchase and sale, business service	15	18
2	7		Other industries	4	7
<b>57</b>	<b>59</b>		<b>Total commercial sector</b>	<b>51</b>	<b>54</b>
<b>40</b>	<b>39</b>		<b>Total private sector</b>	<b>47</b>	<b>45</b>
<b>100</b>	<b>100</b>		<b>Total loans and advances</b>	<b>100</b>	<b>100</b>
		<b>10</b>	<b>Bonds at fair value</b>		
954	0		Government bonds	51,094	1,037
1,021,615	586,513		Mortgage bands	1,382,046	758,757
395,462	410,883		Other bonds	407,091	423,156
<b>1,418,031</b>	<b>997,396</b>		<b>Total bonds at fair value</b>	<b>1,840,231</b>	<b>1,182,950</b>
			As in connection with clearing and settlement etc. bonds have been deposited with the Danish Cental Bank for a total of:	184,357	77,097
		<b>11</b>	<b>Shares</b>		
90,214	207,584		Listed on Nasdaq OMX Nordic Exchange Copenhagen	102,745	232,473
7,710	200,826		Listed on other Stock Exchanges	9,769	209,497
120,316	17,572		Other shares	175,225	61,513
<b>218,240</b>	<b>425,982</b>		<b>Total shares</b>	<b>287,739</b>	<b>503,483</b>

Annual Accounts  
NotesDKK 1,000  
2008

## 12 Holdings in associated undertakings

Eik Banki P/F	Place	Activity	Holdings	Equity share	Result share
Elektron P/F	Tórshavn	IT provider	25%	4,865	640
Intrum Føroyar P/F	Tórshavn	Incasso	30%	2,219	-181
Nianet A/S	Glostrup	Supplies	20%	9,123	-8,400
Biotech Invest P/F	Æiði	Holding	40%	1,696	-104
P/F Týggjará	Tórshavn	Sea farming	0%	0	70
				<b>17,903</b>	<b>-7,975</b>

	2008	2007
Total acquisition value, beginning	284,815	275,717
Additions, acquisition price	158,982	17,925
Disposals, acquisition price	355,165	8,827
<b>Acquisition value, end</b>	<b>88,632</b>	<b>284,815</b>
Revaluation and write-downs, beginning	72,038	33,952
Additions	10,269	45,520
Disposals	132,583	7,434
<b>Revaluation and write-downs, end</b>	<b>-50,276</b>	<b>72,038</b>
<b>Book value, end</b>	<b>38,356</b>	<b>356,853</b>

Group	Place	Activity	Holdings	Equity share	Result share
Elektron P/F	Tórshavn	IT provider	25%	4,865	640
Intrum Føroyar P/F	Tórshavn	Incasso	30%	2,219	-181
Nianet A/S	Glostrup	Supplies	20%	9,123	-8,400
Biotech Invest P/F	Æiði	Holding	40%	1,696	-104
P/F Týggjará	Tórshavn	Sea farming	0%	0	70
				<b>17,903</b>	<b>-7,975</b>

	2008	2007
Total acquisition value, beginning	284,815	275,717
Additions, acquisition price	187,006	17,925
Disposals, acquisition price	355,165	8,827
<b>Acquisition value, end</b>	<b>116,656</b>	<b>284,815</b>
Revaluation and write-downs, beginning	72,038	33,952
Additions	10,269	45,520
Disposals	132,583	7,434
<b>Revaluation and write-downs, end</b>	<b>-50,276</b>	<b>72,038</b>
<b>Book value, end</b>	<b>66,380</b>	<b>356,853</b>

Annual Accounts  
NotesDKK 1,000  
2008

## 13 Holdings in subsidiary undertakings

Eik Banki P/F	Place	Activity	Holdings	Equity share	Result share
Eik Bank Danmark A/S		Bank	100%	826,580	-181,245
Inni P/F	Tórshavn	Broker	100%	5,600	1,650
12.06.2003 P/F	Tórshavn	None	100%	7,857	0
Property Bonds 1	Tórshavn	None	100%	500	0
Faroe Real Estate P/F	Kollafjørður	None	100%	0	0
				<b>840,537</b>	<b>-179,595</b>

	2008	2007
Total acquisition value, beginning	832,594	257,594
Additions, acquisition price	500	575,000
Disposals, acquisition price	0	0
<b>Acquisition value, end</b>	<b>833,094</b>	<b>832,594</b>
Revaluation and write-downs, beginning	188,237	105,657
Additions	0	83,175
Disposals	179,594	595
<b>Revaluation and write-downs, end</b>	<b>8,643</b>	<b>188,237</b>
<b>Book value, end</b>	<b>841,737</b>	<b>1,020,831</b>

Group	Place	Activity	Holdings	Equity share	Result share
12.06.2003 P/F	Tórshavn	None	100%	7,857	0
Property Bonds 1	Tórshavn	None	100%	500	0
Faroe Real Estate P/F	Kollafjørður	None	100%	0	0
Finansnyt II Komplementar ApS	København	Holding	100%	125	1
				<b>8,482</b>	<b>1</b>

	2008	2007
Total acquisition value, beginning	500	500
Additions, acquisition price	500	0
Disposals, acquisition price	0	0
<b>Acquisition value, end</b>	<b>1,000</b>	<b>500</b>
Revaluation and write-downs, beginning	5,986	7,952
Additions	1,536	0
Disposals	0	1,966
<b>Revaluation and write-downs, end</b>	<b>7,522</b>	<b>5,986</b>
<b>Book value, end</b>	<b>8,522</b>	<b>6,486</b>



# Annual Accounts Notes

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
<b>14 Intangible assets</b>						
<b>Goodwill</b>						
191,388	31,388		Acquisition value, beginning		407,337	31,388
0	160,000		Additions		1,263	473,472
0	0		Disposals		6,256	97,500
<b>191,388</b>	<b>191,388</b>		<b>Acquisition value, end</b>		<b>402,344</b>	<b>407,360</b>
6,278	6,278		Depreciation and write-downs, beginning		6,281	6,278
8,000	0		Additions		8,000	3
0	0		Disposals		0	0
<b>14,278</b>	<b>6,278</b>		<b>Depreciation and write-downs, end</b>		<b>14,281</b>	<b>6,281</b>
<b>177,110</b>	<b>185,110</b>		<b>Booked value goodwill, end</b>		<b>388,063</b>	<b>401,079</b>
<b>Other intangible assets</b>						
10,965	9,111		Acquisition value, beginning		14,328	12,474
4,130	1,854		Additions		4,743	1,854
110	0		Disposals		110	0
<b>14,985</b>	<b>10,965</b>		<b>Acquisition value, end</b>		<b>18,961</b>	<b>14,328</b>
6,667	4,474		Depreciation and write-downs, beginning		9,928	7,599
1,974	2,193		Disposals, acquisition price		2,278	2,329
0	0		Acquisition value, end		0	0
<b>8,641</b>	<b>6,667</b>		<b>Depreciation and write-downs, end</b>		<b>12,206</b>	<b>9,928</b>
<b>6,344</b>	<b>4,298</b>		<b>Booked value other intangible assets, end</b>		<b>6,755</b>	<b>4,400</b>
<b>183,454</b>	<b>189,408</b>		<b>Booked value intangible assets, end</b>		<b>394,818</b>	<b>405,479</b>
<b>15 Domicile properties</b>						
146,413	146,831		Reassessed value, beginning		147,089	148,570
11,316	8,694		Additions including improvements		11,316	8,695
11,825	5,311		Disposals for the year		11,825	6,513
4,614	3,801		Depreciation		4,614	3,801
0	0		Value adjustments calculated in the Income Statement		-150	0
0	0		Other adjustments		0	138
<b>141,290</b>	<b>146,413</b>		<b>Domicile properties, end</b>		<b>141,816</b>	<b>147,089</b>
<b>16 Other tangible assets</b>						
77,446	65,764		Acquisition value, beginning		83,801	70,402
2,042	11,682		Additions		5,363	14,460
4,381	0		Disposals		6,983	1,061
<b>75,107</b>	<b>77,446</b>		<b>Acquisition value, end</b>		<b>82,181</b>	<b>83,801</b>
58,043	53,747		Depreciation and write-downs, beginning		61,266	55,433
3,877	4,296		Depreciation		7,796	5,944
13	0		Reversal of depreciation and write-downs		-2,433	-111
<b>61,933</b>	<b>58,043</b>		<b>Depreciation and write-downs, end</b>		<b>66,629</b>	<b>61,266</b>
<b>13,174</b>	<b>19,403</b>		<b>Booked value, end</b>		<b>15,552</b>	<b>22,535</b>
<b>17 Deferred tax assets and liabilities</b>						
2,797	3,666		Deferred tax, beginning		-4,726	3,344
-6,300	0		Change of accounting principles		-6,300	0
0	0		Currency adjustments		0	10
-3,270	0		Changes in deferred taxes previous years		-3,270	0
36,686	-869		Changes in deferred taxes		98,231	-8,080
<b>29,913</b>	<b>2,797</b>		<b>Total deferred tax assets and liabilities</b>		<b>83,935</b>	<b>-4,726</b>

Annual Accounts  
NotesDKK  
Note

	2008	2008	2008	2007
	Assets	Liabilities	Net	Net
<b>17 Eik Banki P/F</b>				
Intangible assets	0	5,152	-5,152	-664
Tangible assets	250	2,430	-2,180	3,046
Loans	0	6,300	-6,300	0
Employee liabilities	259	0	259	415
Other	0	0	0	0
Tax loss	43,286	0	43,285	0
	<b>43,795</b>	<b>13,882</b>	<b>29,913</b>	<b>2,797</b>
<b>Group</b>				
Intangible assets	0	17,950	-17,950	-7,046
Tangible assets	250	3,385	-3,135	3,508
Loans	0	7,605	-7,605	-1,601
Employee liabilities	259	0	259	415
Other	0	-1,908	1,908	-2
Tax loss	110,458	0	110,458	0
	<b>110,967</b>	<b>27,032</b>	<b>83,935</b>	<b>-4,726</b>

2008	2007	Note	DKK 1,000	2008	2007
		<b>18 Other assets</b>			
90,467	7,865	Positive market value of derivative financial instruments etc.		149,572	32,484
45,950	52,963	Accrued interest		83,765	59,842
118,569	61,311	Other		142,945	137,101
<b>254,986</b>	<b>122,139</b>	<b>Total other assets</b>		<b>376,282</b>	<b>229,427</b>
		<b>19 Debt to credit institutions and central banks</b>			
0	0	Debt to central banks		0	0
4,985,846	5,595,298	Debt to credit institutions		5,081,483	5,411,535
<b>4,985,846</b>	<b>5,595,298</b>	<b>Total debt to credit institutions and central banks</b>		<b>5,081,483</b>	<b>5,411,535</b>
		<b>Debt to credit institutions and central banks</b>			
220,206	253,155	Debt payable on demand		793,991	386,560
605,190	1,783,447	Up to 3 months		127,043	1,263,668
1,721,047	683,888	Over 3 months and up to 1 year		1,721,047	886,499
2,439,403	2,874,808	Over 1 year and up to 5 years		2,439,402	2,874,808
0	0	Over 5 years		0	0
<b>4,985,846</b>	<b>5,595,298</b>	<b>Total debt to credit institutions and central banks</b>		<b>5,081,483</b>	<b>5,411,535</b>
<b>169,885</b>	<b>0</b>	<b>There of to Eik Bank Danmark A/S</b>			

Annual Accounts  
Notes

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
		<b>20</b>	<b>Deposits and other debt</b>			
2,228,961	2,821,308		Deposits on demand		6,633,210	8,329,998
2,096,979	1,985,452		Deposits at notice		2,880,246	2,405,854
1,523,997	970,799		Time deposits		2,892,599	1,040,138
466,252	367,280		Special categories of deposits		1,729,375	1,487,271
<b>6,316,189</b>	<b>6,144,839</b>		<b>Total deposits and other debt</b>		<b>14,135,430</b>	<b>13,263,261</b>
			<b>Deposits and other debt</b>			
2,228,961	2,821,308		On demand		6,867,943	8,329,998
2,696,952	2,050,716		Up to 3 months		3,193,119	2,621,625
990,173	943,138		Over 3 months and up to 1 year		1,675,455	1,152,317
159,782	119,433		Over one year and up to 5 years		1,442,990	357,757
240,321	210,244		Over 5 years		955,923	801,564
<b>6,316,189</b>	<b>6,144,839</b>		<b>Total deposits and other debt</b>		<b>14,135,430</b>	<b>13,263,261</b>
		<b>21</b>	<b>Other liabilities</b>			
93,629	6,424		Negative marketvalue of derivative financial instruments etc.		134,099	33,629
40,914	30,453		Payable interest and provisions		58,279	41,293
115,147	141,806		Other liabilities		178,861	277,025
<b>249,690</b>	<b>178,683</b>		<b>Total other liabilities</b>		<b>371,239</b>	<b>351,947</b>
		<b>22</b>	<b>Subordinated debt</b>			
156,240	150,000		Bond issue in DKK, 5.385 percent fixed 1)		156,240	150,000
298,024	298,392		Loan, Euribor 3 months + 1.18 per cent 2)		298,024	298,392
<b>454,264</b>	<b>448,392</b>		<b>Total subordinated debt</b>		<b>454,264</b>	<b>448,392</b>
			1) Due 30 Juni 2014			
			2) Due 28 March 2015			
28,204	20,655		Interest expense		28,204	24,419
448,024	448,392		Subordinated debt, included in capital base		448,024	448,392
		<b>23</b>	<b>Off-balance sheet items</b>			
			<b>Guarantees and other liabilities</b>			
602,376	576,939		Financial guaranties		643,024	736,994
448,620	62,259		Loss guarantees for mortgage loans		448,620	62,259
511,156	172,411		Other liabilities		798,852	292,174
<b>1,562,152</b>	<b>811,609</b>		<b>Total guarantees and other liabilities</b>		<b>1,890,496</b>	<b>1,091,427</b>
			<b>Other commitments</b>			
56,542	103,482		Irrevocable credit commitments		56,542	110,615
105,374	0		Other commitments		113,381	0
<b>161,916</b>	<b>103,482</b>		<b>Total other commitments</b>		<b>169,923</b>	<b>110,615</b>
			<b>Subsidiary liabilities</b>			
92,500	92,500		Eik Bank Danmark A/S		0	0
<b>92,500</b>	<b>92,500</b>		<b>Total subsidiary liabilities</b>		<b>0</b>	<b>0</b>
<b>1,816,568</b>	<b>1,007,591</b>		<b>Total off-balance items</b>		<b>2,060,419</b>	<b>1,202,042</b>

**24 Contingent assets**

Eik Banki / Group has no contingent assets

Annual Accounts  
NotesDKK  
2008

## 25 Derivative financial instrument

	Nominal value	2008 Net market value	Nominal value	2007 Net market value
<b>Eik Banki P/F</b>				
Currency, interest and share contracts				
<b>Up to 3 months</b>				
Forwards and futures, bought	959,412	-13,696	42,607	-1,196
Forwards and futures, sold	175,802	20,166	148,765	735
<b>Over 3 months and up to 1 year</b>				
Forwards and futures, bought	284,485	-52,410	289,333	6,389
Forwards and futures, sold	284,485	55,046	289,333	-4,571
<b>Over 1 year and up to 5 year</b>				
Forwards and futures, bought	0	0	56,106	256
Forwards and futures, sold	0	0	56,106	-172
Swaps	0	0	150,000	1,207
<b>Total</b>				
Forwards and futures, bought	1,243,897	-66,106	388,046	5,449
Forwards and futures, sold	460,287	75,212	494,204	-4,008
Swaps	0	0	150,000	1,207
<b>Net market value</b>		<b>9,106</b>		<b>2,648</b>
	<b>Positive</b>	<b>Negative</b>	<b>Positive</b>	<b>Negative</b>
Forwards and futures, bought	1,813	67,920	6,654	1,206
Forwards and futures, sold	75,687	474	1,210	5,219
Swaps			157,070	155,863
<b>Net market value 1)</b>	<b>77,500</b>	<b>68,394</b>	<b>164,934</b>	<b>162,288</b>
1) There of market value of non-guaranteed contracts	77,500	68,394	164,934	162,288
<b>Market value, average</b>	<b>Positive</b>	<b>Negative</b>	<b>Positive</b>	<b>Negative</b>
Forwards and futures, bought	4,234	34,563	3,327	1,835
Forwards and futures, sold	38,449	2,847	2,780	2,609
Swaps	78,535	77,931	78,535	77,932
<b>Net market value</b>	<b>121,218</b>	<b>115,341</b>	<b>84,642</b>	<b>82,376</b>

Annual Accounts  
NotesDKK  
2008

## 25 Derivative financial instrument

	Nominal value	2008 Net Market value	Nominal value	2007 Net Market value
<b>Group</b>				
Currency, interest and share contracts				
<b>Up to 3 months</b>				
Forwards and futures, bought	1,339,542	-18,607	231,277	-1,417
Forwards and futures, sold	1,851,431	49,974	339,957	-85
<b>Over 3 months and up to 1 year</b>				
Forwards and futures, bought	284,485	-52,410	289,333	6,389
Forwards and futures, sold	284,484	55,046	289,333	-4,571
<b>Over 1 year and up to 5 year</b>				
Forwards and futures, bought	0	0	56,106	256
Forwards and futures, sold	0	0	56,106	-172
Swaps	0	0	150,000	1,207
<b>Over 5 years</b>				
Options	0	0	850,000	21,913
<b>Total</b>				
Forwards and futures, bought	1,624,027	-71,017	576,716	5,228
Forwards and futures, sold	2,135,915	105,020	685,396	-4,828
Swaps	0	0	150,000	1,207
Options	0	0	850,000	21,913
<b>Net market value</b>		<b>34,003</b>		<b>23,520</b>
	<b>Positive</b>	<b>Negative</b>	<b>Positive</b>	<b>Negative</b>
Forwards and futures, bought	6,426	77,444	7,745	2,076
Forwards and futures, sold	114,216	9,195	2,825	6,015
Swaps	0	0	157,070	155,863
Options	0	0	21,913	25,228
<b>Net market value 1)</b>	<b>120,642</b>	<b>86,639</b>	<b>189,553</b>	<b>189,182</b>
1) There of market value of non-guaranteed contracts	77,500	68,394	167,641	163,954
<b>Market value, average</b>	<b>Positive</b>	<b>Negative</b>	<b>Positive</b>	<b>Negative</b>
Forwards and futures, bought	7,086	39,760	3,149	2,343
Forwards and futures, sold	58,520	7,605	3,333	3,472
Swaps	78,535	77,932	78,535	77,932
Options	10,957	12,613	10,956	12,614
<b>Net market value</b>	<b>155,098</b>	<b>137,910</b>	<b>95,973</b>	<b>96,361</b>

Annual Accounts  
Notes

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
<b>26 Credit risk on derivative financial instruments</b>						
0	0		Positive market value, counterpart risk weight 0 per cent		0	0
5,513	2,768		Positive market value, counterpart risk weight 20 per cent		5,542	2,974
32,060	3,668		Positive market value, counterpart risk weight 100 per cent		38,806	6,371
<b>37,573</b>	<b>6,436</b>		<b>Total credit risk on derivative financial instruments</b>		<b>44,348</b>	<b>9,345</b>
<b>27 Market risk</b>						
<b>Currency risk</b>						
77,219	234,985		Total assets in foreign currency		103,384	282,285
21,610	7,381		Total liabilities in foreign currency		18,190	7,446
77,219	234,985		Exchange rate indicator 1		103,384	282,285
5.4	14.2		Exchange rate indicator 1 as percentage of core capital less statutory deductions		8.9	19.6
<b>Interest rate risk</b>						
19,367	32,978		Total interest rate risk on debt instruments, etc.		30,642	65,884
<b>Interest rate risk by currency</b>						
18,532	31,120		DKK		25,143	60,111
1,043	2,144		EUR		5,268	6,274
-163	-112		USD		24	-114
138	101		SEK		186	-150
-97	0		JPY		-97	0
-55	0		CHF		164	0
-31	-275		Other		-46	-237
<b>28 Related parties</b>						
Related parties comprises associated firms in the Group. All transaction between related parties are made at market conditions and distributed to these accounts						
67,045	97,495		Interest income		0	4,447
11,901	3,897		Interest expense		390	316
0	2,803		Fee and commission income		0	0
678,529	1,818,322		Claims on credit institutions and central banks		0	0
0	75,722		Loan and other claims		0	56,189
169,885	651,323		Debt to credit institutions and central banks		0	0
14,398	30,020		Deposits and other debts		8,717	13,139
<b>Loan to management</b>						
6,547	8,377		Board of Directors		6,547	8,377
8,600	7,604		Managing Directors		8,600	7,604
<b>15,147</b>	<b>15,981</b>		<b>Total loan</b>		<b>15,147</b>	<b>15,981</b>
<b>Security</b>						
4,720	8,377		Board of Directors		4,720	8,377
8,035	7,604		Managing Directors		8,035	7,604
<b>12,755</b>	<b>15,981</b>		<b>Total security</b>		<b>12,755</b>	<b>15,981</b>

Annual Accounts  
Notes

Eik Banki P/F						Group
2008	2007	Note	DKK 1,000		2008	2007
		<b>29</b>	<b>Provisions for pensions</b>			
1,437	2,300		Prior members of Management and Board of Directors		1,590	2,300
<b>1,437</b>	<b>2,300</b>		<b>Total provisions for pensions</b>		<b>1,590</b>	<b>2,300</b>
		<b>30</b>	<b>Shareholders holding more than 5 per cent according to § 28a in the Company Act</b>			
52%	52%		The Eik Fund (Eik Grunnurin)		52%	52%
		<b>31</b>	<b>Business segment reporting 1)</b>			
219,871	162,836		Retail Banking		342,936	225,675
279,176	183,594		Corporate Banking		370,636	275,269
55,957	5,248		Capital Markets, investment banking and asset management		70,464	45,565
-343,674	177,902		Treasury		-301,972	235,391
<b>211,330</b>	<b>529,580</b>		<b>Total business segment reporting</b>		<b>482,064</b>	<b>781,900</b>

1) Net interest and fee income and market value adjustment distributed on business segments.

## Note

## 32 Shareholdings in Eik Banki of the Board of Directors and Managing Directors at year end

	Number of shares		
	Own shares	Related parties	Total shares
<b>Board of Directors</b>			
Frithleif Olsen, Chairman	3,941	22,303	26,244
Odd Arild Bjellvåg, Deputy chairman	1,443	57	1,500
Finnbogi Niclasen	1,092	68	1,160
Petur Hammer	70	70	140
Marian Jacobsen (until 20 March 2009)	300	0	300
Jákup Egil Jensen (from 20 March 2009)	130	0	130
Rólant Vidtfeldt	1,132	314	1,446
Mathea E. Hilduberg	55	11	66
Tórmund A. Joensen	406	1,092	1,498
Gert Langgaard	1,243	182	1,425
Rakul Dam	260	160	420
Fía Selma Nielsen	212	0	212
<b>Total</b>	<b>10,284</b>	<b>24,257</b>	<b>34,541</b>
<b>Managing Directors</b>			
Mårner Jacobsen, Chief Managing Director	17,786	424	18,210
Bjarni Olsen, Managing Director	3,226	956	4,182
<b>Total</b>	<b>21,012</b>	<b>1,380</b>	<b>22,392</b>

Total nominal value DKK

5,693,300

In per cent of total sharecapital

0.7%



---

## Auditor's Report

---

---

---

## Internal Auditor's Report

We have audited the consolidated Annual Report of Eik Banki P/F for the financial year 1 January – 31 December 2008 presented by the Board of Directors and Management. This Annual Report replaces the previously presented and audited Annual Report for the same year presented by the management on the 27 February 2009. The Financial Statements have been prepared in accordance with the Faroese Banking Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on presentation of financial statements by banks as applied in the Faroe Islands and in accordance with Nasdaq OMX Nordic Exchange's disclosure requirements for annual reports of listed financial institutions.

### Basis of Opinion

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. and in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement, whether due to fraud or error.

The audit has been performed in accordance with the division of duties agreed with the external auditors and has included an assessment of procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Annual Report, including evidence supporting amounts and disclosures in the Annual Report. Furthermore, the audit has included evaluating the appropriateness of the accounting

policies applied by the Management and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the Annual Report.

We have participated in the audit of risk and other material areas and believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

### Opinion

In our opinion, the procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Annual Report gives a true and fair view of the Bank's financial position at 31 December 2008 and of its financial performance and its cash flows for the financial year 1 January – 31 December 2008 in accordance with the Faroese Banking Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on presentation of financial statements by banks as applied in the Faroe Islands and in accordance with Nasdaq OMX Nordic Exchange's disclosure requirements for annual reports of listed financial institutions.

### Emphasis of matter

This Annual Report is a restatement of the previous Annual Report for 2008 which was presented 27 February 2009 and which is no longer valid. The Management has on page 8-10 explained the reason for the restatement of the previous Annual Report and which position the management has to that.

**Eik Banki P/F**

Tórshavn 23 November 2009

Sigmund Frederiksen, Chief Internal Auditor

## Independent Audit

### Independent Auditor's Report

#### To the Shareholders of Eik Banki P/F

We have audited the consolidated Annual Report of Eik Banki P/F for the financial year 1 January – 31 December 2008, which comprises the Statement of the Board of Directors and Board of Executives on the Annual Report, Management's Review, Management's statement, a summary of significant accounting policies, the income statement, balance sheet, statement on equity, cash flow statement for the year then ended and notes for the Group as well as for the parent company. This Annual Report replaces the previously presented and audited Annual Report for the same year presented by the management on the 27 February 2009. The consolidated financial statements have been prepared in accordance with the Financial Business Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on presentation of financial statements by financial institutions as applied in the Faroe Islands. Furthermore, the Annual Report has been prepared in accordance with additional Icelandic and Danish disclosure requirements for annual reports of listed financial institutions.

#### The Board of Directors and Board of Executives' Responsibility for the Annual Report

The Board of Directors and Board of Executives are responsible for the preparation and fair presentation of this Annual Report in accordance with the Financial Business Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on presentation of financial statements by financial institutions as applied in the Faroe Islands as well as additional Icelandic and Danish disclosure requirements for annual reports of listed financial institutions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair

presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility and Basis of Opinion

Our responsibility is to express an opinion on this Annual Report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Annual Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the quality of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and Board of Executives, as well as evaluating the overall presentation of the Annual Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

## Independent Audit

---

### Opinion

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's financial position at 31 December 2008 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2008 in accordance with the Financial Business Act and in accordance with additional Danish disclosure requirements for Annual Reports of financial institutions as applied in the Faroe Islands and with additional Icelandic and Danish disclosure requirements for annual reports of listed financial institutions.

### Emphasis of matter

This Annual Report is a restatement of the previous Annual Report for 2008 which was presented 27 February 2009 and which is no longer valid. The Management has on page 8-10 explained the reason for the restatement of the previous Annual Report and which position the management has to that.

Tórshavn 23 November 2009

### P/F NOTA

State Authorised Auditing Firm

### Hans Laksá

State Authorised Public Accountant

---

---

## Accounting Principles

---

---

---

## Accounting Principles

## Official Information

**New Accounting Principles**

Eik Banki P/F has for the accounting year 2008 decided to make the annual accounts according to the new accounting principles as notified on 29 May 2008. This implies that the method to balance the accounts and to evaluate certain account items has changed compared to previous years.

In this connection, the impact of the changed accounting principles as of 1 January 2007 is calculated and booked to equity as of 1 January 2007. The collective impact of all the adjustments is an appreciation of equity of DKK 19.8 million which can be illustrated as shown in the following table.

The new accounting principles also affect equity as of 31 December 2007 and 1 January 2008. These effects are illustrated as shown in the following table.

The major changes in the applied accounting principles are mentioned below. Accordingly, the individual sections are adjusted to the new accounting principles.

The value of own shares is no longer to be included in the balance. This implies that equity at 31 December 2007 is decreased by DKK 82.6 million. According to the new accounting principles the buying, selling and dividend of own shares are subtracted directly from equity.

In the future, the yearly dividend of the annual result will not be subtracted from equity before this has been agreed upon by the Annual General Meeting. Consequently, dividend set aside for 2006 DKK 35.6 million and for 2007 DKK 81.3 million have been added to equity as of 01 January 2007 and as of 31 December 2007, respectively.

**DKK 1,000**

Amortisation of establishing provision	-42,976
Appreciation of administration buildings	27,266
Tax from appreciation of administration buildings	-4,908
Dividend transferred from liability to equity	35,566
<b>Change in equity 01 January 2007</b>	<b>14,948</b>

Equity booked directly on to equity	-82,598
Dividend transferred from liability to equity	81,293
<b>Change in equity 31 December 2007</b>	<b>-1,305</b>

Change in method of impairment for loans and guarantees	50,486
Bonus etc. set aside for employees	-85
Fair Value adjustments on deposits	748
Fair Value adjustments on loans	35,000
Tax from fair value adjustments on loans	-6,300
<b>Change in equity 01 January 2008</b>	<b>79,849</b>

For loans and other assets the new accounting principles stipulate that front end fees etc. Which form part of the effective interest on loans shall be limited to the repayment period of the loans. The account figure "Loans" is now evaluated to the amortised cost price in which the front end fee is included. The effect of this is that equity as of 1 January 2007 is decreased by DKK 43 million.

Concerning loans, the new regulations demand that to set aside provisions for losses, an objective indication shall be established of the customer. According to the new regulations this is called impairments for loans. The difference between the former method of provision for losses and impairments according to the new rules is DKK 50.5 million, which are added to equity as of 1 January 2008. In 2007 provisions are stated unchanged.

## Accounting Principles

Provision for guarantees shall be set aside under the item "Set aside for expenses".

Provisions for bonuses etc. for employees are now to be set aside in the accounts. This was not done according to the old rules. The effect of this is a decrease of equity as of 1 January 2008 of DKK 85,000.

Land property and building will in the future be divided into "Investment buildings" and "Administration buildings". Currently, the Bank has no investment buildings. Administration buildings are to be evaluated to re-estimated value, which is the value of the date the estimation was made based on a return-on-investment (ROI) model subtracting the realised provisions.

The comparative figures for 2007 are adjusted to the new accounting principles with the exception of loans at fair value and securities for which the Bank decided to apply the new accounting principles as of 1 January 2008. Similarly, the comparative figures for the year prior to 2007 are not adjusted. Both exceptions are mandated in § 154.5 in the new accounting principles.

With the exception of the above mentioned the applied accounting principles are unchanged.

### Recognition and Measurement – General

Assets are recognised in the balance sheet, if in all probability future economic benefit will flow to the Bank, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet, if the Bank has a legal or constructive obligation, and if in all probability future economic benefits will flow out of the Bank, and the value of such liabilities can be measured reliably. Buying and selling financial instruments are recognised at the settlement date.

On initial recognition, assets and liabilities are

measured at their fair value. However, property, plant and equipment are measured at cost on initial recognition. Measurement after initial recognition is made as described below for each accounting item.

In the income statement, income is recognised as earned and includes value adjustment of financial assets, financial liabilities and derivatives. Costs are recognised in the income statement if defrayed to generate the year's earnings

### Consolidated Accounts

The consolidated accounts comprise Eik Banki P/F and the subsidiaries P/F Inni and Eik Bank Danmark A/S, which are 100 percent owned by Eik Banki P/F.

The consolidated accounts are made by adding account items with similar content and by subtracting internal income and expenses together with internal outstanding accounts.

### Cronological Distribution

Interest income and expenses and current provisions and all other significant income and expenses are distributed cronologically to the account period. Fees are entered on a continuous basis.

Front end fees etc. are similar to interest and thereby seen as an integrated part of the effective loan interest are distributed cronologically so that they follow the course of the repayment period of the individual loans.

Share dividend is entered as income, when the Annual General Meeting has approved the accounts. Interest of loans estimated as losses are not booked as income.

### Internal Transaction in Eik Banki Group

Internal transactions for affiliated and associated

## Accounting Principles

firms are mainly made according to market conditions.

### Conversion of Foreign Exchange

Asset and liabilities in foreign exchange are booked at official foreign exchange rates at the end of the period, corresponding to official exchange rates of the Danish Central Bank.

Income and expenses in foreign exchange are converted according to valid foreign exchange rate for the date of entry.

### Loans, Guarantees and Outstanding Balances with Other Financial Institutions

Loans and outstanding balances are valued to the outstanding amortisation cost price. Front end fees etc. are similar to interest and thereby seen as an integrated part of the effective interest of the loan, are distributed cronologically so they follow the course of the repayment period of the individual loan.

Loans and other assets, "held by the Bank with the objective to trade" is valued to current market rate.

Loans with fixed interest, where the interest risk is covered through financial instruments are not value adjusted.

### Individual Write-downs

If the Bank establishes an "objective indication" on negative value adjustment on loans, the write-down for potential losses for the Bank is realised.

Changes in realised write-downs are adjusted in the operations under the item "write-downs of loans and other assets".

The below mentioned incidents give an objective indication as to negative value adjustment:

- Debtor has encountered serious financial trouble
- High probability of bankruptcy of debtor or in some other way financial reorganisation
- Breach of contract on the side of debtor, e.g. trespassing due loan payments and interests
- The Bank has eased loan conditions for debtor, which had not taken place had debtor not been in financial difficulties

Significant loans, defined as loan of considerable size are valued individually. These loan are written-down, if it is estimated that incidents occur which will have an impact on future payments of the loan.

Impairments are calculated as the difference between booked value of the loan and present value of calculated future payment. Included in the calculated future payments are also income from potential sale. The discount is calculated with the effective interest of the loan.

Loans, where objective indication for negative value adjustment is not established or individual impairments have not been made are treated under collective impairments below.

### Collective Impairments

For loans and other assets which are not impaired on an individual basis, collective evaluations are made, if there is established an objective indication of negative value adjustment for the collective category.

The collective estimation is made for the collective loans and other assets which have similar sign as regards credit risk. The work is divided into four groups, one for public institutions, one for retail customers and two for corporate business groups, which are divided into fishing industry and other industries.

The collective evaluation is made by a Faroese edition



## Accounting Principles

of a segmentation model made by the association of "Lokale Pengeinstitutter". Lokale Pengeinstitutter is also responsible for a continued update and development of the model. The segmentation model establishes the relation in the individual groups between realised losses and some significant explanatory macroeconomic variables through a linear regression analysis. Among the explanatory macroeconomic variables are interest, usage of industry energi, collected wages in the fishing industry, fuel prices and so on.

The macroeconomic segmentation model principally calculated based on the information on losses in all the Faroese financial institutions. The Bank has therefore estimated to which extent the estimations of the model reflect the credit risk for the collective loan portfolio of the Bank.

The estimations of the model are fundamental for the calculation of the collective impairments. For each loan-group and other outstanding accounts an estimation is calculated, which gives the per cental decrease in value related to a given group of loans and other outstanding accounts on the ultimo date.

How large an addition each individual loan brings to the collective impairments can be seen if the original risk of loss for the individual loan is compared to the actual risk of loss and risk of loss of the loan by year-begin.

The impairment is calculated as the difference between the booked value and the discounted value on expected future payments.

### Securities

Listed securities are booked at market value based on official closing rate by the end of the period.

Non-listed securities are likewise booked at

market value based on transaction price of trade between non-liable parties. Where such transaction is not present they will be booked to the value of procurement.

Value adjustments of listed and non-listed securities are booked in the profit and loss account under the item "Value adjustment".

### Capital Holdings in Affiliated and Associated Firms

Capital holdings in affiliated and associated firms are booked at intrinsic value.

### Land Property and Real Estate

Land property and buildings will in the future be divided into "Investment buildings" and "Administration buildings". Buildings used by the Bank for own purposes are called administration buildings, while other buildings are called investment buildings. Land property and buildings will in the future be divided into "Investment buildings" and "Administration buildings". Currently, the Bank has no Investment Buildings.

The Administration Buildings are to be evaluated to re-estimated value, which is the value of the date the estimation was made based on a ROI model subtracting the realised provisions. Provisions are linear over 50 years and based on an estimated scrap value. Provisions are not made for land property.

Provisions and write-downs are included in "Provisions and write-downs for intangible and tangible assets" in the profit and loss account. Revalorizations are included directly under the Revalorization Fund in equity if the building has not previously been written-down over the profit and loss account.

### Other Tangible Asset

Other tangible asset comprises furniture and

## Accounting Principles

operational equipment. These are booked at procurement value subtracting provisions and write-downs. Provisions are made linear over 5-8 years.

### Other Intangible Asset

Software is booked at procurement value subtracting provisions. Provisions are made linear over 5 years.

No provisions are made on "Goodwill". However, impairment tests are made to control if the value is valid or should be written-down.

### Financial Instruments

Forward exchange transactions are booked at ultimo market value.

Interest swaps used to cover loans with fixed interest are not value adjusted. Interests from swaps are distributed cronologically and booked under interest income.

### Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship.

These hedging relationships are discussed below:

### Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk. The changes in the fair value of the hedging instrument are recognised in the same income statement line item as the hedged item.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

### Other non-trading derivatives

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a Market Value Adjustment.

### Taxes

Calculated tax of annual result is booked in the accounts and comprises regular tax and postponed tax. Postponed tax, deriving from the time span between when the annual account is published and the financial tax account, is booked as an overhead and provisioned under "Provisions for Pending Taxes". Out standing taxes, potentially to be used in the future is entered under "Postponed Outstanding Taxes".