

# Annual Report 2008

FÓROYABANKI

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» Føroya Banki's vision is to be the leading bank on the Faroe Islands and internationally to provide our customers with selected financial services «

## Vision

Føroya Banki's vision is to be the leading bank on the Faroe Islands and internationally to provide our customers with selected financial services.

## Mission

Føroya Banki's mission is to make it financially possible for customers to achieve their full potential.

## Strategy

Føroya Banki's overall financial objective is to generate a competitive return to the shareholders. Shareholder value is created through share price appreciation and dividend payments based on a healthy growth in profit. The Bank seeks to fulfil its ambition by continually developing its core business, streamlining operating processes and optimising capital and risk management.

### Strategic objectives

- Exploiting the growth potential of the domestic market
- Optimising fee and commission income
- Optimising business processes
- Continuous training and education of employees
- Geographical expansion
- Optimising capital structure

## Values

Føroya Banki's values are the foundation in all the work done and in the Bank's relationship with society, customers and employees. The Bank wants to be characterised as Competent, Committed, and Proactive in everything the Bank does.



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## 2008 in brief

- Pre-tax profit of DKK 200m – a pre-tax ROE of 14%
- Pre-tax profit before value adjustment and non-recurring items of DKK 168m – in line with guidance
- Net interest and fee income was DKK 404m – 19% up from DKK 339m in 2007, mainly due to a higher average lending volume and interest margins
- Cost/income ratio 54% compared to 51% in 2007
- Net provisions DKK 49m compared to a net positive entry of DKK 25m in 2007
- Loss on securities portfolio of DKK 76m compared to a gain of DKK 24m in 2007
- Non-recurring items of DKK 98m concerning the divestment of P/F Vestlax and DKK 24m from reversals of write-downs on tangible assets, and expenses of DKK 11m from the State guarantee
- Solvency ratio 21% and a strong liquidity 188% above statutory requirements
- Minor increase in loans and advances, up by 3% compared to 2007 or by DKK 234m
- Outlook 2009: Pre-tax profit before value adjustment and non-recurring items in the range of DKK 165-195m

## Financial highlights

### Income statement

DKK 1,000	Index					
	2008	2007	08/07	2006	2005	2004
Interest income, etc.	683,385	500,856	136	327,427	298,279	292,523
Interest expenses, etc.	333,505	209,373	159	88,692	64,066	57,961
<b>Net interest income</b>	<b>349,880</b>	<b>291,483</b>	<b>120</b>	<b>238,736</b>	<b>234,213</b>	<b>234,562</b>
Dividends from shares and other investments	5,436	2,644	206	1,548	516	497
Fee and commission income, etc.	48,691	45,372	107	34,964	20,802	21,092
Fees and commissions paid	189	311	61	280	254	238
<b>Net interest and fee income</b>	<b>403,818</b>	<b>339,188</b>	<b>119</b>	<b>274,968</b>	<b>255,277</b>	<b>255,913</b>
Value adjustment of securities and foreign exchange, etc.	-75,886	23,589	-	7,432	7,636	1,088
Other operating income	93,823	1,521	-	-1,991	2,235	-2,154
<b>Results from net financials</b>	<b>421,756</b>	<b>364,298</b>	<b>116</b>	<b>280,409</b>	<b>265,148</b>	<b>254,847</b>
Employee and administrative expenses	191,276	206,164	93	154,353	136,105	121,773
Amortisation, depreciation and writedowns	-15,338	8,707	-	7,606	6,444	5,276
Other operating expenses	7,524	8	-	14	0	0
Provisions for bad and doubtful debts (net)	49,222	-25,072	-	-67,969	-34,341	11,570
Income from subsidiaries and associates	11,125	5,420	205	7,046	1,511	4,939
<b>Profit from ordinary activities before tax</b>	<b>200,197</b>	<b>179,911</b>	<b>111</b>	<b>193,451</b>	<b>158,451</b>	<b>121,167</b>
Tax	29,402	35,908	82	34,042	29,543	24,076
<b>Net profit</b>	<b>170,795</b>	<b>144,003</b>	<b>119</b>	<b>159,409</b>	<b>128,908</b>	<b>97,090</b>

### Balance sheet

DKK 1,000	Index					
	2008	2007	08/07	2006	2005	2004
<b>Assets</b>						
Cash in hand and demand deposits with central banks	831,374	239,610	347	201,877	73,747	209,217
Due from credit institutions, etc.	139,405	533,599	26	331,612	104,263	79,402
Loans and advances	7,746,820	7,513,009	103	5,408,119	4,071,455	3,635,865
Bonds, etc.	893,988	894,284	100	864,119	1,802,928	1,420,961
Shares, etc.	91,619	167,271	55	134,813	83,306	13,839
Holdings in associates	37,220	34,399	108	35,026	4,713	4,921
Holdings in subsidiaries	71,398	100,919	71	113,416	122,358	120,752
Tangible assets	166,118	65,555	253	60,762	62,487	65,587
Own shares	16,144	9,403	-	0	0	0
Other assets	105,888	56,387	188	57,115	43,561	41,133
Prepayments	9,790	6,533	150	6,016	5,217	4,954
<b>Total assets</b>	<b>10,109,762</b>	<b>9,620,969</b>	<b>105</b>	<b>7,212,876</b>	<b>6,374,034</b>	<b>5,596,632</b>
<b>Liabilities</b>						
Due to credit institutions and central banks	2,320,219	2,645,515	88	1,243,066	113,499	70,441
Deposits	5,585,422	5,452,073	102	4,646,731	4,506,532	3,869,675
Issued bonds	500,000	0	0	0	0	0
Other liabilities	123,823	176,163	70	74,462	664,338	95,161
Deferred income	0	0	0	0	0	0
Provisions for obligations	18,253	2,696	677	3,099	3,556	4,153
<b>Total liabilities</b>	<b>8,547,717</b>	<b>8,276,447</b>	<b>103</b>	<b>5,967,357</b>	<b>5,287,925</b>	<b>4,039,430</b>
<b>Equity</b>						
Share capital	200,000	200,000	100	200,000	200,000	100,000
Reserves	16,144	9,403	172	2,839	10,912	9,402
Revaluation reserve	47,834	0	0	0	0	0
Retained profit for the period	170,795	89,600	191	152,363	0	41,887
Brought forward from prior years	1,127,273	1,045,519	108	890,317	875,197	1,405,913
<b>Total equity</b>	<b>1,562,045</b>	<b>1,344,522</b>	<b>116</b>	<b>1,245,519</b>	<b>1,086,110</b>	<b>1,557,202</b>
<b>Total liabilities and equity</b>	<b>10,109,762</b>	<b>9,620,969</b>	<b>105</b>	<b>7,212,876</b>	<b>6,374,034</b>	<b>5,596,632</b>
<b>Off-balance-sheet items</b>	<b>508,901</b>	<b>445,684</b>	<b>114</b>	<b>359,081</b>	<b>236,885</b>	<b>147,524</b>

# Financial highlights

## Ratios and key figures

	2008	2007	2006	2005	2004
<b>Solvency</b>					
Solvency ratio, %	21.1	17.8	23.8	27.5	47.3
Core capital ratio, %	20.7	18.0	23.8	27.6	47.4
Risk-weighted items, DKKm	7,210	7,403	5,214	3,918	3,282
<b>Profitability</b>					
Return on equity before tax, %	13.8	13.9	16.6	12.0	7.9
Return on equity after tax, %	11.8	11.1	13.7	9.8	6.3
Income/cost ratio, DKK	1.86	1.95	3.06	2.46	1.88
Cost / income, %	53.8	51.3	32.7	40.6	53.4
<b>Market risk</b>					
Interest rate risk, %	2.3	2.7	1.1	3.4	1.4
Foreign exchange position, %	1.4	15.6	11.8	8.1	3.5
Foreign exchange risk, %	0.0	0.1	0.0	0.0	0.0
<b>Credit risk</b>					
Large exposures as a percentage of equity, %	73.1	123.4	126.5	51.1	30.6
Share of amounts due on which interest rates have been reduced, %	2.7	0.3	0.4	1.3	1.7
Provisioning ratio, %	3.5	3.2	5.0	7.9	11.0
Write-off and provisioning ratio, %	0.4	-0.3	-1.1	-0.7	0.3
Annual growth of loans and advances, %	3.1	38.9	32.8	12.0	3.5
Gearing of loans and advances	5.0	5.6	4.3	3.7	2.3
<b>Liquidity</b>					
Loans, advances and provisions in relation to deposits, %	144.0	142.7	122.9	98.6	106.0
Excess cover relative to statutory liquidity requirements, %	187.6	103.2	132.2	244.9	261.2
<b>Other</b>					
Number of full-time employees at 31 December	201	228	221	191	196
<b>Shares (nom. DKK 100)</b>					
Number of shares, end of year (denomination DKK 100)	2,000,000	2,000,000	2,000,000	2,000,000	1,000,000
Earnings per share after tax (nom. DKK 100)	85.4	72.0	79.7	85.9	97.1
Book value per share (nom. DKK 100)	781	672	623	543	1,557
Dividends per share (nom. DKK 100)	0	23	0	300	50
P/E ratio (nom. DKK 100)	7.0	12.4	N/A	N/A	N/A
Price / Book value (nom. DKK 100)	0.77	1.33	N/A	N/A	N/A
Market price per share (nom. DKK 100)	600	893	N/A	N/A	N/A
Dividends, DKKm	0	45	0	600	50
<b>Shares (nom. DKK 20)</b>					
Number of shares, end of year (denomination DKK 20)	10,000,000	10,000,000	N/A	N/A	N/A
Earnings per share after tax (nom. DKK 20) (1)	17.1	14.4	N/A	N/A	N/A
Book value per share (nom. DKK 20) (1)	156	134	N/A	N/A	N/A
Dividends per share (nom. DKK 20) (1)	0	4.5	N/A	N/A	N/A
P/E ratio (nom. DKK 20) (1)	7.0	12.4	N/A	N/A	N/A
Price / Book value (nom. DKK 20) (1)	0.77	1.33	N/A	N/A	N/A
Market price per share (nom. DKK 20) (1)	120	179	N/A	N/A	N/A

(1) The denomination of the shares was changed from DKK 100 to DKK 20 per share effective January 2007  
The number of shares was increased accordingly from 2,000,000 to 10,000,000.

## Financial highlights

<b>Income statement</b>	<b>Full year</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Full year</b>
DKK 1,000	2008	2008	2008	2008	2008	2007	2007
Interest income, etc.	683,385	183,566	179,262	164,402	156,155	147,457	500,856
Interest expenses, etc.	333,505	89,626	84,371	82,730	76,779	68,151	209,373
<b>Net interest income</b>	<b>349,880</b>	<b>93,940</b>	<b>94,890</b>	<b>81,672</b>	<b>79,377</b>	<b>79,306</b>	<b>291,483</b>
Dividends from shares and other investments	5,436	8	34	4,797	597	177	2,644
Fee and commission income, etc.	48,691	16,031	13,084	10,874	8,703	15,748	45,372
Fees and commissions paid	189	62	44	44	39	33	311
<b>Net interest and fee income</b>	<b>403,818</b>	<b>109,918</b>	<b>107,964</b>	<b>97,299</b>	<b>88,638</b>	<b>95,197</b>	<b>339,188</b>
Value adjustment of securities and foreign exchange, etc.	-75,886	-28,869	-7,920	-22,148	-16,948	1,906	23,589
Other operating income	93,823	94,468	-28	-583	-34	5,014	1,521
<b>Results from net financials</b>	<b>421,756</b>	<b>175,517</b>	<b>100,016</b>	<b>74,568</b>	<b>71,656</b>	<b>102,117</b>	<b>364,298</b>
Employee and administrative expenses	191,276	47,051	46,016	50,690	47,520	44,212	206,164
Amortisation, depreciation and writedowns	-15,338	-21,753	2,017	2,048	2,349	2,997	8,707
Other operating expenses	7,524	7,524	0	0	0	0	8
Provisions for bad and doubtful debts (net)	49,222	30,772	385	15,865	2,200	3,906	-25,072
Income from subsidiaries and associates	11,125	4,702	6,502	4,146	-4,225	-5,315	5,420
<b>Profit from ordinary activities before tax</b>	<b>200,197</b>	<b>116,624</b>	<b>58,099</b>	<b>10,111</b>	<b>15,363</b>	<b>45,686</b>	<b>179,911</b>
Tax	29,402	15,515	9,288	1,074	3,526	8,138	35,908
<b>Net profit</b>	<b>170,795</b>	<b>101,109</b>	<b>48,812</b>	<b>9,037</b>	<b>11,837</b>	<b>37,548</b>	<b>144,003</b>

<b>Balance sheet</b>	<b>Dec. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>June 30</b>	<b>March 31</b>	<b>Dec. 31</b>	<b>Dec. 31</b>
DKK 1,000	2008	2008	2008	2008	2008	2007	2007
Loans and advances	7,746,820	7,746,820	7,830,042	7,729,048	7,588,335	7,513,009	7,513,009
Bonds, etc.	893,988	893,988	802,641	907,676	879,989	894,284	894,284
Holdings in associates	37,220	37,220	37,220	37,220	37,220	34,399	34,399
Holdings in subsidiaries	71,398	71,398	104,521	98,020	93,874	100,919	100,919
<b>Total assets</b>	<b>10,109,762</b>	<b>10,109,762</b>	<b>9,638,386</b>	<b>9,604,597</b>	<b>9,592,454</b>	<b>9,620,969</b>	<b>9,620,969</b>
Due to credit institutions and central banks	2,320,219	2,320,219	2,575,339	2,533,365	2,639,895	2,645,515	2,645,515
Deposits	5,585,422	5,585,422	5,477,383	5,574,375	5,428,570	5,452,073	5,452,073
Issued Bonds	500,000	500,000	0	0	0	0	0
<b>Total equity</b>	<b>1,562,045</b>	<b>1,562,045</b>	<b>1,413,102</b>	<b>1,364,291</b>	<b>1,355,254</b>	<b>1,344,522</b>	<b>1,344,522</b>

### Ratios and key figures

#### Solvency

Solvency ratio, %	21.1	21.1	18.3	18.2	18.2	17.8	17.8
Core capital ratio, %	20.7	20.7	18.3	18.3	18.2	18.0	18.0
Risk-weighted items, DKK mill	7,210	7,210	7,240	7,275	7,286	7,403	7,403

#### Profitability

Return on equity after tax, %	11.8	6.8	3.5	0.7	0.9	2.8	11.1
Cost / income, %	53.8	35.3	45.5	87.2	77.2	52.8	51.3
Cost / income, % (excl. value adjustm. and provisions)	36.1	15.7	42.0	52.3	59.1	49.7	62.1

#### Liquidity

Excess cover relative to statutory liquidity requirements, %	187.6	187.6	72.0	79.4	95.2	103.2	103.2
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#### Credit risk

Growth of loans and advances, %	3.1	-1.1	1.3	1.9	1.0	10.3	38.9
Gearing of loans and advances	5.0	5.0	5.5	5.7	5.6	5.6	5.6

#### Shares

Earnings per share after tax (nom. DKK 20), DKK	17.1	10.1	4.9	0.9	1.2	3.8	14.4
Market price per share (nom. DKK 20), DKK	120	120	166	148	147	179	179
Book value per share (nom. DKK 20), DKK	156	156	141	136	136	134	134

#### Other

Number of full-time employees	201	201	219	222	226	228	228
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# Letter from the CEO

## Satisfactory earnings in a challenging environment

We improved our primary activities significantly in 2008. Net interest and fee income increased by 19%, the solvency ratio now stands at 21%, and the Bank's liquidity is 188% higher than the statutory requirements at year end. Consequently, Føroya Banki is in good shape and hence is not one of the banks requiring state-funded interim liquidity and working capital. Our business is founded on the robust Faroese economy, a strict credit policy, and on a healthy and diversified loan portfolio encompassing retail customers, corporate customers, and institutional clients.

One year ago we promised in our guidance to generate a profit from operations, before value adjustment and taxes, in the range of DKK 165–185m. Today, we can present a result within this range exclusive of non-recurring items. The profit was DKK 276m before value adjustment and taxes, which is in line with our guidance in Q3. And we have achieved this good performance in a difficult year for banks around the world, where it was necessary for all banks, including Føroya Banki, to adjust business practices to the new market conditions that arose as a result of the global financial crisis.

For most investors around the world, 2008 was a poor year with share prices falling significantly. The shares listed on the Nasdaq OMX in Copenhagen, one of which is Føroya Banki, also experienced a sharp decline. The share price of Føroya Banki dropped by 33%, which was nevertheless the smallest drop of all 41 banks listed on the Nasdaq OMX in Copenhagen.

## Growing with a growing economy

Our total assets have grown from DKK 6.4bn in 2005 to DKK 10.1bn in 2008. This is the result of the growth strategy formulated in 2005 to focus on the growth potential of the domestic market. The Faroes had gone through a prolonged period of consolidation with macroeconomic savings having exceeded investments for several years. Companies had profitable investment projects and, combined with

a growing demand for housing, this provided us with a sound basis for growth in lending to both the corporate and the retail segment of our domestic market.

We are pleased to note that our lending growth has been based almost exclusively on our long-term customers in the domestic market. A thorough knowledge of the customers and their environment is a prerequisite for good credit management. We have been growing with the growing Faroese economy.

## Good progress from 2005 to 2008

With 2008 now coming to a close and three years after formulating our strategic growth plan, we are pleased to have achieved the goals we set in 2005. Net interest and fee income have increased by 58% from DKK 255m in 2005 to DKK 404m in 2008. We have established an estate agent, rationalised our branch network and introduced systematic employee training. We have also optimised our business processes to such an extent, that the employees running the Faroese operation are the same in numbers on the brink of 2009 as they were in 2005.

One of our goals in 2005 was to modernise our image. This process was completed in 2007. Our new graphical identity symbolizes a modern classic moving forward. Our rebranding was executed a month before the Bank was privatised and listed on the stock exchanges of Copenhagen and Reykjavik. This was a major task, but the privatisation was a success with the Bank gaining 15,000 new shareholders. When we listed on the stock exchanges, new requirements were enforced regarding risk management, disclosure obligations, as well as strict internal management.

In May 2008, we became rated by Moody's as the first Faroese company ever. Moody's accorded Føroya Banki an A3 rating and stated that the Bank's financial position was favourable. In particular, Moody's emphasised the Bank's capital base and the high quality loan portfolio. In December 2008, Moody's reconfirmed their assessment of Føroya

» The increase in net interest and fee income is a result of our growth strategy and our effective employees «

CEO Janus Petersen



Banki from May 2008, stating that the Bank's earnings were good, we held a strong position in the market, and that the risk related to making deposits with the Bank had not increased since their assessment in May 2008.

**Strategic priorities for 2009**

The robust Faroese economy with relatively low debt levels in all sectors is encouraging to us with respect to the outlook for 2009. Thus, we expect the pre-tax profit before value adjustment and payments to the State guarantee scheme to be in the range of DKK 165–195m. Core income is thus expected to be at the same level as in 2008.

It is likely, that there will be a contraction of economic activity in the Faroe Islands. One of our important priorities for 2009 is therefore to monitor our loan portfolio very closely. In 2008 we lowered our total amount of large exposures from 123% of the Bank's equity at the beginning of the year to 73% at year-end. We aim to lower it further in the first half of 2009.

Another important priority in 2009 will be to address the long term challenge of adjusting the balance sheet to the new market situation for external funding. The Danish government's financial stability packages have provided some extra time for the banks to address this issue, by extending the period of state-guaranteed borrowing to December 2013. The deposits of the Bank amount to 72% of loans, and although this ratio is relatively high the Bank aims to decrease external funding further in the coming years. By participating in the financial stability package from October 2008 we are prohibited from paying dividends prior to October 2010. Thus our dividend policy is put out of effect temporarily. However the strong net profit in 2008 and our high solvency ratio provides us with the opportunity to pay out accumulated retained dividends in 2011, provided the Bank's capital requirements is met at that time.

Finally, expanding our activities abroad in 2009 is a priority for the Bank, but this is being done in a controlled manner. Backed by the good results we have achieved over the past few years, we now hold a high solvency ratio of 21% based on pure equity. In the current environment this provides us with a good position to grow our business outside the Faroes now that the growth prospects at home are more constrained. This year we will introduce attractive savings offers to the Danish pension market, partnering with key players in this market. While executing a low risk, low cost strategy, the new activities in the Bank's Copenhagen branch are expected to contribute to the further strengthening and diversification of our long-term funding.

**Financial objectives**

Following up on financial objectives is a vital criteria for a focused management of the Bank. These are provided in the box. We are satisfied with the achievement of the Bank's financial objectives in 2008. The 19% increase in net interest and fee income is a result of our growth strategy and our effective employees being able to retain our interest margin.

Financial objectives	objectives 2005-2008	2007 actual	2008 actual
Net interest and fee income, annual growth, %	10	23	19
C/I ratio, %	< 50	51	54
Solvency ratio, %	12	18	21
ROE ratio after tax, %	12	11	12

The C/I ratio is a valuable key figure for maintaining a cost-conscious culture in the Bank. Although this key objective has not been fully achieved in the last two years, it is still very central to the Bank's decision making. The last major initiative taken to achieve this objective was to enhance the operational efficiency of the Bank's branch network by closing five small branches in order to gather all its services in fewer branches. The savings from this initiative will not take effect until late 2009.

# The Faroese economy

The Faroese economy has performed very well for several years. Unemployment has fallen, and it reached a record low of 1.3% of the work force in 2008.

After experiencing relatively strong growth for a number of years, the growth in the Faroese economy gradually slowed during 2008. This slowdown has reduced the pressure on the labour market by avoiding an overheating of the economy.

The sharp rise in oil prices in 2008 implied considerably higher costs for the fishing industry due to its dependence on oil. In addition, it has not proved possible for the fishing industry to compensate for the high oil prices via price increases on fish. As a consequence, part of the Faroese fishing fleet had to remain in port for shorter periods of time during 2008. The sharp fall in the oil price in the second half of 2008 provided a change of wind in the fishing industry.

Key figures	2007	2008
GDP growth, %	9.3	4.9
Unemployment, %	1.5	1.3
Payroll exp., growth in %	8.0	1.4
Housing prices, growth in %	13.4	-4.2

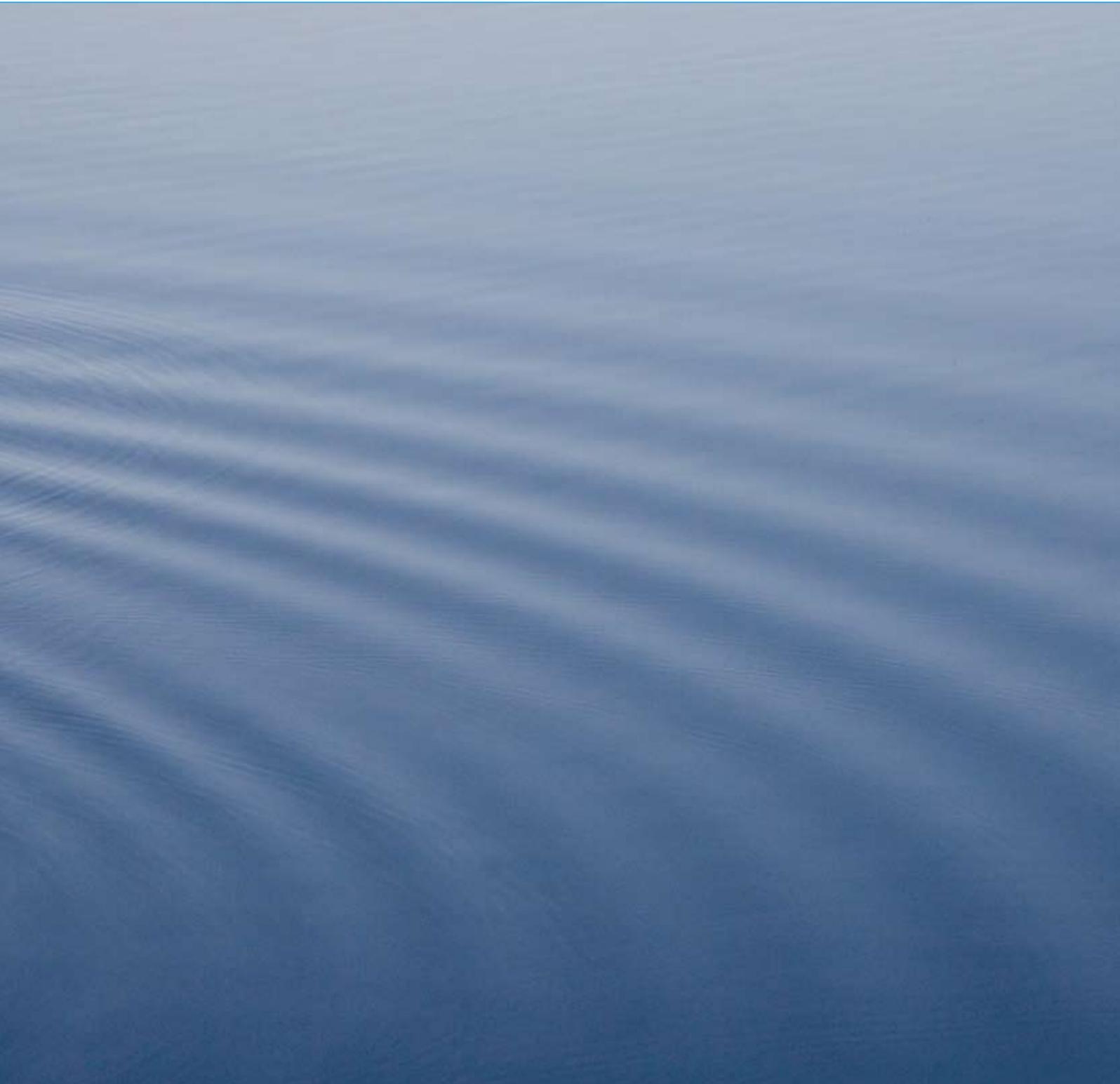
Other economic indicators point in the same direction. Growth in paid wages has been slowing down from 8% in 2007 to only 1.4% in 2008. The value of imports declined by 4.5% from 2007 to 2008, and the total bank lending growth in the Faroes amounted to only 1.4% in the first three quarters of 2008 compared to 17.1% in the same period last year. This indicates that the Faroese economy has indeed been negatively influenced by the global economic crisis. It is thus likely that economic growth in the Faroes will be negative by 2–3% in 2009.

Nevertheless, the global economic crisis is not expected to have a severe long term negative impact on the Faroese economy, since the economy has a relatively strong financial foundation. This view of robustness is shared by Moody's Investor Service which in October 2008 accorded the Faroe Islands an AA2 rating.

The fishing sector has traditionally been a significant source of export income for the economy, but the significance of the sector is declining. Fish farming of salmon and trout has been successfully re-established and accounts for a large share of the export revenue. In the first eleven months of 2008, the export value of the fish farming industry amounted to 26% of the total value of exported goods (Hagstova Føroya).

The public sector has managed to reduce its gross debt substantially in recent years, and it is therefore able to handle possible deficits in the government's budget for next few years. The deficit on the government's budget for 2009 is DKK 570m or approximately 4% of gross national income. The government has chosen to run a deficit in order to have an expansionary effect on the economy.

Gross lending to Faroese households amounted to DKK 8.3bn in Q3 2008 (Landsbanki Føroya). This is equivalent to 61% of the estimated GDP in 2008, which is low compared to the debt level of Danish households of more than 100% of GDP.





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# Outlook for 2009

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The outlook for 2009 is based on the Bank's budget and forecast for 2009.

The Bank estimates a pre-tax profit before value adjustment and before expenses due to the Danish state-funded guarantee scheme to be within the range of DKK 165–195m.

Due to an expectation of stable interest margins compared to Q4 2008 and a stable volume in lending, the Bank estimates growth in net interest and fee and commission income in the range of 0–5%.

The Bank expects a slowdown in the Faroese economy, which will increase the probability of impairments on loans. The level of impairments is uncertain, but the Bank projects that the impairments will stay on the same level as in 2008.

The Bank participates in the Danish government's guarantee scheme from October 2008, which affects the Bank's costs directly through a fee paid to the government and an obligation to participate in extra payments, if other participating banks go bankrupt in 2009. Due to the fact that the potential costs are considerable, but at the moment uncertain, the outlook for 2009 does not include these costs.

The Bank's liquidity is good and is expected to remain at a comfortable level in 2009.

The Bank has a relatively high solvency ratio of 21% and due to the estimated outlook for 2009, the Bank estimates the solvency ratio to increase in 2009.

» The Bank estimates a core income in 2009 at the same level as in 2008 «

# Financial review

## Income statement

In 2008, Føroya Banki recorded a pre-tax profit of DKK 200m compared to DKK 180m in 2007. The net profit amounted to DKK 171m compared to DKK 144m in 2007.

The Bank recorded a profit before value adjustment and tax for 2008 amounting to DKK 276m. This is consistent with the profit guidance of DKK 265–285m provided in the Q3 Interim Report.

In the Annual Report 2007, the Bank forecasted the 2008 profit before value adjustment and tax to be in the range of DKK 165–185m. The projection did not include any possible effect of the divestment of the subsidiary P/F Vestlax. In October 2008, the Bank divested P/F Vestlax, realising a capital gain of DKK 98m. This resulted in a similar increase in the guidance for the year 2008.

### Income

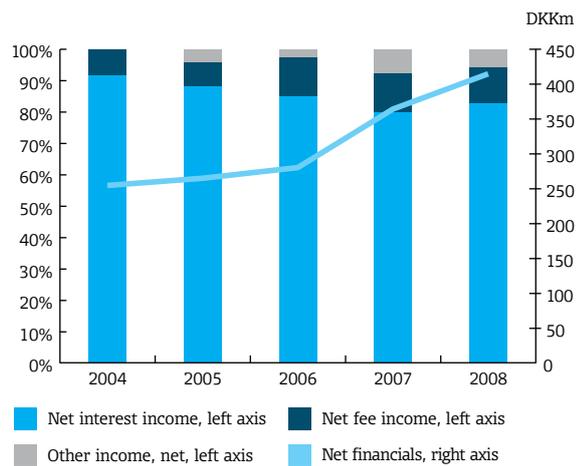
In 2008, the Bank continued the overall positive trend in income. Results from net financials increased by 16% in 2008 compared to 2007.

Net interest income amounted to DKK 350m in 2008, a 20% improvement compared to DKK 291m in 2007. At the beginning of the year, the Bank expected a growth in net interest income of 8–14%. As the year progressed, however, the Bank adjusted its expectations for growth in net interest income to 16–20%.

Interest income amounted to DKK 683m in 2008 compared to DKK 501m in 2007 equal to a 36% increase. In the same period, loans and advances increased by only 3%. The increase in net interest

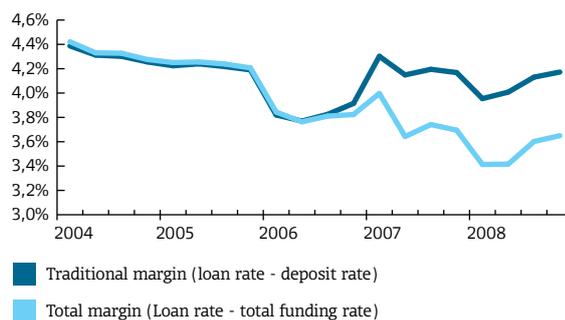
income was primarily attributable to the full effects of interest income on the business volume in 2008 and the increasing level of interest rates in 2008.

### Net financials and distribution of income



Interest expenses increased from DKK 209m in 2007 to DKK 334m in 2008 or by 59%. During the same period, the Bank's total amounts due to credit institutions and central banks and issued bonds increased by 7% while deposits increased by 2%.

### Interest margin





The general level of interest rates rose during 2008, peaking in December, after which a declining trend set in. The Bank's interest rate levels reflected these changes, enabling the Bank to maintain its interest rate margin, i.e. the margin between the lending and deposit rates.

Despite the turmoil on the international financial markets the Bank maintained a satisfactory level of income from fees and commissions in 2008. Net fee and commission income amounted to DKK 49m in 2008 compared to DKK 45m in 2007. This is an 7% improvement which corresponds with the forecast at the beginning of the year.

Income from subsidiaries and associates amounted to DKK 11m in 2008 compared to DKK 5m in 2007. The main reason for the improvement is the insurance company P/F Trygd, which managed to generate a satisfactory profit of DKK 9m for 2008 despite a very rough start to the year when severe storms caused a loss in Q1 2008.

#### **Value adjustment of securities and foreign exchange, etc.**

2008 was a very turbulent year on the financial markets. At the beginning of 2008, the Bank did not expect any income from value adjustment in 2008. At the end of 2008, income from value adjustment was negative by DKK 76m compared to a gain of DKK 24m in 2007. The main reason for the deterioration and the loss on value adjustment of securities during 2008 relates to the Bank's holdings of shares. At the end of 2008, the loss on shares amounted to DKK 72m compared to a gain of DKK 21m in 2007. Approximately half of the loss has been realised.

The Bank's portfolio of shares is primarily exposed to the Danish market. The OMX C20 index fell by 47% in 2008 while the Bank's portfolio lost 45%, so the Bank's loss on shares merely reflects the overall trend in the Danish equity market.

Føroya Banki's investment policy for excess liquidity is mainly to focus on bonds. This policy has been maintained during these challenging times and has in general proven to be appropriate. The portfolio is mainly invested in Danish mortgage bonds (75%) and government and municipal bonds (18%). The remaining 7% is invested in corporate bonds. All the bonds are listed.

The spread between Danish mortgage bonds and Danish government bonds widened dramatically in the autumn causing losses, but it has started to normalise and hence improved the results for the Bank's bond portfolio in Q4. By year-end, the value adjustment was DKK 5m compared to DKK 11m in Q3.

The return on Føroya Banki's bond portfolio was 3.9% in 2008 compared to 4.6% for the Nordea Mortgage 3y index. The shortfall was due to the underperformance of corporate bonds in December when mortgage bonds performed well as the spread to government bonds narrowed significantly.

#### **Other operating income**

Other operating income was DKK 94m in 2008 compared to DKK 2m in 2007. All of the Bank's shares in P/F Vestlax were sold to P/F Vestlax Holding 3 October 2008. That company's investor base includes some of the largest companies in the Faroe Islands. The Bank holds 1.9% of the share capital and

» The Bank's excess cover, relative to statutory liquidity requirements was 188% compared to 103% at 31 December 2007 «

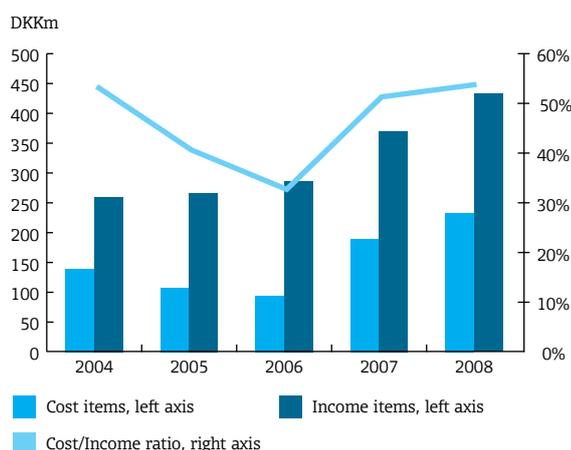
the Bank's associated company P/F Bakkafrost Holding holds 7.3%.

**Employee and administrative expenses**

Employee and administrative expenses were DKK 191m in 2008 compared to DKK 206m in 2007. This is a 7% decrease and corresponds to the revised projection made in the Q3 report. In the Annual Report 2007, the Bank projected a growth of 0–5%.

Employee expenses were DKK 108m in 2008 compared to DKK 104m in 2007. The increase was due to the establishment of the Danish branch. The Bank has lowered the employee expenses for domestic operations.

**Cost/income ratio**



Administrative expenses were DKK 84m in 2008 and DKK 102m in 2007. Compared to 2007, there were no significant non-recurring administrative expenses in 2008.

In November 2008, the Bank adjusted the branch structure in the Faroes from 14 to 9 branch offices and lowered the number of employees by 5%. The aim is to create branches with a stronger business environment

and at the same time to achieve a higher level of operational efficiency. The savings from this initiative will feed through in the years 2009 and 2010.

The cost/income ratio was 54% compared to 51% in 2007, which compares satisfactorily to the Bank's long term goal of maintaining a cost/income ratio of less than 50%. The C/I ratio underestimates recent years' efficiency improvements achieved by the Bank. Excluding the effects from provisions, value adjustment, and non-recurring income and costs, the C/I ratio decreased from 58% in 2007 to 51% in 2008.

**Amortisation, depreciation and writedowns**

The management has decided to reverse a major part of writedowns on land and buildings in 2008. This is due to the fact that the basis for the writedowns no longer exists. During the recession in the Faroese economy in the 1990s, the Bank made writedowns on land and buildings. The value of the buildings has been revalued to their fair values using the return method. Thus, a reversal of writedowns amounting to DKK 24m has been recorded under this item.

**Provisions for debts (net)**

In 2008, the Bank recorded net provisions for bad and doubtful debts amounting to DKK 49m compared to a net positive entry amounting to DKK 25m in 2007. In the Annual Report 2007 the Bank forecasted net provisions in 2008 to amount to DKK 10m, but mainly due to higher net provisions in the fishing industry and due to one large construction project in Tórshavn, the Bank made net provisions amounting to DKK 18m in Q3 and estimated that net provisions would remain at this level in 2008.

At the end of 2008, all exposures have been reviewed to assess the Bank's potential losses. Management



has concluded that it is necessary to make extra provisions in respect of the fourth quarter of 2008.

#### Tax

The Bank's tax charge for 2008 is calculated at DKK 29m, corresponding to an effective tax rate of 15%. The reason why the tax charged to the income statement is below the statutory 18% is mainly caused by the DKK 25m provision in 2007, which now has been deducted.

## Capital and solvency

#### Share capital

At the end of 2008, the share capital totalled DKK 200m, and the shares numbered 10,000,000. No changes were made to the share capital in 2008.

#### Shareholder's equity

Shareholder's equity was DKK 1,562m at 31 December 2008, compared to DKK 1,345m at 31 December 2007. The change mainly reflects the recognition of the profit for the year after tax amounting to DKK 171m and a revaluation reserve recorded as a consequence of the revaluation of the Bank's land and buildings amounting to net DKK 48m.

No dividend will be paid in respect of the financial year 2008 due to the restrictions imposed by the Financial Stability Package launched in October 2008 and to which the Bank subscribes.

The return on equity after tax in 2008 was 11.8% compared to 11.1% at 31 December 2007. Earnings per share after tax at 31 December 2008 was DKK 17.1 compared to DKK 14.4 in 2007.

#### Solvency

The solvency ratio at 31 December 2008 was 21.1% compared to 17.8% at 31 December 2007.

The decrease in risk-weighted items from DKK 7,403m at 31 December 2007 to DKK 7,210m at 31 December 2008 was attributable primarily to a reduction in market risk.

#### Liquidity

The global financial crisis which in the past months has led to poorly functioning international lending markets has to a large extent put focus on the importance to financial institutions of having sufficient liquidity. During this challenging period, the Bank's liquidity policy has been to hold a solid and robust liquidity above the statutory requirements in order to protect and support the activities of the Bank. As a consequence, the Bank's excess cover, relative to statutory liquidity requirements was 188% at 31 December 2008 compared to 103% at 31 December 2007.

In September 2008, the Danish central bank launched a temporary credit facility to all banks that are approved and under the supervision of the Danish FSA and are domiciled in Denmark, the Faroe Islands and Greenland. The banks can borrow an amount equal to the excess statutory solvency requirement, i.e. the difference between the capital base and the solvency requirement less one percentage point. The maximum possible borrowing amount for each individual bank is DKK 800m, and the credit facility is available until at least 30 September 2010. In December, Føroya Banki was granted a committed credit facility amounting to DKK 673m, which is included in the calculation of the excess cover relative to statutory liquidity.

In connection with the follow-up on the initial bank package (contained in the second bank package),

banks have the option of purchasing an extended state-funded guarantee for obligations that will apply until the end of 2013. The Bank will consider this option over the course of the next few months.

## Balance sheet

The Bank's total assets amounted to DKK 10,110m at 31 December 2008, an increase of DKK 489m or 5% compared to 31 December 2007.

### Loans and advances

Loans and advances increased by 3% to DKK 7,747m at 31 December 2008 compared to DKK 7,513m at 31 December 2007, an increase of DKK 234m. The moderate growth in loans and advances, which compares to 39% from 2006 to 2007, is primarily due to the reduction of economic growth and investments in the Bank's home market, the Faroe Islands.

A further review of the composition of the Bank's lending portfolio is illustrated in Risk Management on page 39.

The Bank's gross market share on the Faroe Islands was 43% at 30 September 2008 compared to 42% at 31 December 2007. Total loans on the Faroese market increased by 2% or by DKK 353m, from 2007 to 2008.

### Tangible assets – land and buildings

According to the Faroese Banking Act the Bank has an option to revalue its land and buildings. Revaluation can only take place if the increased value of a property is assessed to be of a lasting nature.

Under the current accounting policies, the Bank has carried land and buildings at cost less depreciation and write-downs. As in other European countries the value of land and buildings has increased considerably over the past few years.

Therefore, management believes that the Bank should make use of the option to revalue its land and buildings at 31 December 2008. This leads to a more true and fair view of the values of the Bank's properties.

The revaluation has resulted in reversals of write-downs on land and buildings amounting to DKK 24m and a revaluation amounting to DKK 58m.

The value of the buildings has been revalued to their fair value using the return method a valuation method approved by the Danish FSA. The method is based on an assessment of estimates for rental income, operating costs, administrative expenses, risk-free interest rate and a risk premium.

### Due to credit institutions and central banks

Loans from credit institutions and central banks amounted to DKK 2,320m at 31 December 2008 compared to DKK 2,646m at the beginning of the year, a decrease of DKK 325m or 12%. In December 2008 the Bank issued a bond totalling DKK 500m.

In December 2009, the Bank is due to repay DKK 245m of its medium to long-term debt. No other medium to long term payments are due in 2009.

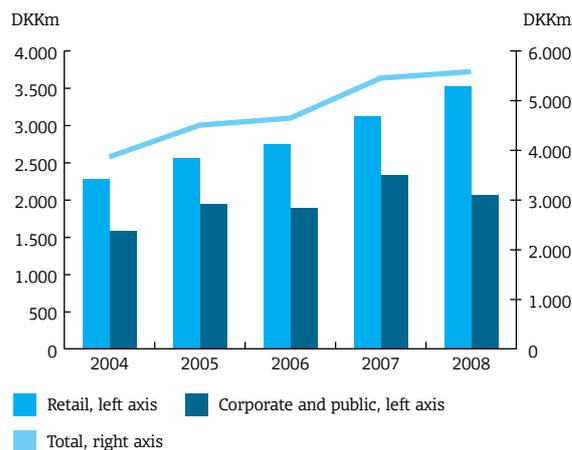
### Deposits

Deposits amounted to DKK 5,585m at 31 December 2008, which is a 2%, or DKK 133m, increase compared with 31 December 2007.

» The solvency ratio was 21.1% compared to 17.8% at 31 December 2007 «

The deposits market in the Faroe Islands declined by 3%, or by DKK 425m, during the first three quarters of 2008. However, the Bank was able to hold its market share. The Bank's market share increased from 40% at 31 December 2007 to 41% at 30 September 2008.

#### Composition of deposits



## Events after the balance sheet date

The Bank has recently announced that the negotiations with the Danish IT provider "Bankernes EDB Central" (BEC) have provisionally ceased. As a result the Bank has decided to commence negotiations with "Skandinavisk Data Center" (SDC) regarding future IT operations.

A second bank package was introduced in February 2009 which allows the Bank to receive additional hybrid Tier I capital. Application for this state-funded capital injection must be submitted by 30 June 2009. The Bank's initial assessment is that it will not exercise this option. For more information about the second bank package, see page 46.

No other significant events have occurred after the end of the reporting period.

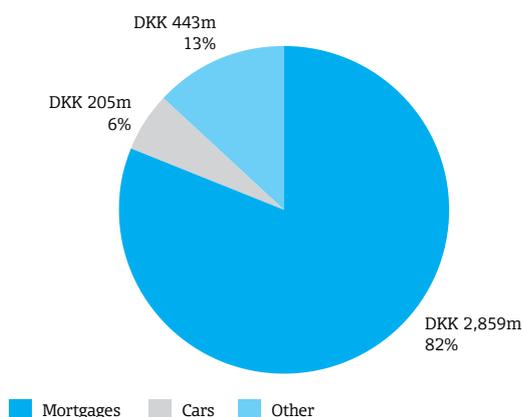
# Operational review

The Bank's activity can be divided into four business areas: Retail Banking, Corporate Banking, Markets and Corporate Finance. Retail and corporate banking generate the most earnings by far. Overall there has been an increase in earnings in the Bank's business areas in 2008.

## Retail banking

Compared to previous years, 2008 was characterised by a significantly lower demand from households for loans, which again was determined by lower demand for housing. Nevertheless, as shown below, mortgage loans still account for the largest part of the Bank's retail loan portfolio, at 79% or DKK 2.9bn, compared to DKK 2.8bn at year-end 2007.

Composition of retail loan portfolio  
DKKm and %



Net interest income within the retail area developed positively, despite the lower demand for loans.

Retail	2004	2005	2006	2007	2008
Net interest income DKKm	83.7	91.2	95.9	117.0	120.3
Percent change (Y-o-y)	-0.9	8.9	5.2	22.0	2.8

As can be seen from the table, net interest income has grown by a total of 44% during the last five years. The strong growth in net interest income in 2007 is mainly explained by growth in the volume of exposure, as the total exposure in the retail area increased by 21%, while the Bank's total interest margin narrowed by 15 basis points due to increased funding costs. In 2008, there was a moderate increase in net interest income. The increase was primarily attributable to the full effect of interest income on the lending volume of exposures. This volume of retail loans was unchanged during 2008.

In reaction to the demand from the retail market, the Bank launched a new savings concept for children and young people aged up to 20 years during the early summer of 2008. Also, the Bank was proactive in the fierce competition for deposits by setting up a centralised task force of banking advisers. These are among the actions which have led to an increase in the Bank's total market share.

In 2008, the Bank also implemented a restructuring of its branch network. The number of personal transactions at bank branches, has dropped by 55% over the past 8 years. The ongoing automatisations in the Bank as well as the strong growth in the number of self-service customers using Internet banking and payment cards has reduced the need for physical branches. The restructuring was also motivated by the Bank's aim to optimise strategic business processes.

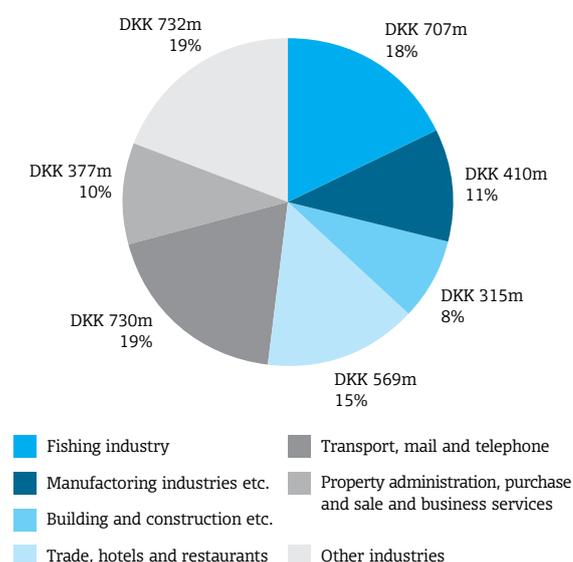
A total of 5 small branches were closed during 2008, while a sixth branch will be closed in 2009. As a consequence, the total number of employees was reduced by 12 during 2008, corresponding to 5% of the Bank's total workforce. However, the remaining 9 branches on the Faroe Islands have all been strengthened in order to provide even better service with a focus on pension savings and investment products. At the end of 2008, a total of 110 employees were employed in the retail segment of Føroya Banki.

Another step in providing the Bank's customers with a higher level of service was taken when "Customer-Service" (a callcenter) opened in the autumn of 2008. Customer-Service provides rapid response to most inbound calls to the Bank, thus freeing up time for the advisers to focus on their key competence, i.e. providing advice to the Bank's customers.

## Corporate banking

The overall picture of the Corporate division part of Føroya Banki is positive and the business generally performed well in 2008. The loan portfolio is well diversified, as shown below.

**Composition of corporate loan portfolio**  
DKK m and %



Føroya Banki's exposure to the property sector is relatively limited and only amounted to 5% of the Bank's total loans at the end of 2008 compared to 4% a year earlier.

However, certain industries have had their difficulties due to external events affecting their profitability. This goes especially for the fishing industry, which was affected by high oil prices for most of the year, and it also was hit by higher interest rates due to the situation on the lending market. Nevertheless, the situation seemed to improve at the end of 2008 due to a fall in both oil prices and interest rate levels. The building and construction industry also saw a downturn in 2008 which was mainly because of higher interest rates and due to a lack of demand for new building projects. On the other hand, the aquaculture industry (included in "other industries") had a good year in 2008. Salmon prices were high as was productivity in the Faroese aquaculture industry.

<b>Corporate</b>	2004	2005	2006	2007	2008
Net interest income DKKm	91.1	80.8	98.5	127.6	159.2
Percent change (Y-o-y)	0.5	-11.3	21.9	29.5	24.8

Net interest income has grown by a total of 75% during the last five years. In 2007, the strong growth in net interest income was mainly explained by the growth in the volume of exposure, as the total exposure in the corporate area increased by 57%. The increase in 2008 of 25% in net interest income is, as in the retail area, primarily attributable to the full effect of the lending volume of exposures which increased significantly during the year 2007.

In order to continuously provide the best service to the Bank's corporate customers, 25 corporate advisers are proactively working with the corporate customers.

## Markets

In 2008, the investment clients with high exposures in shares were significantly hit by falling share prices, while clients with their primary exposures in bonds booked a more stable return. The latter is despite the fact that the Danish crisis on the mortgage bond market in September and October 2008 resulted in significant turbulence. During 2008, large institutional customers at Føroya Banki have typically held relatively large exposures in bonds. This risk-aversion paid off by a more stable return. Assets under management on behalf of customers amounted to approximately DKK 629m at year-end 2008 compared to DKK 676m in 2007.

The international trend, with very unstable securities markets, affected Føroya Banki's customers as well, generally reducing investor demand for investment products.

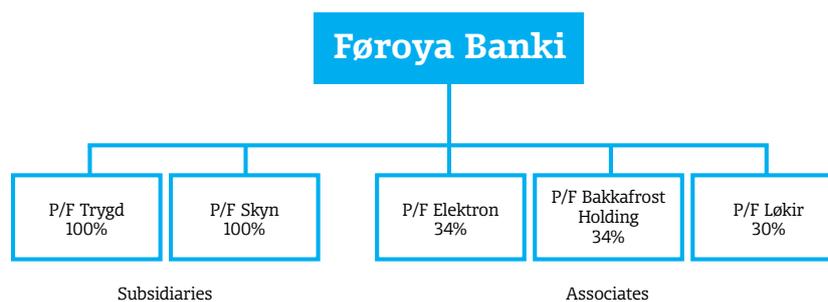
A total of 14 employees working in the Markets division at the Føroya Banki headquarters, along with several other investment advisers in the Retail and the Corporate divisions, are spread throughout the regional areas servicing customers with investment advice and products.

As part of the process to strengthen and diversify the funding base, Føroya Banki was awarded a rating in May 2008 from Moody's Investors Service Limited. The rating was a prerequisite for a bond issue of DKK 500m in December 2008.

The Bank is currently preparing the introduction of attractive savings offers to the Danish pension market, partnering with key players in this market. This new business area will adhere to a low risk, low cost strategy and will be operated through the Copenhagen branch. At the same time, the new activities are expected to contribute to the strengthening and diversification of the Bank's funding base.

## Corporate Finance

Given its size and importance in the Faroe Islands, Føroya Banki is seen as a natural business partner for every Faroese company. Therefore, in 2006, it was seen as a natural step to develop Corporate Finance as a new business area within the Bank, thus being able to offer more sophisticated advisory services within M&A, ECM and financial consultancy to our corporate clients.



In 2008, the Corporate Finance division of Føroya Banki achieved some important milestones.

In autumn 2008, the Corporate Finance division succeeded in finalising the sale of the aquaculture group P/F Vestlax to a group consisting of some of the largest investors in the Faroe Islands. The sale contributed DKK 98m to Føroya Banki's profit.

Further, the Corporate Finance division negotiated other sales on behalf of corporate clients, and also arranged syndications for two companies within the seafood industry. Finally, the Corporate Finance division also acted as joint manager for Atlantic Airways when that company's shares were listed on the NASDAQ OMX Nordic Exchange Copenhagen in November 2008.

## Legal structure

The Føroya Banki Group is comprised of the following entities:

- P/F Føroya Banki
- P/F Trygd
- P/F Skyn

A short description of the different companies in the combined Føroya Banki Legal Structure overview as pictured above. The 2008 amounts are not audited. See also note 20 and 21 for further information.

### P/F Trygd

P/F Trygd is a non-life insurance company owned by Føroya Banki. Trygd operates in the Faroese market. Trygd is a full-service provider of non-life insurance to customers in the private, commercial and municipal and government segments.

Trygd has its only office in Tórshavn and distributes its products through the branch network of Føroya Banki. As of 31 December 2008, Trygd had a total non-life market share of around 25% in central business areas in the Faroe Islands.

As of 31 December 2008, P/F Trygd had an equity of DKK 71m. Profit after tax in 2008 was DKK 9.4m.

### P/F Skyn

P/F Skyn is an estate agent established by Føroya Banki in November 2006. Skyn initiated operations in February 2007 and works in close cooperation with the retail customer advisers at Føroya Banki. The company's objective is to increase transparency and credibility on the Faroese real estate market. Among other things, Skyn has introduced to the Faroese market an independent property status report in connection with all deals.

As of 31 December 2008, P/F Skyn had an equity of DKK 0.2m a DKK 1.1m loss after tax was incurred in 2008.

### P/F Bakkafrost Holding

Bakkafrost is the result of a merger in 2006 of a number of aquaculture companies, all but one suffering from the crisis in the aquaculture industry in 2003–04, some of which Føroya Banki had taken ownership of through its debt security arrangements. In connection with the merger and restructuring of these companies, several institutional and financial investors invested in the new company into which Føroya Banki injected some of its assets against payment in cash and against retaining an ownership stake of 34% in Bakkafrost. Føroya Banki considers the holdings in Bakkafrost to be temporary. The shareholders of Bakkafrost Holding have agreed to work towards a listing of the company.

Bakkafrost operates eight salmon farming licenses. The company was the largest salmon producer on the Faroe Islands as of 31 December 2007.

As of 31 December 2007, P/F Bakkafrost Holding had an equity of DKK 191m. Profit after tax in 2007 was DKK 25m.

#### **P/F Løkir**

Løkir is an investment company, which was founded by Føroya Banki, P/F Krúnborg and P/F Tjaldur in October 2006. The objective of the company is to acquire businesses for the purpose of further development and subsequent divestment. Løkir targets companies with a significant growth potential and is specially focused on companies subject to privatisation and generational change or companies in need of growth capital.

As of 31 December 2008 P/F Løkir had an equity of DKK 96m. Profit after tax in 2007 was DKK 7m.

#### **P/F Elektron**

Elektron is the IT provider for all the Faroese banks and a number of governmental institutions, including the tax authorities. The Faroese government and the Faroese financial institutions own Elektron jointly. With its holding of 34%, Føroya Banki is the single largest shareholder. Elektron's primary objective being is to serve the financial institutions and their IT infrastructure and systems.



# Shareholders

## IR policy

The foundation of Føroya Banki's Investor Relations (IR) policy is promptly and on an ongoing basis to inform its shareholders, the stock market, the media and all other stakeholders about the Bank's situation and development in a reliable, efficient and precise manner. Føroya Banki seeks to ensure a high degree of transparency to the market and to contribute to the principles of good corporate governance. In terms of information, the Bank strives to place itself on a par with the best companies of its peer group.

The aim of the IR policy is in every way to improve its current and future investors' basis for making qualified decisions regarding the buying and selling of the Bank's shares. Further, the objective of Føroya Banki's IR activities is to support the liquidity of its shares in order to enhance the probability of an efficient price determination of its shares in the marketplace.

This entails that Føroya Banki e.g.:

- provides reliable information about all relevant matters through VMF/ICEX and NASDAQ OMX Nordic Exchanges Copenhagen and Reykjavík quickly, timely and accurately
- distributes information in a structured and planned manner in order that all investors may have equal access to knowledge liable to influence the price of Føroya Banki's shares

In continuation hereof it is Føroya Banki's policy to:

- issue quarterly and semi-annual financial statements
- issue audited annual reports
- respond to all inquiries from investors and analysts promptly and appropriately

## IR activities

Føroya Banki's IR policy can be found on the Bank's website, under 'Investor Relations', along with other information relevant to the Bank's stakeholders.

In 2008, the Executive Board and the IR officer of Føroya Banki visited the following cities in connection with investor meetings and roadshows: Copenhagen, London, Reykjavík and Tórshavn. Roadshows were primarily held in connection with the publication of the Bank's interim reports and the annual report.

Ever since the IPO in June 2007 the Bank had an market-making agreement with Handelsbanken Capital Markets in order to facilitate trading in the shares. In order to further enhance the liquidity of Føroya Banki's shares, the Bank entered in to a market-making agreement with Saga Capital in August 2008 with regards to trading in the Bank's shares on the Nasdaq OMX in Copenhagen and Reykjavík. This was done as a consequence of the turmoil in the international financial markets as a means of facilitating the liquidity of the shares.

## Føroya Banki share

### Share capital

The Føroya Banki shares are listed on the NASDAQ OMX Nordic Exchanges Reykjavík and Copenhagen. The shares in Føroya Banki are a component of the MidCap+ index in Copenhagen. 2008 was the first full year of the Føroya Banki share as a listed entity following the listing of the Bank in June 2007. Føroya Banki's share capital consists of 10,000,000 shares of DKK 20 each for a total nominal value of DKK 200m.

## Selected announcements in 2008

All announcements can be found on [www.foroya.fo](http://www.foroya.fo) under the 'Investor relations' section.

### Statement Release

Føroya Banki's net profit for 2007 was DKK 180 m before tax, which corresponds to the projections in the 2007 Q3 Interim Report. Føroya Banki expects a pre-tax profit for 2008 in the range of DKK 165m – 185m.

18.2.2008

### Payment of dividends

Decision on distribution of profit in accordance with the adopted annual accounts. The Board of Directors recommends the payment of dividends for the total amount of DKK 45m, equivalent to DKK 4.5 for each share of DKK 20.

7.3.2008

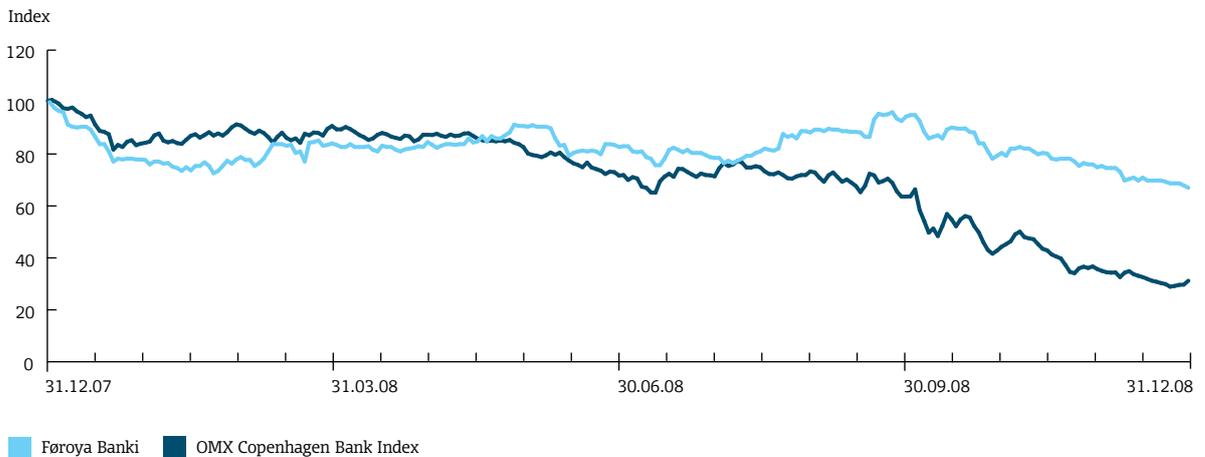
### Annual general meeting

Some of the items adopted on Friday 14 March 2008 at the annual General Meeting of Føroya Banki:

- Audited annual report 2007 and a dividend of DKK 4.50 per share adopted
- Elected to the Board of Directors: Jens Erik Christensen, Wilhelm Eyðunsson Petersen, Keld Søndergaard Holm and Klaus Rasmussen.
- Authorisation to acquire own shares renewed
- Overall guidelines for incentive payment

14.3.2008

## Føroya Banki share vs. OMX Copenhagen Bank Index



At the share price of DKK 120 at year-end 2008, the Bank's total market capitalisation was DKK 1.2bn.

### Voting restrictions

According to the Bank's Articles of Association, shareholders are entitled to attend as well as to have specific issues considered, speak and vote at general meetings, provided they observe a few simple formalities. The Bank has only one class of shares and no limitations on holdings. However, no shareholder may neither in respect of his own shares, nor when acting as proxy for other shareholders, cast votes representing more than 10% of the total share capital, regardless of the shareholding. Proxy votes given to the Board of Directors shall be subject to no restrictions. Shareholders in the same group, as defined by applicable law, may not cast votes representing more than 10% in aggregate of the total share capital, regardless of their shareholding.

### Share price performance

The closing price of the Føroya Banki share at 30 December 2008 was DKK 120, which is approximately 33%

lower than at 28 December 2007. In the same period, the shares of the OMX Copenhagen MidCap+ index declined by 69%.

### Moody's rating

In 2008, Føroya Banki received its initial credit rating by Moody's on 16 May 2008 and received its latest Credit Opinion on 27 November 2008. In December 2008, Moody's awarded ratings of Aaa to certain senior debt securities of the rated Danish banks, participating in the Danish Financial Stability Package for the two-year period of the guarantee scheme of the Danish State.

#### Moody's rating

27. November 2008		16. May 2008	
Outlook	Stable	Outlook	Stable
Bank deposits	A3/P-2	Bank deposits	A3/P-2
Bank financial strenght	C-	Bank financial strenght	C-

## Selected announcements in 2008

All announcements can be found on [www.foroya.fo](http://www.foroya.fo) under the 'Investor relations' section.

### Q1 Interim Report

Føroya Banki improved operations and decreased value adjustments. Exclusive of value adjustments, income from groups and associates, and provisions, Føroya Banki's pre-tax profit for the Q1 period of 2008 was DKK 39m.

### Awarded ratings by Moody's

Moody's has today awarded Føroya Banki the following rating: Long term deposit rating: A3 Short-term deposit rating: P-2 Financial strength rating: C.

### New management in Denmark

Føroya Banki terminated the cooperation with the prior management team of the Danish branch. The Bank appointed Johnny í Grótinum, until now Head of Markets in Føroya Banki, as temporary manager of the Danish branch.

7.5.2008

16.5.2008

12.6.2008

## Shareholder structure

At the time of the publication of the Annual Report 2008, the following shareholders had notified the relevant authorities that they hold 5% or more of the Bank's share capital:

- Fíggjargrunnurin frá 1992 (Faroe Islands)
- Sp/F Blábjørg (Faroe Islands)
- P/F Lago Føroyar (Faroe Islands)
- Sp/F 14 (Faroe Islands)

The Board of Directors has been authorised to let the Bank acquire up to 10% of the Bank's nominal share capital in the period up to the next annual general meeting. At 31 December 2008, Føroya Banki held 1.3% of the share capital.

Country	% of nominal shareholdings	Nominal value of shares, DKKm
Faroe Islands	76%	152
Iceland	17%	34
Rest of the world	6%	12
Unregistered	1%	2
<b>Total</b>	<b>100%</b>	<b>200</b>

As it can be seen above, 76% of the total shareholdings in Føroya Banki have Faroese owners. The second largest country of ownership is Iceland, with 17% of the total shareholdings. Some 6% are dispersed across the rest of the world, and 1% are not registered by name, and are therefore unknown to the Bank. The Financing Fund from 1992 ("The Fund"), equivalent to the Faroese Government (Føroya Landsstýri), held 33.3% of the Bank's shares as at 31 December 2008.

## Financial calendar 2009

28 January 2009 .....	Silent Period*
18 February 2009 .....	<b>Annual report for 2008</b>
13 March 2009 .....	<b>Annual general meeting</b>
15 April 2009 .....	Silent Period*
6 May 2009 .....	<b>Q1 2009 interim report</b>
15 July 2009 .....	Silent Period*
5 August 2009 .....	<b>H1 2009 interim report</b>
15 October 2009 .....	Silent Period*
5 November 2009 .....	<b>Q3 2009 interim report</b>
*A period of three weeks prior to announcement	

## Dividend policy

Pursuant to the Faroese Companies Act, a general meeting must authorize the distribution of dividends on the basis of the adopted annual accounts for the most recent financial year. The general meeting cannot authorize the payment of dividends exceeding the amount recommended by a company's board of directors.

The dividend policy of the Bank's Board of Directors reflects the goal of achieving the long-term earnings and cash flow potential of the Bank while maintaining an appropriate capitalisation that allows Føroya Banki to pursue its growth ambitions. Assuming the availability of sufficient distributable reserves at the time, taking into account the Bank's growth strategy, and subject to the aforesaid and to any regulatory capital requirements, the Board of Directors intends to target a dividend of not less than 30% of the Bank's reported annual profit after tax. In addition, the Board of Directors will continuously assess the Bank's capital structure for the purpose of returning any capital to shareholders that is believed not to be required by the Bank.

## Selected announcements in 2008

All announcements can be found on [www.foroya.fo](http://www.foroya.fo) under the 'Investor relations' section.

### Negotiation with BEC

Føroya Banki has signed a letter of intent of cooperation with Danish IT provider Bankernes EDB Central. The agreement means that BEC will be the primary IT provider. The change from current provider Elektron to BEC will take place in 2009.

26.6.2008

### H1 2008 Results

Føroya Banki's core earnings improved in the first half of 2008. Exclusive of value adjustments of securities and provisions for bad and doubtful debts, pre-tax profit was DKK 83m. After tax, value adjustments of securities and provisions for bad and doubtful debts, the profit was DKK 21m in the first half of 2008.

6.8.2008

### Market-making agreement

Føroya Banki signed a market-making agreement today with Saga Capital Investment Bank.

29.8.2008

The actual payment of dividends in the future will depend on a number of factors, including, but not limited to, Føroya Banki's future earnings, capital requirements, financial position and prospects, applicable restrictions on the payment of dividends under Faroese law and other factors that the Bank's Board of Directors may consider relevant. The Bank cannot assure that dividends will be proposed or declared at all in any given year.

According to the legislation to improve financial stability no dividends may be paid prior to October 1<sup>st</sup> 2010. In effect this means that no dividends may be paid out based on the annual accounts for 2008 and 2009 respectively. If the legislation regarding financial stability were not in effect, the Board would have proposed to the general meeting a dividend amounting to 50m DKK regarding the financial year 2008. However the strong net profit in 2008 and the Bank's high solvency gives the Bank an opportunity to pay out dividends in 2011 not only based on profit in 2010 but increased with the amount that would have been paid out if the legislation regarding financial stability were not in effect and provided it complies with the necessary capital requirements of the Bank.

### Recent dividend payments

The Bank has paid the following dividends in recent years: DKK 45m in 2008, DKK 0 in 2007, DKK 600m in 2006, and DKK 50m in 2005.

### Dividend payments in 2009 and 2010

Due to the participation in the Danish Stability Package from October 2008, the Bank is prohibited from paying dividend in 2009 and 2010, in line with other Danish banks.

## Annual general meeting

The Articles of Association and statutory provisions set the framework for the management of the Bank and the general meeting. Only the general meeting may amend the Articles of Association.

The Board of Directors considers a minimum of 8 days and a maximum of 4 weeks to be reasonable notice of general meetings to the shareholders. Notifications on general meetings are published by announcement through the OMX News System and in *Dimmalætting* (Faroese national newspaper) and in one or more of the other Faroese newspapers.

### Amendment of the Articles of Association

Decisions to amend the Articles of Association or dissolve the Bank require the proposal to be adopted by two thirds of both the votes cast and the share capital represented at the general meeting.

### Annual general meeting 2008

At the annual general meeting of Føroya Banki on 14 March 2008, the Chairman of the Board of Directors, Jóhan Páll Joensen, announced that he was not standing for re-election. Furthermore, he stated that the deputy chairman of the Board of Directors, Jens Erik Christensen, would accept re-election while the board members, Eyðhild Skaalum and Graham Duncan Stewart, would not stand for re-election.

At the annual general meeting the shareholders Sp/f Skrínið, Sp/f Lago Føroyar and Sp/f 14, submitted the following candidates for election as board members:

- Jens Erik Christensen
- Keld Søndergaard Holm
- Wilhelm Eyðinsson Petersen
- Klaus Rasmussen

## Selected announcements in 2008

All announcements can be found on [www.foroya.fo](http://www.foroya.fo) under the 'Investor relations' section.

### Divestment of Vestlax

Føroya Banki has now sold the aquaculture group Vestlax, and the Bank therefore raises its profit guidance for 2008 from DKK 165-185m to DKK 265-285m before value adjustments and tax.

### Participates in guarantee scheme

The Danish government has provided a two-year guarantee scheme for all deposits with and unsecured claims against Danish financial institutions.

### Q3 Interim Report 2008

The Bank maintains the profit guidance before value adjustments and tax for 2008 to be within the range of DKK 265-285m, which is DKK 100m higher than the projection at the beginning of the year.

3.10.2008

10.10.2008

4.11.2008

No other proposal was submitted at the annual general meeting, whereby the above-mentioned candidates were elected unanimously.

The Board of Directors of Føroya Banki hereafter consists of:

- Klaus Rasmussen, chairman of the Board
- Jens Erik Christensen, deputy chairman of the Board
- Keld Søndergaard Holm, board member
- Wilhelm Eyðinsson Petersen, board member
- Olav Enomoto, board member  
elected by the employees
- Sigmar B. Jacobsen, board member  
elected by the employees

The general meeting adopted a proposed policy outlining the principles for remuneration of the Bank's Board of Directors and Executive Board. For further information on the content of the policy see "Remuneration" later in this section of the annual report 2008.

## Corporate governance

The aim of Føroya Banki corporate governance policy is to ensure responsible overall corporate management and to safeguard the interests of the Bank's investors, customers and employees. Governance at Føroya Banki provides the framework that the Bank is directed and controlled by, and the relationships between the Bank's Executive Board, Board of Directors, its shareholders and other stakeholders.

Føroya Banki has a dual listing on the NASDAQ OMX Nordic Exchanges in Reykjavik and Copenhagen with Reykjavik as the primary listing. Therefore, the corporate governance principles comply with the Icelandic governance recommendations issued by the NASDAQ OMX Nordic Exchange Reykjavik.

### Management structure

The Bank's management structure reflects the statutory requirements governing Faroese companies in general and financial institutions in particular. The General Meeting elects the Board of Directors and the external auditors. The Board of Directors appoints the Executive Board, the internal Chief Auditor and determines their remuneration. According to the Faroese Financial Business Act, members of the Executive Board may not serve on the Board of Directors.

### Recruitment and assessment of directors

The Board of Directors currently comprises six members. According to the Articles of Association four to six members of the Board of Directors are elected at the annual general meeting to hold office until the next annual general meeting. The age limit for election and re-election to the Board of Directors is set to 70 years. Pursuant to the statutory provisions on employee representation in the Faroese legislation, the staff elects a number of representatives to serve on the Board of Directors for a four-year period. The current staff representatives were elected in March 2006, and consequently their term of office will expire in 2010.

The Chairman of the Board of Directors assesses the work of the Board of Directors. The Directors possess the necessary qualifications to be able to fulfil their duties as Directors and the board members complement each other in terms of expertise, qualifications and skills.

### The Board of Directors and the Executive Board

According to the division of decision-making power, the Board of Directors outlines the overall principles governing the affairs of Føroya Banki, whereas the Executive Board is in charge of day-to-day management and reports to the Board of Directors. The rules of procedure for the Board of Directors and the

## Selected announcements in 2008/09

All announcements can be found on [www.foroya.fo](http://www.foroya.fo) under the 'Investor relations' section.

### Rating confirmed by Moody's

Moody's yesterday confirmed the ratings of Føroya Banki. „The outlook on all ratings is stable, reflecting the bank's strong local franchise and solid financial fundamentals," says Moody's in their published Credit Opinion.

28.11.2008

### Payment in own shares

In October 2008 Føroya Banki decided to participate in a two-year guarantee scheme for all deposits with and unsecured claims against all banks under the supervision of the Danish FSA. The Board of Directors of Føroya Banki has decided, going forward, to pay the cost in own shares.

16.1.2009

### Negotiations with SDC

After further negotiations with the Danish IT provider Bankernes EDB Central (BEC), it has become clear that the initial conditions for the planned cooperation do no longer exist. As a result Føroya Banki has decided to commence negotiations with Skandinavisk Data Center (SDC) regarding future IT cooperation.

05.02.2009

Executive Board lay down the exact division of duties and responsibilities.

The Board of Directors is keen to observe their duties and responsibilities, and therefore regularly discuss strengths and weaknesses of its own work at the Board Meetings. The Board of Directors convenes at regular Board Meetings at least 10 times a year. The Board of Directors held 17 meetings during 2008. One week prior to the Board Meetings the Directors receive information on financial matters and the Bank's recent development and its operations. In addition to this, a strategy seminar is conducted annually, the last one being held in June 2008.

### Independence of board members

The Board of Directors has considered whether the board members are independent of the Bank and has concluded that the following members are not considered independent for the following reasons:

- Sigmar Jacobsen: Is an employee of the Bank
- Olav Enomoto: Is an employee of the Bank
- Wilhelm E. Petersen: Is the CEO of P/F Atlantic Petroleum which has done substantial business with the Bank in 2008

### Board committees

The Board of Directors do not make use of board committees, because the Board of Directors deems that the frequency of their sessions enables a full Board of Directors to make all the necessary decisions.

Through regular meetings and close collaboration, including working with management, the Board feels that it can have the necessary discussions about the achieved results and get a clear picture on the Bank's operations, financial situation and outlook.

The Board of Directors has until now not found it nessecary to establish a Remuneration Committee

even if two of the Directors are employees in the Bank. This is due to the fact that their remuneration as employees in the Bank is negotiated between the employers' association regarding all faroese banks and the employees trade union, and therefore not directly involving the Board of Directors in the negotiations.

### Remuneration

Information on the remuneration of the Board of Directors, the Executive Board, and other executives can be found in note 6 to the financial statements. The Board of Directors is compensated with a fixed fee.

For information regarding shares in Føroya Banki held by the members of the Board of Directors, the Executive Board and other executives, see note 38 to the financial statements.

### Remuneration policy

The members of the Board of Directors of Føroya Banki are remunerated with a fixed fee and do not share in any incentive or performance-related payments.

The Executive Board of Føroya Banki has an annual remuneration review. Members of the Executive Board receive defined contribution plans and are evaluated annually on the basis of criteria set out by the Board of Directors. These criteria must support the objectives to achieve both short and long-term value creation. Variable remuneration to members of the Executive Board is fixed specifically in consideration of their performance in respect of the above criteria.

As stated in note 6 to the financial statements, the remuneration of the Executive Board in 2008 comprised of a fixed annual salary plus a defined contribution plan totalling DKK 5,105m. For more information on the Bank's remuneration policy, please refer to [www.foroya.fo](http://www.foroya.fo).

# Management and directorships

## Board of Directors

The current members of P/F Føroya Banki's Board of Directors are the following:

### Klaus Rasmussen (Chairman)

Educational background:	MSc in Business Management and Accounting, MSc in Economics, State Authorized Public Accountant
Principal occupation:	Self-employed
Board positions held:	Chairman of the board of: P/F Mentir, P/F Vónin, P/F VON and Refa Frøystad Group Board member of Norriq Danmark A/S, P/F Mentir Finans and Helios-IT nv (Belgium)
Date of first election to the Board:	2008
Spouse:	Ann Mary á Rógvi Rasmussen

### Jens Erik Christensen

Educational background:	MSc Actuarial Science
Principal occupation:	CEO of Dansk Merchant Capital A/S
Board positions held:	Chairman of the Board of Directors of: Scandinavian Private Equity A/S Board member of: Scandinavian Airlines System, Falck Holding A/S, Falck A/S, Falck Danmark A/S, and Selskabet af 19. december 2004 A/S
First elected to the Board in:	2007

### Keld Søndergaard Holm

Educational background:	MSc Economics and Communications
Principal occupation:	Manager of Adversti Consultant at Nykredit, Business Research and Communication Associate professor and external examiner at Copenhagen Business School
Board positions held:	None
First elected to the Board in:	2008

### Wilhelm Eyðinsson Petersen

Educational background:	MSc Engineering
Principal occupation:	Managing director of P/F Atlantic Petroleum, Atlantic Petroleum UK Limited and Atlantic Petroleum (Ireland) Limited
Board positions held:	Board member of P/F Bitland, Sunsil A/S and managing director of Sp/f NM7
First elected to the Board in:	2008
Spouse:	Joan Marin Petersen

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### **Sigmar Brynjolfson Jacobsen**

Educational background:	Bank training
Principal occupation:	Senior bank clerk, P/F Føroya Banki
Board positions held:	None
First elected to the Board in:	2001
Spouse:	Nancy Splidt Jacobsen

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### **Olav Enomoto**

Educational background:	Degree in advanced computer studies
Principal occupation:	Network administrator, P/F Føroya Banki
Board positions held:	None
First elected to the Board in:	2006
Spouse:	Maud Poulsen

## **Executive Board**

### **Janus Eyðun Petersen**

Educational background:	Law Degree from the University of Copenhagen and MSc in Economics
Principal occupation:	CEO of P/F Føroya Banki
Board positions held:	Chairman of the boards of directors of: P/F Trygd and P/F Skyn Board member of: P/F Elektron Chairman of the Faroese Banking Association (Felagið Peningastovnar) Board member of: the Faroese Association of Employers in the Financial Sector (Arbeidsgevara-Felagið fyri fíggjarstovnar)
Date of joining the Board:	1994
Spouse:	Margret Elisabeth Mortensen

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### **Súni Schwartz Jacobsen**

Educational background:	MSc in Business Management and Accounting, State Authorised Public Accountant
Principal occupation:	Managing Director of P/F Føroya Banki
Board positions held:	Board member of: P/F Trygd and P/F Skyn
Date of joining the Board:	2006
Spouse:	Anita Jacobsen

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# Employees

Føroya Banki has in past years aimed to combine HR strategic development with commercial ability. The Bank has competent, dedicated, committed and proactive employees, who are capable of achieving its strategic intentions for the benefit of its customers, owners, as well as for the future development of the Bank.

Human resources fact sheet	2008
<b>Age and seniority</b>	
Average age	42.3
Average seniority	15
<b>Gender distribution</b>	
Male, %	35.2
Female, %	64.8
<b>Turnover</b>	
Average staff turnover, %	8.5
<b>Training and education</b>	
Staff training and employee care costs of budget, %	5.8
Average number of training days per year	6

The Bank's management is aware that due to the internal and external complexity of the market, the company's long-term survival is dependent on the management's ability to continuously recruit, train, and retain the Bank's human resources.

A summary of the Bank's human resources and abilities indicates that Føroya Banki is well equipped for future challenges.

The average age and length of service highlights the fact that Føroya Banki has an effective and experienced workforce.

The Bank's average staff turnover is reasonable at a level of 8.5%. The general staff turnover in the Danish financial sector is 11.3%, according to the Danish Employers' Association for the Financial Sector.

Føroya Banki emphasises having qualified employees. Therefore, the Bank dedicates 5.8% of its expenses to further train and otherwise support the employees in their professional (and personal) development. The average for the Danish labour market is 2.6%, according to the Cranet survey 2008 by CFL & CBS in Copenhagen.

Education	2008 Number	2008 %	2003 %
University education or equivalent	38	18	9
Financial academy	71	33	27
Basic financial training	75	35	49
Administrative assistants, etc.	17	8	12
Apprentices	12	6	3
<b>Total employees with core banking tasks</b>	<b>213</b>	<b>100</b>	<b>100</b>

Føroya Banki also emphasises having a well-educated workforce. The Bank continuously searches for potential employees, offers seminars and classes for current employees, and hires apprentices who are specifically trained to work in the Nordic banking environment. The diverse operations at Føroya Banki require employees from various backgrounds. Føroya Banki employs people from multiple fields, such as bank tellers and financial advisers, as well as graduates with emphasis on economics, business administration, marketing and other specialist fields. As the table shows, the Bank has gradually increased the number of employees with a higher education through recruitment and by encouraging current employees to pursue further education.

Føroya Banki considers human resource development an essential part of the Bank's operations and overall business strategy. Satisfied and well-educated employees are vital for continuous business growth and customer satisfaction.



Strategic HR employee satisfaction index	2008	2006	2004
<b>Index range 0 - 100</b>			
Image	81	81	77
Leadership	73	72	72
Management	83	81	81
Co-operation among departments	86	82	81
Day-to-day work	73	71	70
Pay- and conditions of employment	73	71	67
Professional & personal development	72	69	63
<b>Interpretation</b>			
	<b>Range</b>		
Very high job satisfaction	80 - 100		
High job satisfaction	70 - 79		
Average satisfaction	60 - 69		
Low job satisfaction	50 - 59		
Very low job satisfaction	< 50		

Therefore, Føroya Banki surveys its employees annually in order to assess job satisfaction, collaboration across divisional lines, opportunities for professional growth, as well as their perception of the Bank's image. These surveys are used as a tool to fine-tune the Bank's HR policies.

The results of the Bank's endeavours have been positive, such that today, most areas where the Bank has promoted change survey "high" or "very high" in job satisfaction.

Staff mix	
Age	
< 30 .....	17%
30-39 .....	21%
40-49 .....	44%
> 50 .....	18%

Føroya Banki strives to achieve a balanced mix of experience and youthful dynamism in its staff. The following table shows the age distribution among the Bank's employees.

With the rebranding of Føroya Banki in 2007, Føroya Banki positioned itself as a progressive "modern classic." Føroya Banki started an active process to flatten the organizational structure, to delegate responsibilities, and to shape the divisions into centres of competence. In essence, Føroya Banki is both progressive and modern, while maintaining a conservative and sound credit policy. Føroya Banki constantly seeks to reinvent itself in order to better relate to the present, but continues to call attention to proven qualities, such as sound judgment and trustworthiness.

# Risk management

Føroya Banki defines risk as any matter that may have a negative influence on the Bank's potential for achieving its business objectives. Several types of risks may arise and the Bank controls and monitors these risks closely. The most important are credit risk, liquidity risk and market risk.

The risk position in Føroya Banki has been affected by the global financial crisis. This is especially evident in connection with the Bank's credit risk and market risk, which had a total negative effect on the Bank's profit for 2008 of DKK 125m before tax. In spite of this negative effect on income, the Bank's solvency increased from 17.8% in 2007 to 21.1% by the end of 2008. The Bank's unsecured part of the loan portfolio is unchanged and the Bank's liquidity is good. Because of these solid financial conditions the Board of Directors considers the Bank's ability to operate in today's turbulent financial markets to be intact.

## Credit risk

Credit risk is the risk that borrowers will not honour their commitments. These commitments comprise loans and advances, as well as guarantees and amounts due from credit institutions. The Bank's credit risks are managed in accordance with internal policies and limits, which are approved by the Board of Directors. The Credit Department has the overall responsibility for general risk taking, monitoring and reporting to the Executive Board.

The Bank is continuously working on maintaining and improving its internal systems and procedures in order to divide customers into credit risk groups with a view to ensuring a satisfactory process of monitoring credit for the Bank, and hence to facilitate its plans for the future.

The Board of Directors has stipulated a credit policy, which is implemented in all business areas of Føroya Banki. The Bank is diligent about spreading its lending risks, and about avoiding concentrations of the loan portfolio to one single industry. With regard to large lending exposures as a percentage of equity, Føroya Banki has set internal limits, which are defined in the Bank's internal guidelines, underlining the Bank's prudent credit policy.

All corporate business exposures greater than DKK 2.5m and all retail (private individuals) exposures greater than DKK 1m are evaluated annually to assess the solidity of the exposures. It is assessed whether there is a need for special follow-up procedures and if the Bank should reconsider its commercial exposure. Large corporate loans are discussed on a regular basis between the Executive Board, the Credit Department and the Corporate Banking division.

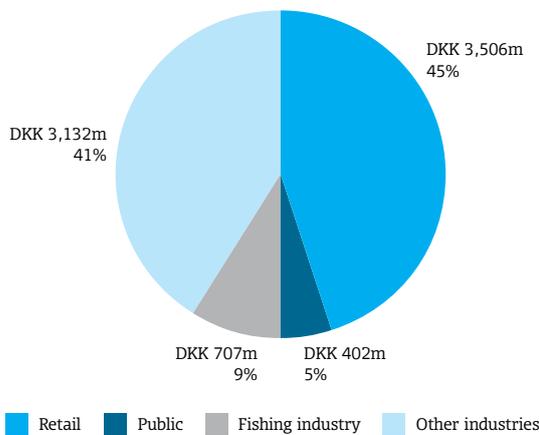
### Spreading of credit risk

The Bank's total lending grew by 3% to DKK 7.747m as at 31 December 2008, or by DKK 234m compared to the year before. The most substantial increase was in loans to corporate customers, which were up by 8% compared to 31 December 2007. Loans to the institutional sector increased by 11% or amounting to DKK 402m, while loans to retail customers declined by 2% or amounting to DKK 3,506m compared to year-end 2007. The ratio between loans to the corporate sector and the retail sector at 31 December 2008 was 50% and 45% of total loans, respectively. The exposure to the fishing industry declined to 9% of the Bank's total loan exposure, compared to 12% at the year-end 2007. The decline in the exposure to the fishing industry is a consequence the Bank's overall strategy to further diversify and spread the loan portfolio.



### Composition of loan portfolio

DKK m and %



The Bank's loans to institutional customers increased by DKK 39m, or 11%, at 31 December 2008 compared to a year earlier.

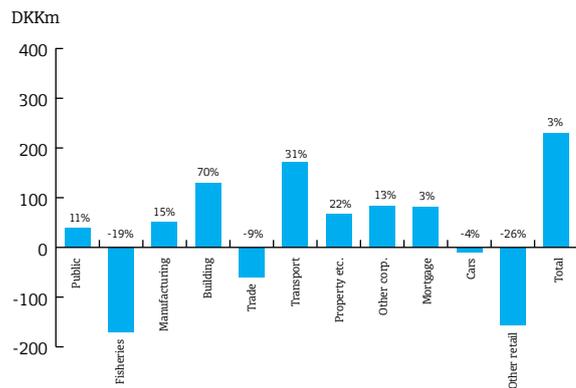
As elaborated upon on page 12, 2008 was a turbulent year in the fishing sector. Especially the high oil prices resulted in an unfavourable level of fishing activity for certain of the Faroese trawling vessels. However, the profitability in the fishing industry improved in the second half of 2008, but due a reduced demand for fish products in the export markets, the overall fishing industry is expected to show a deficit for 2008. The Bank's exposure to the fishing industry decreased by 20%, or around DKK 171m, in 2008 compared to the year before. This downward trend is expected to continue during 2009.

## Retail

The Bank's loans to the retail sector decreased by DKK 84m or by 2% at 31 December 2008 compared to 31 December 2007. Despite a downward tendency in housing market activity during 2008, the Bank's mortgage loans increased by DKK 82m, or 3%, reaching a total of DKK 2,859m. However, the Bank suffered insignificant losses in its mortgage loans. At year-end 2008, 90% of the mortgage loans are within 80% of the value of the collateral.

### Change in loan portfolio

DKK m and %



## Corporate

Loans to the corporate sector increased by DKK 279m, or 8%, at 31 December 2008 compared to 31 December 2007. The Bank spreads its credit risk by financing a variety of industries and therefore the increase in loans is visible in almost all industries and sectors except fishing.

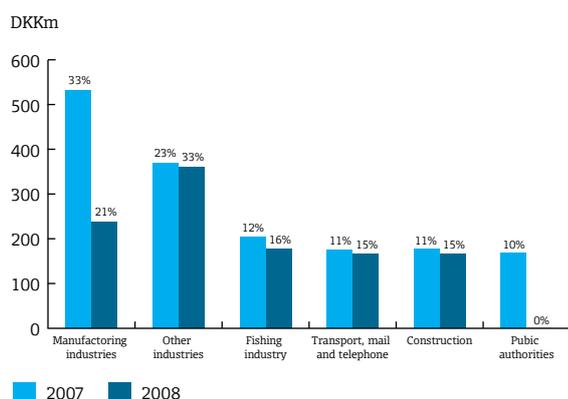
The Bank's exposures in the building and construction industry increased by DKK 129m to DKK 315m, or 4% in 2008, especially in respect of building projects in Tórshavn. The Bank has calculated a total loss on building projects corresponding to around DKK 47m. The exposure to the building and construction industry is expected to decrease during 2009.

The increase in loan exposure to DKK 171m to the transport sector, up 31% on 2007, mainly derived from newbuildings (supply vessels). The total exposure to this industry is expected to decrease during 2009 as certain loans will be repaid during the year.

## Large exposures

The Bank's significant exposures, i.e. greater than 10% of the Bank's equity, are divided in a variety of risk groups. The total amount of large exposure was approximately DKK 1.1bn at 31 December 2008, compared to DKK 1.6bn at 31 December 2007. The graph below illustrates the distribution of loans to various industries at 31 December 2007 and 31 December 2008, respectively.

**Large exposures**  
DKKbn and % of total large exposures



In 2008, the Bank has managed to reduce the total amount of large exposures by 32%. The reduction is visible in each industry, mainly in the manufacturing industry, which has been reduced by DKK 294m. In december 2008 the large exposures were 14% of the Bank's total exposures, compared to 20% in 2007.

## Collateral

The valuation of most of the Bank's collateral, such as collateral in real property, are carried out through a valuation based on the Bank's estimated housing prices in different regions of the Faroe Islands. In the corporate sector collateral are valued at an estimated value.

On 31 December 2008 the Bank's unsecured part of exposures was 38.2% of the Bank's gross loans, compared to 38.0% in 2007. The unsecured part of corporate exposures accounted for DKK 2bn, or 70% of the Bank's total unsecured share in 2008.

Despite the fact that house prices have decreased during 2008, the Bank's collateral in real property are generally unaffected by this deterioration in values. According to Landsbanki Føroya's (the Governmental Bank of the Faroe Islands) calculations, Faroese homeowners' equity decreased by DKK 1.5bn in 2008 to DKK 14bn, or to DKK 292,000 per capita. However, because of this still strong position in terms of personal equity, the Bank's collateral in real properties are considered solid.

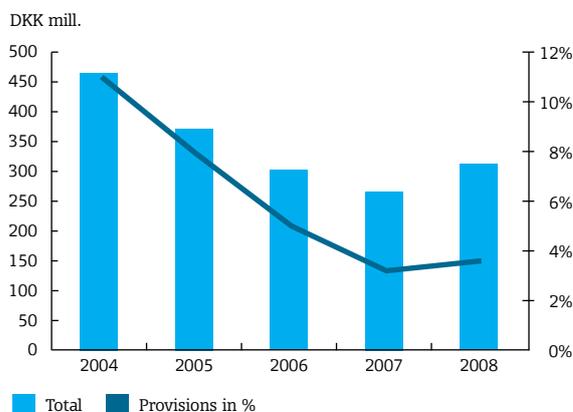
## Provisions

The Bank conducts a prudent policy regarding provisions. At 31 December 2008 the Bank's provisions for debts were DKK 312m, compared to DKK 266m at 31 December 2007. Further, total provisions as a percentage of loan exposure amounted to 3.5% as at 31 December 2008 compared to 3.2% in 2007.

» Large exposures were 73% of the Bank's equity, compared to 123% in 2007 «

### Provisions

DKK m and % of loans and advances



An assessment of the Bank's potential need for provisions is conducted quarterly, and all important exposures are examined thoroughly by the Credit Department, reporting to the Executive Board, in connection with the preparation of the financial statement. The conclusions from these examinations are presented to the Board of Directors for approval.

### Losses on loans and guarantees

DKK m	2004	2005	2006	2007	2008
Retail	7.9	4.3	3.9	4.9	1.2
Corporate	111.9	59.1	0.7	8.6	0.1
Public	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>119.8</b>	<b>63.4</b>	<b>4.6</b>	<b>13.5</b>	<b>1.3</b>

In spite of a slow down in the Faroese economy, the Banks loan losses were on the lowest level in the past 5 years. Most of the losses were established in Q4 2008. This downward trend in losses is also seen in the reduction of provisions, which is decreased with a total of DKK 154m, or 33%, for the same period.

## Liquidity risk

Liquidity risk is defined in terms of the risk of losses as a result of increased funding costs, lack of funding of new activities, as well as the Bank not fulfilling its commitments due of a lack of funding.

The Bank's liquidity is calculated in accordance with statutory requirements. In general, the purpose of liquidity management is to ensure that there is always sufficient liquidity to accommodate the Bank's commitments. The Bank's liquidity is managed and monitored in accordance with these requirements and with the emphasis on maximising flexibility while at the same time minimising financing costs.

To ensure flexible and efficient access to international credit markets, the Bank has established different types of loans such as syndicated loans, schuldschein loans, bilateral agreements and revolving facilities. The Bank continuously monitors current and new funding sources with a view to optimise the Bank's liquidity management.

Føroya Banki aims to forecast its loan requirements and capital supply in ample time before the need arises. The Bank's liquidity position should always allow for a certain fixed portion of total assets to be accessible immediately. Payment contingencies are managed by having a sufficient volume of liquid assets, mostly Danish mortgage bonds, which can swiftly be turned into liquid funds if needed.

Liquidity has been much in focus over the last year, but Føroya Banki has managed to keep a prudent liquidity buffer through out the year. However, with the new facility from the Danish Central Bank in force, under which it is possible to book excess solvency as liquidity



until September 2010, the Bank now has liquidity well beyond its requirements. At year-end the liquidity reserve was 188% above the statutory requirement.

The international rating agency, Moody's, have in their rating methodology, "Bank Financial Strength Ratings: Global Methodology", established a range of qualification criteria to be met by liquidity management of a credit institution. One of these criteria is that the liquidity must be positive for the next 12 months without any access to unsecured lending.

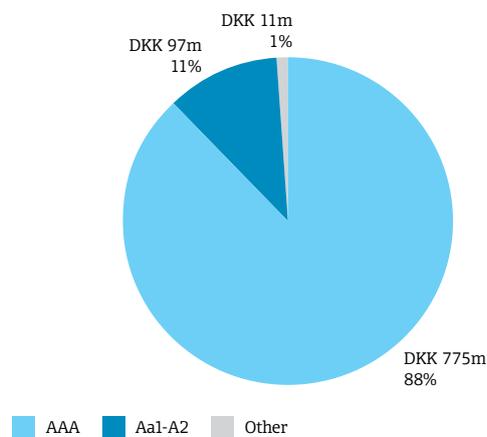
Føroya Banki has, as a natural part of the liquidity management, an internal stress model in order to be able to forecast the change in the Bank's liquidity. The underlying assumption for this stress test is that agreements of every long term commitment are not renewed.

This is a worst case scenario. Even in this worst case scenario Føroya Banki not only has a positive liquidity in the coming 12 months, but also remains above the statutory requirements until mid Q4 2009.

The monitoring and measurement of liquidity is a crucial strength of Føroya Banki's risk management procedures. Hence, this stress test is monitored, updated and provided to the Executive Board on a weekly basis.

Føroya Banki's bond portfolio is a major part of the liquidity. Therefore, it is essential, that the portfolio can be traded at fair prices at any time. Føroya Banki believes that a solid rating is a condition for ensuring a fair price in the market. Hence, it is Føroya Banki's policy to invest in bonds with high ratings and thereby minimize the credit risk from the Bank's bond portfolio.

### Rating of bonds



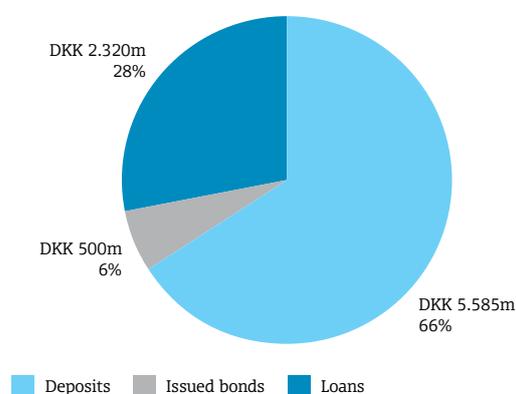
As can be seen in the figure, 88% of Føroya Banki's bonds are from AAA- rated issuers. Double A-rated issuers account for 8%, while single A-rated issuers account for 3% of the total bond portfolio. Issuers with lower ratings and other carefully selected non-rated issuers, account for 1% of the total bond portfolio.

### Funding

2008 was an active year in terms of funding. Føroya Banki was able to maintain a strong deposit funding of DKK 5.6bn., or 66% of its total funding, as at 31 December 2008.

The Bank's deposits increased by DKK 133m, equalling 2.4% of total deposits at the end of 2008. This is considered positive, especially at a time with quite competitive trends in the deposit market.

### Funding composition



Deposits by type	DKKm	%
On demand	2,027	36
At notice	1,354	24
Pension	570	10
Other	1,635	29
<b>Total</b>	<b>5,585</b>	<b>100</b>

The Bank has focused on maintaining deposits by being proactive in selling new deposit-related products as well as structured products. In particular, time deposits showed an increase in 2008. Although relatively expensive for the Bank, this type of deposits is considered to be necessary in order to ensure a sound and strong deposit portfolio.

Around 90% of the Bank's deposits stem from customers on the Faroese market. The deposits break down as follows: retail 63%, corporate 26% and public-sector customers 11%.

### Market risk

Market risk is defined as the risk that the market value of the Bank's assets and liabilities changes as a result of fluctuating market conditions.

The Bank's total market risk is calculated as the sum of the interest rate risk, currency risk and equity risk. Taking market risks is part of the Bank's core activity and has a major impact on the total earnings.

Market risks are managed and controlled on the basis of fixed limits to various risks, which the Board of Directors has approved. The Executive Board receives continuous reporting on market risks.

At 31 December 2008, value adjustment on the Bank's securities, currency portfolio and derivatives amounted to a loss of DKK 76m, compared to a gain of DKK 24m in 2007. Most of the capital loss in 2008 stemmed from the Bank's share portfolio. The 45% decline in the value of the shares was in line with the performance of the OMX C20 index of the NASDAQ OMX Nordic Exchange Copenhagen, which fell by 47% during the same period.

## » Føroya Banki's reputation is a valuable business asset in its own right «

### Interest rate risk

The Bank's interest rate risk is set according to the requirements of the Danish FSA. The interest rate risk is defined as the effects of a one percentage point change in interest rates.

The Bank's total interest rate risk amounted DKK 33.6m at 31 December 2008, or 2.3% of the Bank's Tier I capital. In comparison, in 2007 the interest rate risk was DKK 35.9m, or 2.7% of the Bank's Tier I capital. This decrease is mainly due to the higher interest rate level, and thereby reinvestment in bonds with a higher yield.

The interest rate risk from loans with fixed rates is hedged.

### Currency risk

The Bank's currency risk is measured by two key figures, currency position and currency risk, respectively. The key figures are calculated in accordance with the requirements by the Danish FSA.

The currency position is an account of the total value of the currency in relation to the Tier I capital. The currency risk shows the size of the loss that the Bank may incur from changes in exchange rates. The Bank's currency position at 31 December 2008 was DKK 20.5m, compared to DKK 208.1m in 2007.

The decrease in the currency position and risk is mostly related to loans obtained from international financial institutions for general funding purposes. The currency risk at 31 December 2008 was DKK 2,000, or 0.0% of the Bank's core capital, compared

to DKK 1.5m, or 0.1% in 2007. The reason for the low currency risk relates to the correlation between the different exchange rates.

### Equity risk

Føroya Banki's equity risk is calculated as the market value of the Bank's total holding of shares. At 31 December 2008, the Bank held shares valued at DKK 92m. At 31 December 2007, the comparative risk amounted to DKK 167m.

The decrease in the Bank's portfolio of shares is a consequence of the turmoil in the equity markets in 2008. In addition, the Bank diversifies the risk in its shareholding by investing in shares in different countries and industries. Still, the vast majority of the Bank's holdings of shares consist of shares in companies listed on the NASDAQ OMX Nordic Exchange Copenhagen.

### Other risk factors

Operational risk can potentially result in a financial loss or it would harm the Bank's reputation. The Bank has internal policies and procedures regarding all core areas.

Føroya Banki's reputation is a valuable business asset in its own right, essential to optimizing shareholder value and, as such, is constantly at risk. Reputation risk cannot be managed in isolation from other types of risks, since all risks can have an impact on reputation, which in turn may impact the Bank's brand, earnings and capital.



Communication with stakeholders, who are affected by the way the Bank performs, is vital. Good governance is about anticipating the needs of critical stakeholders, managing their expectations and communicating actively with them. A well-governed company will not only communicate effectively with customers, employees, shareholders or representative of the financial markets, among others, but also with securities commissioners and regulators.

The Bank has outsourced a material part of its IT operations to P/F Elektron. Elektron ensures by means of an ongoing development of control systems that the risk of operational errors is minimised. The loss risk as a result of IT breakdowns is therefore regarded as minimal. Elektron is the IT provider for all the Faroese banks and a number of governmental institutions, including the tax authorities. The Faroese government and the Faroese financial institutions own Elektron jointly. With its holding of 34%, Føroya Banki is the single largest shareholder.

# Bank packages

The Danish government has implemented various actions to support the financial stability of the Danish banking sector. In September 2008, the so called first bank package was introduced to improve the banks access to liquidity. A second bank package was implemented in February 2009, giving the credit institutions the opportunity to apply for lending facilities with the Danish central bank.

The contents in these actions are summarized below:

## First bank package

(Financial Stability Package)

- The first bank package provides a guarantee for all deposits and short-term claims on Danish banks participating in the agreement.
- The state-funded guarantee amounts to a total of DKK 35bn.
- The agreement expires in September 2010, but may be extended if deemed necessary.
- In continuation to the guarantee, the Danish central bank has extended various lending facilities to credit institutions with using excess solvency cover as collateral for the loan.
- There will be no dividend payments to shareholders in the two-year period.
- Each credit institution is paying a commission in order to participate in the guarantee scheme.
- Føroya Banki has agreed to participate in the arrangement. This will cost Føroya Banki approximately DKK 40m in each of 2009 and 2010.

## Second bank package

(Credit Package)

- The second bank package amounts to DKK 100bn and will expire after three years.
- In the second bank package, banks have the option of purchasing an extended state-funded guarantee for obligations that will apply until the end of 2013.
- The Danish government makes subordinated debt available at an average rate of interest of 10%
- The amount will be provided as hybrid Tier I capital to the credit institutions.
- The interest rate will be fixed individually for each credit institution. The interest rate reflects the government's risk on the loan to each bank. At the current interest rate level the interest rate will be in the range of 9 to 11.25%
- Any solvent credit institution can apply for this loan facility.
- Each credit institution applying for this loan facility must report its solvency needs.
- No option programmes are allowed for a three-year period.
- The state guarantee for obligations can be extended to December 2013 against a premium of 90 basis points.
- The act was passed through both the Danish and the Faroese parliaments in February 2009.
- Føroya Banki has no current plans to participate in this package



# Transition to IFRS in 2009

With effect from the accounting year beginning 1 January 2009, Føroya Banki will present its financial statements in accordance with the International Financial Reporting Standards (IFRS) that were approved by the EU Commission with effect from 1 January 2009.

According to the current Faroese Banking Act, no consolidated financial statements have been prepared. With the implementation of IFRS, the Bank will be required to prepare consolidated financial statements from 2009. Both the consolidated financial statements and the parent company financial statements will be presented according to IFRS.

The change in accounting principles will imply considerable changes in the valuation of certain assets and liabilities and the presentation of the income statement and balance sheet will change.

The main changes are briefly described below. The changes which the implementation of the IFRS accounting standards will imply will be announced in connection with the announcement of the Q1 2009 Interim Report.

The opening balance sheet at 1 January 2008, the balance sheet at 31 December 2008 and the income statement for 2008 will be presented in accordance with IFRS 1, "First-time adoption of IFRS".

## Impairment of loans and advances

In the future the Bank's accumulated provisions for bad and doubtful debt must be stated in accordance with IAS 39, "Financial Instruments recognition and measurement".

When implementing IAS 39, the Bank will abandon the current criteria for write-downs of loans and advances that are largely based on conservative estimates. Instead objective criteria will be established for determining impairment and resulting write-downs to the present value of expected cash flows. The write-downs of loans and advances will still require an estimate of the probability that the full amount of a loan or an advance is uncollectable and of the size of any write-downs.

As a result of the change, write-downs of impaired loans and advances will, as a general rule, be made later than under the current accounting policy. Consequently the Bank's accumulated provisions will decrease after the transition to IFRS, leading to an increase in shareholders' equity, compared to 2007.

## Origination fees

Under the current Faroese Banking Act, origination fees are recognised as income at the time of payment. According to IAS 39, "Financial Instruments Recognition and Measurement", origination fees received must be accrued as an integral part of the loan.

The change will reduce shareholder's equity at 1 January 2008. If the activity level remains the same, the change will not have any effect on future profits.

## Elimination of own shares

Under the current accounting policy, the Bank carries its holding of own shares at fair value (market price). According to IFRS the Bank will reduce its assets by the total value of own shares. Shareholders' equity will be reduced accordingly. In the future, purchases

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of own shares will be considered a reduction and sales an increase in shareholders' equity.

#### **Domicile and investment properties**

Under that current accounting policies, the Bank carries both domicile and investment properties at cost less depreciation and write-downs. At 31 December 2008, the Bank adopted an option according to the Faroese Banking Act to revalue its properties.

The Bank has decided to value its domicile properties in accordance with the revaluation model in IAS 16 "Property, Plant and Equipment" and to value its investment properties at fair value in accordance with IAS 40, "Investment Property".

With the price level on properties prevailing at 1 January 2008, the use of the revaluation model in IAS 16 and the fair value principle in IAS 40 will result in a revaluation of both domicile and investment properties in the opening balance sheet at 1 January 2008, leading to an increase in shareholders' equity.

#### **Investments in subsidiaries**

Under the current accounting policies, the Bank's investments in subsidiaries are recorded according to the equity method in the parent company financial statements. The Bank's management has chosen to account for investments in subsidiaries in the parent company financial statements at cost.

## Accounting policies

### General

The financial statements of P/F Føroya Banki have been prepared in accordance with the Faroese Banking Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on the presentation of financial statements by banks as applied in the Faroes and in accordance with guidelines for Issuers of listed securities issued by the OMX Nordic Exchanges in Iceland and in Copenhagen.

The accounting policies are unchanged compared to last year. However, the disclosures have been expanded due to the Bank's compliance with the disclosure requirements of the guidelines for Issuers of listed securities issued by the OMX Nordic Exchanges in Iceland and in Copenhagen.

### Consolidated financial statements

According to section 116 of the executive order with reference to the Faroese Banking Act, no consolidated financial statements have been prepared. At 31 December 2008, the Bank had two subsidiaries. P/F Trygd is a non-life insurance company and is therefore not consolidated with the Bank. P/F Skyn is an estate agent. The Bank's management considers P/F Skyn to be non-material and the company is therefore not consolidated with the Bank.

### Translation of foreign currency

Assets and liabilities in foreign currency are expressed in Danish kroner (DKK) at the rates of exchange published by the Danish central bank at the end of the year. Income and expenses in foreign currency are translated into Danish kroner using the exchange rates prevailing at the time of booking. Any exchange rate differences are included in the income statement under "Value adjustment of securities and foreign exchange, etc.". Forward exchange transactions are booked at the forward rate on 31 December.

### Income recognition

All income and expenses are accrued and included in the income statement only at the amounts relevant to the accounting period.

Interest receivable and payable are carried in the balance sheet under Other assets / Other liabilities to the extent

that they have not been added to the respective accounts.

Dividends are booked at the time of payment. Fees and one-off commissions are booked when received.

For non-performing loans, no interest is booked in the Income Statement if the interest is considered irrecoverable.

### Loans and advances, guarantees and amounts due from credit institutions

Amounts due to the Bank are stated at their current outstanding amounts less provisions for bad debt. The Bank's loans and guarantees are subject to continuous critical evaluation to identify potential risks of losses. Identified losses are charged to the Income Statement under "Provisions for bad and doubtful debts (net)" either as realised losses or as loss provisions. When a loss is considered to be realised, the corresponding provisions are transferred from the provisions account and the loss is written off.

Fixed-rate amounts due to the Bank are stated at the lower of their current outstanding amounts or the estimated fair value at the balance sheet date. The value adjustment of fixed-rate loans and amounts due to the Bank is incorporated in the Income Statement under "Value adjustment of securities and foreign exchange, etc.". Certain loans on which the interest rate risk has been hedged by corresponding fixed-rate derivatives are, however, not adjusted.

### Securities (current investments)

Listed securities, including the Bank's holding of own shares, are stated at their fair value at the end of the year.

Unlisted securities are recognised at cost or at their estimated fair value.

The value adjustment calculated are included in the Income Statement under "Value adjustment of securities and foreign exchange, etc.".

If the Bank recognises a provision for bad debt concerning a company, which the Bank holds shares in, the shares will be written down to nil.

### Holdings in associated undertakings

Holdings in associated undertakings comprise shares in companies in which the Bank holds from 20% to 50% of the voting rights and has a significant influence on the company's financial management and operations.

Shares in associated undertakings are valued according to the equity method. The proportionate share of the net profit of the individual undertakings is included in "Income from groups and associates".

### Holdings in subsidiary undertakings

Holdings in subsidiary undertakings comprise shares in companies in which the Bank holds more than 50% of the voting rights.

Shares in subsidiary undertakings are valued according to the equity method. The proportionate share of the net profit of the individual companies is included under "Income from groups and associates".

### Shares in associated and subsidiary undertakings held for financial restructuring

The items "Holdings in associates" and "Holdings in subsidiaries" also comprises shares in associated and subsidiary undertakings acquired with financial restructuring as the objective. These shares are measured at cost.

### Tangible assets

Land and buildings are stated at cost less depreciation and write-downs. If the carrying amount is higher than the fair value, and if the lower fair value is sustainable, then the specific land or building is written down to the lower value. Write-downs are recognised in the Income statement under "Amortisation, depreciation and write-downs".

Land and buildings whose fair value, at a conservative estimate, is considerably higher than the cost price are revalued to the higher value if this higher value is considered to be of a permanent nature. The revaluation is recorded as a revaluation reserve under shareholders' equity.

Buildings are depreciated in accordance with the straight-line method, based on the estimated useful

life of the building and its expected terminal value. Effective from the 1996 financial year, systematic depreciation has been provided for the Bank's buildings used for commercial purposes.

Machinery and equipment is stated at cost less depreciation. Depreciation is provided on a straight-line basis, based on the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	20 to 30 years.
Machinery and equipment	3 to 5 years.

Acquisitions below DKK 20,000 are written off.

### Own shares

Own shares are recognised at their fair value at the end of the year. Calculated value adjustment is stated in the Income Statement under "Value adjustment of securities and foreign exchange, etc.". An amount corresponding to the fair value is set aside under shareholders' equity under "Reserve for own shares".

### Derivatives

Derivatives are included at their fair value. The positive or negative non-netted value is stated under "Other assets" and "Other liabilities" irrespective of any netting agreements.

Derivatives employed to hedge the interest rate risk on fixed-rate assets or fixed-rate liabilities are not included on the balance sheet but are specified in the notes to the financial statements.

Interest from interest rate and currency swaps as well as premiums on forward securities and foreign exchange transactions are included under "Interest income", and changes calculated in the fair value are entered in the Income Statement under the item "Value adjustment of securities and foreign exchange, etc." and specified in the notes.

### Other assets

This item comprises interest due, positive market value of derivatives etc.

**Prepayments**

This entry, comprising mainly prepaid payroll costs, is booked at nominal value.

**Due to credit institutions and central banks**

Amounts due are included at nominal value.

**Deposits**

All deposits are included at nominal value.

**Tax**

The tax calculated on the taxable profit for the year is expensed in the Income Statement along with the year's change in provisions for deferred tax.

Deferred tax results from timing differences between the booking of income and charges for tax and for accounting purposes. Deferred tax is expected to be settled by way of future elimination of timing differences. Deferred tax includes both deferred tax liabilities carried under "Provisions for commitments" and deferred tax under "Other assets". Deferred tax is based on the current tax rate of 18%. Changes in deferred tax during the year are expensed or recorded as income in the Income Statement.

**Pension commitments**

The Bank pension commitments consist mainly of defined contribution plans under which the Bank pays contributions to insurance companies and other institutions. Such payments are expensed as they are made. Certain pension commitments are defined benefit plans, and provisions are made on the basis of an actuarial assessment.

**Off-balance-sheet items**

Off-balance-sheet items comprise guarantees and commitments, irrevocable loan commitments and similar obligations that are not included in the balance sheet. Guarantees and other commitments are recognised at their nominal value less loss provisions. Loss provisions are charged to the Income Statement under "Provisions for bad and doubtful debts (net)" and included in the balance sheet under "Other liabilities".

**Cash flow statement**

The cash flow statement shows cash flows for the year and cash and cash equivalents at the beginning and at the end of the year. The cash flow statement is presented according to the indirect method on the basis of the net profit for the year. Cash flows include securities and foreign exchange income of the year.

The cash flows from operating activities consist of the net profit for the year adjusted for non-cash items in the Income Statement and the change in working capital.

Cash flows from investing activities include acquisitions and disposals of fixed assets, companies, securities and other assets.

Cash flows from financing activities include dividend payments and changes in shareholder and subordinated debt.

Cash and cash equivalents include liquid holdings.

**Intra-group trading**

The Føroya Banki Group consists of independent legal entities. Intra-group transactions and services are settled on market terms or on a cost-reimbursement basis. Except for insignificant transactions, all transactions are based on written contracts between the entities.

## Income Statement

Note	DKK 1,000	2008	2007
1	Interest income, etc.	683,385	500,856
2	Interest expenses, etc.	333,505	209,373
	<b>Net interest income</b>	<b>349,880</b>	<b>291,483</b>
3	Dividends from shares and other investments	5,436	2,644
4	Fee and commission income, etc.	48,691	45,372
	Fees and commissions paid	189	311
	<b>Net interest and fee income</b>	<b>403,818</b>	<b>339,188</b>
5	Value adjustment of securities and foreign exchange, etc.	-75,886	23,589
8	Other operating income	93,823	1,521
	<b>Results from net financials</b>	<b>421,756</b>	<b>364,298</b>
6	Employee and administrative expenses	191,276	206,164
22	Amortisation, depreciation and writedowns	-15,338	8,707
	Other operating expenses	7,524	8
14	Provisions for bad and doubtful debts (net)	49,222	-25,072
9	Income from subsidiaries and associates	11,125	5,420
	<b>Profit from ordinary activities before tax</b>	<b>200,197</b>	<b>179,911</b>
10	Tax	29,402	35,908
	<b>Net profit</b>	<b>170,795</b>	<b>144,003</b>
	Allocation of profit		
	Net profit for the year	170,795	144,003
	Brought forward from prior years	1,135,119	1,045,519
	<b>Amount to be allocated</b>	<b>1,305,914</b>	<b>1,189,522</b>
	Dividends	0	45,000
	Adjustment of revaluation reserve under the equity method	0	-2,839
	Adjustment of reserve, own shares	6,741	9,403
	Reclassification to retained profit from previous years	1,105	2,839
	Retained profit	1,298,068	1,135,119
	<b>Total</b>	<b>1,305,914</b>	<b>1,189,522</b>
	Net profit for the year per share, DKK	17.1	14.4
	Proposed dividend per share, DKK	0.0	4.5

## Balance sheet

Note	DKK 1,000	2008	2007
<b>Assets</b>			
	Cash in hand and demand deposits with central banks	831,374	239,610
11	Due from credit institutions, etc.	139,405	533,599
12-15	Loans and advances	7,746,820	7,513,009
16,18	Bonds, etc.	893,988	894,284
17-18	Shares, etc.	91,619	167,271
19-21	Holdings in associates	37,220	34,399
19-21	Holdings in subsidiaries	71,398	100,919
22	Tangible assets	166,118	65,555
	Own shares	16,144	9,403
	Other assets	105,888	56,387
	Prepayments	9,790	6,533
	<b>Total assets</b>	<b>10,109,762</b>	<b>9,620,969</b>
<b>Liabilities</b>			
23-24	Due to credit institutions and central banks	2,320,219	2,645,515
25-26	Deposits	5,585,422	5,452,073
27	Issued bonds	500,000	0
	Other liabilities	123,823	176,163
	Deferred income	0	0
28	Provisions for obligations	18,253	2,696
	<b>Total liabilities</b>	<b>8,547,717</b>	<b>8,276,447</b>
<b>Equity</b>			
	Share capital	200,000	200,000
	Reserves	16,144	9,403
	Revaluation reserve	47,834	0
	Retained profit for the period	170,795	89,600
	Brought forward from prior years	1,127,273	1,045,519
	<b>Total equity</b>	<b>1,562,045</b>	<b>1,344,522</b>
	<b>Total liabilities and equity</b>	<b>10,109,762</b>	<b>9,620,969</b>
34	<b>Off-balance-sheet items</b>		
	Guarantees, etc.	435,223	445,684
	Other commitments	73,677	0
	<b>Total</b>	<b>508,901</b>	<b>445,684</b>

## Statement of changes in equity

### Statement of changes in equity, 2008

DKK 1,000	Share capital	Reserve according to equity method	Revaluation reserve	Reserve own shares	Retained earnings	Total equity
Equity at 1 January 2008	200,000	0	0	9,403	1,135,119	1,344,522
Prior year adjustment					-1,105	
New equity at 1 January 2008	200,000	0	0	9,403	1,134,014	1,343,417
Net profit according to the Income Statement					170,795	
Dividends paid						
Proposed dividend					0	
Purchases and sales of own shares, net				6,741	-6,741	
Reserves					0	
Revaluation			47,834			
<b>Equity at 31 December 2008</b>	<b>200,000</b>	<b>0</b>	<b>47,834</b>	<b>16,144</b>	<b>1,298,068</b>	<b>1,562,045</b>

### Statement of changes in equity, 2007

DKK 1,000	Share capital	Reserve according to equity method	Revaluation reserve	Reserve own shares	Retained earnings	Total equity
Equity at 1 January 2007	200,000	2,839	0	0	1,042,680	1,245,519
Prior year adjustment		-2,839			2,839	
New equity at 1 January 2007	200,000	0	0	0	1,045,519	1,245,519
Net profit according to the Income Statement					144,003	
Dividends paid						
Proposed dividend					-45,000	
Purchases and sales of own shares, net				9,403	-9,403	
Reserves					0	
Revaluation						
<b>Equity at 31 December 2007</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>9,403</b>	<b>1,135,119</b>	<b>1,344,522</b>

At the end of 2008, the shares were 10,000,000 each with a nominal value of DKK 20. All shares carry equal rights and there is only one class of shares. Information about the shareholders in Føroya Banki is available in the Management's report.

### Own shares held by P/F Føroya Banki

	Number of shares	Nominal value DKK	Percentage of share capital
Holding at 31 December 2007	52,597	1,051,940	0.5%
Holding at 31 December 2008	134,530	2,690,600	1.3%

Acquisitions in 2008 comprised of shares for the trading portfolio and investments on behalf of customers.

The Board of Directors is authorised to acquire shares in the Bank on the Bank's behalf in the period to the next annual general meeting up to a maximum of 10% of the Bank's share capital from time to time.

P/F Føroya Banki's subsidiaries do not hold any shares in the Bank.

## Capital base and solvency ratio

### Calculation of capital adequacy

DKK 1,000	2008	2007
<b>Capital base and solvency ratio</b>		
Equity	1,562,045	1,344,522
Deferred tax assets	-3,356	-3,356
Own shares	-16,144	-9,403
Revaluation reserve	-47,834	0
<b>Core capital after statutory deductions</b>	<b>1,494,712</b>	<b>1,331,763</b>
Revaluation reserve	47,834	0
Statutory deduction for insurance subsidiaries	-23,842	-13,284
<b>Base capital after statutory deductions</b>	<b>1,518,704</b>	<b>1,318,480</b>
<b>Risk-weighted items</b>		
Weighted items not included in trading portfolio	6,683,237	6,521,541
Weighted items with market risk	526,678	881,695
<b>Total weighted items</b>	<b>7,209,915</b>	<b>7,403,236</b>
Core capital after statutory deductions as a percentage of total weighted items	20.7	18.0
<b>Solvency ratio according to section 124 of the Faroese Banking Act</b>	<b>21.1</b>	<b>17.8</b>

## Cash flow statement

DKK 1,000	2008	2007
Net profit	170,795	144,003
<b>Adjustment of non-liquid operating items, etc.:</b>		
Provisions for bad and doubtful debts	49,222	-25,072
Depreciation of tangible assets	-15,338	8,707
Value adjustment, bonds	4,913	5,318
Value adjustment, shares and derivatives	73,874	-21,087
Result of holdings in subsidiaries	-11,125	-5,420
Tax charged to the income statement	29,402	35,908
Paid tax	-36,016	-32,892
<b>Earnings</b>	<b>265,727</b>	<b>109,464</b>
<b>Change in loans</b>	<b>-283,033</b>	<b>-2,079,818</b>
Change in holding of bonds	-4,618	-35,482
Change in holding of shares	-4,963	-20,774
Change in other assets	-26,606	21,145
Change in deposits	133,349	805,342
Due to credit institutions and central banks	-325,297	1,402,449
Issued bonds	500,000	0
Other liabilities	-11,225	53,685
Prepayments	-3,257	-517
Provisions for commitments	15,557	-402
<b>Cash flow from operating activities</b>	<b>255,635</b>	<b>255,092</b>
<b>Acquisition of tangible assets</b>	<b>-55,151</b>	<b>-13,513</b>
Sale of tangible assets	28,260	14
Acquisition of investments in subsidiaries	0	-2,500
Sale of subsidiaries	13,825	0
Sale of associates	0	626
<b>Cash flow from investing activities</b>	<b>-13,066</b>	<b>-15,373</b>
Dividends paid	-45,000	0
<b>Cash flow from financing activities</b>	<b>-45,000</b>	<b>0</b>
<b>Cash flow for the year</b>	<b>197,569</b>	<b>239,720</b>
<b>Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year</b>	<b>773,209</b>	<b>533,489</b>
Cash flow for the year	197,569	239,720
<b>Cash and amounts due etc. at the end of the year</b>	<b>970,778</b>	<b>773,209</b>
<b>Cash and amounts due etc. at the end of the year</b>		
Cash in hand and demand deposits with central banks	831,374	239,610
Due from credit institutions, etc.	139,405	533,599
<b>Total</b>	<b>970,778</b>	<b>773,209</b>

## Notes

Note	DKK 1,000	2008	2007
<b>1</b>	<b>Interest income, etc.</b>		
	Credit institutions and central banks	18,590	15,302
	Loans and advances	619,761	451,042
	Bonds	40,959	35,293
	Total derivatives of which:	4,054	-1,038
	Currency contracts	1,271	-860
	Interest rate contracts	2,783	-179
	Other transactions	0	0
	Other contracts	21	258
	<b>Total</b>	<b>683,385</b>	<b>500,856</b>
	Of which accounted for by income from genuine sale and repurchase transactions:		
	Credit institutions and central banks	0	0
<b>2</b>	<b>Interest expenses, etc.</b>		
	Credit institutions and central banks	134,879	72,332
	Deposits	198,626	137,041
	<b>Total</b>	<b>333,505</b>	<b>209,373</b>
	Of which interest expenses on genuine sale and repurchase transactions are carried under:		
	Credit institutions and central banks	0	0
<b>3</b>	<b>Dividends</b>		
	Shares	3,752	2,644
	Associates	1,684	0
	Subsidiaries	0	0
	<b>Total</b>	<b>5,436</b>	<b>2,644</b>
<b>4</b>	<b>Fee and commission income</b>		
	Securities trading & custody accounts	2,815	5,058
	Credit transfers	12,501	12,689
	Loan commissions	15,576	10,893
	Guarantee provisions	7,891	7,241
	Other fees and commissions	9,909	9,490
	<b>Total</b>	<b>48,691</b>	<b>45,372</b>
	Fees and commissions paid	189	311
	<b>Total, net</b>	<b>48,502</b>	<b>45,061</b>

## Notes

Note	DKK 1,000	2008	2007
5	<b>Value adjustment</b>		
	Bonds	-4,913	-5,318
	Shares	-72,302	20,779
	Foreign exchange	2,902	7,819
	Total derivatives of which:	-1,571	308
	Currency Swaps	-1,571	308
	Interest Swaps	0	0
	Other contracts	0	0
	<b>Total</b>	<b>-75,886</b>	<b>23,589</b>
6	<b>Employee and administrative expenses</b>		
	Employee expenses	107,727	104,411
	Administrative expenses	83,549	101,753
	<b>Total</b>	<b>191,276</b>	<b>206,164</b>
	<b>Employee expenses</b>		
	Salaries	92,642	90,678
	Pensions	7,648	6,939
	Social security expences	7,437	6,794
	<b>Total</b>	<b>107,727</b>	<b>104,411</b>
	<b>Number of employees</b>		
	Average number of full-time employees in the financial year	205.5	214.6

## Notes

Note	DKK 1,000	2008	2007
<b>6</b>	<b>Remuneration of the Board of Directors</b>		
(cont'd)	Klaus Rasmussen (from 14 March 2008)		
	Fixed salary	428	0
	Completion bonus	0	0
	Jens Erik Christensen (from 19 March 2007):		
	Fixed salary	282	404
	Completion bonus	0	300
	Keld H. Søndergaard (from 14 March 2008):		
	Fixed salary	143	0
	Completion bonus	0	0
	Olav Enomoto:		
	Fixed salary	185	200
	Completion bonus	0	150
	Sigmar Jacobsen:		
	Fixed salary	185	200
	Completion bonus	0	150
	Vilhelm Petersen (from 14 March 2008):		
	Fixed salary	143	0
	Completion bonus	0	0
	Jóhan Páll Joensen (until 14 March 2008):		
	Fixed salary	97	630
	Completion bonus	0	500
	Graham D. Stewart (until 14 March 2008):		
	Fixed salary	42	199
	Completion bonus	0	150
	Eyðhild Skaalum (until 14 March 2008):		
	Fixed salary	42	158
	Completion bonus	0	150
	Høgni Hansen (until 19 March 2007):		
	Fixed salary	0	31
	Completion bonus	0	0
	Jóhannus Egholm Hansen (until 19 March 2007):		
	Fixed salary	0	274
	Completion bonus	0	0
	<b>Total</b>	<b>1,547</b>	<b>3,497</b>

## Notes

Note DKK 1,000

6	<b>Remuneration of the Executive Board</b>	<b>Janus</b>	<b>Súni S.</b>
(cont'd)	2008	<b>Petersen</b>	<b>Jacobsen</b>
	Fixed salary	2,539	1,910
	Completion bonus	0	0
	Pension	375	282
	<b>Total remuneration</b>	<b>2,914</b>	<b>2,192</b>
	2007		
	Fixed salary	2,110	1,600
	Completion bonus	800	625
	Pension	300	225
	<b>Total remuneration</b>	<b>3,210</b>	<b>2,450</b>

### **Pension and termination, the Executive Board**

	<b>Janus</b>	<b>Súni S.</b>
	<b>Petersen</b>	<b>Jacobsen</b>
Type of pension plan	Defined contribution through pension fund	Defined contribution through pension fund
Age at which the Executive Board member is entitled to retire	62	62
Annual contribution	Bank contributes 15% of salary	Bank contributes 15% of salary
Notice of termination by the Bank, months	36	24
Notice of termination by the Executive Board member, months	12	12

## Notes

Note	DKK 1,000	2008	2007
<b>6</b>	<b>Remuneration of other executives</b>		
(cont'd)	Fixed salary	8,155	5,881
	Completion bonus	0	650
	Other bonuses	209	0
	Pension	787	529
	<b>Total</b>	<b>9,151</b>	<b>7,060</b>
	The executives included in this group are:		
	Torbjørn Andreasen, Credit Management		
	Hans Peter Clementsen (Markets, temporary from June 2008)		
	Johnny í Grótinum, Markets		
	Sámal Kr. Jacobsen (Marketing, temporary from June 2008)		
	Niels A. Joensen, Branches		
	Poula M. Kass, Marketing		
	Bjarki Mohr, HR & Management Support		
	Ingi Olsen, Corporate Lending		
	John Rajani, Corporate Finance		
	Ingi Vestergaard, Business Development		
	Cecil Weihe, Finance & Accounting		
	Carlo Chow (until May 2008)		
	Kim Linneman (until May 2008)		
<b>7</b>	<b>Auditors' fee</b>		
	Total fees for the accountancy firms elected by the annual general meeting to perform the statutory audit	1,000	1,000
	Of which fees for non-audit services	0	0
	<b>Total</b>	<b>1,000</b>	<b>1,000</b>
<b>8</b>	<b>Other operating income</b>		
	Internal rental income	4,120	4,052
	Repairs and maintenance of properties	-5,329	-8,340
	Proceeds from sale of subsidiaries and associates etc.	95,032	5,809
	<b>Total</b>	<b>93,823</b>	<b>1,521</b>
<b>9</b>	<b>Profit (loss) on holdings in associates and subsidiaries</b>		
	Associates	2,820	0
	Subsidiaries	8,304	5,420
	<b>Total</b>	<b>11,125</b>	<b>5,420</b>
<b>10</b>	<b>Tax</b>		
	Estimated tax on the profit for the period	25,517	36,196
	Adjustment of tax assets	0	-288
	Adjustment of deferred tax	3,934	0
	Adjustment of prior year tax charge	-50	0
	<b>Total</b>	<b>29,402</b>	<b>35,908</b>

## Notes

Note	DKK 1,000	2008	2007
<b>10</b>	<b>Breakdown of tax liability</b>		
(cont'd)	Estimated tax (18%) on profit from ordinary activities	36,035	32,384
	Tax value of non-taxable income	-6,648	-1,927
	Tax value of non-deductible expenses	-3,870	5,739
	Adjustment of tax assets	0	-288
	Adjustment of deferred tax	3,934	0
	Adjustment of prior year tax charge	-50	0
	<b>Total</b>	<b>29,402</b>	<b>35,908</b>
	Effective tax rate (tax charged to the income statement relative to profit (loss) from ordinary activities before tax)	14.7%	20.0%
<b>11</b>	<b>Due from credit institutions etc. specified by maturity</b>		
	On demand	139,405	108,599
	3 months or less	0	425,000
	<b>Total</b>	<b>139,405</b>	<b>533,599</b>
<b>12</b>	<b>Loans and advances specified by maturity</b>		
	On demand	115,879	300,541
	3 months or less	303,738	349,947
	3 months to 1 year	522,191	682,208
	Over 1 year to 5 years	1,794,910	1,865,542
	Over 5 years	5,010,102	4,314,770
	<b>Total</b>	<b>7,746,820</b>	<b>7,513,009</b>
<b>13</b>	<b>Credit risks</b>		
	<b>Loans and advances specified by sector and industry, %</b>		
	Public authorities	5%	5%
	Corporate sector:		
	Fishing industry	9%	12%
	Manufacturing industries etc.	5%	5%
	Building and construction etc.	4%	2%
	Trade, hotels and restaurants	7%	8%
	Transport, mail and telephone	9%	7%
	Property administration, purchase and sale and business services	5%	4%
	Other industries	9%	9%
	Corporate	50%	47%
	Retail	45%	48%
	<b>Total</b>	<b>100%</b>	<b>100%</b>

## Notes

Note	DKK 1,000	2008	2007
14	<b>Changes in the provisions are specified as follows</b>		
	Balance at the beginning of the year	265,567	301,537
	Net provisions during the period	49,222	-25,072
	Write-offs during the period	-3,102	-13,139
	Payment of loans previously written-off	494	2,241
	<b>Total</b>	<b>312,181</b>	<b>265,567</b>
15	<b>Accumulated provisions</b>		
	Provision end of year for loans and guarantees	301,113	265,567
	Provision end of year for amounts due from credit institutions and other items involving a credit risk	11,069	0
	<b>Total</b>	<b>312,181</b>	<b>265,567</b>
	Accumulated provisions end of year for loans and guarantees as a percentage of loans and guarantees	3.5	3.2
	Non-accrual amounts due end of year	232,136	25,134
16	<b>Bonds</b>		
	Listed	893,988	894,284
	Unlisted	0	0
	<b>Total</b>	<b>893,988</b>	<b>894,284</b>
17	<b>Shares</b>		
	Listed	72,559	135,428
	Other shares	6,550	13,643
	Other investments	12,510	18,200
	<b>Total</b>	<b>91,619</b>	<b>167,271</b>
18	<b>Financial current assets</b>		
	Financial current assets valued at market value	973,097	1,043,355
	The difference between the cost of financial current assets and the higher market value at the time of reporting	-18,527	47,485
	Financial current assets not valued at market value	0	0

## Notes

Note	DKK 1,000	Subsidiaries		Associates		Other investments	
		2008	2007	2008	2007	2008	2007
19	<b>Financial fixed assets</b>						
	Cost, beginning of year	102,169	112,503	31,674	32,300	21,526	13,249
	Additions	0	2,500	0	0	3,400	8,291
	Disposals	-13,825	-753	0	-626	-9,090	-13
	Other changes in capital	-14,615	-12,082	0	0	0	0
	<b>Total cost, end of year</b>	<b>73,729</b>	<b>102,169</b>	<b>31,674</b>	<b>31,674</b>	<b>15,837</b>	<b>21,526</b>
	Revaluations and writedowns, beginning of year	-1,250	913	2,726	2,726	-3,326	-485
	Profit	8,304	5,420	2,820	0	0	0
	Other changes in capital	-9,385	-6,918	0	0	0	0
	Revaluations and writedowns for the year	0	0	0	0	0	-2,820
	Reversal of revaluations and writedowns	0	-664	0	0	0	-21
	<b>Revaluations and writedowns, end of year</b>	<b>-2,330</b>	<b>-1,250</b>	<b>5,546</b>	<b>2,726</b>	<b>-3,326</b>	<b>-3,326</b>
	<b>Book value at the end of the year</b>	<b>71,398</b>	<b>100,919</b>	<b>37,220</b>	<b>34,399</b>	<b>12,510</b>	<b>18,200</b>

## Notes

Note	2008	2007
<b>20 Subsidiaries</b>		
<b>P/F Trygd</b>		
Domicile	Tórshavn	Tórshavn
Loans and advances	-	-
Deposits	91,417	90,519
Off-balance-sheet items	-	-
Equity	70,728	85,343
Net profit	9,385	6,918
Activity	insurance company	insurance company
Proportion of share capital	100%	100%
<b>P/F Skyn</b>		
Domicile	Torshavn	Torshavn
Loans and advances	651	-
Deposits	182	3,651
Off-balance-sheet items	-	-
Equity	169	1,363
Net profit	-1,080	-1,137
Activity	real estate	real estate
Proportion of share capital	100%	100%
Regarding P/F Trygd and P/F Skyn the equity 2008 and the net profit 2008 are not audited		
<b>P/F Vestlax</b>		
Domicile	Kollafjørður	Kollafjørður
Loans and advances	-	165,080
Deposits	-	5,406
Off-balance-sheet items	-	-
Equity	-	38,760
Net profit	-	15,334
Activity	aquaculture	aquaculture
Proportion of share capital	0%	100%
<b>21 Associates</b>		
<b>Proportion of share capital</b>		
P/F Bakkafrost Holding	34%	34%
P/F Løkir	30%	30%
P/F Elektron	34%	34%
<b>Total</b>		
Loans and advances	136,175	208,310
Deposits	5,365	494

## Notes

Note	DKK 1,000	Land and buildings		Machinery and equipm.		Total	
		2008	2007	2008	2007	2008	2007
22	<b>Tangible assets</b>						
	Cost, beginning of year	175,920	170,498	28,379	23,302	204,299	193,800
	Additions	941	5,437	51,935	5,101	52,876	10,537
	Disposals	-1,576	-14	-28,004	-24	-29,581	-38
	<b>Total cost, end of year</b>	<b>175,285</b>	<b>175,920</b>	<b>52,309</b>	<b>28,379</b>	<b>227,594</b>	<b>204,299</b>
	Revaluation reserve, beginning of year	0	0	0	0	0	0
	Additions	58,334	0	0	0	58,334	0
	Reversals	0	0	0	0	0	0
	<b>Revaluation reserve, end of year</b>	<b>58,334</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58,334</b>	<b>0</b>
	Depreciation and writedowns, beginning of year	118,912	116,006	19,833	17,032	138,744	133,037
	Depreciation during the year	2,898	2,906	3,002	2,825	5,900	5,731
	Writedowns during the year	2,468	0	0	0	2,468	0
	Reversal of depreciation and writedowns	-27,297	0	-4	-24	-27,301	-24
	<b>Depreciation and writedowns, end of year</b>	<b>96,980</b>	<b>118,912</b>	<b>22,831</b>	<b>19,833</b>	<b>119,810</b>	<b>138,744</b>
	<b>Book value at the end of the year</b>	<b>136,638</b>	<b>57,009</b>	<b>29,479</b>	<b>8,546</b>	<b>166,118</b>	<b>65,555</b>
	<b>Full writeoff for the year</b>	<b>0</b>	<b>0</b>	<b>2,275</b>	<b>2,976</b>	<b>2,275</b>	<b>2,976</b>

## Notes

Note	DKK 1,000	2008	2007
<b>23</b>	<b>Due to credit institutions and central banks specified by institution</b>		
	Due to central banks	16,777	22,682
	Due to credit institutions	2,303,441	2,622,833
	<b>Total</b>	<b>2,320,219</b>	<b>2,645,515</b>
<b>24</b>	<b>Due to credit institutions and central banks specified by maturity</b>		
	On demand	113,650	114,857
	3 months or less	100,000	619,000
	3 months to 1 year	562,251	0
	Over 1 year to 5 years	1,544,317	1,911,658
	Over 5 years	0	0
	<b>Total</b>	<b>2,320,219</b>	<b>2,645,515</b>
<b>25</b>	<b>Deposits specified by type</b>		
	On demand	2,026,549	2,209,099
	At notice	1,353,855	1,530,317
	Time deposits	1,602,655	1,200,319
	Special deposits	602,362	512,338
	<b>Total</b>	<b>5,585,422</b>	<b>5,452,073</b>
<b>26</b>	<b>Deposits specified by maturity</b>		
	On demand	2,058,953	2,209,099
	3 months or less	3,380,985	3,048,023
	3 months to 1 year	635	44,006
	Over 1 year to 5 years	144,849	150,236
	Over 5 years	0	709
	<b>Total</b>	<b>5,585,422</b>	<b>5,452,073</b>
<b>27</b>	<b>Issued Bonds specified by maturity</b>		
	3 months to 1 year	500,000	0
	<b>Total</b>	<b>500,000</b>	<b>0</b>
<b>28</b>	<b>Provisions for obligations</b>		
	Provisions for pensions and similar commitments	2,319	2,696
	Provisions for deferred tax	14,434	0
	Other provisions for commitments	1,500	0
	<b>Total</b>	<b>18,253</b>	<b>2,696</b>

## Notes

Note	DKK 1,000	2008	2007
29	<b>Foreign exchange risk</b>		
	Assets in foreign currency	1,828,352	1,587,880
	Liabilities and equity in foreign currency	1,889,089	1,740,288
	Exchange rate indicator 1	20,509	208,101
	Exchange rate indicator 1 as a percentage of core capital after statutory deductions	1.4	15.6
	Exchange rate indicator 2	2	1,512
	Exchange rate indicator 2 as a percentage of core capital after statutory deductions	0.0	0.1
30	<b>Interest rate risk</b>		
	Interest rate risk	33,642	35,926
	Interest rate risk broken down by institution's currency with largest interest rate risk		
	DKK	31,642	31,704
	EUR	2,110	4,136
	USD	-13	166
	CHF	1	-81
	GBP	0	1
31	<b>Credit risk on financial instruments</b>		
	Positive market value after netting		
	Counterparty with risk weighting 0%	0	0
	Counterparty with risk weighting 20%	19,783	1,782
	Counterparty with risk weighting 100%	7,584	12,684

## Notes

Note	DKK 1,000	Nominal		Net market value	
		2008	2007	2008	2007
32	<b>Derivatives</b>				
	<b>Maturity distribution by remaining life</b>				
	<b>3 months or less</b>				
	Currency contracts:				
	Forwards/futures, bought	1,503,221	380,308	4,543	-1,509
	Forwards/futures, sold	172,305	105,641	-6,361	1,598
	Options, bought	15,062	0	0	0
	Options, written	15,062	0	0	0
	Interest rate contracts:				
	Swaps	4,375	0	-190	0
	<b>3 months to 1 year</b>				
	Currency contracts:				
	Forwards/futures, bought	158,956	956,261	6,372	-2,631
	Forwards/futures, sold	84,422	27,914	-6,657	2,894
	Options, bought	73,460	38,500	0	0
	Options, written	73,460	0	0	0
	Interest rate contracts:				
	Swaps	0	2,500	0	-143
	<b>1 year to 5 years</b>				
	Currency contracts:				
	Forward/futures, bought	153,791	0	13,475	0
	Forward/futures, sold	153,690	0	-12,814	0
	Options, bought	25,894	0	0	0
	Options, written	25,894	0	0	0
	Interest rate contracts:				
	Swaps	25,945	29,065	-3,216	-1,375
	<b>Over 5 years</b>				
	Interest rate contracts:				
	Swaps	371,136	389,307	-19,635	7,784
	<b>Total</b>				
	Currency contracts:				
	Forwards/futures, bought	1,815,968	1,336,569	24,390	-4,140
	Forwards/futures, sold	410,418	133,556	-25,833	4,492
	Options, bought	114,416	38,500	0	0
	Options, written	114,416	0	0	0
	Interest rate contracts:				
	Swaps	401,456	420,872	-23,041	6,265
	<b>Total</b>			<b>-24,484</b>	<b>6,617</b>

## Notes

Note	DKK 1,000	Positive		Negative	
		2008	2007	2008	2007
33	<b>Derivatives</b>				
	<b>Market value:</b>				
	Currency contracts:				
	Forwards/futures, bought	23,745	293	-5,615	4,433
	Forwards/futures, sold	9,882	4,540	-29,455	48
	Interest rate contracts:				
	Swaps	0	9,632	-23,041	3,367
	<b>Market value of non-guaranteed contracts</b>				
	Currency contracts:				
	Forwards/futures, bought	23,745	293	5,615	4,433
	Forwards/futures, sold	9,882	4,540	29,455	48
	Interest rate contracts:				
	Swaps	0	9,632	23,041	3,367
	<b>Total</b>	<b>33,627</b>	<b>14,466</b>	<b>58,111</b>	<b>7,849</b>
	<b>Total after netting</b>	<b>-24,484</b>	<b>6,617</b>		
34	<b>Off-balance-sheet items</b>				
	Guarantees, etc.:				
	Financial guarantees			11,183	13,831
	Other guarantees			424,040	431,854
	<b>Total guarantees, etc.</b>			<b>435,223</b>	<b>445,684</b>
	Other commitments			73,677	0
	<b>Total</b>			<b>508,901</b>	<b>445,684</b>

### 35 Provisions of security

The Bank has provided security for outstanding amounts from customers for the repayment of loan from Danske Bank of DKK 216m.

Furthermore, the Bank has deposited bonds at a total market value of DKK 46m with Danmarks Nationalbank (the Danish central bank) in connection with clearing.

## Notes

Note		2008	2007		
36	<p><b>Related party transactions</b></p> <p>There were no unusual transactions between related parties in 2008. There have been intercompany transactions with subsidiaries and associates in 2008. These transactions typically included financing, commission for referred business, sale of services and other shared costs. These transactions took place on market terms.</p> <p><b>Board of Directors and Executive Board</b></p> <p>Size of loans, pledges, sureties or guarantees and related collateral provided to the members of the Board of Directors and the Executive Board can be specified as follows:</p> <p><b>Board of Directors</b></p> <p>Loans 1,911 1,932</p> <p>Collateral 1,659 1,648</p> <p><b>Executive Board</b></p> <p>Loans 785 805</p> <p>Collateral 785 805</p>				
37	<b>Number of branches in addition to the Head Office</b>	9	14		
38	<b>Shares held in P/F Føroya Banki by directors and other executives holding office at year end 2008 and their related parties</b>				
		<b>Number</b>	<b>Related</b>		
	<b>Board of Directors</b>	<b>of shares held</b>	<b>parties</b>		
	<b>Position</b>		<b>Nominal</b>		
			<b>value DKK</b>		
	Klaus Rasmussen	Chairman	570	2,300	57,400
	Jens Erik Christensen	Board member	1,161		23,220
	Keld Søndergaard Holm	Board member	0	0	0
	Wilhelm E. Petersen	Board member	0		0
	Olav Enomoto	Board member	538		10,760
	Sigmar Jacobsen	Board member	1,985	113	41,960
	<b>Total</b>		<b>4,254</b>	<b>2,413</b>	<b>133,340</b>
	<b>Executive Board</b>				
	Janus Petersen	CEO	15,466	290	315,120
	Súni Schwartz Jacobsen	Managing Dir.	10,000		200,000
	<b>Total</b>		<b>25,466</b>	<b>290</b>	<b>515,120</b>
	<b>Other executives</b>				
	<b>Total</b>		<b>11,560</b>	<b>616</b>	<b>243,520</b>

## Statement by the management

The Board of Directors and the Executive Board (the management) have today reviewed and approved the Financial Statement of P/F FØROYA BANKI for the financial year 2008.

The Financial Statement has 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 Faroes and in accordance with the financial reporting requirements of the OMX Nordic Exchanges in Iceland

and in Copenhagen for financial statements of listed financial institutions.

In our opinion, the Financial Statement gives a true and fair view of the Bank's assets, liabilities and financial position at 31 December 2008, and of the results of the Bank's operations and cash flows for the financial year starting on January 1 and ending on December 31, 2008.

The management will submit the Financial Statement to the general meeting for approval.

Tórshavn, 18 February 2009

### Executive Board

Janus Petersen

Súni Schwartz Jacobsen

### Board of Directors

Klaus Rasmussen

Jens Erik Christensen

Keld Søndergaard Holm

Wilhelm Petersen

Olav Enomoto

Sigmar Jacobsen

## Internal auditors' report

We have audited the Annual Report of P/F Føroya Banki for the financial year 2008. 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 Faroes and in accordance with additional Icelandic and Danish 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 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.

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 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 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 Faroes and in accordance with additional Icelandic and Danish disclosure requirements for annual reports of listed financial institutions.

Tórshavn, 18 February 2009

Petur A. Johannesen  
Chief Auditor

# Independent auditors' report

## To the shareholders of Føroya Banki P/F

We have audited the accompanying Annual Report of Føroya Banki P/F for the financial year 2008, which comprises the management's report, the statement by the management, accounting policies, income statement, balance sheet, capital, cash flow statement and notes. The financial statements have been prepared in accordance with the Faroese 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.

## Management's responsibility for the Annual Report

Management is responsible for preparing and presenting an Annual Report that gives a true and fair view in accordance with the Faroese Financial Business Act and with the executive order and guidelines of the Danish Financial Supervisory Authority and in accordance with 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

Our responsibility is to express an opinion on the Annual Report based on our audit. We conducted our

audit in accordance with auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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 judgment, 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 controls relevant to the 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 effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 did not result in any qualification.

## Opinion

In our opinion, the Annual Report gives a true and fair view of the Company's assets, liabilities and financial position at December 31, 2008, and of the results of the Company's operations and the cash flows for the year in accordance with the Faroese 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, and with additional Icelandic and Danish disclosure requirements for annual reports of listed financial institutions.

Tórshavn, 18 February 2009

**SPEKT**  
Løggildir grannskoðarar Sp/f

**Rasmussen & Weihe P/F**  
Løggilt grannskoðanarfelag

Finnbjørn Zachariassen  
State Authorised Public  
Accountant

Jákupa Mikkelsen  
MSc in Business Administration  
and Accounting

Ole Guldborg Nielsen  
Chartered Public Accountant

Joen Magnus Lamhauge  
Registered Accountant

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