

# PROSPECTUS



FØROYA LANDSSTÝRI

THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 1,000,000,000 1.75 PER CENT

FIXED RATE NOTES

27 JUNE 2013 / 27 JUNE 2017

This Prospectus is published on 25 June 2013.

The Føroya Landsstýri (the "Issuer" or the "Government of the Faroe Islands") will issue DKK 1,000,000,000 1.75 per cent Fixed Rate Notes due 27 June 2017 (the "Notes"). The Notes will constitute direct, general and unconditional obligations of the Issuer.

Application has been filed with NASDAQ OMX Iceland hf. for the trading and official listing of the Notes on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. Acceptance of the Notes for the trading and official listing on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. is expected to have effect from 27 June 2013.

The Prospectus is expected to be passported to the Kingdom of Denmark prior to 27 June 2013. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with NASDAQ OMX Copenhagen A/S for the trading and official listing on the main market of NASDAQ OMX Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of NASDAQ OMX Copenhagen A/S is expected to have effect from 27 June 2013.

The Prospectus was prepared for the primary official listing and trading on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. and the main market of NASDAQ OMX Copenhagen A/S, respectively.

The Prospectus has been reviewed and approved by Fjármálaeftirlitið, the Financial Supervisory Authority, Iceland ("FME"), and the Prospectus constitutes a prospectus for the purposes of Directive 2003/71/EC (the "Prospectus Directive").

The Prospectus consists of three documents: Summary, Registration Document and Securities Note.

This Prospectus is available at the following locations: Nordea Bank Danmark A/S, Strandgade 3, DK-1401 Copenhagen K, Denmark (the "Arranger") and Føroya Gjaldstova, Kvíggjartún 1, Fo-160 Argir, Faroe Islands.

The Prospectus may also be obtained from the website [www.gjaldstovan.fo](http://www.gjaldstovan.fo).

*This Prospectus is a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.*

*This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or the Arranger to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Arranger have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Arranger to publish or supplement a prospectus for such offer. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in any Relevant Member State), and includes any relevant implementing measure in such Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.*

No person has been authorised by the Issuer or the Arranger to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Arranger.

No representation or warranty is made or implied by the Arranger or any of its respective affiliates, and neither the Arranger nor any of its affiliates (other than the Issuer) makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Prospectus is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may be subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1980 and the regulations thereunder). The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or any of them to subscribe for or purchase, any Notes.

This Prospectus may include forward-looking statements. Forward-looking statements are not statements of historical fact but rather reflect the Issuer's current expectations, estimates and predictions about future developments in the Issuer's economy and public finances and events. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words or terms of similar substance used in connection with any discussion of future developments of the Issuer's economy and public finances identify forward-looking statements.

Forward-looking statements involve risks and uncertainties. There are multiple factors that could cause actual developments of the Issuer's economy and public finances to differ materially from those contemplated by the forward-looking statements. Most of these factors are difficult to predict accurately and are generally beyond the Issuer's control. Prospective investors should consider the uncertainty and risk resulting from such uncertainty in connection with any forward-looking statements that the Issuer makes.

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SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

<b>Section A – Introduction and warnings</b>		
A.1	Introduction and warnings	<p>The Issuer informs potential investors that:</p> <ul style="list-style-type: none"><li>• this summary should be read as introduction to the Prospectus;</li><li>• any decision to invest in the Notes should be based on consideration of the Prospectus as a whole by the investor;</li><li>• where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Faroe Islands, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and</li><li>• civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Notes.</li></ul>

<b>Section B – Issuer</b>		
B.17	Issuer ratings	<p>The Notes have not specifically been rated by a rating agency.</p> <p>The Faroe Islands hold a foreign currency rating of Aa3 assigned by Moody's Investors</p>

		Service.
B.47	Description of the issuer	<p>The Government of the Faroe Islands (Føroya Landsstýri). The Faroe Islands are a self-governing country within the Kingdom of Denmark which also comprises Greenland.</p> <p>The Faroe Islands legislate and govern a wide range of areas in accordance with the Faroe Islands Home Rule Act no. 137 of 23 March 1948 (the "Home Rule Act"). Certain matters are to remain the responsibility of the Danish Government as long as the Faroe Islands are part of the Kingdom of Denmark.</p> <p>The Faroe Islands are not a member of the European Union.</p> <p>The Faroe Islands are a modern, developed society with a standard of living comparable to other Nordic countries. Fishery and related industries are of major importance to the economy of the Faroe Islands. The dependence on a resource-based industry is evident in the export figures, of which fish products account for about 90% of the export value of goods.</p> <p>The construction industry in the Faroe Islands has undergone significant changes as the demand for construction has decreased. The further development in the construction industry in the near future depends on governmental projects as well as the municipality of Tórshavn, which are the main investors in construction.</p> <p>The transport sector on the Faroe Islands has in general been affected by the international financial crisis and economic slowdown. After a decrease in the number of passengers travelling to and from the Faroe Islands during 2008 to 2011, the number of travellers has increased to 225,000 in 2012.</p> <p>Tourism is presently of minor importance to the Faroese economy. The direct income effect of the tourism industry is estimated to be DKK 150-200 million (excluding transport to and from the Faroe Islands).</p> <p>In 1992, the Danish Government agreed to transfer the rights to mineral resources in the subsoil of the Faroe Islands to the Government of the Faroe Islands. So far the</p>

		<p>explorations have discovered no commercial findings, but they have showed the presence of an active hydrocarbon system in the Faroese subsurface. The influence from the oil industry has so far had a limited economic effect and expectations have become more moderate. Oil and gas explorations in the Faroese subsoil will continue in new areas in the coming years.</p> <p>The financial market in the Faroe Islands is served by four banks – Eik Banki Føroya P/F, P/F BankNordik, Norðoya Sparikassi and Suðuroyar Sparikassi.</p>																																										
B.48	Public finance and trade information	<p>In 2008 and 2009, GDP decreased respectively 0.8% and 1.6% after significant increases the years before. GDP increased again by 7% and 2.5% in 2010 and 2011 respectively.</p> <p>In its publication “Economic Assessment for 2012, 2013 and 2014”, Landsbanki Føroya<sup>1</sup> has forecasted nominal GDP growth to be 3.5 % in 2012, 4.9 % in 2013 1.4 % in 2014.<sup>2</sup> This increase in expected GDP in 2013 is due to prospects of increased pelagic fisheries in Faroese waters, as well as a small expected increase in private consumption. The GDP growth rate is expected to be low in 2014, as the fisheries are not expected to increase at the same rate in 2014, as it is in 2013.</p> <table border="1"> <thead> <tr> <th colspan="3"><b>National income, expenditure and savings</b></th></tr> <tr> <th><i>Million DKK</i></th><th><b>2010</b></th><th><b>2011</b></th></tr> </thead> <tbody> <tr> <td><b>Gross domestic product</b></td><td><b>12,942</b></td><td><b>13,254</b></td></tr> <tr> <td>+ Wages and salaries from abroad</td><td>823</td><td>851</td></tr> <tr> <td>- Wages and salaries to abroad</td><td>175</td><td>185</td></tr> <tr> <td>+ Property income from abroad</td><td>355</td><td>431</td></tr> <tr> <td>- Property income to abroad</td><td>537</td><td>443</td></tr> <tr> <td><b>National income, gross</b></td><td><b>13,409</b></td><td><b>13,908</b></td></tr> <tr> <td>+ Current transfers from abroad</td><td>1,015</td><td>1,242</td></tr> <tr> <td>- Current transfers to abroad</td><td>193</td><td>153</td></tr> <tr> <td><b>National disposable income, Gross</b></td><td><b>14,231</b></td><td><b>14,998</b></td></tr> <tr> <td>- Final consumption expenditure</td><td>10,885</td><td>11,522</td></tr> <tr> <td><b>Savings, gross</b></td><td><b>3,346</b></td><td><b>3,476</b></td></tr> <tr> <td>- Gross capital formation</td><td>2,536</td><td>2,433</td></tr> </tbody> </table>	<b>National income, expenditure and savings</b>			<i>Million DKK</i>	<b>2010</b>	<b>2011</b>	<b>Gross domestic product</b>	<b>12,942</b>	<b>13,254</b>	+ Wages and salaries from abroad	823	851	- Wages and salaries to abroad	175	185	+ Property income from abroad	355	431	- Property income to abroad	537	443	<b>National income, gross</b>	<b>13,409</b>	<b>13,908</b>	+ Current transfers from abroad	1,015	1,242	- Current transfers to abroad	193	153	<b>National disposable income, Gross</b>	<b>14,231</b>	<b>14,998</b>	- Final consumption expenditure	10,885	11,522	<b>Savings, gross</b>	<b>3,346</b>	<b>3,476</b>	- Gross capital formation	2,536	2,433
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<sup>1</sup> On December 14th 2012 the Parliament of the Faroe Islands decided to close Landsbanki Føroya, the Governmental Bank, with effect from April 1st 2013. Some of Landsbanki Føroya's functions have been transferred to other governmental institutions. The functions of loan management and investment management for the Faroese Government have been transferred to Føroya Gjaldstova.

<sup>2</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.9

<b>Net lending (+) / Net borrowing (-)</b>	<b>810</b>	<b>1,043</b>
<b>Source:</b> Statistics Faroe Islands		

The Government and the Parliament have announced intentions to achieve a balanced budget by 2016 in order to maintain a good credit rating. The intention is to achieve the balanced budget by 2016. According to the budget, the deficit will be DKK 243 million in 2013. According to the governments long term budget proposal for the years 2014-18, the deficit will be DKK 235 million in 2014, and DKK 168 million in 2015, followed by a DKK 3 million surplus in 2016. This improvement of the budget balance will be achieved by cutting several expenditure items and by increasing revenues. The main increase in government revenues are increased payments for fishing rights.

#### Central government accounts

<b>Million DKK</b>	<b>Actual 2012</b>	<b>Budget 2013</b>
Taxes, direct	2,136	2,190
Taxes, indirect	1,853	1,991
Transfers from Denmark	660	697
Transfers from municip. and gov. inst.	134	119
Sales of goods and services	750	693
Revenue from fees	148	188
Other	33	27
<b>Operating revenues, ex. interest</b>	<b>5,714</b>	<b>5,903</b>
Personnel cost	-2,185	-2,333
Transfers to individuals	-1,562	-1,649
Other transfers	-479	-445
Purchase of goods and services	-1,329	-1,187
Other expenses	-267	-270
<b>Operating expenses, ex. interest</b>	<b>-5,822</b>	<b>-5,884</b>
<b>Primary operating balance</b>	<b>-108</b>	<b>20</b>
Interest income and dividends	128	122
Interest expenses	-179	-122
<b>Gross operating balance</b>	<b>-159</b>	<b>19</b>
Debt repayment	-1,220	-1,020
<b>Net operating balance</b>	<b>-1,379</b>	<b>-1,001</b>
Sale of fixed assets	2	20
Sale of shares	0	0
Capital revenues from Denmark	51	87
Repayments of loans	20	22
<b>Total capital revenues</b>	<b>73</b>	<b>128</b>
Construction of fixed capital	-173	-272
Acquisition of fixed capital	-10	-18
Injection of cap. into publ. Ltd.'s	-51	-87
Net lending, domestic	-32	-15
<b>Total capital expenses</b>	<b>-265</b>	<b>-391</b>

		<b>Financing surplus/deficit</b>	<b>-351</b>	<b>-243</b>
Source: Faroese government accounts				
<b>Central government assets and liabilities</b>				
<i>Million DKK</i>				
<b>2011      2012</b>				
<b>ASSETS</b>				
Deposits in Landsbanki Føroya	2,514	2,118		
Deposits in banks	355	455		
Others in circulation	612	712		
Loan to Iceland	300	0		
Financial assets	2,261	2,231		
<b>Total assets</b>	<b>6,043</b>	<b>5,516</b>		
<b>LIABILITIES</b>				
Long-term debt	500	500		
Bond loan	4,346	4,250		
Other debt	758	693		
<b>Total debt</b>	<b>5,604</b>	<b>5,443</b>		
<b>Net assets</b>	<b>439</b>	<b>74</b>		
Source: Landsbanki Føroya				
<b>Balance of payments</b>				
<i>Million DKK</i>				
<b>2010      2011</b>				
Goods	509	306		
Services	-987	-1,006		
<b>Goods and services</b>	<b>-478</b>	<b>-700</b>		
Wages	649	666		
Rents	-181	-12		
<b>Income transfers</b>	<b>468</b>	<b>654</b>		
Government sector	791	791		
Other sectors	31	299		
<b>Other transfers</b>	<b>821</b>	<b>1,090</b>		
<b>Current account surp (+)/def (-)</b>	<b>811</b>	<b>1,043</b>		
Source: Statistics Faroe Islands				

<b>Section C – Securities</b>		
C.1	Type and class of securities being offered / admitted to trading	<p>The Notes constitute direct and unsecured obligations of the Government of the Faroe Islands and constitute unsubordinated loan indebtedness ranking <i>pari passu</i> with all other loan indebtedness of the Government of the Faroe Islands.</p> <p>The Notes will be issued and registered as dematerialised securities, in book-entry form with the Danish central securities depository, VP SECURITIES A/S, on the Issue Date. The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price. The Notes will be closed for further issues from 27 May 2017.</p>

		<p>Nordea Bank Danmark A/S, Strandgade 3, DK-1401 Copenhagen K, Denmark, will act as Account Holding Institute (in Danish: <i>Kontoførende Institut</i>) in relation to VP SECURITIES A/S.</p> <p>The International Securities Identification Number (ISIN) for the Notes is DK0030324181.</p> <p>The INET code for the Notes is FO-LB 170627.</p> <p>NASDAQ OMX Copenhagen A/S short name for the Notes is FOLB JUN17.</p>
C.2	Currency of the Notes	The Notes will be issued in DKK.
C.5	A description of any restrictions on the free transferability of the Notes	Not applicable; the Notes are issued as negotiable securities.
C.8	Description of rights attached to the Notes	<p><i>Ranking</i></p> <p>The Notes constitute direct and unsecured obligations of the Government of the Faroe Islands and constitute unsubordinated loan indebtedness ranking <i>pari passu</i> with all other loan indebtedness of the Government of the Faroe Islands. The Notes of each series will rank equally with each other, without any preference among themselves.</p> <p><i>Early redemption</i></p> <p>The Notes are not redeemable by the Issuer prior to the Maturity Date. The noteholders may not demand redemption of the Notes prior to the Maturity Date, unless there is an Event of Default.</p> <p><i>Governing law</i></p> <p>The Notes are governed by Danish law.</p>
C.9	Interest and yield; redemption at maturity; name of representative of holders of Notes	<p><i>Interest</i></p> <p>The Notes bear interest from and including 27 June 2013 to but excluding 27 June 2017.</p> <p>The Notes will pay a fixed rate interest of 1.75 per cent. per annum (the "Interest Rate") payable in arrears annually on 27 June in each year beginning on 27 June 2014 and ending on 27 June 2017 (each an "Interest Payment Date").</p>

		<p>The first interest period shall be determined as the period from and including the Issue Date to (but excluding) the first Interest Payment Date; and with respect to the subsequent interest periods, the period commencing on an Interest Payment Date (included) to the next Interest Payment Date (excluded) (each an "Interest Period").</p> <p>The yield on the Notes is 1.755 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 99.973 per cent. The yield is not an indication of future yield.</p> <p><i>Redemption at maturity</i></p> <p>Unless previously redeemed due to an Event of Default, or purchased and cancelled, the Issuer will redeem the Notes at their outstanding principal amount, together with accrued interest thereon, on 27 June 2017.</p> <p><i>Representative of noteholders</i></p> <p>There is no representative of the noteholders.</p>
C.10	Derivative component in the interest payment	Not applicable; the Notes do not have a derivative component in the interest payment.
C.11	Admission to trading	<p>Application has been filed with NASDAQ OMX Iceland hf. for the trading and official listing of the Notes on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. Acceptance of the Notes for the trading and official listing on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. is expected to have effect from 27 June 2013.</p> <p>The Prospectus is expected to be passported to the Kingdom of Denmark prior to 27 June 2013. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with NASDAQ OMX Copenhagen A/S for the trading and official listing on the main market of NASDAQ OMX Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of NASDAQ OMX Copenhagen A/S is expected to have effect from 27 June 2013.</p>

Section D – Risks		
D.2	Risks relating to the Issuer	<p>The Issuer is exposed to a number of risks in respect of the conditions of the Faroese economy, including with regard to:</p> <ul style="list-style-type: none"> <li>• <i>Production</i> - Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. Landsbanki Føroya has forecasted GDP growth to be 4.9 % in 2013 and 1.4% in 2014.<sup>3</sup></li> <li>• <i>Unemployment</i> - Unemployment rose significantly from 3.9% during 2009 and 2010 and was 7.5% in February 2011. The unemployment rate has reduced since and was 5.3% in March 2013. Any positive effects on the Faroese economy from a global economic recovery are expected to be relatively limited compared to other and larger industrialised economies.</li> <li>• <i>Fishery and fishing industry</i> - Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. Demersal fisheries in Faroese waters are experiencing considerable difficulties, whereas pelagic fisheries have had very good years in 2011 and 2012.</li> <li>• <i>Service and production industries</i> - Companies in the service and production industries producing for the home market have faced difficulties since 2008, why many companies have adjusted their operations to cope with the very low demand while maintaining the ability to increase production when demand rises.</li> <li>• <i>The financial markets</i> - The Faroese financial institutions have experienced reduced demand for lending by households as well as</li> </ul>

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<sup>3</sup> Source: Governmental Bank, Economic Assessment, March 2013, p.9

		<p>businesses. In the coming years financial institutions may also be affected by more stringent solvency requirements, which could inhibit a growth in lending operations when the economy improves.</p> <ul style="list-style-type: none"> <li>• <i>The public sector</i> - The public sector has experienced significant deficits since 2008. The 2011 deficit was DKK 312 million, i.e. 2.6% of GDP. Preliminary figures indicate that the deficit will be DKK 351 million in 2012, i.e. 2.6% of GDP. The Government and the Parliament have announced intentions to achieve a balanced budget by 2016, which are amongst others to be achieved by stimulating productivity growth in the private and public sector and by introducing measures stimulating increased demand by households and corporation in order to increase public tax and duty revenues.</li> <li>• <i>The political environment</i> - Any changes in the political environment of the Faroe Islands or in the relationship between the Faroe Islands and Denmark may affect the Faroese economy. Precipitous political actions taken either by the Faroe Islands or the Kingdom of Denmark could have significant impact on the Faroese economy.</li> </ul>
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D.3	Risks relating to the Notes	<p>The Issuer believes that the following factors represent the principal risks inherent in investing in the Notes:</p> <ul style="list-style-type: none"> <li>• <i>Market risk</i> - The market of the Notes issued by the Issuer is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates.</li> <li>• <i>Liquidity risk</i> - There can be no assurance that an active trading market for the Notes will be developed and maintained, which may affect the trading price and the liquidity of the Notes. The Issuer has not made any arrangement with any persons or companies to ensure the liquidity of the Notes.</li> <li>• <i>Legal risk</i> - The terms and conditions of the Notes are based on Danish law in effect on the date of this Prospectus. No assurance can be given that as to the impact of any possible judicial decisions or changes to Danish and Faroese law after the date of this Prospectus.</li> <li>• <i>Credit risk</i> - Issuer's liability to make payments according to the terms and conditions in this Prospectus constitutes direct and unsecured obligations of the Government of the Faroe Islands and constitutes unsubordinated loan indebtedness ranking <i>pari passu</i> with all other loan indebtedness of the Government of the Faroe Islands.</li> </ul>
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<b>Section E – Offer</b>		
E.2b	Purposes of the offer and use of proceeds when different from making profit and/or hedging certain risks	<p>The offer is made for purposes of financing the repurchase of the notes set out below. The proceeds from the issue of the Notes will be used as follows:</p> <p>(1) Up to approximately DKK 49 million for the financing of the repurchase of Føroya Landsstýri 3.75 per cent Fixed Rate Notes</p>

		<p>due 10 June 2018 (FO-LB 180610) with ISIN code DK0030016449 and</p> <p>(2) the residual amount up to approximately DKK 1,000 million for the financing of the repurchase of Føroya Landsstýri 3.125 per cent Fixed Rate Notes due 7 April 2014 (FO-LB 140407) with ISIN code DK0030236054.</p>
E.3	Terms and conditions of the offer	<p><i>Nominal amount</i></p> <p>Notes with a total principal amount of DKK 1,000,000,000 are being issued by the Issuer.</p> <p>The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price free of charge to investors. The Notes will be closed for further issues on 27 May 2017.</p> <p><i>Placing and underwriting</i></p> <p>Nordea Bank Danmark A/S arranged for the Notes to be purchased by a group of institutional investors.</p> <p>The issue of the Notes has not been underwritten with a firm commitment.</p> <p><i>Issue Price</i></p> <p>The Notes are being issued at a price of 99.973 per cent.</p> <p><i>Payment and settlement</i></p> <p>Payment and settlement of the Notes will be effected three business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 27 June 2013. The settlement will be effected against payment and registration with VP SECURITIES A/S.</p> <p><i>Account Holding Institute</i></p> <p>The Issuer has appointed Nordea Bank Danmark A/S as Account Holding Institute.</p>
E.4	Interests material to issue including conflicting interests	Save for any fees payable to the Arranger, so far as the Issuer is aware, no person involved in the issue of the Notes has an

		interest material to the offer.
E.7	Estimated expenses charged to investors	Any investor intending to acquire any Notes from a bank, financial intermediary or other entity (other than the Arranger in its capacity as such) will do so in accordance with any terms and other arrangements in place between the seller and such investor, including as to price, allocations and settlement arrangements. The Issuer will not be a party to such arrangements with investors, and, accordingly, investors must obtain such information from the relevant seller.

# FØROYA LANDSSTÝRI



THE GOVERNMENT OF THE FAROE  
ISLANDS

FØROYA LANDSSTÝRI DKK 1,000,000,000 1.75 PER  
CENT

FIXED RATE NOTES

27 JUNE 2013 / 27 JUNE 2017

REGISTRATION DOCUMENT

## II. REGISTRATION DOCUMENT

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## 1. Risk factors

Prospective investors should read this Prospectus carefully. The Prospectus consists of three documents: Summary, Registration Document and the Securities Note all of which have been dated 24 June 2013. Investing in the Notes involves risks factors that may affect the Issuer's ability to fulfil its obligations under the Notes to the investors, and which the potential investor should take into consideration prior to deciding to make an investment in the Notes.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

There may be other risks that a prospective investor should consider that are relevant to the investor's own particular circumstances or generally.

Prospective investors should carefully consider, among other things, the factors described in the sections below before purchasing the Notes. In addition, for risk specifically associated with the Notes, investors are advised to consider the section "Risk factors" in the Securities Note.

### 1.1 The Faroese economy

The Issuer's ability to fulfil its obligations under the Notes is highly dependent on the conditions of the Faroese economy.

#### 1.1.1 Production

Landsbanki Føroya<sup>4</sup>, the Governmental Bank, estimates that nominal GDP increased by 3.6% in 2012,<sup>5</sup> and it is therefore likely that total production did not grow, as the average increase in the consumer price index was 2.1 per cent. Faroese households are still cautious to increase spending and demersal catches in Faroese waters have fallen short of previous expectations. In its publication "Economic Assessment for 2012, 2013 and 2014", Landsbanki Føroya has forecasted GDP growth to be 4.9 % in 2013 and 1.4% in 2014.<sup>6</sup> Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. This dependence on a resource-based industry is evident in the export figures, of which fish products account for about 90% of the export value of goods. Because the Faroese fishing fleet is very oil dependent, a major increase in oil prices also constitutes a risk factor for the Faroese economy.

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<sup>4</sup> On December 14th 2012 the Parliament of the Faroe Islands decided to close Landsbanki Føroya, the Governmental Bank, with effect from April 1st 2013. Some of Landsbanki Føroya's functions have been transferred to other governmental institutions. The functions of loan management and investment management for the Faroese Government have been transferred to Føroya Gjaldstova.

<sup>5</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.9

<sup>6</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.9

### 1.1.2 Employment

Unemployment rose significantly from 3.9% during 2009 and 2010 and was 7.5% in February 2011. The unemployment rate has reduced since and was 5.3% in March 2013.

A reduction in unemployment in neighbouring countries could make it easier for Faroese job seekers to find employment abroad. This could lead to falling unemployment in the short term. The net growth of the workforce (those that reach working age minus those that reach retirement age) can be estimated at 150-200 persons annually, compared to 400-450 persons 15-20 years ago. The pressure on emigration and unemployment is therefore much smaller than for example in the crisis years in the 1990s.

The Faroese economy was not as seriously affected by the financial crisis as many industrial countries. The main reason for this was due to the fact that the demand for various fishery products was not adversely affected compared to the demand for industrial products in general.

The positive effects on the Faroese economy from the global economic recovery are therefore also expected to be relatively limited compared to most other and larger industrialised economies.

### 1.1.3 Fishery and fishing industry

Demersal fisheries in Faroese waters are experiencing considerable difficulties. The cod and haddock stocks are historically low and have been for several years. While saithe stocks are relatively well off and have in recent years been a source of sound fisheries, catches have declined substantially in 2011. Demersal stocks are fragile as a large proportion of the stocks are harvested every year. Cod catches in 2011 fell below the estimates of the Faroe Marine Research Institute, but in 2011 the innermost waters were closed for fisheries and the total number of days of fishing was reduced for small fishing vessels in order to improve the conditions for young fish to reach maturity. If these measures have the intended effect it will improve the state of the cod stock and eventually lead to a growth in cod catches. Demersal fisheries are expected to have very low yield in 2013.<sup>7</sup> Demersal fisheries in Russian part of the Barents Sea were given larger quotas in 2012 and 2013, but are expected to result in lower value of catches and the contribution to the economy because of lower prices.<sup>8</sup> These fishing rights are granted in exchange for Russian ships being allowed to fish in Faroese waters.

It is not likely that Faroese ships will be allowed to fish in the Norwegian part of the Barents Sea as the disagreement with Norway and the EU on mackerel fisheries prevents other fisheries agreements from being made. In addition the disagreement prevents mackerel caught in Faroese waters to be sold in Norway and on the EU markets, but as alternative markets over the world for mackerel have been approached, the Faroese economy has had a net gain from mackerel fishing, which can be seen in the national accounts and the exports for 2010 TO 2012<sup>9</sup>.

Pelagic fisheries had very good years in 2011 and 2012 due to successful mackerel fisheries. Mackerel catches are also expected to be of great value in 2013. Blue whiting and herring catches increased in 2012 and are expected to give good catches in 2013 as

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<sup>7</sup> Source: Governmental Bank, Economic Assessment, March 2013, p.14

<sup>8</sup> Source: Governmental Bank, Economic Assessment, March 2013, p.14

<sup>9</sup> Table 1 - Exports by product, p.23

well according to negotiated quotas. Total production in this part of the industry is likely to be somewhat higher in 2013 than in 2012.<sup>10</sup>

Fish farming, which has made a large contribution to economic growth in recent years, should produce similar quantities in 2013 as in 2012, but at somewhat lower value, as salmon prices declined in 2012. The prices are expected to increase a little in 2013 and the export value is expected to be about 1.8 billion DKK the same as the year before.

Other factors that affect the resource industries are fish and oil prices. Even though economic developments have been poor on conventional Faroese export markets, it is likely that the prices of fish products will maintain their current levels. Market outlooks are fairly good for the Faroese fishing industry, e.g. due to the fact that economic growth in developing countries means that there is an increasing market of consumers demanding high-quality fish products.

Several fish processing plants that were part of the Faroe Seafood consortium are yet to be reopened. Other processing plants in operation should therefore see improved performances and have a better shot at competing for catches as demersal catches in Faroese waters increase.

#### 1.1.4 Service and production

Companies in the service and production industries producing for the home market have faced difficulties since 2008. It is highly likely that many companies have adjusted their operations to cope with the very low demand while maintaining the ability to increase production when demand rises. These adjustments have been achieved through reducing stocks, cutting staff and postponing or discontinuing investments. Some of these companies have been able to benefit from good relations with their bank, where the bank has shown tolerance in spite of a generally more restrictive lending policy. Such adjustments have improved the productivity of these companies which will lead to a growth in productivity when demand increases again. However, a growth in productivity also means that initially unemployment will not decrease as much when demand increases again.

#### 1.1.5 The financial markets

Faroese financial institutions have experienced reduced demand for lending by households as well as businesses. In the coming years financial institutions may be affected by more stringent solvency requirements, which could inhibit a growth in lending operations when the economy improves. Yet, it is likely that low demand for finance will have a greater effect on lending operations than restrictive lending policies in 2013.<sup>11</sup>

The market of the Notes issued by the Government of the Faroe Islands is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates. There can be no assurance that events on the Faroe Islands, in Denmark, Europe or elsewhere will not cause market volatility and that such market volatility will not adversely affect the trading price of the Notes.

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<sup>10</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.14

<sup>11</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.18

### **1.1.6 The public sector**

The public sector has experienced significant deficits since 2008 when the total deficit was in excess of DKK 800 million, i.e. 6.7% of GDP. The 2011 deficit was DKK 312 million, i.e. 2.6% of GDP. According to preliminary figures the deficit will be DKK 351 million in 2012, i.e. 2.6% of GDP.

The Government and the Parliament have announced intentions to achieve a balanced budget by 2016 in order to maintain a good credit rating, which are amongst others to be achieved by stimulating productivity growth in the private and public sector and by introducing measures stimulating increased demand by households and corporation in order to increase public tax and duty revenues. The sales of fishing rights for mackerel initiated in 2011 and the Government's decision<sup>12</sup> to demand payment for fishing rights from 2012 are other examples of plans aiming at increasing public revenues.

### **1.1.7 The political environment**

Any changes in the political environment of the Faroe Islands or in the relationship between the Faroe Islands and Denmark may also affect the Faroese economy. Precipitous political actions taken either by the Faroe Islands or the Kingdom of Denmark could have significant impact on the Faroese economy.

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<sup>12</sup> Løgings act no. 73 of 7 june 2012 on payments for rights to catch mackerel.

## 2. Persons responsible

### 2.1 Statement from the Issuer

We, on behalf of the Government of the Faroe Islands, declare, as those responsible for the Registration Document that, having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.



Jørgen Niclasen  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 24 June 2013



Bjarni Askham Bjarnason  
Director  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 24 June 2013

### **3. Information about the Issuer**

#### **3.1 Name of Issuer**

The Issuer is the Føroya Landsstýri, the Government of the Faroe Islands.

#### **3.2 Addresses, etc.**

The Government of the Faroe Islands (Føroya Landsstýri):

Ministry of Finance  
Fíggjarmálaráðið  
Kvíggjartún 1  
PO Box 2039  
FO-165 Argir  
Faroe Islands  
Tel: +298 352020  
Fax: +298 352025  
E-mail: fmr@fmr.fo

The Faroese Parliament (Føroya Løgting):

Tinghúsvegur 1-3  
PO Box 208  
FO-100 Tórshavn  
Faroe Islands  
Tel: +298 363900  
Fax: +298 363901  
E-mail: logting@logting.fo

Føroya Gjaldstova:

Kvíggjartún 1  
FO-160 Argir  
Faroe Islands  
Tel: +298 352400  
Fax: +298 352401  
gjaldstovan@gjaldstovan.fo

### 3.3 Recent developments

There have been no recent events, with material effect to the Issuer's solvency, other than described in this Registration Document, hereunder as described in section 1 above and below in sections 3 and 4.

### 3.4 Economy

The Faroe Islands are a modern, developed society with a standard of living comparable to other Nordic countries, with disposable income per capita of approximately 80% of Denmark's according to the Credit Analysis Report from Moody's Investors Service from June 2010<sup>13</sup>. However, the economy is not yet as diversified as in other highly developed countries.

Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. This dependence on a resource-based industry is evident in the export figures, of which fish products account for about 90% of the export value.

**Exports (fob) by product**

**Table 1**

<i>Million DKK</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Diff 2011 to 2012 (%)</b>
Cod	527	516	452	-12.5
Haddock	102	68	62	-8.7
Pollock	551	400	419	4.7
Salmon	1,338	1,617	1,821	12.6
Trout	70	9	0	-97.8
Blue whiting	119	78	160	105.2
Herring	266	291	325	11.4
Atlantic mackerel	321	733	827	12.8
Prawn	95	87	102	17.4
Other fish products	909	802	843	5.2
<b>Total exports of fish products</b>	<b>4,298</b>	<b>4,603</b>	<b>5,012</b>	<b>8.9</b>
Other products	182	169	173	2.1
Vessels	217	629	306	-51.3
<b>Total exports of products</b>	<b>4,697</b>	<b>5,401</b>	<b>5,492</b>	<b>1.7</b>

**Source:** Statistics Faroe Islands

An economy with high dependence on fish products and exports is bound to be vulnerable to the changes in catches, fish prices and exchange rates. These often cyclical and unforeseen changes are volatile, and have left their mark on the economic history of the islands. Export income can fluctuate significantly from one year to the next, and these fluctuations spread quickly throughout the economy.

Because the Faroese fishing fleet is very oil dependent, a major increase in oil prices also constitutes a risk factor for the Faroese economy.

The Faroese Economy contracted somewhat during 2008 – 2009 due to the global economic slowdown and more moderate domestic private consumption. The years 2006

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<sup>13</sup> Available at [www.landsbankin.fo](http://www.landsbankin.fo) (see under Publications). The reports from Moody's Investors Service will also be available on Føroya Gjaldstova's website: [www.gjaldstovan.fo](http://www.gjaldstovan.fo) (see under Figging Landsins).

and 2007 were characterized by an unusually high level of credit-financed private consumption.

In its publication "Economic Assessment for 2012, 2013 and 2014", Landsbanki Føroya forecasted GDP growth to be 3.6% in 2012, 4.9% in 2013 and 1.4% in 2014.<sup>14</sup> This increase in expected GDP is due to prospects of improved pelagic fisheries in Faroese waters in coming years, as well as an expected increase in private consumption. However, the uncertainty regarding the global economy makes it more difficult than usual to evaluate the outlook for the Faroese economy

The growth rate in total wage expenditure in the Faroe Islands was on average 5.9% for the years 2001 to 2007. The growth in total wage expenditure was above average in 2006 and 2007, while the growth in the following years has been lower.

**National income, expenditure and savings**

**Table 2**

<i>Million DKK</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Gross domestic product</b>	<b>12,303</b>	<b>12,100</b>	<b>12,942</b>	<b>13,254</b>
+ Wages and salaries from abroad	696	744	823	851
- Wages and salaries to abroad	209	168	175	185
+ Property income from abroad	487	110	355	431
- Property income to abroad	772	727	537	443
<b>National income, gross</b>	<b>12,505</b>	<b>12,058</b>	<b>13,409</b>	<b>13,908</b>
+ Current transfers from abroad	910	913	1,015	1,242
- Current transfers to abroad	148	147	193	153
<b>National disposable income, Gross</b>	<b>13,267</b>	<b>12,824</b>	<b>14,231</b>	<b>14,998</b>
- Final consumption expenditure	10,880	10,851	10,885	11,522
<b>Savings, gross</b>	<b>2,387</b>	<b>1,973</b>	<b>3,346</b>	<b>3,476</b>
- Gross capital formation	2,543	2,101	2,536	2,433
<b>Net lending (+) / Net borrowing (-)</b>	<b>-156</b>	<b>-128</b>	<b>810</b>	<b>1,043</b>

Source: Statistics Faroe Islands

In general, the Faroese labour market is characterised by a relatively large workforce in the fishing sector and the public sector.

In December 2012 there were 23,745 employees in private and public businesses, 51% males and 49% females.

According to a labour survey from 2010, 81% of the male employees and 34 % of the female employees are in full-time employment.

From 2008 to 2011 the number of employees in the fishing industry decreased about 19%, while in the construction sector, the number of employees decreased 25% during this same period.

Towards the end of 2010 unemployment was greatly affected by the bankruptcy of Faroe Seafood, the largest fish processing company on the Faroe Islands. Thus there has been a significant increase in unemployment during the last 3 years. The latest numbers from March 2013 show unemployment at 5.3%.

<sup>14</sup> Source: Governmental Bank, Economic Assessment, March 2013, p.9

The total number of employees has held steady throughout 2012, thus alleviating fears of escalating migration.

### 3.4.1 INDUSTRIES

#### ***Fishery and the fishing industry***

Since the 1950s, the total yearly Faroese wet fish catch has been about 100,000 tonnes, and since the mid-1970s, most years the catch has been more than 100,000 tonnes (mean value 112,000 tonnes, standard deviation 20,000 tonnes). The most important wet fish species in recent years have been saithe, cod, haddock and greater silver smelt. The catch of these species is done mainly by smaller fishing boats, long-line vessels and pair trawlers.

The pelagic fishery arose in the mid-1960s and has increased since then. From 1995 the most important pelagic species have been blue whiting, herring, capelin and mackerel. These species are caught mainly by high capacity, pelagic trawlers and purse seiners. Other species fished by Faroese ships are prawns and shellfish.

The export value of fish products peaked in 2001 at DKK 4.2 billion. In 2003-2004, prices were lower again, but the total catch was one of the best ever. Prices rose in 2005 and 2006, but were lower again in 2007. Good catches in 2007 compensated for the fall in prices and the export value increased by 4% compared to the year before. The general increase in prices and the overall growth in the catch within the Faroese exclusive economic zone have resulted in an increase of the export value. From 2000 to 2008 the export value of fish products was comparatively high and stable. 2008 and 2009 proved difficult because of decreasing catches of demersal species and a big reduction in the value of products from pelagic species due to large reductions in quotas. However the value of products from farmed fish increased by DKK 450 million, during 2008 to 2009, meaning that the total value of fish export only fell 0.2% from 2008 to 2009.

2010 has fared somewhat better than 2008 and 2009, despite catches in Faroese waters were low compared with historical figures and the export value was DKK 4.2 billion. The export value of fish products was DKK 4.6 billion in 2011. This record high value is mainly due to an increase in volumes of mackerel and the relatively high priced bred salmon.

In 2008, the total Faroese catch was 521,000 tonnes, in 2009 it was 352,000 tonnes and in 2010 it was 394,000 tonnes. The large reduction from 2008 to 2009 was due to significant reductions in quotas for pelagic species.

Of the total catches, wet fish accounted for about 112,000 tonnes in 2008 which were mainly fished in Faroese waters. Of the total cod catches in 2008, nearly 65% were fished in foreign fishing areas like the Barents Sea and East Greenland. This is mainly caused by a significant fall in the catches of cod in Faroese waters over the last three years. Most of the cod fished in foreign waters is caught by big filleting trawlers.

Up to 2010 the Faroe Islands have had an agreement in place with Norway and the EU regarding distribution of fishing rights for catching mackerel. However, in 2010, 2011 and 2012 the parties have not been able to come to an agreement regarding the fishing rights for mackerel. The parties are according to international law<sup>15</sup> obliged to try

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<sup>15</sup> United Nations Convention on the Law of the Sea (UNCLOS),

reaching an agreement, but a costal state is entitled to continue catching in own waters. Some fishing companies are negatively affected by the dispute, due to the reason that other fishing agreements are prevented. In addition the disagreement prevents mackerel caught in Faroese waters to be sold in Norway and on the EU markets, but as alternative markets for mackerel over the world have been approached, the Faroese economy has had a net gain from mackerel fishing, which can be seen in the national accounts and the exports for 2010 to 2011<sup>16</sup>.

In contrary to the nineties, the Faroese Government no longer provides guarantees for the fishery and the fishing industry.

### ***On-land fish industry***

After the economic crisis in 1992, the on-land fish industry went through a restructuring process, and the number of plants was reduced to fewer, bigger or more specialised plants. The filleting factories produce a range of fresh, iced and frozen products to the retail and food service markets. About 32% of the total fish export value in 2011 was fresh, frozen or salted fillets: DKK 464 million in cod fillets, DKK 14 million in haddock fillets, DKK 366 million in saithe fillets , salmon fillets DKK 429 and other species DKK 194 million. The fish fillet plants depend on a stable supply of raw material. This has led to vertical integration of some plants and ships. Other smaller factories produce more specialised fish products.

The fish processing industry has of lately undergone significant changes, and following the bankruptcy proceedings of the Faroese company, Faroe Seafood, the fish processing industry has been restructured. Only a small number of the company's processing plants have reopened after the bankruptcy. The number of wage earners in the industry has for many years decreased steadily. Since 2003 the total work force in fish processing has decreased by more than 50%<sup>17</sup>. The resource base for production has decreased in recent years and total demersal catches in Faroese waters have not been so low since the early 1990ies. Current demersal production capacity seems to be better suited than the capacity in place prior to the industry restructuring. A processing plant for pelagic fish has been built the town of Tvøroyri in 2012 which means that production capacity in this area is better in line with the need.

### ***Aquaculture***

The fish farming industry is relatively new in the Faroe Islands. Farming of salmon and trout started in the early 1980s and has since emerged as the second-largest export industry in the Faroese economy. Production has been volatile over the years, and the industry is currently in a redevelopment phase. The harvest in 2004 was much less than previous years – around 37,000 tonnes. The harvest took a new plunge in 2005 with 19,000 tonnes. The fish farming industry is now in a more positive development stage. The industry seems to have successfully fought the fish disease plague and production is growing.

Harvested quantities in fish farming will most likely remain stable in the next 2 to 3 years. Approximately 75,000 tonnes were harvested in 2012 and the same amount is expected in 2013.<sup>18</sup> The price of farmed fish decreased in mid-2011 and current prices

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<sup>16</sup> Table 1 - Exports by product, p.23

<sup>17</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.17

<sup>18</sup> Source: Governmental Bank, Economic Assesment, March 2013, p.15

are just above production costs, which is approximately DKK 21 on average. There is some uncertainty with regards to future price developments, but prices are expected to increase in the second half of 2013.<sup>19</sup>

The export value of Faroese farmed fish was approximately DKK 1.8 billion in 2012, which corresponds to about 33% of total Faroese exports. Compensation of employees in the aquaculture industry was DKK 170 million in 2010, DKK 191 million in 2011 and DKK 222 million in 2012.

### ***Construction***

The construction industry in the Faroe Islands has had a significant impact on the economy. Most Faroese homes are spacious and the people of the Faroe Islands have generally high private housing standards.

Construction activities have decreased significantly in the last three years. Consequently, the number of wage earners in the industry has also decreased quite substantially. From July 2008 to January 2010 employment fell 29% (from 2,250 to 1,600 employees), but has held steady since. Small construction companies have had enough work to do, while larger companies, which usually work on large public projects, have had less to do and have laid off employees. There are, however, a couple of large public construction projects under way, e.g. the terminal at Vágar Airport and the secondary school at Marknagil and several construction projects are in the pipeline as well. Because of relatively low construction activity in the Faroes a substantial number of construction workers have sought employment in the neighbouring countries causing difficulties for Faroese companies to hire skilled workers.

### ***Transport and communication***

#### *Internal*

The transport infrastructure in the Faroe Islands is good. Road connections now link all villages on each island and also between some of the islands.

In December 2002, the first sub-sea tunnel in the Faroe Islands was opened between Vágar and Streymoy. This is the first partially user-financed investment of its kind in the Faroe Islands.

A second sub-sea tunnel between Borðoy and Eysturoy opened in May 2006.

Both passenger and cargo transport are provided daily to all but two of the inhabited islands and most villages. Ferries and helicopter services are available to the islands that are not directly linked to the road system, and bus service is the most common form of transport for all other areas. As of 1 January 2012, there were 20,050 registered private cars, equivalent to 415 cars per 1,000 inhabitants.

The imports of new cars fell dramatically during 2009 and are still at a relatively low level.

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<sup>19</sup> Source: Governmental Bank, Economic Assessment, March 2013, p.16

### *External*

Atlantic Airways, the national airline carrier of the Faroe Islands, is currently the only operator offering routes to and from the Faroe Islands. Depending on the season, there are four to seven daily flights to Denmark (Copenhagen and Billund). There are also flights each week to Iceland, Norway and the UK depending on the season. In 2012, 225,532 passengers travelled through Vágar airport which is 10.9% more than in 2011.

On 1 May 2007, Vágar Airport was taken over from the Danish authorities by a Faroese public limited company. A project budgeted at DKK 365 million will offer better airport facilities. This includes a lengthening of the runway from 1,250 meters to 1.799 meters (this part of the project finished in late 2011) and a new terminal, which is expected to be finished in January 2014. The project is financed by the decapitalisation of the Investment Fund (Íleggjargrunninið) by a corresponding amount.

The ferry Norröna (a combined cruise/cargo ship that can carry roughly 1,500 passengers and 800 cars) offers weekly service to Denmark and Iceland. 50,574 passengers travelled to the Faroe Islands by sea in 2012, which are 550 more passengers than in 2011. The limited company Smyril Line which runs Norröna was restructured in November 2008 with a 70% write-down of existing shares, DKK 40 million in new share capital (DKK 30 million from the government), conversion of DKK 30 million of subordinated loans to equity and new loans of DKK 26 million. The business model has been changed in such a way that the ferry only sails between Iceland, the Faroe Islands and Denmark from 1 January 2009.

Icelandic and Faroese freight companies provide cargo carriage to and from the Faroe Islands.

The most important routes are to Denmark, Scotland, Norway and Sweden.

The international financial crisis and the general economic slowdown have obviously had some negative effects on the Faroese transport sector.

### ***Telecommunications***

At the end of 2011 there were 19,230 ordinary fixed network telephone subscriptions. The number of fixed network subscriptions has been falling for some years now. Two telephone companies, Faroese Telecom and Vodafone, have market shares of 80% and 20%, respectively. Mobile telephone subscriptions totalled 58,475 in 2011. The use of mobile technology has increased significantly in recent years

Broadband coverage is high (well over the OECD average) with 16,061 subscribers in 2011 or 34 subscribers per 100 inhabitants.

There were about 15,136 satellite or cable television subscribers in 2012.

Every household is required to pay a licence fee to the Faroese Broadcast Company (Kringvarp Føroya) if they have a receiving set.

### ***Tourism***

Tourism is not a major industry in the Faroe Islands. For many years, efforts have been made to develop the tourism industry to diversify the Faroese economy.

Due to the lack of current statistics, it is difficult to determine the economic gains from tourism. The direct income effect of the tourism industry is estimated to be DKK 150-200 million. This figure excludes transport to and from the Faroe Islands.

Transportation figures for 2011 show, that the number of foreign visitors travelling by air was approximately 72,000, which is a 4% increase compared to 2010. About 75% of the visitors are Scandinavians. Overnight stays in hotels and guest-houses increased by 8% in 2011 compared to 2010.

A growing number of cruise ships visit the Faroe Islands during the summer months.

### ***Oil***

On 22 December 1992, the Danish Government agreed to transfer the rights to mineral resources in the subsoil of the Faroe Islands to the Government of the Faroe Islands. The initial oil exploration phase started in 1994 and since then, many firms have been exploring the subsoil.

So far the explorations have discovered no commercial findings, but they have showed the presence of an active hydrocarbon system in Faroese subsurface. The influence from the oil industry has not yet had the economic effect that was expected when the explorations first took place. Expectations have become more moderate, as fewer oil companies were interested when the third licensing round was held in November 2008. At present oil companies hold 8 licences. Three consortia applied for licences in the third round. Recent reports suggest some exploration activities.

It is difficult to estimate the outlook for future activity. Oil and gas exploration in the Faroese subsoil will continue in new areas in the coming years, and expectations are still kept alive. One exploratory well is postponed to be drilled from 2012 to 2013.

In the event of hydrocarbons being exploited from the Faroese subsoil, the revenue generated from such activity will be taxed pursuant to the Hydrocarbon Tax Act<sup>20</sup> and pursuant to the Faroese Ministry of Trade and Industry's Licences for Exploration and Production of Hydrocarbons.

The Hydrocarbon Tax Act consists of a company income tax of 27% and a three tier special hydrocarbon tax, which is based on a rate-of-return (ROR) principle.

In addition to the said taxes, a royalty of 2% of gross revenue will be imposed.

### ***The financial market***

Financial affairs (except insurance companies and mortgage-credit institutions) are under Danish State authority and under the supervision of the Danish Financial Supervisory Authority (Finanstilsynet).

Four banks – Eik Banki P/F (formerly Eik Banki Føroya P/F), P/F BankNordik (formerly Føroya Banki P/F), Norðoya Sparikassi and Suðuroyar Sparikassi – serve the financial market in the Faroe Islands.

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<sup>20</sup> Parliament Act No 26, dated 21 April 1999 on taxation of revenue relating to hydrocarbon activities (as amended by Parliamentary Act No. 26, dated 7 March 2000).

Because of a revision in the banking law, banks and savings banks compete on equal terms. The law affords the same conditions for Faroese financial institutions as for Danish financial institutions relative to the Danish central bank. This legislation thus enables the Faroese banks to participate in international capital markets.

The Faroese economy enjoyed a period of high economic activity during 2006-2007, which gave rise to greater profits within the financial sector. But 2008-2009 proved to be very challenging years for the sector. In 2008 and 2009 there were significant losses in the sector, only P/F BankNordik showed profit in both 2008 and 2009. The situation deteriorated further during 2010, culminating with the bankruptcy of Eik Banki Føroya P/F in the fall of 2010.

After being taken over by the Financial Stability Company (Finansiel Stabilitet A/S), Eik Banki Føroya P/F was sold on to TF Holding P/F, the largest insurance company on the Faroe Islands. TF Holding P/F acquired 70% of the shares for DKK 450 million, while the Financial Stability Company retains a 30% stake in the company. The Financial Stability Company does not see itself as a long term investor and has signalled its intent to sell its remaining stake.

On 1 October 2010 the Danish Government's Bank Package I Scheme expired and with it the general state guarantee, which guaranteed all bank deposits. Certain deposits (such as pensions and child savings accounts) are still subject to a full guarantee by the Deposit Guarantee Fund, but regular deposits are now only covered up to EUR 100,000 net. Through the second Bank Package Scheme the Danish government sought to ensure adequate liquidity for the Danish financial sector. Financial institutions were able to apply for a so-called "individual state guarantee", i.e. where banks could borrow on the money markets with the support of a Danish government guarantee. Eik Banki Føroya P/F, P/F BankNordik, and Norðoya Sparikassi were all granted this guarantee and borrowed relatively large amounts of money. The guarantees expire during the summer of 2013.

The new Eik Banki P/F (name change in 2012 from Eik Banki Føroya P/F) has continued its operations throughout the financial turmoil, and the conclusion of the sale process will serve to stabilize the Faroese financial sector. Eik Banki P/F's latest annual report (covering a 15 months period from October 2010 to end-year 2011) showed a pre-tax loss of DKK 286 million. The bank's solvency ratio was by end of 2011, 22.2% and the individual calculated solvency requirement was 11.9% (8% statutory minimum solvency ratio requirement).

Eik Banki had a pre-tax profit of DKK 94 million in 2012, and the solvency ratio was 23.3 % at the end of 2012.

The Government of the Faroe Islands sold two-thirds of its shares in P/F BankNordik when the bank was listed in 2007 and still holds one-third of the shares. The bank has shown profits during the financial turmoil and the main reason has been its limited exposure abroad. The Faroese housing market has proved very robust, and write-downs in this field have been limited, in contrast to many other countries. For the year 2010 P/F BankNordik presented a pre-tax profit of DKK 416 million, which to a large extend was affected by a DKK 380 million profit from the sales of shares in P/F Bakkafrøst, the largest fish farming company on the Faroe Islands. For the year 2011 the pre-tax profit was DKK 31 million, a result that was negatively affected by non-recurring costs of DKK 103 million related to the acquisition parts of Amagerbanken A/S. The bank's solvency ratio was by end of 2011, 15.6%, and the individual calculated solvency requirement was 11.5% (8% statutory minimum solvency ratio requirement). In addition to the Amagerbanken A/S acquisition in 2011, P/F BankNordik has also acquired 12 branches in Denmark and Greenland from Sparbank as well as buying into an Icelandic Insurance

Company. With these acquisitions P/F BankNordik has obtained a deposit surplus, which has been used to redeem all the bond loans before maturity. On this background P/F BankNordik decided earlier this year to terminate the rating from Moody's.

BankNordik had pre-tax profit of DKK 103 million in 2012, and the solvency ratio was 14.8% at the end of 2012.

P/F BankNordik is listed on NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S. See [www.banknordik.fo](http://www.banknordik.fo) for more information.

Two small banks, Norðoya Sparikassi and Suðuroyar Sparikassi, complete the Faroese banking sector. For the past few years Norðoya Sparikassi has had relatively high pre-tax deficits – DKK 68 million in 2008, DKK 48 million in 2009 and DKK 58 million in 2010. In 2011 the deficit was DKK 1.8 million. The losses stem to a large degree from losses in the local industries, especially in fisheries, in and around Klaksvík, the second largest city in the Faroe Islands. By end 2011 Norðoya Sparikassi's solvency ratio was 16.4% and the individual calculated solvency requirement was 11.5% (8% statutory minimum requirement).

Norðoya Sparikassi had a pre-tax loss of DKK 3.8 million in 2012, and a solvency ratio of 18.1 % at the end of 2012.

The smallest bank, Suðuroyar Sparikassi with DKK 2 million in pre-tax profits in 2006 and DKK 4 million in 2007, just about broke even in 2008. For the year 2009 Suðuroyar Sparikassi has presented a pre-tax profit of DKK 1.7 million and in 2010 it presented a loss of DKK 2.6 million. By end 2010 Suðuroyar Sparikassi's solvency ratio was 12.4% and the individual calculated solvency requirement was 10.5% (8% statutory minimum requirement).

Suðuroyar Sparikassi had a pre-tax loss of DKK 1.2 million in 2012, and a solvency ratio of 14.9 % at the end of 2012.

See their respective websites: [www.ns.fo](http://www.ns.fo) and [www.sparsu.fo](http://www.sparsu.fo).

Various financing institutions other than banks, both private and public, hold about a 10% share of the total financial assets and play an important role in selected areas of the financial market.

In June 2008 a new insurance industry law passed by the Faroese Parliament came into force. In conformity with the insurance industry law from 1997, the monopoly was abolished and a Faroese Insurance Supervisory Body was appointed. This allowed any Faroese company complying with statutory requirements to enter the insurance business on the condition that the company obtains permission from the Government of the Faroe Islands and the Faroese Insurance Supervisory Body.

The company Trygd Ltd., and the old monopoly incumbent, Tryggingarfelagið Føroyar Ltd. (established in 1940), are currently the only non-life insurance companies active in the Faroese market. In the last few years, competition has increased in the life insurance market. The publicly owned company Føroya Lívstrygging (also a pension and life insurance company established in 1967) became a limited company in 2000. In February 2007 the TF Holding P/F owned company, Tryggingarfelagið Føroyar P/F, established a new pension and life insurance company named Betri Pensjón Ltd.

### *Deposit Guarantee Fund*

As of 1 October 2010, a new set of rules for winding-up of distressed banks came into force, meaning that depositors and other unsecured creditors of distressed banks within the Kingdom of Denmark (including the Faroe Islands and Greenland) are no longer ensured full coverage of their claims by the Financial Stability Company under the Danish Government's guarantee scheme (Bank Package 1). As of 1 October 2010, only the Deposit Guarantee Fund guarantees for ordinary deposits registered in the name of a depositor with an amount corresponding to a net value of up to EUR 100,000. Accordingly the guarantee towards depositors and investors does no longer include a government guarantee.

The financial basis of the new winding-up rules is based on a guarantee provided by the Deposit Guarantee Fund towards depositors and investors, combined with a loss guarantee for any loss suffered by the Financial Stability Company in connection with the winding-up of a distressed bank. The loss guarantee is to be provided by the Deposit Guarantee Fund towards the Financial Stability Company.

As all Faroese banks have a general obligation to contribute to the Deposit Guarantee Fund, any case of payments under the guarantee towards depositors and investor or winding-up of distressed banks in the Kingdom of Denmark (including the Faroe Islands and Greenland) by the Financial Stability Company will affect the Faroese banks and their payment obligations towards the Deposit Guarantee Fund.

In March 2013 a committee appointed by the Danish minister of industry delivered a report with recommendations on which criteria should be used to identify Systemically Important Financial Institutions (SIFIs), and which financial institutions presently fulfil these criteria.

The purpose of this initiative is, that it should be publicly known, which financial institutions are so important for the financial system that they will not be allowed to go bankrupt. One important consequence is that the Systemically Important Financial Institutions will be required to have a higher solvency ratio than now.

It is a political question, which financial institutions should be publicly acknowledged as SIFI.

The Faroese government has indicated, that it wants to be an informed part in the Danish political process of identifying the SIFI institutions in Denmark, so it can be well informed for the process of deciding, which financial institutions should be acknowledged as SIFIs in Faroe Islands.

### ***The Faroese Securities Market***

The Faroese Securities Market, the limited company VMF (P/F Virðisbrævamarknaður Føroya) that was founded in 2000 in cooperation with the Iceland Stock Exchange, now NASDAQ OMX Iceland hf., had its first three bond listings in 2003. The Faroese Government bonds expiring in 2008, 2010 and 2018 were listed on the market with varying time to maturity, when the Government of the Faroe Islands decided to refinance the DKK 3,074 million debts with the Danish State. In 2008, 2009, 2010, 2011 and 2012 the Government of the Faroe Islands listed five additional bond series of DKK 974 million, DKK 1,900 million, DKK 1,650 million, DKK 1,350 million, and DKK 1,128 million, respectively.

In June 2005, the first company (Atlantic Petroleum) was listed on the Faroese Securities Market on NASDAQ OMX Iceland hf.

Three companies are now listed on the Faroese Securities Market on NASDAQ OMX Iceland hf.: P/F BankNordik, Atlantic Petroleum and Atlantic Airways. All three companies are also dual-listed on NASDAQ OMX Copenhagen A/S.

### **Currency**

The currency of the Faroe Islands is the Faroese króna, issued by the Danish central bank, Danmarks Nationalbank. Danmarks Nationalbank considers the Faroese króna to be a "special version" of the Danish krone and unique. Faroese bank notes are in circulation in the Faroe Islands. The basis of the Faroese króna is an equal amount of Danish kroner deposited in an account in Danmarks Nationalbank. Although the bank notes used in the Faroe Islands are Faroese, the coins are the same as those in circulation in the rest of the Kingdom of Denmark. Faroese and Danish bank notes are fungible in the Faroe Islands. Danmarks Nationalbank is the lender of last resort and all local Faroese accounts are denominated in Danish kroner.

If the Kingdom of Denmark decides to changes its official currency from Danish kroner to Euro, the Faroe Islands can be expected to follow.

### **3.5 Description of the Issuer's political system and government**

The Faroe Islands are a self-governing country within the Kingdom of Denmark which also comprises Greenland.

The Faroe Islands legislate and govern a wide range of areas in accordance with the Faroe Islands Home Rule Act no. 137 of 23 March 1948 (the "Home Rule Act"). These include the conservation and management of living marine resources within the 200-mile fisheries zone, sub-surface resources, trade, fiscal, industrial and environmental policies, transport, communication, culture, education and research.

According to the Home Rule Act some matters are to remain the responsibility of the Danish Government as long as the Faroe Islands are part of the Kingdom of Denmark. Examples are foreign policy and defence policy.

Other matters are administered by the Danish Government according to Danish law, but will be transferred to the Government of the Faroe Islands if and when the Faroese Parliament decides so. They are called "joint matters". Examples are the judicial system, the police force and banking supervision.

Finally, some matters are administered by the Government of the Faroe Islands according to Faroese law. They are called "special matters". Examples are health services, social services, social security, public transport, finance and economy, industry and tax law.

The Faroe Islands are not a member of the European Union.

The Faroese Parliament (Løgting) is the legislative assembly for Faroese affairs, and also appoints the Prime Minister (Løgmaður), who – along with his/her cabinet ministers - constitutes the Government of the Faroe Islands (Føroya Landsstýri).

The Løgting has 33 members. The Faroese people also elect two representatives to the Danish Parliament.

The Faroese head of state is the Danish head of state, Queen Margrethe II.

### ***Head of the Government of the Faroe Islands***

The Prime Minister, Kaj Leo Holm Johannessen (The Unionist Party), since 26 September 2008.

### ***Present government***

The Government of the Faroe Islands (Føroya Landsstýri) consists of at least two Cabinet Ministers led by the Prime Minister. After the election the 29 October 2011 the Government of the Faroe Islands coalition was on the 14 November 2011 made up of representatives from the Unionist Party (Sambandsflokkur), the People's Party (Fólkaflokkur), the Centre Party (Miðflokkurin) and the Home Rule Party (Sjálvstýrisflokkurin).

## **4. Public finance and trade**

### **4.1 The tax and budgetary systems**

#### **Income taxes**

From 1 January 2012, the rate of progression for the central government income taxes has been reduced, and to offset the loss of revenue, deposits into individual pension schemes are now taxed up front.

Income tax levied by the Customs and Tax Administration is calculated on a sliding scale, with various allowances having the highest marginal rate of 30% in 2013. However, municipal taxes are calculated on a fixed rate.

A gross tax system was introduced in 1997. This means that instead of providing for tax deductions, specific subsidies are allowed to compensate for certain expenses. The basic personal allowance is DKK 65,000, which can be transferred between husband and wife.

Municipal taxes are assessed using the same calculation of income as that of the Customs and Tax Administration, except that a flat tax rate is used. The economic situations of the municipalities differ greatly. In 2013, municipal taxes range from 16.0% to 23.5%. On average, the tax is 21.15%. For each child under 18 years the annual income is reduced by between DKK 3,000 and DKK 10,000 depending on the municipality in which one resides.

Members of the National Church also pay church tax, in 2013 on average 0.65%.

#### **Corporate taxes**

All corporations in business must render accounts and are allowed to deduct for expenses.

Corporate taxes before 1999 were 27%, but have since been lowered to 18%. Of the tax amounts, 70% is paid to the Faroese Treasury, and the remaining 30% to the local municipal authorities.

The tax rate for companies in the oil industry still remains at 27%, which is all paid to the Faroese Treasury.

Corporations that are not liable to collect VAT pay a payroll tax based on total wages and salaries pay – financial services companies pay respectively 12%, insurance companies pay 10% and private sector health services pay 2.5%.

Shipping firms with ships registered in the Faroese International Ship Register (FAS) will get back 35% of wages and other payments made to persons liable to pay taxes in the Faroe Islands.

A new tax was introduced in 2011, which targets companies in the primary sector, namely fishery- and fish farming companies. The tax applies to pre-tax profits of DKK 1 million and above and is set at 2.5% in 2013.

On 10 May 2012 the government put forward for discussion in the parliament a draft bill on payments for rights to catch mackerel in Faroese waters in 2012. The payment was estimated to bring the Faroese Treasury 125 million DKK in 2012.

## **Capital gains tax**

Interest on deposits in Faroese banks is not included in the income subject to income tax. Instead, a yearly tax of 36% of the interest is deducted from the interest payment by the financial institutions and transferred to the Treasury. All income from securities (interest, dividends and capital gains) is taxed at 36%. However, this does not include corporations and some foundations, which pay a corporate tax of 18%. There is no property or wealth tax. The capital gains tax is set to fall to 35% in 2014.

## **Customs and VAT**

The Faroese Customs Act is based on the international World Custom Organisation's (WCO) Harmonised Commodity Description and Coding System (HS Code). Customs duties are based on the GATT rates. Because of the trade agreement from 1992 with the EU, renewed by agreement in January 1997, the fiscal duties levied on imports are replaced by a value-added tax (VAT – normally 25% of invoice value) and excise duties on some consumption items.

## **The budgetary system**

The distribution of government expenditure for different items follows the new budgeting procedures and shows actual financial outlays.

Investments in large assets are financed largely by current provisions and are booked immediately as expenses in the appropriate fiscal year.

There are exceptions to this rule. Lately, a new procedure has emerged according to which public limited companies are created to operate and manage public services and large, public construction projects. This has been the case for Faroese Telecom, the Postal Service, the sub-sea tunnel between Vágar and Streymoy and the sub-sea tunnel between Eysturoy and Borðoy.

The composition of expenditures has changed since the early 1990s. Expenditure for the fishing industry has fallen considerably since 1991 due to the change in subsidies to the industry. The policy is to stress the need for the industry to be cost efficient and independent of public funds.

Capital expenses in 2012 were DKK 265 million of which construction of fixed capital were DKK 129 million and lending were DKK 66 million. The majority of the investments were allocated to education, health, transport and communication. Most of the lending was to municipalities for finance of construction in social security.

Operating expenses in 2012 were DKK 5,822 million, of which compensation of employees was DKK 2,185 million, transfers were DKK 2,041 million and other operating expenses were DKK 1,535 million. The governments operating revenues in 2012 were DKK 5,714 million. Income and corporate taxes were DKK 2,136 million, VAT and other indirect taxes were DKK 1,853 million, transfers from the Danish state were DKK 660 million, other domestic transfers DKK 134 million, and other revenues (mainly sales of goods and services) were DKK 931 million.

The government accounts showed a deficit of DKK 351 million in 2012.

## 4.2 Gross public debt

**Central government assets and liabilities**

**Table 3**

<i>Million DKK</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>ASSETS</b>				
Deposits in Landsbanki Føroya	1,551	1,881	2,514	2,118
Deposits in banks	571	629	355	455
Others in circulation	491	575	612	712
Loan to Iceland	300	300	300	0
Financial assets	2,058	2,085	2,261	2,231
<b>Total assets</b>	<b>4,972</b>	<b>5,470</b>	<b>6,043</b>	<b>5,516</b>
<b>LIABILITIES</b>				
Long-term debt (Kingdom of Denmark)	500	500	500	500
Bond loan	2,708	3,708	4,346	4,250
Other debt	695	746	758	693
<b>Total debt</b>	<b>3,903</b>	<b>4,954</b>	<b>5,604</b>	<b>5,443</b>
<b>Net assets</b>	<b>1,069</b>	<b>516</b>	<b>439</b>	<b>74</b>

Source: Landsbanki Føroya. From April 1st 2013 investment management and loan management is transferred to Føroya Gjaldstova.

**Outstanding bonds**

**Table 4**

<i>Million DKK</i>	<b>Annual coupon</b>	<b>Maturity date</b>	<b>Present structure</b>	<b>Structure after 27 June 2013</b>
FO-LB 160622 Blt	Floating Rate	22-Jun-16	1,350	1,350
FO-LB 150611 Blt	1.50%	11-Jun-2015	1,128	1,128
FO-LB 140407 Blt	3.125%	07-Apr-14	1,650	1,650
FO-LB 180610 Ann	3.50%	10-Jun-18	49	49
FO-LB 170627 Blt	1.75%	27-Jun-17	0	1,000
<b>Outstanding bonds</b>			<b>4,177</b>	<b>5,177</b>

Source: Føroya Gjaldstova, Føgging Landsins

The Government of the Faroe Islands has always repaid debt, and has never been in default.

## 4.3 Foreign trade and balance of payments

**Balance of payments**

**Table 5**

<i>Million DKK</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Goods	-457	70	509	306
Services	-663	-926	-987	-1,006
<b>Goods and services</b>	<b>-1,120</b>	<b>-856</b>	<b>-478</b>	<b>-700</b>
Wages	487	576	649	666
Rents	-286	-618	-181	-12
<b>Income transfers</b>	<b>202</b>	<b>-42</b>	<b>468</b>	<b>654</b>
Government sector	775	783	791	791
Other sectors	-13	-17	31	299
<b>Other transfers</b>	<b>762</b>	<b>766</b>	<b>821</b>	<b>1,090</b>
<b>Current account surplus (+) / deficit (-)</b>	<b>-156</b>	<b>-132</b>	<b>811</b>	<b>1,043</b>

Source: Statistics Faroe Islands

## 4.4 Foreign exchange reserves

The Issuer does not hold specific foreign exchange reserves, as the Faroe Islands are part of the Danish currency area. However, parts of the Issuer's financial assets are invested in assets held outside the Faroe Islands, as specified in the table below. The assets outside the Faroe Islands are mainly invested in government bonds and Danish mortgage bonds – which may be used as collateral within limits in an overdraft facility or as collateral in repo agreements – and as deposits in banks with good ratings. In general the assets are liquid as securities are used as collateral in credit facility agreements.

From the 1<sup>st</sup> of April 2013 Føroya Gjaldstova is acting investment manager for the Faroese Government.

**Financial assets**

<i>Million DKK</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Total financial assets	2,407	2,441	2,687	2,456
of which abroad	1,623	1,883	2,365	2,231

Source: Føroya Gjaldstova

**Table 6**

## 4.5 Income and expenses

**Central government accounts**

<i>Million DKK</i>	<b>Actual<sup>(1)</sup> 2010</b>	<b>Actual<sup>(1)</sup> 2011</b>	<b>Actual<sup>(2)</sup> 2012</b>	<b>Budget 2013</b>
Taxes, direct	1,923	2,118	2,136	2,190
Taxes, indirect	1,809	1,792	1,853	1,991
Transfers from Denmark	655	658	660	697
Transfers from municipalities and gov. inst.	136	130	134	119
Sales of goods and services	663	686	750	693
Revenue from fees	84	176	148	188
Other	29	91	33	27
<b>Operating revenues, ex. interest</b>	<b>5,299</b>	<b>5,651</b>	<b>5,714</b>	<b>5,903</b>
Personnel cost	-2,190	-2,196	-2,185	-2,333
Transfers to individuals	-1,578	-1,534	-1,562	-1,649
Other transfers	-393	-484	-479	-445
Purchase of goods and services	-1,243	-1,275	-1,329	-1,187
Other expenses	-284	-259	-267	-270
<b>Operating expenses, ex. interest</b>	<b>-5,687</b>	<b>-5,749</b>	<b>-5,822</b>	<b>-5,884</b>
<b>Primary operating balance</b>	<b>-388</b>	<b>-98</b>	<b>-108</b>	<b>20</b>
Interest income and dividends	153	155	128	122
Interest expenses	-184	-176	-179	-122
<b>Gross operating balance</b>	<b>-420</b>	<b>-118</b>	<b>-159</b>	<b>19</b>
Debt repayment	-677	-712	-1,220	-1,020
<b>Net operating balance</b>	<b>-1,096</b>	<b>-830</b>	<b>-1,379</b>	<b>-1,001</b>
Sale of fixed assets	4	2	2	20
Sale of shares	0	0	0	0
Capital revenues from Denmark	0	97	51	87
Repayments of loans	86	17	20	22

**Table 7**

<b>Total capital revenues</b>	<b>90</b>	<b>116</b>	<b>73</b>	<b>128</b>
Construction of fixed capital	-138	-129	-173	-272
Acquisition of fixed capital	-17	-17	-10	-18
Injection of cap. into publ. Ltd.'s	0	-97	-51	-87
Net lending, domestic	-81	-66	-32	-15
<b>Total capital expenses</b>	<b>-237</b>	<b>-310</b>	<b>-265</b>	<b>-391</b>
<b>Financing surplus/deficit</b>	<b>-566</b>	<b>-312</b>	<b>-351</b>	<b>-243</b>

**Source:** Faroese government accounts. (1) Audited by the National Audit Office and approved by the Faroese Parliament. (2) Actual but unaudited.

## 4.6 Auditing procedures

The annual budget is presented to the Faroese Parliament before October and must be approved before 1 January of the following year. In practice, approval occurs before Christmas.

Beginning with the 1991 fiscal year, the Budget Act was changed to obtain a better governing instrument. All government investments and other expenditures have to be approved in the budget for the year in question.

The accounts and bookkeeping of the government exchequer are audited by the National Audit Office. Once audited, the books are passed on to a committee consisting of members selected by the Faroese Parliament. The accounts are finally approved by the Parliament together with the auditing report.

## **5. Significant changes**

In the opinion of the Issuer there have been no significant changes to the information in the Registration Document, Section 4 above, since the end of the last fiscal year 2012, ending 31<sup>st</sup> December 2012, other than already described in Section 4.

## **6. Legal and arbitration proceedings**

The Government of the Faroe Islands has not for the past year been involved in any arbitration proceedings (including any arbitration proceedings which are pending or threatened of which the issuer is aware) which have had or may have a significant impact on the financial position of the Issuer.

The Government of the Faroe Islands has no immunity from legal proceedings in relation to the Notes.

## **7. Statements by experts and declaration of any interest**

The Faroe Islands hold a foreign currency rating of Aa3 assigned by Moody's Investors Service.

On 13<sup>th</sup> of July 2012 Moody's restated the rating Aa3 with negative outlook.

Ratings Category	Moody's Rating
Outlook	Negative
Government Bonds - Foreign Currency	Aa3
Government Bonds - Domestic Currency	NR

On 18 April 2011 Moody's Investors Service's foreign currency rating of the Faroe Islands was downgraded to Aa3 from Aa2, and the outlook was changed to negative from stable.

The key drivers of this rating action by Moody's Investors Service include the challenges that the Faroese Government is facing in rebalancing its long-term finances and the difficulties in addressing the long-term sustainability issues of fishing stock management and fleet overcapacity.

The Aa3 foreign currency rating with negative outlook for the Faroe Islands reflects a number of factors, including the Faroe Islands' wealthy and increasingly diverse albeit volatile economy, and the Faroese Government's powers to raise revenues through taxation and fees and to control spending. In addition, the rating takes into account the relatively large financing deficits in the recent past, following a long period of strong financial results since 1995.

The Faroese Government maintains ample reserves, while the debt level and interest burden is moderate but increasing. The rating incorporates the Faroe Islands' relationship within the Kingdom of Denmark and the subsidies it receives for joint matters, which it administers in conjunction with the Kingdom of Denmark.

The Aa3 rating also reflects Moody's Investors Service's assessment of a high likelihood that the Kingdom of Denmark (Aaa, stable) would act to prevent a default by the Faroe Islands.

Further and more detailed information about the credit rating of the Faroe Islands can be obtained on the website of Landsbanki Føroya under Publications and Credit Rating and will also be available on Føroya Gjaldstova's website: [www.gjaldstovan.fo](http://www.gjaldstovan.fo). See under Fígging Landsins.

## **8. Documents on display**

For the life of this Registration Document the below-mentioned documents will be available for inspection in electronic form at the websites as further specified below:

### ***Føroya Gjaldstova, Fígging Landsins (Governmental Loan and Investment Management)***

From April 2013 the most recent and all future Credit Analysis Reports will be available on Føroya Gjaldstova's website.

Website: [www.gjaldstovan.fo](http://www.gjaldstovan.fo) (see under Fígging Landsins).

### ***Landsbanki Føroya, the Governmental Bank:***

- Economic Assessment (published semi-annually)
  - Economic Assessment 2012, 2013 and 2014 (published March 2013)
- Moody's Investors Service's latest rating documents concerning the Government of the Faroe Islands (published April 2011 and July 2012)

On the website of Landsbanki Føroya, the Economic Assessment, and the Credit Analysis Reports and an overview of various economic indicators are available.

Website: [www.landsbankin.fo](http://www.landsbankin.fo) (see under Publications)<sup>21</sup>.

### ***Hagstova Føroya, Statistics Faroe Islands:***

Comprehensive statistical database covering demographic, business and economic statistics etc. Website: [www.hagstova.fo](http://www.hagstova.fo)

### ***Fíggjarmálaráðið, the Ministry of Finance:***

The public budget and account (in Faroese only)

Website: [www.fmr.fo](http://www.fmr.fo)

### ***Landsgrannskoðanin, the National Audit Office:***

Reports submitted by the Faroese Parliament's Audit Committee

(Some of the information in Danish and English)

Website: [www.lg.fo](http://www.lg.fo)

### ***Løgmannsskrivstovan, Prime Minister's Office:***

Information about political matters in the Faroe Islands

Website: [www.tinganes.fo](http://www.tinganes.fo)

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<sup>21</sup> Information currently available on the website of the former governmental bank, Landsbanki Føroya, may be transferred to websites of other governmental institutions, which have taken over the functions from Landsbanki Føroya.

***The High Commissioner of the Faroe Islands:***

Annual report on the Faroe Islands (in Danish only)

Website: [www.rigsombudsmanden.fo](http://www.rigsombudsmanden.fo)

# FØROYA LANDSSTÝRI



THE GOVERNMENT OF THE FAROE  
ISLANDS

FØROYA LANDSSTÝRI DKK 1,000,000,000 1.75 PER  
CENT

FIXED RATE NOTES

27 JUNE 2013 / 27 JUNE 2017

**SECURITIES NOTE**

### III. SECURITIES NOTE

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## **1. Risk factors**

Prospective investors should read this Prospectus carefully. The Prospectus consists of three documents: Summary, Registration Document and this Securities Note all of which have been dated 24 June 2013. Investing in the Notes involves certain risks, which the prospective investors should take into consideration prior to deciding to make an investment in the Notes.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

The Issuer believes that the factors described are material for the purpose of assessing the market risk associated with the Notes being offered and admitted to trading.

Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

There may be other risks that a prospective investor should consider that are relevant to the investor's own particular circumstances or generally.

Prospective investors should carefully consider, among other things, the factors described in the sections below before purchasing the Notes. In addition, for risk specifically associated with the Issuer, prospective investors are advised to consider the section "Risk factors" in the Registration Document.

### **1.1 Market risk**

The market of the Notes issued by the Government of the Faroe Islands is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates. There can be no assurance that events on the Faroe Islands, in Denmark, Europe or elsewhere will not cause market volatility and that such market volatility will not adversely affect the trading price of the Notes.

### **1.2 Liquidity risk**

There can be no assurance that an active trading market for the Notes will be developed and maintained, which may affect the trading price and the liquidity of the Notes. During the period between the issuance and repayment, the market value of the Notes will be determined through the ordinary trading on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. and on the main market of NASDAQ OMX Copenhagen A/S. The Issuer has not made any arrangement with any persons or companies to ensure the liquidity of the Notes and that the quotation follows the market price of the Notes. The Issuer has no obligation to buy back the Notes. However, without any commitment to do so, Nordea Bank Danmark A/S will aim to maintain a market for the Notes by quoting purchase and sales prices on an on-going basis.

### **1.3 Legal risk**

The terms and conditions of the Notes are based on Danish law in effect on the date of this Prospectus. No assurance can be given that as to the impact of any possible judicial decisions or changes to Danish and Faroese law after the date of this Prospectus.

The investment activities of certain investors are subject to legal investments law and regulations. The investor should consult legal advisers to determine whether and to what

extent the Notes are a legal investment to the investor or if any restrictions apply to the purchase of the Notes by the investor.

#### 1.4 Credit risk

The Government of the Faroe Islands' liability to make payments according to the terms and conditions in this Prospectus constitutes direct and unsecured obligations of the Government of the Faroe Islands and constitutes unsubordinated loan indebtedness ranking *pari passu* with all other loan indebtedness of the Government of the Faroe Islands. The Notes of each series will rank equally with each other, without any preference among themselves.

There can be no assurance that the credit rating of the Government of the Faroe Islands will not change, which may affect the trading price of the Notes.

## 2. Persons responsible

### 2.1 Statement from the Issuer

We, on behalf of the Government of the Faroe Islands, declare, as those responsible for the Prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.



Jørgen Niclasen  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 24 June 2013



Bjarni Askham Bjarnason  
Director  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 24 June 2013

### **3. Key information**

#### **3.1 Interest of natural and legal persons involved in the issue**

Issuer:

The Government of the Faroe Islands, which is the executive within the framework of the Faroe Islands Home Rule Act no. 137 of 23 March 1948.

The Government of the Faroe Islands is represented by the Ministry of Finance:

Ministry of Finance  
Fíggjarmálaráðið  
Kviggjartún 1  
PO Box 2039  
FO-165 Argir, Faroe Islands  
Tel: +298 352020  
Fax: +298 352025  
E-mail: fmr@fmr.fo

Arranger and Account Holding Institute:

Nordea Bank Danmark A/S:

Nordea Bank Danmark A/S  
Strandgade 3  
DK-1401 Copenhagen K, Denmark

To the best knowledge of the Issuer, Arranger and Account Holding Institute, there are no interests, including conflicting ones, that are material to the issue of the Notes.

Neither the Arranger nor the Account Holding Institute takes responsibility for the creditworthiness of the Issuer.

#### **3.2 Reasons for the issue and use of proceeds**

The proceeds from the issue of the Notes will be used as follows:

(1) Up to approximately DKK 49 million for the financing of the repurchase of Føroya Landsstýri 3.75 per cent Fixed Rate Notes due 10 June 2018 (FO-LB 180610) with ISIN code DK0030016449 and (2) the residual amount up to approximately DKK 1,000 million for the financing of the repurchase of Føroya Landsstýri 3.125 per cent Fixed Rate Notes due 7 April 2014 (FO-LB 140407) with ISIN code DK0030236054.

The Issuer will bear the costs directly related to the issuance of the Notes. The total costs are expected to amount to approximately DKK 2,270,435, including placing commission and arranging fees. The net proceeds from the issue of the Notes are approximately DKK 997,459,565.

Costs incurred at NASDAQ OMX Iceland hf. in relation to the admission for trading and official listing on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. will be paid by the Issuer. The costs related to the admission for trading and official listing are ISK 450,000 corresponding to approximately DKK 20,700. The annual expenses for the admission to trading and official listing will be a fixed fee of ISK

165,000 corresponding to approximately DKK 7,590 (a total of DKK 30,360 for the life of the Notes) plus a variable fee of 0.001% of the market value of the Notes.

Costs incurred at NASDAQ OMX Copenhagen A/S in relation to the admission for trading and official listing on the main market of NASDAQ OMX Copenhagen A/S will be paid by the Issuer. The costs related to the admission for trading and official listing are DKK 20,000. The annual expenses for the admission to trading and listing will be approximately DKK 10,250 (a total of DKK 41,000 for the life of the Notes).

Costs incurred at VP SECURITIES A/S and to the Account Holding Institute in relation to the registration of the Notes in the system of VP SECURITIES A/S will be paid by the Issuer. The total costs related to registration of the Notes and fees to VP SECURITIES A/S and the Account Holding Institute are approximately DKK 144,000.

Costs incurred at the Financial Supervisory Authority, Iceland ("FME") in relation to the vetting and approval of the Prospectus will be paid by the Issuers. The total costs to FME are estimated to approximately ISK 312,500 corresponding to approximately DKK 14,375.

## **4. Information concerning the Notes**

### **4.1 Description of the Notes**

Issuer:	Føroya Landsstýri, Government of the Faroe Islands
Title of the Notes:	Føroya Landsstýri DKK 1,000,000,000 1.75 per cent. Fixed Rate Notes 27 June 2013 / 27 June 2017
Issue Date:	27 June 2013
Maturity Date:	27 June 2017
Currency:	Danish kroner ("DKK")
Principal Amount per Note:	DKK 1,000
Total Principal Amount:	DKK 1,000,000,000
Interest Rate:	The Notes will pay an interest of 1.75 per cent per annum payable annually in arrears on 27 June in each year beginning on 27 June 2014 and ending on 27 June 2017.
Issue Price:	99.973 per cent
Class:	The issue of the Notes consists of only one class
ISIN:	DK0030324181
INET code	FO-LB 170627 (NASDAQ OMX Iceland hf.)
Short name:	FOLB JUN17 (NASDAQ OMX Copenhagen A/S)

### **4.2 Legislation**

The Notes are subject to Danish legislation, and any disputes arising out of or in connection with the Notes shall be brought before the District Court of Copenhagen.

### **4.3 Form of the Notes**

The Notes will be issued and registered as dematerialised securities, in book-entry form with the VP SECURITIES A/S, Weidekampsgade 14, DK-2300 Copenhagen S, Denmark, on the Issue Date. The Notes cannot be registered in the name of the holder.

Nordea Bank Danmark A/S, Strandgade 3, DK-1401 Copenhagen K, Denmark, is acting as Account Holding Institute ("Kontoførende Institut") in relation to VP SECURITIES A/S.

The Notes will be controlled by Nordea Bank Danmark A/S as Account Holding Institute for and on behalf of VP SECURITIES A/S and the noteholders in accordance with the provisions of the Danish Consolidated Securities Trading Act no. 219 of 20 February 2013 and Government Regulation no. 369 of 14 May 2009 regarding registration of fund assets in a securities centre. For the avoidance of doubt, Notes registered with VP SECURITIES A/S are negotiable instruments not subject to any restrictions on the free negotiability within the Kingdom of Denmark, under Danish Law.

## **4.4 Currency of the Notes**

The currency of the Notes is Danish kroner ("DKK") and each note will be issued with the denomination of DKK 1,000.

## **4.5 Status of the Notes**

The Notes constitute direct and unsecured obligations of the Government of the Faroe Islands and constitute unsubordinated loan indebtedness ranking *pari passu* with all other loan indebtedness of the Government of the Faroe Islands. The Notes of each series will rank equally with each other, without any preference among themselves.

## **4.6 Rights, etc.**

### **4.6.1 Redemption by the Issuer**

The Notes are not redeemable by the Issuer prior to the Maturity Date.

### **4.6.2 Redemption by noteholders**

With the exception of the events described under Event of Default below, the noteholders may not demand redemption of the Notes prior to the Maturity Date.

### **4.6.3 Events of Default**

Any noteholder may give written notice to the Issuer that such note is, and such note shall accordingly immediately become, due and payable at its principal amount together with interest accrued to the date of repayment:

- a) if the Issuer fails to perform or observe any of its other obligations under the Notes and such failure is incapable of remedy, or if such failure can be remedied and such failure continues for the period of 30 days next following the service by any noteholder on the Issuer of notice requiring the same to be remedied;
- b) if the Issuer's debt in connection with borrowed funds for a minimum amount of DKK 75,000,000 or equivalent in another currency or currency unit either (i) falls due for payment prior to the repayment day because of default, or (ii) is not paid on the due date (or following the period of remedy provided for by law or following an agreement to that effect in the relevant claim between the parties); or
- c) if the Issuer's possibilities of fulfilling its obligations under the Notes deteriorate significantly, for example because of the Faroe Islands' secession from its union with Denmark.

Payment shall be effected via the accounts registered with VP SECURITIES A/S.

### **4.6.4 Buyback**

The Issuer reserves the right to buy back the Notes from time to time in the open market or otherwise. The Issuer may choose to cancel or keep/resell Notes bought back.

### **4.6.5 Notices**

All notices to noteholders concerning the Notes are made public and can be viewed on the websites of NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S ([www.nasdaqomxnordic.com/news](http://www.nasdaqomxnordic.com/news)) and/or send to noteholders through VP SECURITIES A/S.

Any notices to the Issuer to be given in accordance with these terms and conditions of the Notes can validly be given to the Ministry of Finance, Kvíggjartún 1, PO Box 2039, FO-165 Argir, Faroe Islands or such other address as has been notified to the noteholders registered in compliance with the first sentence of this term.

#### 4.6.6 Force majeure

The Issuer shall not be liable for any loss incurred by the noteholders as a consequence of statutory provisions, measures adopted by any governmental or other authority actual or imminent war, insurrections, civil commotion, terrorism, sabotage or Acts of God. Nor shall the Issuer be liable for any loss caused by strikes, lockouts, boycotts or blockades, whether or not the Issuer itself is a party to the dispute, and notwithstanding that the dispute may affect only part of the functions of the Issuer. Nor shall the Issuer be liable for any loss arising from any overdue payment caused by the above events.

#### 4.6.7 Charging

As long as any of the Notes are outstanding, the Issuer will not provide security for any debt in connection with payment obligations relating to loans existing on or after the date of issue of the Notes, whether in the form of a mortgage, pledge or other security in any of the issuer's present or future assets or income, unless the Notes are secured equally and proportionately by the provision of such security. However, a mortgage, pledge or other security in the Issuer's properties or assets may be provided as collateral for the entire purchase price or parts thereof for such properties or assets, including interest accrued. "Loan" means a loan raised through the issue of instruments of debt which are or are capable of being traded in the ordinary markets.

### 4.7 Interest

The Notes bear interest from and including the 27 June 2013 to but excluding the 27 June 2017.

The Notes will pay a fixed rate interest of 1.75 per cent. per annum (the "Interest Rate") payable in arrear annually on 27 June in each year beginning on 27 June 2014 and ending on 27 June 2017 (each an "Interest Payment Date").

The first interest period shall be determined as the period from and including the Issue Date to (but excluding) the first Interest Payment Date; and with respect to the subsequent interest periods, the period commencing on an Interest Payment Date (included) to the next Interest Payment Date (excluded) (each an "Interest Period").

If an Interest Payment Date would otherwise fall on a day which is not a business day in Denmark, meaning a day other than a Saturday, Sunday or public holiday on which commercial banks are open for business in Denmark (each a "Business Day"), payment of interest shall be postponed to the following Business Day (following business day convention). The Interest Period shall not be adjusted if the Interest Payment Date is postponed to the following Business Day (unadjusted).

#### 4.7.1 Interest Amount

The interest amount payable per Note on each Interest Payment Date (the "Interest Amount per Note") shall be determined by multiplying the Interest Rate with the Principal Amount per Note.

Where the Interest Amount per Note is to be calculated for a period shorter than a year, the Interest Amount per Note shall be calculated by multiplying the Interest Rate with

the Principal Amount per Note, the product of which is multiplied with the actual number of days elapsed in the relevant Interest Period and divided by the actual number of days in the relevant year (ACT/ACT day count fraction).

#### **4.7.2 Interest Payments**

Payments of interest in respect of the Notes will be made, in accordance with and subject to the rules and regulations governing VP SECURITIES A/S from time to time, to the noteholders through the Account Holding Institute by credit to the accounts with banks designated to VP SECURITIES A/S.

#### **4.7.3 Accrued Interest**

The Notes shall be traded with accrued interest. The accrued interest per Note shall be calculated by multiplying the Interest Rate with the Principal Amount per Note, the product of which is multiplied with the actual number of days elapsed in the relevant Interest Period and divided by the actual number of days in the relevant year (ACT/ACT day count fraction).

#### **4.7.4 Prescription**

Claims for payment of interest will become void three (3) years and claims for payment of principal, ten (10) years after the due date, see section 73 of the Danish Securities Trading etc. Act.

### **4.8 Maturity and repayment**

The Notes mature on 27 June 2017 (the "Maturity Date"), unless the Notes have been redeemed prior to that day, due to Events of Default according to Section 4.6.

Repayment of the Principal Amount will be made, in accordance with and subject to the rules and regulations governing VP SECURITIES A/S from time to time, to the noteholders through the Account Holding Institute by credit to the accounts with banks designated to VP SECURITIES A/S.

#### **4.9 Yield**

The yield on the Notes is 1,755 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 99.973 per cent. The yield is not an indication of future yield.

#### **4.10 Representation of noteholders**

There is no representation of the noteholders.

#### **4.11 Authorisation**

The Notes will be issued on Issue Date in accordance with authorisation given by the Faroese Minister of Finance on 18 June 2013.

#### **4.12 Issue Date**

The Notes will be issued on 27 June 2013 (the "Issue Date").

## **4.13 Transferability**

The transferability of the Notes shall not be subject to any restrictions. However, for noteholders subject to other jurisdictions than Denmark, reservations are made as to the legislation of such jurisdictions. Subject to the limitations contained in the Danish Securities Trading, etc. Act, the Notes shall be considered negotiable instruments issued in dematerialised form.

## **4.14 Taxation**

All investors are advised to consider any potential taxation issues that may concern their purchase or sale of the Notes and to seek independent advice in this respect.

### **4.14.1 Investors located in the Faroe Islands**

Resident individuals in the Faroe Islands were subject to 37% tax on capital gains payments in 2012. The tax rate on capital gains will decrease one percentage point in each year until 2014 where the tax rate will be 35%.

Resident corporations in the Faroe Islands are subject to 18% tax on capital gains payments.

For resident individuals in the Faroe Islands, payments of interest of the Notes and capital gains and losses in connection with the sale or redemption of the Notes are taxed as capital income. Net capital losses can be deducted in future capital gains in up to five following years. In respect of resident corporations in the Faroe Islands, payments of interest on the Notes and capital gains and losses in connection with the sale or redemption of the Notes are included in the calculation of corporate tax.

According to current legislation all payments of interest on the Notes will be made without withholding or deduction tax (coupon tax) on the Faeroe Islands. In the event that withholding or deduction tax is required by law on the Faeroe Islands, the Government of the Faroe Islands will withhold such tax before paying interest to the noteholders registered. In such case, the Issuer will not compensate the noteholders. Any interest due for payment as well as possession, repayment and transfer of the Notes will be reported by the relevant custodian bank to the Danish tax authorities in accordance with the applicable tax rules.

### **4.14.2 Investors located in Denmark and Iceland**

Subject to tax treaties entered into by the Faroe Islands with Iceland and Denmark, respectively, all payments of interest on the Notes will be made without withholding or deduction for tax (coupon tax) on the Faeroe Islands. In the event that withholding or deduction for tax is required by law on the Faroe Islands, the Government of the Faroe Islands will withhold such tax before paying interest to the noteholders registered. In such case, the Issuer will not compensate the noteholders.

For resident individuals in Denmark, payments of interest on the Notes are included in the calculation of capital income. Capital gains and losses in connection with the sale or redemption of the Notes, will be also included in the capital income, but only if the net gains on investments in (1) the Notes and other debt obligations, (2) debt in foreign currencies or (3) non-accumulating bond investment funds; exceeds DKK 2,000. In respect of resident corporations in Denmark, payments of interest on the Notes and capital gains and losses on the Notes are included in the calculation of corporate tax. Gains and losses are calculated according to a mark-to-market principle and taxed on an accrual basis.

For resident individuals in Iceland, payments of interest of the Notes and capital gains and losses in connection with the sale or redemption of the Notes are taxed as capital income. Net capital losses can be deducted in future capital gains in up to five following years. In respect of resident corporations in Iceland, payments of interest on the Notes and capital gains and losses in connection with the sale or redemption of the Notes are included in the calculation of corporate tax.

Investors located in jurisdictions outside the Faroe Islands, Denmark and Iceland are advised to seek independent tax advice.

## **5. Terms and conditions of the offer**

### **5.1 Nominal amount**

Notes with a total principal amount of DKK 1,000,000,000 are being issued by the Issuer.

The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price free of charge to investors. The Notes will be closed for further issues on 27 May 2017.

### **5.2 Placing and underwriting**

Nordea Bank Danmark A/S arranged for the Notes to be purchased by a group of institutional investors.

The issue of the Notes has not been underwritten with a firm commitment.

### **5.3 Issue Price**

The Notes are being issued at a price of 99.973 per cent.

### **5.4 Payment and settlement**

Payment and settlement of the Notes will be effected three business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 27 June 2013. The settlement will be effected against payment and registration with VP SECURITIES A/S.

### **5.5 Account Holding Institute**

The Issuer has appointed Nordea Bank Danmark A/S as Account Holding Institute.

## **6. Admission to trading and official listing**

### **6.1 Admission to trading and official listing**

Application has been filed with NASDAQ OMX Iceland hf. for the trading and official listing on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. Acceptance of the Notes for the trading and official listing on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. is expected to have effect from 27 June 2013.

### **6.2 Admission to trading and official listing on other regulated markets**

The Prospectus is expected to be passported to the Kingdom of Denmark prior to 27 June 2013. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with NASDAQ OMX Copenhagen A/S for the trading and official listing on the main market of NASDAQ OMX Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of NASDAQ OMX Copenhagen A/S is expected to have effect from 27 June 2013.

## 7. Additional information

### 7.1 Audit of information

The Issuer's auditors have not audited the information contained in this Prospectus, other than the figures for the central government accounts for 2010 and 2011 specified in the Registration Document, table 7 (page 24-25), which have been audited by the National Audit Office and approved by The Faroese Parliament.

### 7.2 Rating

The Notes have not specifically been rated by a rating agency.

The Government of the Faroe Islands holds a foreign currency rating of Aa3 assigned by Moody's Investors Service.

Ratings Category	Moody's Rating
Outlook	Negative
Government Bonds - Foreign Currency	Aa3
Government Bonds - Domestic Currency	NR

On 18 April 2011 Moody's Investors Service's foreign currency rating of the Faroe Islands was downgraded to Aa3 from Aa2, and the outlook was changed to negative from stable.

The key drivers of this rating action By Moody's Investors Service include the challenges that the Faroese government is facing in rebalancing its long-term finances and the difficulties in addressing the long-term sustainability issues of fishing stock management and fleet overcapacity.

The Aa3 foreign currency rating with negative outlook for the Faroe Islands reflects a number of factors, including the Faroe Islands' wealthy and increasingly diverse albeit volatile economy, and the Faroese government's powers to raise revenues through taxation and fees and to control spending. In addition, the rating takes into account the relatively large financing deficits in the recent past, following a long period of strong financial results since 1995.

The Faroese government maintains ample reserves, while the debt level and interest burden is moderate but increasing. The rating incorporates the Faroese Islands' relationship within the Kingdom of Denmark and the subsidies it receives for joint matters, which it administers in conjunction with the Kingdom of Denmark.

The Aa3 rating also reflects Moody's Investors Service's assessment of a high likelihood that the Kingdom of Denmark (Aaa, stable) would act to prevent a default by the Faroe Islands.

Further and more detailed information about the credit rating of the Faroe Islands can be obtained on the website of Landsbanki Føroya.