

A BANK'S TRIUMPHANT TRANSFORMATION

Well underway to diversify its revenue model with a growing proportion of its business based abroad, Føroya Sparikassi anticipates increased internationalization of Faroese companies in the near future—while readying its own IPO.

AS FÖROYA SPARIKASSI looks to increase its revenue from foreign markets while preparing for IPO in the near future, recent years have brought exceptional growth and excellent results for the bank. Over the past two years, the annual result has grown more than 30 percent each year, whereas looking at the period between 2000 and 2005, the bank saw a profit growth of 123.7 percent. These results were obtained in spite of a crisis in the fish farming industry beginning in 2003, which proved challenging for all lenders. In 2005, return on equity before taxes was 18.8 percent, and the bank paid a dividend of 5 percent; profits before tax were DKK 164.2M (EUR 22M / GBP 15.3M / USD 26.6M).

“Our goal is a return on equity of 15 percent and we want to increase the proportion of income from abroad,” says Marner Jacobsen, chief managing director. According to Mr Jacobsen, Føroya Sparikassi has several strategies in place to achieve this goal. “We run a people business,” he says, “so competency is a core value and we place emphasis on continued employee development, with innovative thinking especially encouraged.”

The fruits of this innovation focus are several new services, Mr Jacobsen points out. For example, foreign companies doing business in the Faroes will find staff trained and ready with advice to help them navigate Faroese financial regulations—they can walk you through payroll requirements making it easy and painless.

Another new service is Lima-Greiðslan (Member Services), a software program that allows client organizations to manage the collection of dues-payments flowing into the organization. A third example is Realkredditt Loan Instruments, offered in collaboration with BRFkredit in Denmark; it gives mortgage customers more flexibility in choosing a loan. Variable loans and fixed-rate mortgages up to 30 years are all possibilities now. There are also plans to build strength in the pension fund market.

A second part of Føroya Sparikassi's strategy is to diversify service offerings across both business sectors and countries—new acquisitions have been key to diversification.

In 2005, Føroya Sparikassi became the sole owner of Denmark's Eik Bank, broadening its client base and giving it indirect access to the Copenhagen Stock Exchange. It also acquired 10 percent of Iceland's largest savings bank, SPRON (Sparisjóður Reykjavíkur og nágrennis). In addition, Føroya Sparikassi holds

Entrance interior the bank's headquarters.



Føroya Sparikassi chief managing director Marner Jacobsen.

42.5 percent of the Danish investment firm DSK. Thus, one-third of its income now comes from outside the Faroes. Føroya Sparikassi has always been very strong on the Faroese private mortgage market, and the grasp on this market is still strong. Today half of the loans goes to households home and abroad. The other half goes to Faroese businesses and businesses outside the islands.

In fact 50 percent of Føroya Sparikassi's business loans go to companies outside the Faroese market. On 1 March 2006, another factor affecting Føroya Sparikassi's ability to offer diverse services was put into place. Bring-

ing the Faroes into line with EU regulations, the Faroese Parliamentary Act on Financial Activities entered into force. Now, the only service Føroya Sparikassi isn't able to offer its clients is insurance. Føroya Sparikassi is strongly positioned on the domestic investment front. It is a key player in the Faroese venture fund company Notio, the Faroese seed capital company Set, and Bitland Enterprise, a business and technology development company—all involved in innovation, promotion, and the development of Faroese business.

In 2005, Føroya Sparikassi's ma-

jority shareholder, the Sparikassi Fund, released holdings that reduced its ownership from 94 percent to 87 percent, freeing shares for purchase by the public. This trend will continue as listing on the Faroese Securities Market (VMF market on ICEX, Iceland Stock Exchange), anticipated in the near future, requires that 25 percent of a company's share capital is free floating.

In September 2005, a liquidity loan taken by Føroya Sparikassi was oversubscribed by 100 percent, an indication of a perception of Føroya Sparikassi as a solid investment. The limit was sub-

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Serving private and corporate clients with financial services products including banking, lending, investments and financial planning, Føroya Sparikassi is the largest commercial bank of the Faroe Islands. Founded in 1832, Føroya Sparikassi is also the country's oldest financial institution.

National network of branches

Number of employees: 215

Number of shareholders: 8,914

Fully owned subsidiaries:

Inni – real estate brokerage firm (Faroes)

Eik Bank – investment bank (Denmark)

Partly owned, largest shareholder in:

SPRON – savings bank (Iceland)

sequently raised from EUR 35M to EUR 70M.

“We are also looking to balance our capital base between equity and subordinated debt,” says Mr Jacobsen.

He downplays recent concerns about the Icelandic economy and its possible impact on the Faroes. “We have been expecting a devaluation of the Icelandic krona for some time now, and as much of the Icelandic bank activity is outside of Iceland, bank debt/GDP ratios must be put in perspective,” he says. In addition, Faroese bonds and equity listings on the ICEX are in DKK so they are unaffected by Icelandic currency swings. Thus, the main impact of a weaker Icelandic krona will be more competitive fish prices.

In its annual report, Føroya Sparikassi states that it “anticipates improvement in the Faroese economy in 2006.” Mr Jacobsen also expects that Faroese companies will begin to undertake more business abroad and participate in more joint ventures.