

Annual Report

2007

Annual Report **2007**

Management, Head Office and Branches

Board of Directors

Jóhan Páll Joensen, Chairman
Jens Erik Christensen, Vice-chairman
Eyðhild Skaalum, Board member
Graham D. Stewart, Board member
Olav Enomoto, Employee Representative
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Summary

Annual Report 2007

- Føroya Banki's net profit for 2007 was DKK 180m before tax, which corresponds to the projections in the 2007 Q3 Interim Report
- Net interest and fee income amounted to DKK 339m compared to DKK 275m. This is a 23% increase. The reason is a large increase in loans and increased fee income.
- The result from net financials amounted to DKK 364m for 2007, which is a DKK 84m or a 30% increase compared to the 2006 result
- Employee and administrative expenses increased by 34% to DKK 206m in 2007 compared to 2006. The reasons are e.g. expenses in connection with the establishment of a subsidiary bank in Denmark.
- The Bank's loans amounted to DKK 7.5bn at 31 December 2007, which is a 39% increase. The increase is mainly funded through long-term loans from financial institutions
- The Bank's solvency ratio was 17.9% and liquidity was 103% above statutory requirements

Outlook 2008

- Føroya Banki expects a pre-tax profit for 2008 in the range of DKK 165m – 185m.
- Net interest income is expected to increase by 8 -14% in 2008 based on a growth in the loan portfolio
- Fee income is expected to increase by 8 -12%
- Employee and administrative expenses are expected to increase by 0 - 5%, mostly due to expenses connected with the establishment of a subsidiary bank in Denmark
- Loans and deposits are expected to increase by 5 -10% in 2008 in correspondence with the expected economic growth in 2008

Financial Highlights

INCOME STATEMENT		Index				
	2007	2006	07 / 06	2005	2004	2003
DKK 1,000						
Interest income, etc.	500,856	327,427	153	298,279	292,523	309,561
Interest expenses, etc.	209,373	88,692	236	64,066	57,961	63,416
Net interest income	291,483	238,736	122	234,213	234,562	246,145
Dividends from shares and other investments	2,644	1,548	171	516	497	291
Fee and commission income, etc.	45,372	34,964	130	20,802	21,092	18,512
Fees and commissions paid	311	280	111	254	238	1,041
Net interest and fee income	339,188	274,968	123	255,277	255,913	263,907
Value adjustments of securities and foreign exchange, etc.	23,589	7,432	317	7,636	1,088	-5,483
Other operating income	1,521	-1,991	-	2,235	-2,154	16,464
Results from net financials	364,298	280,409	130	265,148	254,847	274,888
Employee and administrative expenses	206,164	154,353	134	136,105	121,773	117,942
Amortisation, depreciation and writedowns	8,707	7,606	114	6,444	5,276	921
Other operating expenses	8	14	56	0	0	79
Provisions for bad and doubtful debts (net)	-25,072	-67,969	37	-34,341	11,570	109,630
Income from groups and associates	5,420	7,046	77	1,511	4,939	970
Profit from ordinary activities before tax	179,911	193,451	93	158,451	121,167	47,286
Tax	35,908	34,042	105	29,543	24,076	9,302
Net profit	144,003	159,409	90	128,908	97,090	37,984
BALANCE SHEET						
Assets						
Cash in hand and demand deposits with central banks	239,610	201,877	119	73,747	209,217	181,947
Due from credit institutions, etc.	533,599	331,612	161	104,263	79,402	116,702
Loans and advances	7,513,009	5,408,119	139	4,071,455	3,635,865	3,511,795
Bonds, etc.	894,284	864,119	103	1,802,928	1,420,961	1,367,758
Shares, etc.	167,271	134,813	124	83,306	13,839	4,958
Investments in associates	34,399	35,026	98	4,713	4,921	3,677
Investments in group enterprises	100,919	113,416	89	122,358	120,752	116,305
Tangible assets	65,555	60,762	108	62,487	65,587	68,803
Own Shares	9,403	0	-	0	0	0
Other assets	56,387	57,115	99	43,561	41,133	31,347
Prepayments	6,533	6,016	109	5,217	4,954	4,833
Total assets	9,620,969	7,212,876	133	6,374,034	5,596,632	5,408,124
Liabilities						
Due to credit institutions and central banks	2,645,515	1,243,066	213	113,499	70,441	57,301
Deposits	5,452,073	4,646,731	117	4,506,532	3,869,675	3,779,942
Other liabilities	176,163	74,462	237	664,338	95,161	55,926
Provisions for obligations	2,696	3,099	87	3,556	4,153	4,843
Total liabilities	8,276,447	5,967,357	139	5,287,925	4,039,430	3,898,013
Equity						
Share capital	200,000	200,000	100	200,000	100,000	100,000
Reserves	9,403	2,839	331	10,912	9,402	4,198
Retained profit for the period	89,600	152,363	59	0	41,887	17,014
Brought forward from prior years	1,045,519	890,317	117	875,197	1,405,913	1,388,900
Total equity	1,344,522	1,245,519	108	1,086,110	1,557,202	1,510,111
Total liabilities and equity	9,620,969	7,212,876	133	6,374,034	5,596,632	5,408,124

Financial Highlights

Ratios and Key Figures	2007	2006	2005	2004	2003
Solvency ratio, %	17.9	23.8	27.5	47.3	47.1
Core capital ratio, %	18.0	23.8	27.6	47.4	47.2
Return on equity before tax, %	13.9	16.6	12.0	7.9	3.2
Risk-weighted Items, DKK mill	7,403	5,214	3,918	3,282	3,192
Return on equity after tax, %	11.1	13.7	9.8	6.3	2.5
Income/cost ratio, DKK	1.95	3.06	2.46	1.88	1.21
Cost / income, %	51.3	32.7	40.6	53.4	82.9
Interest rate risk, %	2.7	1.1	3.4	1.4	1.5
Foreign exchange position, %	15.6	11.8	8.1	3.5	1.6
Foreign exchange risk, %	0.1	0.0	0.0	0.0	0.0
Loans, advances and provisions in relation to deposits, %	142.7	122.9	98.6	106.0	107.9
Excess cover relative to statutory liquidity requirements, %	103.2	132.2	244.9	261.2	260.3
Large exposures as a percentage of equity, %	122.4	126.5	51.1	30.6	27.9
Share of amounts due on which interest rates have been reduced, %	0.3	0.4	1.3	1.7	1.4
Provisioning ratio, %	3.2	5.0	7.9	11.0	13.5
Write-off and provisioning ratio, %	-0.3	-1.1	-0.7	0.3	2.6
Annual growth on loans and advances, %	38.9	32.8	12.0	3.5	2.9
Gearing of loans and advances	5.6	4.3	3.7	2.3	2.3
Number of shares, end of year (denomination DKK 100)	2,000,000	2,000,000	2,000,000	1,000,000	1,000,000
Earnings per share after tax (nom. DKK 100)	72.0	79.7	85.9	97.1	38.0
Book value per share (nom. DKK 100)	672	623	543	1,557	1,510
Dividends per share (nom. DKK 100)	23	0	300	50	20
P/E ratio (nom. DKK 100)	12.4	N/A	N/A	N/A	N/A
Price / Book value (nom. DKK 100)	1.33	N/A	N/A	N/A	N/A
Market price per share (nom. DKK 100)	893	N/A	N/A	N/A	N/A
Number of full-time employees at 31 December	228	221	191	196	199
Dividends (DKK mill.)	45	0	600	50	20
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⁾	14.4	15.9	N/A	N/A	N/A
Book value per share (nom. DKK 20) ⁽¹⁾	134	125	N/A	N/A	N/A
Dividends per share (nom. DKK 20) ⁽¹⁾	4.5	0	N/A	N/A	N/A
P/E ratio (nom. DKK 20) ⁽¹⁾	12.4	N/A	N/A	N/A	N/A
Price / Book value (nom. DKK 20) ⁽¹⁾	1.33	N/A	N/A	N/A	N/A
Market price per share (nom. DKK 20) ⁽¹⁾	179	N/A	N/A	N/A	N/A

⁽¹⁾ As of 1 January 2007, the denomination of the shares is changed from DKK 100 to DKK 20 per share. The amount of shares is correspondingly increased from 2,000,000 to 10,000,000. For the sake of comparison, the 2006 share denomination has been converted to DKK per share.

Financial Review

Income statement

P/F Føroya Banki realised a net profit of DKK 144m in 2007 compared to DKK 159m in 2006. The pre-tax profit amounted to DKK 180m, thus matching the projection announced in the Interim Report for the first nine months of 2007. In 2006 the pre-tax profit amounted to DKK 193m.

The result from net financials in 2007 was DKK 364m or a 30% increase compared to 2006. The 10% decrease in net profit was mainly due to a reduction in reversals of provisions for bad and doubtful debts in 2007 compared to 2006 and increased employee and administrative expenses.

Income

Overall there has been a positive trend in income in 2007. Results from net financials increased by 30% in 2007 compared to 2006.

Net interest income amounted to DKK 291m in 2007, a 22% improvement from DKK 239m in 2006. The increase in interest income was primarily attributable to the increasing business volume and interest level in 2007. The Bank's interest expense has increased significantly in 2007. This was due to a more competitive market for deposits, increasing interest level and the increased borrowings from credit institutions to fund the strong growth in lending.

Net fee and commission income amounted to DKK 45m in 2007 compared to DKK 35m in 2006. This is a 30% improve-

ment. The increase is primarily a result of the ongoing optimisation of the Bank's fee and commission income, and especially growing income from guarantee commission and income from the Bank's Corporate Finance operations.

Income from value adjustments more than trebled compared to 2006. In 2007 there was a favourable development in the Bank's value adjustments on DKK 23.6m compared to DKK 7.4m in 2006 and this is an income increase of DKK 16.2m. The growth stems mainly from an increase in realised and non-realised stock rate gain on DKK 14.8m, in addition to an increased currency gain on DKK 4.2m. Value adjustments of bonds were negative by DKK 5.3m, or a DKK 3m decrease compared to 2006. Value adjustments of derivatives led to an increase of DKK 0.2m.

Income from groups and associates amounted to DKK 5.4m in 2007 compared to DKK 7m in 2006. This is a 23% decrease.

In connection with the preparation of the 2007 annual report, the Bank has reclassified the DKK 5.8m gained in connection with the sale of the shares in P/F Bakkafrøst Holding to the item Other Operating Income.

Employee and administrative expenses

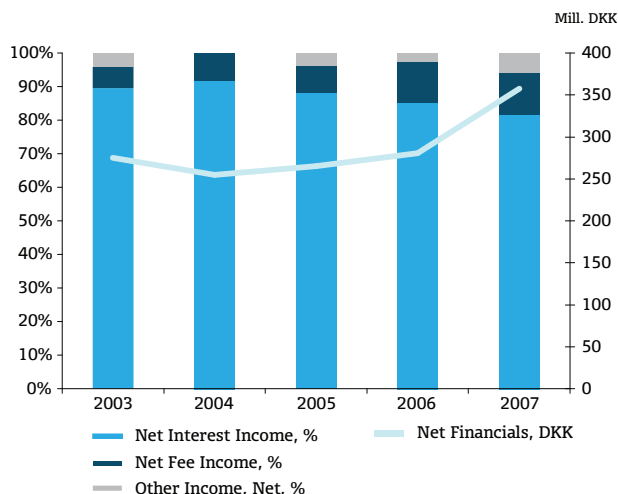
Employee and administrative expenses was DKK 206m in 2007 compared to DKK 154m in 2006. This was an increase of DKK 52m, or by 34%. This significant increase was due to several factors.

The Bank has had an increase in employee expenses of DKK 19.9m, or 23%, partly because of a growth in staff numbers, and partly because of a new salary agreement that was made in the year. Employee expenses increased in connection with the floatation of the Bank.

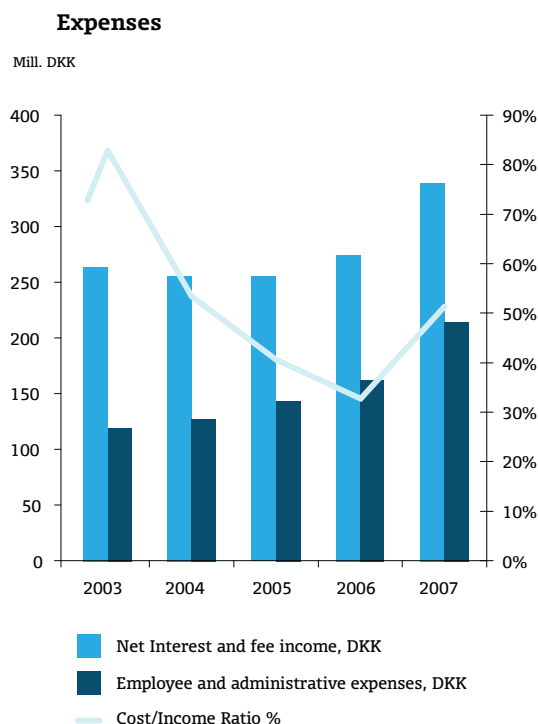
Administrative expenses have increased DKK 32m mainly as a consequence of the establishment of a subsidiary bank in Denmark and the Bank's re-branding in 2007.

In total, the Bank has charged DKK 27.3m to the income statement in connection with the establishing etc. of a subsidiary bank in 2007, or 53% of the total expense increase of DKK 52m. Administrative expenses of DKK 25m are provisions in accordance with an agreement with the subsidiary's management and leading staff regarding repurchase of shares.

Net Financials and Composition of Income



Financial Review



Despite the increasing employee and administrative expenses, Føroya Banki is characterised by a highly cost conscious culture and is at all times seeking to streamline the Bank's organisation to optimise the use of the Bank's resources. Therefore at year-end the Bank closed five small branches that provided cashier services only.

The cost/income ratio was 51.3%. It is the Bank's goal to maintain a ratio below 50%.

Provisions for debts (net)

In 2007 the Bank recorded provisions as a net positive entry amounting to DKK 25m compared to DKK 68m in 2006. The positive entry was due to persistently favourable economic conditions, which led to a low level of new provisions and allowed reversals of prior-year charges.

Tax

The Bank's tax charge for 2007 is calculated to be DKK 36m, corresponding to an effective tax rate of 20%. The reason why the tax charged to the income statement is above the statutory required 18% is mainly caused by the DKK 25m

provision for the purchase of shares from the future management of the intended subsidiary bank in Denmark has not been tax deducted.

Capital and Solvency

Share capital

At the end of 2007, the share capital totalled DKK 200m, and the shares numbered 10m. No changes have been made to the share capital in 2007.

Shareholder's Equity

Shareholder's equity was DKK 1,345m at 31 December 2007, compared to DKK 1,246m at 31 December 2006. The change reflects the recognition of the profit for the year after tax amounting DKK 144m after the DKK 45m dividend has been deducted.

The return on equity after tax in 2007 was 11.1% compared to 13.7% at 31 December 2006. Earnings per share after tax at 31 December 2007 was DKK 14.4 compared to DKK 15.9 in 2006. It must be noted that in 2006, the nominal share value was DKK 100, while it was DKK 20 in 2007 and that the nominal share value for 2006 has been converted to DKK 20 for the sake of comparison.

The Board of Directors is proposing that the general meeting approves a dividend of DKK 4.5 per share, or 31% of the net profit, corresponding to a total dividend payment of DKK 45m. The Bank's dividend policy is a payout ratio of minimum 30%.

Solvency

The solvency ratio at 31 December 2007 was 17.9% compared to 23.8% at 31 December 2006

The increase in risk-weighted items from DKK 5,214m at 31 December 2006 to DKK 7,403m at 31 December 2007 was attributable primarily to lending growth.

Liquidity

Recent months' turmoil in the international money market has put focus on the importance of sufficient liquidity in

Financial Review

financial institutions. The Bank's liquidity policy is to hold a solid and robust surplus above the statutory liquidity requirements. The liquidity at 31 December was 103.2% above the statutory liquidity requirements. The purpose of this policy of holding a liquidity buffer is to protect the activities of the Bank in the midst of turmoil on the financial markets. Recent developments have underpinned the usefulness of this liquidity policy.

Balance sheet

The Bank's total assets amounted to DKK 9,621m at 31 December 2007, an increase of DKK 2,408m or 33% compared to 31 December 2006.

Loans and Advances

Loans and advances increased from DKK 5,408m at 31 December 2006 to DKK 7,513m at 31 December 2007 or by DKK 2,105m – 39%. This considerable increase is due to growth in retail loans, but mainly loans to the corporate sector. DKK 714m or 34% of the increase is loans to retail customers, while the rest are mainly loans to corporate customers. Loans to institutional customers have not changed significantly in 2007 compared to 2006.

In accordance with the Bank's strategy, the Bank in 2007 increased its loans to the corporate sector, which has led to the

fact that the retail and corporate sectors now hold an equal amount of the Bank's total loans, 48% and 47% respectively. The remaining 5% are loans to institutional customers.

The increase in loans to the corporate sector on DKK 1,365m has mainly been to land-based industries.

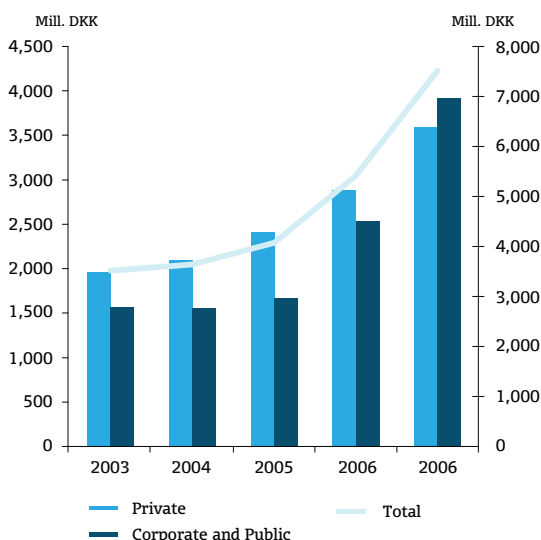
The Bank's gross market share was 44% at 31 December 2006. At 30 September 2007 the market share fell to 41%. Part of the reason for the drop in the Bank's market share, despite the increase in loans, is the appearance of Kaupthing Bank in the statistics from March 2007.

Due to Credit Institutions and Central Banks

Amounts due to credit institutions and central banks amounted to DKK 2,646m at 31 December 2007 compared to DKK 1,243m at 31 December 2006. This comprises an increase of DKK 1,402m or 113%. As lending activities to a certain extent were funded by an increase in deposits, the increased lending has improved liquidity standings at 31 December 2007.

In accordance with the intention to reduce the Bank's risks, loans from credit institutions are obtained from as many different credit institutions on the European market as possible, in addition to the fact that they all have varying repayment periods. The largest part of these loans must be repaid within 2-3 years.

Composition of Loans

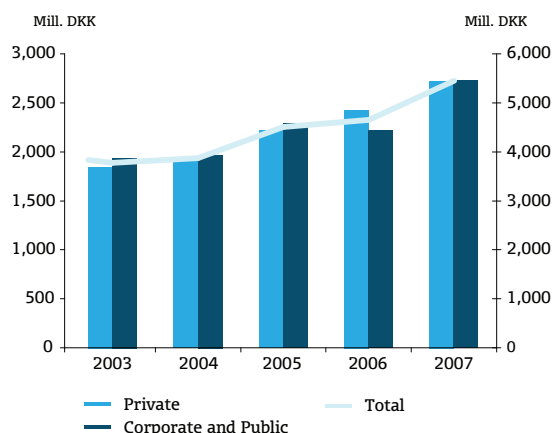


Financial Review

Deposits

Deposits amounted to DKK 5,452m at 31 December 2007, increasing by DKK 805m from 31 December 2006 or by 17%. The increase in deposits is mainly due to time deposits, while other types of deposits at 31 December remain relatively unchanged in comparison with 31 December 2006.

Composition of Deposits



The Bank's market share of deposits in the Faroe Islands was 39% at 31 December 2006. At 30 September 2007 the market share is unchanged, i.e. 39%.

Events after the balance sheet date

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

Outlook 2008

The Bank's outlook for 2008 is based on the Bank's budget and forecast for 2008.

The Bank projects the pre-tax profit in 2008 to be within the range of DKK 165-185m.

The Bank's main market will continue to be on the Faroe Islands in 2008. The economic development is still favourable in the Faroe Islands. The last two years the nominal growth in GDP has been 8-9% p.a. The main driver of growth is a boost in investments. Construction activity for housing purposes will remain at a high level in 2008, but we expect it to level off by the end of the year. The later years' high level of investment in fishing vessels is expected to decrease to a lower level in 2008.

The Bank predicts that the economy will be growing at a favourable pace in 2008, however we expect it to be somewhat lower than in the previous years. Since there is no official forecast of the economic growth in 2008, our forecast is based on an estimated nominal growth rate of 5% in 2008.

Føroya Banki's private banking activities in Copenhagen are expected to start in the first half of 2008. The business model is to offer wealthy costumers services in asset management and to finance these costumers' investment projects. It is not within the scope of the Bank's strategy to finance the Danish housing market, so the expected slowdown in this market will not affect the Bank. It is the Bank's credit policy only to finance customers with good economic standings and a sound and diversified income base, and to fund the lending with deposits and long to medium term funding. The Bank expects a tight long to medium term credit market in 2008, and this may limit the growth opportunities in the Danish operation. Due to start-up costs, it is expected that the Danish entity will run a deficit of DKK 10m in 2008.

The Bank expects group loans and deposits to grow by 5-10% in 2008.

Net interest income for the group is expected to increase by 8 -14%, based on a higher volume in lending in 2008 than the year before, and based on an assumption that the interest margin will remain stable. Fee and commission income is expected to increase by 8 -12%.

The employee and administrative costs are expected to grow by 0-5%. The growth in cost in the Faroese operation is expected to be very limited, so the main part of the growth in costs is related to the subsidiary.

Due to the positive outlook for the Faroese economy the forecast of provisions for bad and doubtful debt is limited to approximately DKK 10m.

The Bank does not expect income from value adjustments in 2008 due to the current turmoil in the financial markets.

As previously announced the Bank is in the process of divesting the aquaculture company P/F Vestlax. The projection of 2008 net profit does not include any possible effect of the divestment.

Føroya Banki has a good liquidity, which exceeded statutory requirements by 103% at 31 December 2007. In 2007 the Bank increased the maturity of the funding by increasing long and medium term loans by DKK 1.9bn. It is Føroya Banki's strategy to further increase the level of medium to long-term loans as well as expanding financing from deposits and from the note and bond market, and this will be a main focus area for the Bank in 2008.

Business Model

Føroya Banki's vision is to be the leading bank on the Faroe Islands and internationally to provide its customers with selected financial services. The Bank's mission is to make it financially possible for its customers to achieve their full potential.

Key financial objectives

Føroya Banki focuses on the following key financial objectives:

- An average annual organic growth of 10% in net interest and fee and commission income up to 2010
- A long-term cost/income ratio below 50%
- A long-term solvency ratio of 12%. In absolute terms Føroya Banki will aim to have a minimum tier 1 capital of DKK 1,2bn in order to be able to participate in important lending arrangements of a certain size.

The capital base is continuously evaluated to ensure that the Bank has the most optimal capital structure in relation to its strategy. This may include considerations concerning tier 2 capital and hybrid tier 1 capital in the future.

- Capital that is not required for the organic or acquisitive development of the Bank will be returned to the shareholders
- A long-term return on equity after tax of 12%. The return on equity should be seen in connection with the high solvency ratio, with a lower solvency facilitating a higher return on equity.

Company strategy

The objective of the strategy is to generate profitable growth in the three principal business units, Retail Banking, Corporate Banking and Markets & Treasury. In addition the strategy is to generate growth from new business areas in the Faroe Islands and abroad.

Key elements in the strategy for 2008-10 are following:

- Exploiting the growth potential in the Faroese market
- Geographical expansion with a focus on Private Banking, corporate lending and funding
- Optimising fee and commission income
- Optimising the capital structure
- Optimising business processes
- Continuous training and education of employees

The Føroya Banki share

Føroya Banki's overall financial objective is to generate a competitive return to its 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.

Føroya Banki's share capital consists of 10,000,000 shares in denomination of DKK 20 with a total nominal value of DKK 200m. Each share carries one vote at the General Meeting. However there is a voting restriction in the articles of association, stipulating that no shareholder can cast more votes than the equivalent of 10%.

The Føroya Banki shares are listed on the OMX Nordic Exchanges in Copenhagen and Reykjavik. The shares in Føroya Banki are part of the MidCap+ index in Copenhagen.

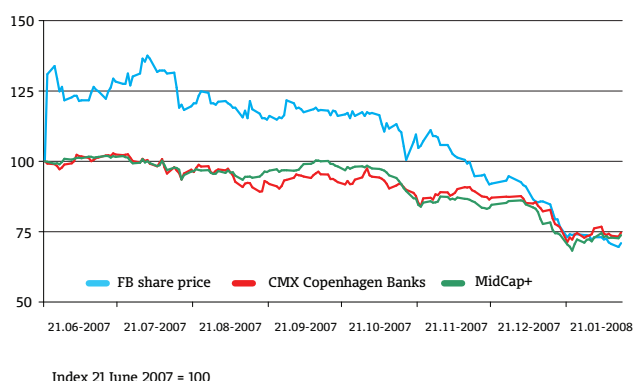
Føroya Banki Shares Quick Facts

Closing price 31 Desember 2007, DKK	179
Share capital, DKKm.	200
Number of shares	10,000,000
Market capitalisation	
31 Desember 2007, DKKm	1,790

Business Model

The Bank's shares were initially on offer for DKK 189 per share in June 2007 in the floatation of the Bank. The closing price of the Føroya Banki share at 31 December 2007 was DKK 179, which is a drop of approximately 5% since 21 June 2007 to 31 December 2007. Since 31 December 2007 and until 12 February 2008, the shares of Føroya Banki have declined with some 24%. In the same period the shares of the OMX Copenhagen MidCap+ index have declined with 12%. Since the IPO of Føroya Banki in June 2007 and until 12 February 2008, the shares have decreased by 29%.

Føroya Banki share vs. OMX Copenhagen banks and MidCap+



Share ratios

It is satisfactory that the Bank has achieved an earning per share after tax amounting to DKK 14.4. Book value per share amounts to DKK 134 at 31 December 2007.

Føroya Banki's shareholders

The Financing Fund of 1992 started the process of publicly floating the Bank in November 2006 and a prospectus was published on 4 June 2007. On 21 June 2007, the Bank was listed on the OMX Nordic exchanges in Iceland and Denmark. There was a substantial interest in the floatation and the offering was 26 times oversubscribed. Following the listing, at the end of 2007, the Bank has approximately 15,000 shareholders.

Until the time of the publication of the Annual Report 2007, the following shareholders have notified the relevant authorities that they hold 5% or more of the Bank's share capital:

- Fíggjargrunnurin frá 1992 (Faroe Islands)
- Sp/f Skrinið (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 ordinary general meeting. At 31 December Føroya Banki holds 0.53 % of the nominal share capital.

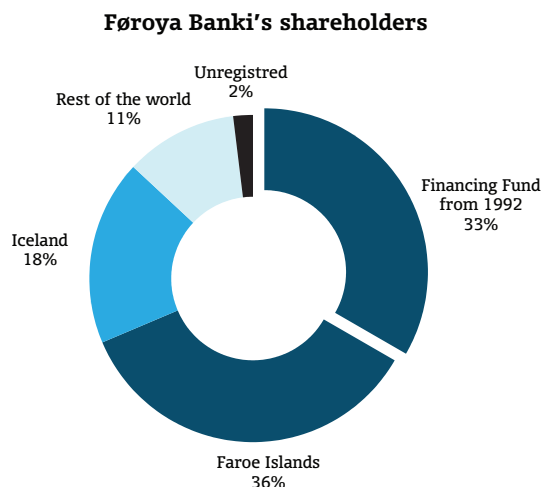
For an overview of the shareholdings of Føroya Banki's Board of Directors, Executive Board and managers please refer to note number 37 to the Financial Statement.

Country	Percentage of nominal shareholdings	Nominal value of shares
Faroe Islands	69%	137,356,940
Iceland	18%	36,514,660
Rest of the world	11%	22,511,600
Unregistered	2%	3,616,800
Total	100%	200,000,000

The majority of the shareholders in Føroya Banki originate from the Faroe Islands, and as can be seen above, some 69% of the total shareholdings in Føroya Banki have Faroese owners. The second largest country of ownership is Iceland, with 18% of the total shareholdings. Some 11% are dispersed across the rest of the world, and 2% are not registered by name, and thus are unknown to the Bank.

The following figure is an illustration of the shareholders of Føroya Banki, as was reported in the table above. However for informative purposes the shareholdings of the Financing Fund from 1992 ("The Fund") is isolated in the total Faroese shareholdings. The Fund sold some 66% of the shares in the floatation in June 2007, and now holds 33.4%. This is by far the largest shareholder in Føroya Banki, and therefore it serves an informational purpose to isolate that single shareholding from the rest of the geographical section.

Business Model



Investor Relations Information

As a consequence of the stock exchange listing the Bank has established an investor relations function. On the Bank's web site under Investor Relations, the policy governing the Bank's Investor Relations (IR) function is available, along with other relevant information to the stakeholders of the Bank.

The IPO of Føroya Banki in June was the main force driving the initial roadshows to the European investor community. From June to December, the Executive Board and IR officer of Føroya Banki visited the following cities on roadshows: Tórshavn, Copenhagen, Reykjavík, London, Stockholm, Oslo, Helsinki, Paris, Amsterdam, Frankfurt and Zurich. Roadshows were primarily held in connection with the IPO, and publication of the Bank's Interim Financial Reports for the first six months and nine months of the year. There have also been other occasions when the Bank has been attending events aimed at private investors, among them the Danish Shareholders' Association Shareholders Fair in Copenhagen. However the majority of the IR activities have been aimed at the institutional and professional investors in the Faroe Islands, the Nordic countries and the rest of Europe.

Dividends and dividend policy

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

possible under Faroese law until 1 January 2008 and will require a change in the Banks Articles of Association.

The Bank's Board of Directors has adopted a dividend policy, which reflects the long-term earnings and cash flow potential of the Bank, while maintaining an appropriate capitalisation that allows the Bank 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 result after tax as from the financial year 2007. In addition, the Board of Directors will continuously assess the Bank's capital structure with the purpose of returning any capital to shareholders that is believed not to be required by the Bank.

Previous dividend payments

The Bank paid dividends of DKK 0 in 2007 for the financial year 2006, DKK 600m in 2006 for the financial year 2005, corresponding to DKK 60 per share of nominal DKK 20, and DKK 50m in 2005 for the financial year 2004, corresponding to DKK 5 per share of nominal DKK 20¹.

Dividends for 2007

The Board of Directors is proposing that the general meeting approve a dividend of DKK 4.5 per share for the financial year 2007 corresponding to a total dividend payment of DKK 45m or 31% of the net profit 2007.

Governance

Organisation

To further advance the Bank's strategy to expand business areas to include selected financial services abroad, at the same time as setting objectives to optimise operations on the home market, it was assessed necessary to implement adjustments in the Bank's managerial structure in 2007.

The most significant changes are that the credit department, finance department and the marketing department now are individual organisational entities, while the management

¹ At the time of declaring and paying the dividends mentioned, the nominal value of each share was DKK 100.

Business Model

administration is merged with the Human Relations department. The responsibilities of the Business Development department have been widened to include project management.

Markets El Treasury has been widened to include funding, while also incorporating of the Investor Relations responsibilities.

The objectives are to streamline the organisation to work as effectively as possible, while at the same time dividing the responsibilities within the Bank to ensure compliance with statutory requirements and to ensure maximum protection in the administration of the Bank's operations.

Key elements of the management structure are fixed authorisations, requirements for ongoing reporting and considerable transparency in the Bank's activities.

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 sit on the Board of Directors.

Føroya Banki is dual listed on the OMX Nordic Exchanges in Reykjavik and in Copenhagen with Reykjavik as the primary listing. Therefore the corporate governance principles of Føroya Banki comply with the Icelandic governance recommendations issued by the OMX Nordic Exchange in Reykjavik.

General meeting

According to the Bank's Articles of associations, the shareholders are entitled to attend as well as to have specific issues considered, speak and vote at the general meeting, provided that 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, shall not cast votes representing more than 10% in aggregate of the total share capital, regardless of the shareholding.

Any initiatives to prevent takeover attempts will be handled in line with the Bank's objectives, and will be submitted to the shareholders.

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 to the shareholders of general meetings and is convinced that the shareholders have a satisfactory impression of the agenda.

Notifications on general meetings are published by announcement to the OMX and in Dimmalætting 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 company require the proposal to be adopted by two thirds of both the votes cast and the share capital represented at the General Meeting.

Board of Directors and Executive Board

According to the Articles of association, members of the Board of Directors are elected by the general meeting for one year.

In accordance with 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.

According to the division of powers, the Board of Directors outlines the overall principles governing the affairs of Føroya

Business Model

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

The Board of Directors are very aware of their duties and responsibilities and regularly discuss strengths and weaknesses of its own work at the Board Meetings. However to strengthen this work, the Board is working on implementing formal procedures on how to assess its own work, working methods and working procedures.

The Board of Directors convenes at regular Board Meetings at least 10 times a year. The Board of Directors held 11 meetings during the year. In good time before the Board Meetings the Directors receive information on financial matters, the Bank's development and its operations.

Independence of Directors

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

- Jóhan Páll Joensen owns and manage enterprises that have done substantial business with the Bank in 2007
- Eyðhild Skaalum is a Board Member of Fíggjargrunnurin frá 1992 which holds more than 10% of the Bank's total share capital
- Sigmar Jacobsen is an employee of the Bank
- Olav Enomoto is an employee of the Bank

Recruitment and assessment of directors

The Board of Directors comprises six members, of which the staff elects two. The chairman of the Board of Directors assesses the Board's work. A description of the individual members of the Board of Directors is included in this Annual Report. It is believed that the Board of Directors complement each other with varying expertise, qualifications and skills and that these match the sphere of interest of a Nordic financial service provider such as Føroya Banki.

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.

Currently the Board of Directors does not see the need for regular assessments of Board of Directors or management and cooperation between them. Through regular meetings and close collaboration, including working with management, the Board feels that it can have the necessary discussions about the achieved results.

Executive Board

The composition of the Executive Board has not changed in 2007. It is believed that circumstances regarding appointment to management, including severance conditions, follow standard practice on the area and this is reassessed on a regular basis.

Remuneration

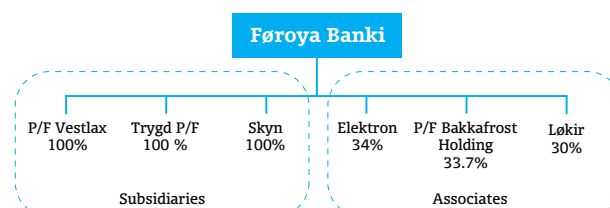
Information on remuneration of the Board of Directors, the Executive Board, and other executives appears in note 5 to the accounts of the Bank.

For information on Føroya Banki shares held by the Board of Directors, the Executive Board and other executives see note 37.

Legal Structure

The Føroya Banki Group is comprised of the following entities:

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



Business Model

A short description of the different companies in the combined Føroya Banki Legal Structure overview as pictured above:

P/F Trygd

P/F Trygd is a non-life insurance company owned by Føroya Banki. Trygd operates in the Faroese market as well as overseas in selected markets within the marine and offshore sectors. On the Faroe Islands, Trygd is a full-service provider of non-life insurance to customers in the private, commercial, marine and municipal and governmental segments.

Trygd has its only office in Tórshavn and distributes its products through the branch network of Føroya Banki. As of 31 December 2007, Trygd had a total non-life market share of around 25 percent on the Faroe Islands.

As of 31 December 2007, P/F Trygd had a equity of DKK 85m. Profit after tax in 2007 was DKK 6.9m.

P/F Skyn

P/F Skyn is a real estate brokerage established by Føroya Banki in November 2006. Skyn initiated operations in February 2007 and works in close cooperation with the retail customer advisors 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 2007, P/F Skyn had a equity of DKK 1.3m following a capital injection of DKK 2m in 2007. Profit after tax in 2007 was a negative DKK 1.2m.

P/F Vestlax

Føroya Banki took over control of Vestlax as a consequence of the crisis in the aquaculture industry in 2003-04. Vestlax has since been restructured with the aim to divest the company.

The aim is to divest Vestlax during the first half of 2008. The Vestlax group comprises four salmon hatcheries, one fish-processing plant, one live-fish carrier and several sea farming licenses in four different locations.

As of 31 December 2007, P/F Vestlax had a equity of DKK 39m. Profit after tax in 2007 was DKK 15m.

P/F Bakkafrost Holding

Bakkafrost is the result of a merger in 2006 between a number of aquaculture companies, all except one suffering from the crisis in the aquaculture industry in 2003-04, some of which Føroya Banki had become the owner 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 33.7% in Bakkafrost. Føroya Banki considers the holdings in Bakkafrost as temporary. The shareholders of Bakkafrost Holding have agreed to work towards a listing of the company.

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

As of 31 December 2007, P/F Bakkafrost Holding had a 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 with the purpose of further development and subsequent divestment. Løkir targets companies with a significant growth potential and has a special focus on companies subject to privatisation and generational change or companies in need of growth capital.

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 34.3%, Føroya Banki is the single largest shareholder. Elektron is run on a non-profit basis, with its primary objective being to serve the financial institutions and their IT infrastructure and systems.

Business Model

The process of establishing Føroya Bank A/S

In August 2007 the bank announced its plans to establish a subsidiary bank in Denmark to be called Føroya Bank A/S.

The business model of the subsidiary is to offer wealthy customers services in asset management and financing these customers' investment projects. It is not the Bank's strategy to finance the Danish housing market. Thus the expected slowdown in this market will not affect the Bank. The target customers are individuals with good economic standings and a sound and diversified income base.

Føroya Bank A/S' activity is expected to start in the first half of 2008. It is the Bank's strategy to base its activities on funding in deposits and long-term credits. Due to a tight international credit market-, lending activity in 2008 is expected to be modest, and the Bank will focus on private banking and funding activities. The subsidiary is expected to run a deficit of approximately DKK 10m in 2008.

When the subsidiary Føroya Bank A/S is established, P/F Føroya Banki will hold 91.7% of the share capital and the management and key employees of the subsidiary bank will hold 8.3% of the share capital. A re-purchasing agreement has been made between Føroya Banki and the management and key employees of the subsidiary bank, which commits Føroya Banki to purchase the 8.3% of the share capital in 2012-15. Føroya Banki has estimated this liability to DKK 25m, which is included in the accounts for 2007.

Risk Management

Føroya Banki defines risk as any matter, which may have a negative influence on the Bank's possibilities to achieve its business objectives. Several types of risks may appear and the Bank controls and monitors these risks closely. The most important are credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the risk that borrowers will not honour their commitments. Commitments comprises loans and advances, 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 Bank's management. The credit department has the over-all responsibility for general risk taking, monitoring and reporting to management.

The Bank is continuously working on developing systems that can divide customers into credit risk groups to ensure the Bank a satisfactory monitoring process of credit, to facilitate the future plans of the Bank.

All corporate business exposures greater than DKK 2.5m and all private 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 rethink its position.

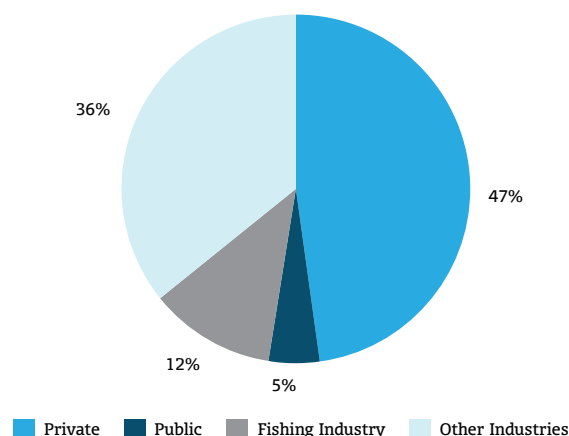
Spreading of credit risk

Føroya Banki is very aware of spreading the exposures to minimize the credit risk. This is also one of the reasons why the Bank is establishing a subsidiary bank in Denmark.

The Bank's total lending has increased by 39% at 31 December 2007, or by a total of DKK 2,105m. The most substantial growth is on loans to corporate and retail customers, 62% and 24% respectively compared to 31 December 2006. The increase in the institutional sector was 8% in relation to 31 December 2006. The ration between loans to the corporate sector and the retail sector at 31 December 2007 was 47% and 48% of the total loans, respectively. This is in accordance with the Bank's strategy.

The Bank's loans to the retail sector has increased by DKK 714m or by 24% at 31 December 2007 compared to 31 December 2006. 63% of the retail lending increase are in mortgage

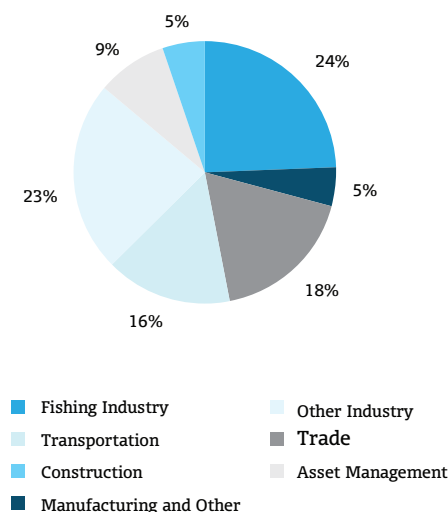
Composition of Loan Portfolio



loans. In relation to the DKK 2,105m collected increase in loans, 34% have been granted to retail customers.

The growth in loans to the corporate sector has increased by DKK 1,365m or by 62% at December 2007 compared to 31 December 2006. The Bank spreads credit risk by financing a variety of industries and therefore the increase in loans is visible in all branches of industry. Loans to the fishing industry have also increased in amount, but represent at 31 December only 12% of the collected loans compared to 13% at 31 December 2006. 65% of total lending growth has been granted to corporate customers.

Composition of Corporate Loans

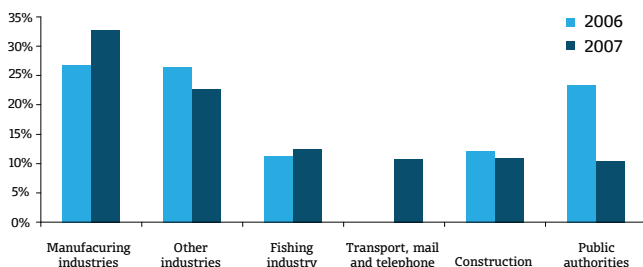


Risk Management

The Bank's loans to institutional customers has increased by DKK 26m or by 8% at 31 December 2007 compared to 31 December 2006. 1% of total lending growth are loans to institutional customers.

The Bank's large exposures, which are greater than 10% of the Bank's equity, are divided in a variety of risk groups. The total exposures amount to approximately DKK 1,6bn at 31 December 2007 compared to DKK 1,6bn at 31 December 2006. The graph below illustrates the division of the various industries at 31 December 2006 and 31 December 2007.

Large exposures

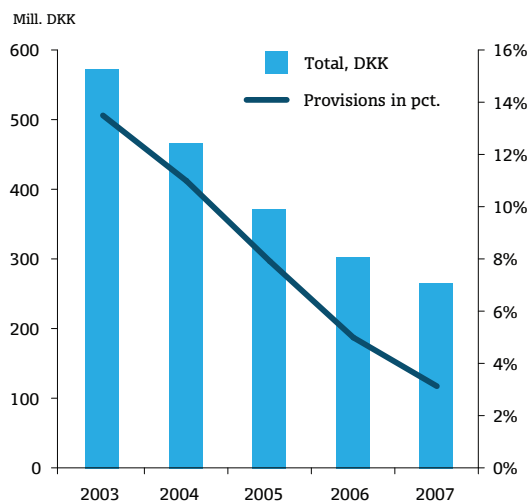


Provisions

The Bank conducts a cautious policy regarding provisions. At 31 December 2007 the Bank's provisions for debts were DKK 266m compared to DKK 302m at 31 December 2006.

An assessment of the Bank's need for reversals is conducted quarterly, and all important exposures are examined annu-

Provisions



ally by the credit department and 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.

Liquidity Risk

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

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

To ensure a flexible and efficient access to international credit markets the Bank has established different types of loans such as syndicated loans, schuldscheinloan, bilateral agreements and revolving facilities. The Bank continuously monitors current and new funding sources.

In 2007 the Bank had a relatively higher growth in lending than in deposits. Foreseeing this development the Bank increased the medium and long term lending in 2007 by DKK 1,911m. Total lending from financial institutions has increased from DKK 1,243m at 31 December 2006 to DKK 2,646m at 31 December 2007.

The Bank's goal is to have a sufficient liquidity in excess of statutory requirement. At 31 December 2007 the liquidity was 103.2% in excess of statutory requirements.

Føroya Banki is not directly exposed to the Sub-prime crisis. However, the Bank is affected by the increasing cost of funding. A lesson learned in the aftermath of the Sub-prime crisis is that the Bank's prudent policies and processes to secure liquidity have stood their test.

Risk Management

Market Risk

Market risk is defined as the risk, that the market value of the Bank's assets and liabilities is changing 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 total earnings.

Market risks are managed and controlled on the basis of fixed limits to various risks, which the Bank's management has approved. The executive board receives continuous reporting about the market risks.

Interest Risk

The Bank's interest risk is set according to the demands from the Danish FSA. The interest risk is defined as the complete risk should the interest change by one percent.

The Bank's total interest risk was DKK 35.9m at 31 December 2007 or 2.7% in relation to core capital. In 2006 the interest risk was DKK 13.2m or 1.1% in relation to core capital. This is partly due to the higher level of interest rates and thereby reinvestments in bonds with higher yield. The interest risk from loans with fixed rates is hedged.

Currency Risk

The Bank's currency market risk is measured by two key figures, Currency Position and Currency Risk respectively. The key figures are calculated according to the demands from the Danish FSA.

The currency position is an account of total value of the currency in relation to core capital. The currency risk shows the size of the loss that the Bank may receive from currency changes.

The Bank's currency position at 31 December 2007 was DKK 208.1m compared to DKK 146.2m in 2006.

The large increase in the currency position and risk is mostly related to EUR and most of that risk relates to the loans ob-

tained from the international financial institutions for general funding purposes.

The currency risk at 31 December 2007 was DKK 1.5m or 0.1% in relation to core capital compared to DKK 0.3m or 0.0% in 2006. The reason for the low currency risk is that the majority of the Bank's currency position is in EUR.

Equity Risk

The equity risk is calculated as the market value of the Bank's total hold of shares. At 31 December 2007 the Bank held listed shares worth DKK 149m. At 31 December 2006 the Bank held DKK 122m.

The increase in the Bank's portfolio of shares is a step in the process of spreading the risk profile of the securities portfolio. In addition the Bank diversifies the risk in its shareholding by investing in shares in different countries and industries.

Other risk factors

Operational risk and business can potentially result in financial loss as well as harm to the Bank's reputation. The Bank has internal policies and procedures regarding all the core areas in the Bank.

The Bank has outsourced a material part of its IT operations to P/F Elektron. Elektron ensures by means of 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.

Exchange announcements

Stock exchange announcements

Date	Announcement
04 June 2007	Announcement of Prospectus
04 June 2007	New member ID on OMX Exchange
13 June 2007	Closing for orders for shares in Føroya Banki for amounts up to DKK 2 million
20 June 2007	Considerable demand for shares in Føroya Banki. Offering subscribed 26 times
20 June 2007	Føroya Banki will be admitted to trading on the Main Market of OMX Nordic Exchange Iceland 21 June
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Insider Transaction
21 June 2007	Major Shareholder Announcement
21 June 2007	Insider Transaction
22 June 2007	Major Shareholder Announcement
22 June 2007	Major Shareholder Announcement
25 June 2007	Changes in Company's own shares
28 June 2007	Exercise of the Over-Allotment Option
28 June 2007	Major Shareholder Announcement
28 June 2007	Insider Transaction
29 June 2007	Change of Management in Føroya Banki's subsidiary P/F Trygd
29 June 2007	Change of Management in Føroya Banki's subsidiary P/F Trygd
29 June 2007	Insider Transaction
29 June 2007	Insider Transaction
29 June 2007	Insider Transaction
02 July 2007	Insider Transaction
10 August 2007	Press conference regarding H1 financial results will be held on 13 August 2007 at 12:00 CET
13 August 2007	Half Year Financial report 2007
13 August 2007	Half Year Financial report 2007 – presentation 13 August 2007
15 August 2007	Major Shareholder Announcement
17 August 2007	Føroya Banki establishes a subsidiary bank in Denmark
21 September 2007	Major Shareholder Announcement
28 September 2007	OMX ICE cancels trades in Føroya Banki
05 November 2007	Quarterly Report Q3 2007
19 November 2007	OMX ICE cancels trades in Føroya Banki
21 December 2007	Change of Management in Føroya Banki's subsidiary P/F Trygd, Jean Djurhuus appointed CEO
21 December 2007	Change in Company structure
15 January 2008	Financial Calendar 2007/8

Financial calender

Financial Report for 2007

18 February 2008

Annual General Meeting

14 March 2008

Q1 Interim Financial Report

07 May 2008

H1 Interim Financial Report

06 August 2008

Q3 Interim Financial Report

05 November 2008

Financial Report for 2008

18 February 2009

Accounting Policies

General

The financial statement of P/F FØROYA BANKI 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 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. The disclosures are however increased due to the banks 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 § 116 of the executive order with reference to the Faroese Banking Act, no consolidated financial statement has been prepared. The Bank has as of 31 December 2007 three subsidiaries. P/F Trygd is a non-life insurance company and is therefore not consolidated with the Bank. P/F Skyn is a real estate brokerage. The Banks' management considers P/F Skyn to be non-material and the company is therefore not consolidated with the Bank. P/F Vestlax is an aquaculture corporation, which the Bank has taken over with the purpose of reconstructing and selling the company. Consequently, it is not to be consolidated.

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 valid at the time of booking. Any exchange rate differences are included in the income statement under "Value adjustments 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 commission are booked when received.

For non-performing loans, no interest is booked in the profit and loss account 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 adjustments 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 adjustments calculated are included in the Income Statement under "Value adjustments of securities and foreign exchange, etc.".

Accounting Policies

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 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 "Investments in associates" and "Investments in group enterprises" 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. Buildings are depreciated in accordance with the straight-line method, based on the estimated useful life of the building and its expected terminal-value. From and including the financial year 1996, systematic depreciation has been provided for the Bank's buildings used for commercial purposes.

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".

Machinery and equipment are 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 adjustments are stated in the Income Statement under "Value adjustments of securities and foreign exchange, etc.". An amount corresponding to the fair value is set aside under shareholders' equity under "Reserve for own shares".

Own shares acquired for the purpose of reducing the share capital are stated at nil. The acquisition price is charged directly to shareholders' equity.

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.

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.

Accounting Policies

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 current tax rate, 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 on 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 on 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 flow from operations consists of the net profit for the year adjusted for non-cash items in the Income Statement and the change in working capital.

Cash flow from investing activities includes acquisitions and disposals of fixed assets, companies, securities and other assets.

Cash flow from financing includes 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	2007	2006
1	Interest income, etc.	500,856	327,427
2	Interest expenses, etc.	209,373	88,692
	Net interest income	291,483	238,736
3	Dividends from shares and other investments	2,644	1,548
	Fee and commission income, etc.	45,372	34,964
	Fees and commissions paid	311	280
	Net interest and fee income	339,188	274,968
4	Value adjustments of securities and foreign exchange, etc.	23,589	7,432
7	Other operating income	1,521	-1,991
	Results from net financials	364,298	280,409
5	Employee and administrative expenses	206,164	154,353
22	Amortisation, depreciation and writedowns	8,707	7,606
	Other operating expenses	8	14
14	Provisions for bad and doubtful debts (net)	-25,072	-67,969
8	Income from groups and associates	5,420	7,046
	Profit from ordinary activities before tax	179,911	193,451
9	Tax	35,908	34,042
	Net profit	144,003	159,409
	Allocation of profit		
	Net profit for the year	144,003	159,409
	Brought forward from previous years	1,045,519	890,317
	Amount to be allocated	1,189,522	1,049,726
	Dividends	45,000	0
	Adjustment of revaluation reserve under the equity method	-2,839	7,046
	Adjustment of reserve, own shares	9,403	0
	Reclassification to retained profit from previous years	2,839	0
	Retained profit	1,135,119	1,042,680
	Total	1,189,522	1,049,726
	Net profit for the year per share, DKK	14.4	15.9
	Proposed dividend per share, DKK	4.5	0.0

Balance Sheet

Note	DKK 1,000	2007	2006
	Assets		
	Cash in hand and demand deposits with central banks	239,610	201,877
10-11	Due from credit institutions, etc.	533,599	331,612
12-15	Loans and advances	7,513,009	5,408,119
16,18	Bonds, etc.	894,284	864,119
17-18	Shares, etc.	167,271	134,813
19-21	Investments in associates	34,399	35,026
19-21	Investments in group enterprises	100,919	113,416
22	Tangible assets	65,555	60,762
	Own shares	9,403	0
	Other assets	56,387	57,115
	Prepayments	6,533	6,016
	Total assets	9,620,969	7,212,876
	Liabilities		
23-24	Due to credit institutions and central banks	2,645,515	1,243,066
25-26	Deposits	5,452,073	4,646,731
	Other liabilities	176,163	74,462
	Deferred income	0	0
27	Provisions for obligations	2,696	3,099
	Total liabilities	8,276,447	5,967,357
	Equity		
	Share capital	200,000	200,000
	Reserves	9,403	2,839
	Retained profit for the period	89,600	152,363
	Brought forward from prior years	1,045,519	890,317
	Total equity	1,344,522	1,245,519
	Total liabilities and equity	9,620,969	7,212,876
	Off-balance-sheet items:		
33	Guarantees, etc.	445,684	359,081
	Other commitments	0	0
	Total	445,684	359,081

Shareholder's equity

Changes in shareholder's equity 2007:

DKK 1,000	Share capital	Reserve according to equity method	Reserve own shares	Retained earnings	Total equity
Shareholder's equity at 1 January 2007	200,000	2,839		1,042,680	1,245,519
Reclassification to retained profit from previous years		-2,839		2,839	
New shareholder's equity at 1 January 2007	200,000	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					
Shareholder's equity at 31 December 2007	200,000	0	9,403	1,135,119	1,344,522

Changes in shareholder's equity 2006:

Shareholders' equity at 1 January 2006	200,000	10,912	0	875,197	1,086,110
Net profit according to the Income Statement				159,409	
Dividends paid					
Proposed dividend					
Purchases and sales of own shares, net					
Reserves		-8,073		8,073	
Shareholder's equity at 31 December 2006	200,000	2,839	0	1,042,679	1,245,519

At the end of 2007, the shares were 10,000,000 of a nominal value of DKK 20 each. All shares carry the same 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	Prop. Of share capital %
Holding at 31 December, 2006	144	14,400	0.0%
Holding at 31 December 2007	52,597	1,051,940	0.5%

Acquisitions in 2007 comprised mainly 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 before the next ordinary general meeting up to a maximum of 10% of the Bank's share capital at any 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 2007 2006

Capital base and solvency ratio

Shareholders' equity	1,344,522	1,245,519
Deferred tax assets	-3,356	-3,068
Own shares	-9,403	0
Core capital after statutory deductions	1,331,763	1,242,451
Statutory deduction for insurance subsidiaries	-3,000	-3,000
Base capital after statutory deductions	1,328,763	1,239,451
Risk-weighted items:		
Weighted items not included in trading portfolio	6,521,541	4,672,973
Weighted items with market risk	881,695	540,894
Total weighted items	7,403,236	5,213,867
Core capital after statutory deductions as a percentage of total weighted items	18.0	23.8
Solvency ratio according to section 124 of the Faroese Banking Act	17.9	23.8

Cash Flow

DKK 1,000	2007	2006
Net profit	144,003	159,409
Adjustment of non-liquid operating items, etc.:		
Provisions for poor and doubtful debts	-25,072	-65,969
Depreciation of tangible assets	8,707	7,606
Value adjustments, bonds	5,318	2,270
Value adjustments, shares	-21,087	-5,978
Result from investments in group enterprises	-5,420	-6,733
Result from associates	0	-313
Tax charged to the income statement	35,908	34,042
Paid tax	-32,892	-34,821
Earnings	109,464	89,513
Change in loans	-2,079,818	-1,270,695
Change in holding of bonds	-35,482	936,539
Change in holding of shares	-20,774	-45,529
Change in other assets	21,145	16,446
Change in deposits	805,342	140,199
Due to credit institutions and central banks	1,402,449	1,129,567
Other liabilities	53,685	10,903
Prepayments	-517	-800
Provisions for commitments	-402	-457
Cash flow from operating activities	255,092	1,005,686
Acquisition of tangible assets	-13,513	-6,905
Sale of tangible assets	14	1,024
Acquisition of investments in group enterprises	-2,500	-14,325
Aquisition of associates	0	-30,000
Sale of associates	626	0
Cash flow from investing activities	-15,373	-50,206
Dividends paid	0	-600,000
Cash flow from financing activities	0	-600,000
Cash flow for the year	239,720	355,480
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	533,489	178,010
Cash flow for the year	239,720	355,480
Cash and due etc. at the end of the year	773,209	533,490
Cash and due etc. at the end of the year		
Cash in hand and demand deposits with central banks	239,610	201,877
Due from credit institutions, etc.	533,599	331,612
Total	773,209	533,490

Notes - Income Statement

Note	DKK 1,000	2007	2006
1	Interest income, etc.		
	Credit institutions and central banks	15,302	5,209
	Loans and advances	451,042	280,723
	Bonds	35,293	43,999
	Total derivatives of which:	-1,038	-2,513
	<i>Currency contracts</i>	-860	119
	<i>Interest rate contracts</i>	-179	-2,633
	<i>Other transactions</i>	0	0
	Other contracts	258	9
	Total interest income	500,856	327,427
	Of which accounted for by income from genuine sale and repurchase transactions:		
	Credit institutions and central banks	0	0
2	Interest expenses, etc.		
	Credit institutions and central banks	72,332	10,548
	Deposits	137,041	78,144
	Total interest expenses	209,373	88,692
	Of which interest expenses on genuine sale and repurchase transactions are carried under:		
	Credit institutions and central banks	0	0
3	Dividends		
	Shares	2,644	1,548
	Total dividends	2,644	1,548
4	Value adjustments		
	Bonds	-5,318	-2,270
	Shares	20,779	5,978
	Foreign exchange	7,819	3,665
	Total derivatives of which:	308	59
	<i>Currency Swaps</i>	308	490
	<i>Interest Swaps</i>	0	-431
	<i>Other contracts</i>	0	0
	Total value adjustments	23,589	7,432
5	Employee and administrative expenses		
	Employee expenses	104,411	84,554
	Administrative expenses	101,753	69,800
	Total	206,164	154,353

Notes - Income Statement

Note	DKK 1,000	2007	2006
5	Employee expenses:		
(cont'd)	Salaries	90,678	73,069
	Pensions	6,939	6,033
	Social security expences	6,794	5,452
	Total	104,411	84,554
	Number of employees		
	Average number of full-time employees for the accounting year	214.6	207.2
	Remuneration of the Board of Directors		
	Jóhan Páll Joensen:		
	Fixed salary	630	397
	Completion bonus	500	0
	Jens Erik Christensen (from 19 March 2007):		
	Fixed salary	404	0
	Completion bonus	300	0
	Graham D. Stewart (from 23 November 2006):		
	Fixed salary	199	16
	Completion bonus	150	0
	Eyðhild Skaalum (from 19 March 2007):		
	Fixed salary	158	0
	Completion bonus	150	0
	Olav Enomoto (from 16 March 2006):		
	Fixed salary	200	94
	Completion bonus	150	0
	Sigmar Jacobsen:		
	Fixed salary	200	125
	Completion bonus	150	0
	Høgni Hansen (until 19 March 2007):		
	Fixed salary	31	125
	Completion bonus	0	0
	Rúni Hansen (until 23 November 2006):		
	Fixed salary	0	219
	Completion bonus	0	0
	Jógvan Jespersen (until January 2007):		
	Fixed salary	0	31
	Completion bonus	0	0
	Jóhan E. Hansen (until 16 March 2006):		
	Fixed salary	0	31
	Completion bonus	0	0
	Jóhannus Egholm Hansen (until 19 March 2007):		
	Fixed salary	274	154
	Completion bonus	0	0
	Total remuneration	3,497	1,192

Notes - Income Statement

Note

5 (cont'd)	Remuneration of the Executive Board 2007 DKK 1,000	Janus Petersen	Súni S. Jacobsen
	Fixed salary	2,110	1,600
	Completion bonus and other bonuses	800	625
	Pension	300	225
	Total remuneration	3,210	2,450
	Remuneration of the Executive Board 2006 DKK 1,000	Janus Petersen	Súni S. Jacobsen
	Fixed salary	1,654	1,085
	Completion bonus and other bonuses	0	0
	Pension	241	157
	Total remuneration	1,895	1,242
	Pension and termination, the Executive Board		
		Janus Petersen	Súni S. Jacobsen
	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, mth.	24	24
	Notice of termination by the Executive Board member, mth.	12	12
	Remuneration of other executives		
	Fixed salary	5,881	4,108
	Completion bonus	650	343
	Pension	529	326
	Total remuneration	7,060	4,777

Notes - Income Statement

Note

- 5 **The executives included in this group are:**
 (cont'd) Torbjørn Andreasen, Credit Management (from Dec 2007)
 Jean Djurhuus, Credit Management
 Johnny í Grótinum, Markets
 Jan Jakobsen (7 months in 2006 and 4 months in 2007)
 Niels A. Joensen, Branches
 Poula M. Kass, Marketing
 Bjarki Mohr, HR & Management Support
 Ingi Olsen, Corporate Lending (from Dec 2007)
 John Rajani, Corporate Finance
 Ingi Vestergaard, Business Development
 Cecil Weihe, Finance & Accounting
 Carlo Chow (from Nov 2007)
 Kim Linneman (from Nov 2007)

Agreements on stock options etc.

P/F Føroya Banki entered into an agreement with the future management of Føroya Bank A/S on 17 August 2007 about establishing a company to be named Føroya Bank A/S for the purpose of conducting financial activities in Denmark. The company is not yet established. The intention is to establish Føroya Bank A/S with a share capital of DKK 300m, of which DKK 25m (8.3%) are invested by the management and up to 6 other leading employees of Føroya Bank A/S. The investments can be made through 100% personally held holding companies. Føroya Banki provides loans to the investors for market value of the investors' total share subscription at the lowest possible market interest. Føroya Banki has right and obligation to purchase the shares belonging to the shareholders in the management of Føroya Bank A/S in the time period 1 March 2012 – 1 May 2012 or in the same time period in the years 2013, 2014 or 2015.

The purchase price constitutes the shares respective parts of the company's value calculated as the company's net profit for the previous year multiplied with a P/E factor. The purchase price has a lower limit.

In 2007 DKK 25m have been entered as an in expense under Administrative expense and to the liabilities column in the financial statement.

Notes - Income Statement

Note	DKK 1,000	2007	2006
6	Auditors fee		
	Total fees for the accountancy firms elected by the annual general meeting to perform the statutory audit	1,000	1,070
	<i>Of which fees for non-audit services</i>	0	100
	Total auditors fee	1,000	1,070
7	Other operating income		
	Internal rental income	4,052	4,283
	Repairs and maintenance of properties	-8,340	-6,509
	Proceeds from sale of properties	5,809	235
	Total	1,521	-1,991
8	Profit (loss) on investments in associates and group enterprises		
	Associates	0	313
	Group enterprises	5,420	6,733
	Total	5,420	7,046
9	Tax		
	Estimated tax on the profit for the period	36,196	32,748
	Adjustment of tax assets	-288	1,246
	Adjustment of prior year tax charge	0	48
	Total	35,908	34,042
	Breakdown of tax liability		
	Estimated tax (18%) on profit from ordinary activities	32,384	34,821
	Tax value of non-taxable income	-1,927	-1,533
	Tax value of non-deductible expenses	5,739	-541
	Adjustment of tax assets	-288	1,246
	Adjustment of prior year tax charge	0	48
	Tax charged to the income statement	35,908	34,042
	Effective tax rate (tax charged to the income statement relative to profit (loss) from ordinary activities before tax)	20.0%	17.6%

Notes - Balance Sheet

Note	DKK 1,000	2007	2006
10	Due from credit institutions etc. specified by institution		
	Deposits at notice with central banks	0	0
	Due from credit institutions	533,599	331,612
	Total	533,599	331,612
11	Due from credit institutions etc. specified by maturity		
	On demand	108,599	85,612
	3 months and below	425,000	246,000
	Total	533,599	331,612
12	Loans and advances specified by maturity		
	On demand	300,541	56,481
	3 months and below	349,947	194,302
	3 months to 1 year	682,208	451,093
	Over 1 year to 5 years	1,865,542	1,655,767
	Over 5 years	4,314,770	3,050,477
	Total loans and advances	7,513,009	5,408,119
13	Credit risks:		
	Loans and advances specified by sector and industry, %		
	Public authorities	5%	6%
	Corporate sector:		
	Fishing industry	12%	13%
	Manufacturing industries etc.	5%	5%
	Building and construction etc.	2%	2%
	Trade, hotels and restaurants	8%	7%
	Transport, mail and telephone	7%	4%
	Property administration, purchase and sale and business services	4%	4%
	Other industries	9%	6%
	Total corporate sector	47%	41%
	Retail customers	48%	53%
	Total	100%	100%
14	Changes in the provisions on loans and advances are specified as follows		
	Balance at the beginning of the year	301,537	371,869
	Impairment on loans and advances during the period	-25,072	-67,969
	Write-offs during the period	-13,139	-4,596
	Payment of loans previously written-off	2,241	2,232
	Provisions on loans and advances	265,567	301,537

Notes - Balance Sheet

Note	DKK 1,000		2007	2006
20	Subsidiaries	Activity	Proportion of share capital	
	P/F Trygd	insurance company	100%	100%
	P/F Vestlax	aquaculture	100%	100%
	P/F Skyn	real estate	100%	100%
21	Associates	Activity	Proportion of share capital	
	P/F Bakkafrost Holding	aquaculture	34%	36%
	P/F Løkir	investment company	30%	33%
	P/F Elektron	IT services	34%	34%

Note	DKK 1,000	2007	2006	2007	2006	2007	2006
		Land and buildings		Machinery and equipm.		Total	
22	Tangible assets						
	Cost, beginning of year	170,498	171,461	23,302	20,130	193,800	191,591
	Additions	5,437	49	5,101	3,441	10,537	3,490
	Disposals	-14	-1,012	-24	-269	-38	-1,281
	Total cost, end of year	175,920	170,498	28,379	23,302	204,299	193,800
	Depreciation and writedowns, beginning of year	116,006	113,262	17,032	15,842	133,037	129,104
	Depreciation during the year	2,906	2,743	2,825	1,447	5,731	4,191
	Reversal of depreciation and writedowns	0	0	-24	-257	-24	-257
	Depreciation and writedowns, end of year	118,912	116,006	19,833	17,032	138,744	133,037
	Book value at the end of the year	57,009	54,492	8,546	6,270	65,555	60,762
	Full writeoff for the year	0	0	2,976	3,415	2,976	3,415

Notes - Balance Sheet

Note	DKK 1,000	2007	2006
23	Due to credit institutions and central banks specified by institution		
	Due to central banks	0	0
	Due to credit institutions	2,645,515	1,243,066
	Total	2,645,515	1,243,066
24	Due to credit institutions and central banks specified by maturity		
	On demand	114,857	297,566
	3 months and below	619,000	945,500
	3 months to 1 year	0	0
	Over 1 year to 5 years	1,911,658	0
	Over 5 years	0	0
	Total	2,645,515	1,243,066
25	Deposits specified by type		
	On demand	2,209,099	2,355,005
	At notice	1,530,317	1,452,313
	Time deposits	1,200,319	390,315
	Special deposits	512,338	449,097
	Total deposits	5,452,073	4,646,731
26	Deposits specified by maturity		
	On demand	2,209,099	2,354,807
	3 months and below	3,048,023	2,118,150
	3 months to 1 year	44,006	6,173
	Over 1 year to 5 years	150,236	167,371
	Over 5 years	709	229
	Total deposits	5,452,073	4,646,731
27	Provisions for obligations		
	Provisions for pensions and similar commitments	2,696	3,099
	Provisions for deferred tax	0	0
	Other provisions for commitments	0	0
	Total	2,696	3,099

Notes - Other

Note	DKK 1,000	2007	2006
28	Foreign exchange risk		
	Assets in foreign currency	1,587,880	138,927
	Liabilities and equity in foreign currency	1,740,288	266,943
	Exchange rate indicator 1	208,101	146,193
	Exchange rate indicator 1 as a percentage of core capital after statutory deductions	15.6	11.8
	Exchange rate indicator 2	1,512	337
	Exchange rate indicator 2 as a percentage of core capital after statutory deductions	0.1	0.0
29	Interest rate risk		
	Interest rate risk	35,926	13,220
	Interest rate risk broken down by institution's currency with largest interest rate risk		
	DKK	31,704	11,765
	EUR	4,136	1,453
	USD	166	2
	CHF	-81	0
	GBP	1	0
30	Credit risk on financial instruments		
	Positive market value after netting		
	Counterpart with risk weighting 0 pct.	0	0
	Counterpart with risk weighting 20 pct.	1,782	320
	Counterpart with risk weighting 100 pct.	12,684	1,878

Notes - Other

Note	DKK 1,000	2007 Nominal	2006	2007 Net market value	2006
31	Derivatives specified by maturity				
	3 months and below				
	Currency contracts:				
	Forwards/futures, bought	380,308	260,875	-1,509	-1,110
	Forwards/futures, sold	105,641	40,246	1,598	1,415
	Options, bought	0	2,265	0	0
	Options, written	0	1,132	0	0
	3 months to 1 year				
	Currency contracts:				
	Forwards/futures, bought	956,261	30,005	-2,631	-213
	Forwards/futures, sold	27,914	29,638	2,894	239
	Options, bought	38,500	0	0	0
	Interest rate contracts:				
	Swaps	2,500	0	-143	0
	1 year to 5 years				
	Currency contracts:				
	Forward/futures, bought	0	31,138	0	-154
	Forward/futures, sold	0	31,138	0	185
	Interest rate contracts:				
	Swaps	29,065	25,000	-1,375	-602
	Over 5 years				
	Interest rate contracts:				
	Swaps	389,307	14,200	7,784	164
	Total				
	Currency contracts:				
	Forwards/futures, bought	1,336,569	322,018	-4,140	-1,477
	Forwards/futures, sold	133,556	101,022	4,492	1,838
	Options, bought	38,500	2,265	0	0
	Options, written	0	1,132	0	0
	Interest rate contracts:				
	Swaps	420,872	39,200	6,265	-439
	Total net market value			6,617	-77

Notes - Other

Note	DKK 1,000	2007 Positive	2006 Positive	2007 Negative	2006 Negative
32	Derivatives				
	Market value:				
	Currency contracts:				
	Forwards/futures, bought	293	108	4,433	1,585
	Forwards/futures, sold	4,540	1,926	48	88
	Interest rate contracts:				
	Swaps	9,632	164	3,367	602
	Market value of non-guaranteed contracts				
	Currency contracts:				
	Forwards/futures, bought	293	108	4,433	1,585
	Forwards/futures, sold	4,540	1,926	48	88
	Interest rate contracts:				
	Swaps	9,632	164	3,367	602
	Total	14,466	2,198	7,849	2,275
	Total after netting	6,617	-77		

Note	DKK 1,000	2007	2006
33	Off-balance sheet items		
	Guarantees, etc.:		
	Financial guarantees	13,831	11,301
	Other guarantees	431,854	347,780
	Total guarantees, etc.	445,684	359,081

34 Provisions of security

The Bank has put up security for outstanding amounts from customers for the repayment of the loan from Danske Bank on DKK 271,7m

Notes - Other

Note	DKK 1,000	2007	2006
35	<p>Related party transactions</p> <p>There were no unusual transactions between related parties in 2007. There have been intercompany transactions with subsidiaries and associates in 2007. These transactions typically include financing, commission for referred business, sale of services and other shared costs. These transactions took place on market terms.</p> <p>Group enterprises and associates, etc.</p> <p>Associates:</p> <p>Assets:</p> <p>Loans</p> <p>Liabilities:</p> <p>Deposits</p> <p>Group enterprises:</p> <p>Assets:</p> <p>Loans</p> <p>Liabilities:</p> <p>Deposits</p> <p>Board of Directors and Executive Board</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>Board of Directors</p> <p>Loans</p> <p>Collateral</p> <p>Executive Board</p> <p>Loans</p> <p>Collateral</p>	<p>34,404</p> <p>493</p> <p>135,076</p> <p>96,356</p> <p>1,932</p> <p>1,648</p> <p>805</p> <p>805</p>	<p>37,810</p> <p>60,761</p> <p>58,619</p> <p>72,128</p> <p>1,653</p> <p>1,332</p> <p>910</p> <p>910</p>
36	Number of branches in addition to the Head Office	14	19

Notes - Other

37 **Directors and other executives holding office at year end 2007 and their related parties holdings of shares in P/F Føroya Banki:**

	Position	Number of shares	Related parties	Nominal value
Board of Directors				
Jóhan Páll Joensen	Chairman	1,762		35,240
Jens Erik Christensen	Boardmember	1,161		23,220
Graham D. Stewart	Boardmember	94	94	3,760
Eyðhild Skaalum	Boardmember	1,405		28,100
Olav Enomoto	Boardmember	538		10,760
Sigmar Jacobsen	Boardmember	1,785	115	38,000
Total		6,745	209	139,080
Executive Board				
Janus Petersen	CEO	37,966	280	764,920
Súni Schwartz Jacobsen	Managing Dir.	23,810		476,200
Total		61,776	280	1,241,120
Other executives		13,325	595	278,400

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 2007.

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 2007, 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, 2007.

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

Tórshavn, 18 February 2008

Executive Board

Janus Petersen

Súni Schwartz Jacobsen

Board of Directors

Jóhan Páll Joensen

Jens Erik Christensen

Eyðhild Skaalum

Graham D. Stewart

Olav Enomoto

Sigmar Jacobsen

Adopted by the General Meeting at / 2008

Chairman of the meeting

Internal auditors' report

We have audited the Annual Report of P/F Føroya Banki for the financial year 2007 presented by the Management. The Financial Statements have been prepared in accordance with the Faroese Banking Act and with the executive order and guidelines of the Danish Financial Supervisory Authority on presentation of financial statements by banks as applied in the Faroe Islands and in accordance with 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 whether due to fraud or error.

The audit has been performed in accordance with the division of duties agreed with the external auditors and has included an assessment of procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Annual Report, including evidence supporting amounts and disclosures in the Annual Report. Furthermore, the audit has included evaluating the appropriateness of the accounting policies applied by 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 2007 and of its financial performance and its cash flows for the financial year 2007 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 2007

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 2007, 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, 2007, 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 2008

SPEKT

Statsaut. revisorar Sp/F

Rasmussen H Weihe P/F

Statsaut. grannskoðarafelag

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

Management and directorships

Board of directors:

Name: Jóhan Páll Joensen

Education: Shipmaster education and Business college degree (HH)

Principal occupation: CEO of P/F Maru Seafood

Positions held:

Board member of: P/F Maru Seafood, P/F Norðis, P/F Eystis, P/F J.P.J. E Co., Sp/f Maru Holding, P/F Kósín, P/F Torvanes, P/F Høgnin, P/F Hæddin, and P/F Klesin

Chairman of the Faroese Employers Association

Date of first election to the Board: 1993

Spouse: Rutt Norðoy Joensen

Name: Jens Erik Christensen

Education: MSc in actuarial science

Principal occupation: CEO of Dansk Merchant Capital A/S

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

Date of first election to the Board: 2007

Name: Eyðhild Skaalum

Education: Law Degree from the University of Copenhagen

Principal occupation: Partner in the law firm Sp/f Teirin E Skaalum, Advokatar

Positions held:

Board member of: Fíggjargrunnurin frá 1992

Date of first election to the Board: 2007

Spouse: Rúni Joensen

Name: Graham Duncan Stewart

Education: Degree in Offshore Engineering and an MBA

Principal occupation: CEO of Faroe Petroleum plc

Positions held:

Chairman of the Board of Directors of: P/F Føroya Kolvetni

Board member of: Faroe Petroleum (U.K) Limited, Faroe Petroleum Norge AS

Date of first election to the Board: 2006

Spouse: Vivian Wraae

Name: Sigmar Brynjolfson Jacobsen

Education: Bank education

Principal occupation: Senior bank clerk in P/F Føroya Banki

Positions held: None

Date of first election to the Board: 2001

Spouse: Nancy Splidt Jacobsen

Name: Olav Enomoto

Education: Degree in advanced computer studies

Principal occupation: Network administrator in P/F Føroya Banki

Positions held: None

Date of first election to the Board: 2006

Spouse: Maud Poulsen

Executive Board:

Name: Janus Eyðun Petersen

Education: Law Degree from the University of Copenhagen and Msc in Economics

Principal occupation: CEO of P/F Føroya Banki

Positions held:

Chairman of the Board 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 Financ Sector (Arbeidsgevara Felagið fyri figgjarstovnar)

Date of joining the Board: 1994

Spouse: Margret Elisabeth Mortensen

Name: Súni Schwartz Jacobsen

Education: MSc in Business Management and Accounting State Authorised Public Accountant

Principal occupation: Managing Director of P/F Føroya Banki

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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