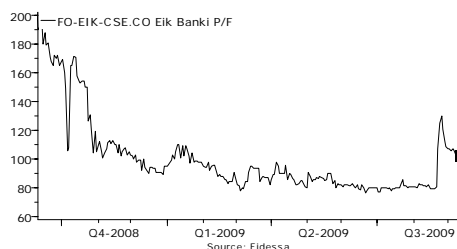


Eik Banki DKK 104.0
Revised Estimates – Our View on H1 Results

11 September 2009

Share Price: DKK 104.0



12m High: DKK 195.0
12m Low: DKK 76.5
Market Cap: DKK 837m (€112m)
Shares in Issue: 8.13m

Core Capital: 8.6%
Solvency: 11.6%
Nav/share: DKK 198

EPIC Code: FO-EIK CSE, Copenhagen
FO-EIK, Iceland
SEDOL No.: B28ZYK8
ISIN No.: FO 0005702340
Sector: Regional Banks
Market: Nasdaq OMX Copenhagen & Iceland
Investor Relations: Finn Danberg, Director,
CFO +298 548 610
Websites: www.eikbank.com, www.eik.fo

Description: Eik Banki is the largest bank in the Faroe Islands. It provides loans to Faroese businesses, mortgages on Faroese housing and is also active in Denmark within internet banking and corporate real estate.

Analyst: Thomas Dam, Spf. DamCo, Torshavn
Tel: +298 591119, +44 020 7929 3399
Email: damco@damco.fo; research@hardmanandco.com



We have revised our 2009 estimates for Eik Group following the interim results and the latest development in the share price.

Eik Banki is in the MidCap Index on the Danish market. By international standards it is a small bank, but it accounts for 50% of the Faroese market and also has important operations in Denmark. It is a full service bank, taking deposits and advancing commercial and domestic loans and mortgages.

The bank has avoided most of the problems that have plagued the banking sector in Denmark and abroad. Eik Banki hasn't been exposed to sub-prime loans but it has been affected by the slowdown in the corporate real estate market. The 1H 2009 results show that impairment charges against the corporate real estate lending in Denmark have been higher than we expected. Also interest income and fees compared to 1H 2008 are lower. However there are also positive points to offset against these. Costs have been reduced, and Market Value Adjustments are positive.

In June Eik Bank Danmark received DKK 295m in hybrid core capital under Credit Package II from the Danish Government. A separate application from Eik Banki (the holding company) will probably be processed in Q3/Q4 2009. A positive outcome will strengthen the Group's solvency by approximately 1.9%, which at 1H 2009 would have implied a solvency of 13.5% for the Group.

The economic news from Denmark and it's largest trading partners is becoming more positive and confirms that we are witnessing the last phase of this recession. The IMF has stated that the bottom of the global recession has been reached, but that the recovery will be slow.

Eik Group's shares have risen by 30% since we initiated coverage in May. However, the shares still appear to have upside potential.

We look forward with interest to progress here from H2 onwards.

Y/E	Total Income*	Declared Pre-Tax Profit	Adjusted Pre-Tax Profit**	Declared After-Tax eps	P/E ratio	Divi	Yield
December	DKKm	DKKm	DKKm	DKK		DKK	%
2007A	676	465	310	51.6	2.0	10.67	10.2
2008A	796	-416	384	-38.6	-	0	-
2009E	571	-68	171	-6.1	-	0	-
2010E	No	Forecast					

* Net interest income + fees etc

** excludes Impairments and Market Value Adjustments

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First Half Results

In its review of the half-year result the company stated that the after-tax result for the year 2009 is expected to be in the range of minus DKK 25-75 million. This is also clear from the half-year figures which are mainly marked by not only high impairments but also lower basic operations income.

High
impairments,
lower basic
operations

P&L accounts

31/12 Dkk m	2008	1H2008	1H2009	Diff.
Net interest income	512.1	279.4	245.6	-33.8
Fee and Commission Income	239.1	81.6	57.1	-24.5
Income from associated and subsidiary undertakings	-8.0	0.1	-27.0	-27.1
Dividends	26.9	26.8	1.8	-25.0
Other income	25.7	5.5	4.8	-0.7
Total income from basic operations	795.8	393.4	282.3	-111.1
Staff Costs and Administrative Expenses	-370.6	-196.5	-174.2	22.3
Other expenses	-41.1	-12.7	-31.5	-18.8
Total costs	-411.7	-209.2	-205.7	3.5
Profit of basic operations	384.1	184.2	76.6	-107.6
Market Value Adjustment	-246.0	-94.0	39.4	133.4
Profit before loan losses	138.1	90.2	116.0	25.8
Impairments	-553.7	-99.0	-203.1	-104.1
Declared Pre-tax Profit	-415.6	-8.8	-87.1	-78.3

Net Interest Income for the group was lower at DKK 246m vs. DKK 279m for 1H 2008 – a 12% reduction. The lower interest income was partly caused by the reduced level of interest rates worldwide, and also by the increasing part of non-performing loans, which now amount to 2.9% of total outstanding loans. But the bank's high liquidity preparedness also plays a role. In the Q1 research note on Eik Banki we predicted that the Net Interest Income would be lower than for 2008, but a 12% reduction is more than we expected.

A reduction of 30% in **Fee and Commission Income** compared to the same period last year also relates to the economic activity in Denmark and the Faroe Islands, which has decreased in both countries. The income was DKK 57m compared to DKK 82m for 1H 2008.

Impairments were DKK 203m for 1H 2009. This was higher than we expected. Total impairments for 2008 were DKK 554m of which by far the majority, DKK 453m, related to Q4 2008. Looking at the distribution of the impairments only 20% are due to activities in the Faroe Islands. In our Q1 research note we stated that the bank's main risk is in corporate real estate loans which mainly are in Denmark, and this is in line with the fact that 51% of the 1H 2009 impairments are related to corporate real estate financing in Denmark. DKK 42m or 21% of total impairments for 1H 2009 were related to just one customer – the EBH Fund. The Eik Banki Group had made impairments on the EBH Fund but the final dividend now is expected to be much lower than anticipated earlier.

Other items that deserve comment include Market Value Adjustments and Staff Costs and Administrative Expenses. **Market Value Adjustments** contributed in Q2 with DKK 52m resulting in a DKK 39m surplus on this account for 1H 2009. **Staff Costs and Administrative Expenses** were 11% lower in 1H 2009 compared to 1H2008, changing from DKK 197m down to DKK 174m. This cutback mainly derives from a reduction in the number of full time employees by 24 as well as in lower administrative expenses.

Market value
adjustments
contributed
positively

The 1H 2009 result was a net loss before taxes of DKK 87m.

Deposits increased to DKK 14.3 bn compared to DKK 13.1 bn at end-June 2008. They also showed a modest increase over the course of the three months – at end-March 2009 deposits were DKK 14.2 bn. **Loans** at the end of Q2 were DKK 15.7 bn. This compares to DKK 15.7 bn at end-December 2008. The loans to deposits ratio therefore improved slightly to 115% from 116% at end-December 2008 and 120% twelve months earlier.

Liquidity was high, with an excess cover of 151% over the legal minimum. The Solvency

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Ratio, at 11.6% and the Core Capital Ratio, at 8.6%, were well below the levels of twelve months ago, but higher than at end-December 2008 when they were 10.6% and 7.6% respectively. In June Eik Bank Danmark received DKK 295m in hybrid core capital under Credit Package II from the Danish Government. The separate application from Eik Banki the holding company will probably be processed in Q3/Q4 2009. A positive outcome will strengthen the Group's solvency further by approximately 1.9%, which at 1H 2009 would have implied a solvency of 13.5% for the Group.

Implied
solvency of
13.5%

Revised Forecasts

It is difficult to make estimates on Eik Banki Group's result for 2009. The bank is mostly operational in the Faroe Islands and Denmark and these economies have experienced the global economic crisis differently.

The **Danish economy** is currently experiencing its worst recession in over four decades. The downturn, which started with the unwinding of the property boom, has now been compounded by both the trade and the financial effects of the global economic crisis.

The **Faroese economy** hasn't been hit by the global economic crisis in quite the same extent. The challenges have been concentrated to parts of the fishing industry due to volatility in oil- and fish prices and the size of the catch of cod and haddock. Also the domestic demand for goods and services has declined due to more cautious spending and investing behaviour caused by the crises and a reduction in the lending by Faroese banks.

Our new forecasts for Eik Banki Group in 2009 are as follows:

P&L accounts						
Y/e December	Dk m	2008	2009old	2009new	Diff.	%diff.
Net interest income		512.1	508	456.5	-51.5	-10%
Fee and Commission Income		239.1	142	124.1	-17.9	-13%
Income from associated and subsidiary undertakings		-8	-6.2	-27.0	-20.8	335%
Dividends		26.9	3.3	3.3	0.0	0%
Other income		25.7	14.1	14.1	0.0	0%
Total income from basic operations		795.8	661.2	571.0	-90.2	-14%
Staff Costs and Administrative Expenses		-370.6	-356.1	-344.5	11.6	-3%
Other expenses		-41.1	-55.4	-55.4	0.0	0%
Total costs		-411.7	-411.5	-399.9	11.6	-3%
Profit of basic operations		384.1	249.7	171.1	-78.6	-31%
Market Value Adjustment		-246	-4.3	59.4	63.7	-1481%
Profit before loan losses		138.1	245.4	230.5	-14.9	-6%
Impairments		-553.7	-176	-298.0	-122.0	69%
Declared Pre-tax Profit		-415.6	69.4	-67.5	-137.0	-197%

We have lowered our estimate for the bank's **Income from Basic Operations**. The interest on impaired loans is not accounted for as interest income. The fact that the bank also will have high impairments in 2H 2009 and that the Credit Package II also will lower the Net Interest Income means that Income from Basic Operations will continue to suffer. We also expect that the low economic activity resulting in lower commission and fee income will continue throughout the year.

The bank stated in its annual report for 2008 that it would focus on synergies with in the Eik Banki Group. It seems that this strategy has been successful and the bank has managed to lower its **Staff Costs and Administrative Expenses** with about 7%. We have therefore lowered our estimate on this cost by DKK 11.6m.

We had previously made the assumption that the **Market Value Adjustments** in 2009 to change from a big cost to a figure near zero. In the event, the performance of the local and global stock markets has been stronger than we expected. The change in our estimates is based on this fact.

Impairments have been high in 1H 2009. We expect them to be lower in H2, but nevertheless still to be at a significant level. Eik Bank Danmark is a niche bank and its

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operations have been concentrated on the corporate real estate segment. As long as there are major challenges in the Danish real estate sector Eik Bank Denmark will inevitably have high impairments. Eik Banki Group states that it is only having small impairments in other business areas and in the Faroe Islands. The economic news from Denmark and its largest trading partners is becoming more positive and shows confirmation that we are witnessing the last phase of this recession. The general expectation among economists is that the Danish economy will turn into recovery in late 2009 or early 2010.

The IMF has recently stated that the bottom of the global recession has been reached, but that the climb out of the will be a slow one.

Eik Banki Group states that the bank is continually working on the non-performing loans. To date in 2009 there has been a positive attitude by all parties involved to find solutions for reconstruction of problem companies rather than merely forcing them into bankruptcy. This can – and has – involved debt to equity conversions among other solutions. Because of the fluid nature of the situation the bank is hoping that some of the impairments that have been taken will turn out to be over-cautious, and that there could be the possibility of write backs of impairments giving a positive on the P&L front in future years.

A positive attitude by all parties involved

Conclusion

Eik Banki Group's capital adequacy and key ratios have become stronger following the Credit Package II arrangement with the Danish Government. The bank continues to be affected by weakness in the Danish corporate real estate market, but in terms of significant exposures, the rest of the outstanding loans in Denmark and the Faroe Islands are comparatively safe.

The sector is starting to show positive share price movement

The bank is challenged by a reduction in profit from basic operations partly caused by the high impairments, higher financing costs and the low economic activity in Denmark and the Faroe Islands. However there are positive points also. Costs have been reduced, and Market Value Adjustments are positive. Overall, we are happy with the progress that the group is making.

The H1 results have led us to adjust our 2009 estimates downwards.

When examining comparatives, there still appears to be scope for a further re-rating of Eik Banki's shares, even after the recent jump in the share price. There have been many statements made on the state of the global economy lately. Last week IMT stated that the recovery of the global economy had started, but that the climb would be a slow one.

The Danish banking sector still has challenges to overcome but the expected recovery has driven share prices upwards since March. Despite the 30% increase in the Eik Banki Group's share price since we initiated research coverage, we believe the shares still have upward potential in relation to its peer group.

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Management	Major Shareholders
<p>Chief Managing Director: Marnar Jacobsen Managing Director: Bjarni Olsen</p>	<p>The Eik Fund (Eik Grunnurin) 52% (The fund only has a 5% voting right)</p>
Key Dates	Key Milestones
<p>9 October 2009: Start of Silent Period 30 October 2009: Q3 results February 2010: Q4 and full year results March 2010: Annual Shareholder Meeting</p>	<p>2006: Share Offering to the Public 2007: Assumes 40 million Euro in subordinated debt 2007: Dual listing of Eik Bank on the OMX Nordic Exchange in Iceland and Copenhagen 2007: Acquisition of Skandiabanken A/S' activities in Denmark 2007: Acquisition of Privestor and Finansnyt 2007: Divestment of SkandiaBanken A/S' Car Finance and leasing Division 2007: Merger of Eik Bank Denmark and SkandiaBanken 2007: Eik Banki P/F acquires certain assets of Kaupthing Bank's operation in the Faroe Islands 2008: Eik Banki takes out a syndicated term loan facility of DKK 1 billion October 2008: Joins the Danish Government-backed Deposit Guarantee Scheme, 'Credit Package I'. January 2009: Eik Banki P/F issues a fixed rate bond with a total nominal amount of DKK 615,000,000 February 2009: The fixed rate bond is increased by DKK 51 million nominal April 2009: New senior capital of DKK300m fixed rate bonds issued. June 2009: Eik Bank Danmark received DKK 295m in hybrid core capital under Credit Package II from the Danish Government</p>

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Hardman & Co

4-5 Castle Court
London
EC3V 9DL
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

