

# Financial Crisis Evident in Eik Banki Group's Result

**The financial crisis is evident in Eik Banki Group's annual accounts 2009, showing a net loss of DKK 314 million. However, the income has increased and the basic operation shows a result of DKK 392 million. Liquidity is good and the Group's solvency ratio is 10.6 per cent**

2008 has been a particularly volatile year in the global banking- and financial sector. The international trend has also affected Eik Banki Group, which operates in several markets and runs the largest internet bank in Denmark. The impact of the international crisis is especially evident in market value adjustments and impairment of loans, the majority of which is related to the Danish market.

"The result is unsatisfactory, but there is solid progress in the basic operation, which is very pleasing", says Marner Jacobsen, CEO of Eik Banki Group.

The result before taxes is a loss of DKK 415.6 million against a profit of DKK 465.3 million in 2007. After taxes, the result is a loss of DKK 314.1 million against a profit of DKK 393 million the year before.

## **Unusual Situation on the Market**

The result must be seen in the light of a series of unusual events in the market with falling shareprices and – particularly in the fourth quarter – an actual recession and bankruptcy of several companies.

"The situation has in fact been extraordinary. We have lost money on the bankruptcy of banks, which only very few people would have expected a year ago. Our corporate loan portfolio on real estate on the Danish market has also been hit. On the other hand, the situation in our retail customer loan portfolio is completely different, and we do not expect that it will be significantly affected. We are also very pleased that the Faroese part of our operation has made it through the crisis so far", says Marner Jacobsen.

The decline in share prices and impairments on loans were the main sources for the loss in 2008. Negative value adjustments of securities reduce the result by DKK 246 million. In 2007, gain on investments was DKK 192 million. Impairments on loans, especially in the Danish market, deduct DKK 553.7 million from the result. As a comparison, impairments in 2007 were DKK 36.6 million.

## **Strong Basic Operation**

As opposed to this, there is the strong basic operation, which reveals progress in Eik Banki's core operation. The basic operation is defined as the result before value

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adjustments, impairments on loans, result of capital holdings and taxes. The basic operation has a DKK 392 million profit against DKK 250 million in 2007.

“Thus the special development during the last year conceals a sound basic operation. This is of great importance to us, as these special times will pass, and the basic operation will once again be the decisive factor”, says Marner Jacobsen, CEO.

### **Diversified Loans**

The Eik Group portfolio is well diversified geographically and on segments. Approximately one third of total loans are mortgage credit loans in private homes. Under normal circumstances, this would indicate a limited risk.

However, impairments still amount to more than half a billion DKK. Hitherto, the Faroese market has managed to pull through fairly well, while the development on the Danish market has been more negative. Less than 20 percent of the impairments are related to Faroese borrowers. Impairments and losses in connection with foreign banks amount to approximately one third of impairments.

### **Solvency and Liquidity**

Eik Banki Group's solvency ratio is 10.6 per cent, and the solvency ratio of Eik Banki P/F is 18.3 per cent. The statutory minimum requirement is 8 per cent.

The Group has decided to join Credit Package I, which provides security for deposits. Despite the good solvency, the Board of Directors has decided to ask the General Meeting for authorisation to obtain hybrid core capital in order to participate in Credit Package II. The Board's decision regarding a possible participation in Credit Package II will be taken before 30 June 2009.

Total liquidity at year-end was DKK 5.7 billion, and the excess cover as regards the required minimum is 164.5 per cent.

Equity is DKK 1.7 billion.

### **Strong Strategic Platform for Growth**

“All in all, Eik Banki is well equipped to meet the challenges ahead and any set back that the Bank might experience due to the current financial crisis”, says Marner Jacobsen, CEO.

He points out that Eik Banki Group has a strong platform for future growth with two banks, well educated employees and a customer base of more than 130,000 customers in total.

“Our strategy of growth, development, profitability and risk diversification will not be weakened by a period of instability on the global markets. Therefore, we intend to maintain our strategic course, however with the due respect for the challenges of the financial crisis”, says Marner Jacobsen.

### **Outlook for 2009**

2009 will undoubtedly be yet another challenging year for the financial sector. Eik Banki estimates that the result before value adjustments, impairments and taxes will be DKK 350 million against DKK 384.1 million in 2008. The main reason for the lowered estimate for 2009 is that Eik Banki is obliged to pay DKK 54.5 million more than in 2008 for the participation in Credit Package I.

A possible participation in Credit Package II is not included in the above mentioned estimate, and neither are possible losses of other banks in the Private Contingency Association. Due to the international financial crisis, the insecurity of the estimate exceeds the average.

### **Change in Accounting Principles**

Eik Banki has changed the accounting principles in 2008. Comparisons with previous years should therefore be made with qualification. The changed accounting principles however entail that Eik Banki's annual accounts are comparable to those of other Danish banks.

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