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### **Føroya Banki participates in guarantee scheme provided by the Danish government**

The Danish government has provided a two-year guarantee scheme for all deposits with and unsecured claims against Danish financial institutions. It is expected that most of the Danish banking sector will participate in the guarantee scheme.

Føroya Banki participates in the guarantee scheme, which runs for two years from October 6, 2008, and which may be prolonged if required to maintaining financial stability.

The guarantee scheme is managed by Det Private Beredskab (the Sector Fund). The reason for the state guarantee scheme is a desire to maintain and strengthen the financial stability in Denmark, which has been threatened by the recent instability and turbulence on the international capital markets.

#### **The scope and conditions for the state guarantee**

The Sector Fund will provide a loss guarantee of DKK 10bn to cover potential losses. In addition, the Sector Fund will pay a market-conform guarantee commission of DKK 7.5bn on an annual basis. The Danish government will cover any additional losses, and any profit will be allotted to the government.

If the government's loss exceeds the loss guarantee and the guarantee commission to be paid by the Sector Fund, the Sector Fund must cover any additional losses up to DKK 10bn through a guarantee commission increase.

The total contribution from the Sector Fund in the form of a guarantee commission and a loss guarantee thus amounts to minimum DKK 15bn and maximum DKK 35bn over the two years.

The guarantee covers creditor's unsecured claims against banks, if such losses are not covered by the Danish Guarantee Fund for Depositors and Investors; other depositor protection funds, or in another way (for instance by way of covered bonds, or by way of debt or deposits secured on government bonds or covered bonds).

During the term of the agreement, the participants agree not to:

- pay dividends
- establish new share buy-back programmes
- issue new share option programmes or extend or renew existing programmes

**Effects on Føroya Bank's financial result and outlook for the year**

The immediate effect of the guarantee scheme is expected to facilitate the banks access to funding in the international capital markets, and to improve the banks funding conditions. This is expected to have a positive effect on the banks net interest income.

In 2008, the banks participation in the guarantee scheme is expected to lead to increased expenses of approx DKK 6m, which equals to the banks share of the guarantee commission for 2008. To this should be added potential additional expenses if payment under the loss guarantee falls due, according to the terms of the agreement.

Føroya Banki's share of the annual guarantee commission of DKK 7.5bn is expected to amount to approx DKK 30m annually in 2009 and 2010 respectively. To this should be added potential additional expenses if, according to the terms of the agreement, payment under the loss guarantee falls due, and if the guarantee commission is increased.

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