

PROSPECTUS



# FØROYA LANDSSTÝRI

THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 1,045,000,000 1.00 PER CENT

FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

This Prospectus is published on 9 June 2015.

The Føroya Landsstýri (the "Issuer" or the "Government of the Faroe Islands") will issue DKK 1,045,000,000 1.00 per cent Fixed Rate Notes due 11 June 2020 (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 11 June 2015.

The Prospectus is expected to be passported to the Kingdom of Denmark prior to 11 June 2015. 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 11 June 2015.

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:  
<http://gjaldstovan.gov.fo/tidindi/Economic%20reports/Moody's/Pages/default.aspx>.

*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.

FØROYA LANDSSTÝRI



THE GOVERNMENT OF THE FAROE  
ISLANDS

FØROYA LANDSSTÝRI DKK 1,045,000,000 1.00 PER CENT

FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

**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>
A.2	Consent	Not applicable

<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 with negative outlook assigned by Moody’s Investors Service.</p>
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</p>

		<p>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 more than 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. The Government plans to build two sub-sea tunnels connecting Eysteroy and Sandoy with Streymoy.</p> <p>The transport sector on the Faroe Islands has in general been affected by the international financial crisis and economic slowdown.</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 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.</p> <p>The financial market in the Faroe Islands is served by four banks – Eik Banki P/F, P/F BankNordik, Norðoya Sparikassi and Suðuroyar Sparikassi.</p>
--	--	---

B.48

Public  
finance and  
trade  
information

According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 7.5% in 2013, so the nominal GDP in 2013 was DKK 14,678 billion in absolute terms. The average decrease in the consumer price index was 1.0 per cent. The Economic Council and Statistics Faroe Islands estimate that economic growth will be approx. 4.1% in 2014.

#### National income, expenditure and savings

<i>Million DKK</i>	2012	2013
<b>Gross domestic product</b>	<b>13,650</b>	<b>14,678</b>
+ Wages and salaries from abroad	1,025	993
- Wages and salaries to abroad	196	251
+ Property income from abroad	705	561
- Property income to abroad	794	747
<b>National income, gross</b>	<b>14,389</b>	<b>15,233</b>
+ Current transfers from abroad	993	1,050
- Current transfers to abroad	139	238
<b>National disposable income, Gross</b>	<b>15,243</b>	<b>16,045</b>
- Final consumption expenditure	11,741	11,976
<b>Savings, gross</b>	<b>3,503</b>	<b>4,069</b>
- Gross capital formation	3,949	3,653
<b>Net lending (+) / Net borrowing (-)</b>	<b>-447</b>	<b>416</b>

Source: Statistics Faroe Islands, 2013 preliminary figures.

The governmental sector has experienced significant deficits since 2009 when the total deficit was DKK 688 million, i.e. 5.7% of GDP. According to preliminary unaudited figures the deficit will be DKK 237 million in 2014, i.e. 1.6 % 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.

#### Central government accounts

<i>Million DKK</i>	2013 <sup>(1)</sup>	2014 <sup>(2)</sup>
Taxes, direct	2.190	2.360
Taxes, indirect	1.829	2.043
Transfers from Denmark	665	671
Sales of goods and services	793	851
Revenue from fees	224	205
Other	52	45
Operating revenues, ex. Interest	5.753	6.175
Personnel cost	-2.232	-2.310
Transfers to individuals	-1.594	-1.623
Other transfers	-389	-422
Purchase of goods and services	-1.367	-1.403
Transfers to other public entities etc.	-293	-343
Operating expenses, ex. Interest	-5.875	-6.101

Primary operating balance	-122	74
Interest income and dividends	94	146
Interest expenses	-137	-117
<b>Operating balance</b>	<b>-165</b>	<b>103</b>
Sale of fixed assets	13	11
Sale of shares	0	7
Capital revenues from Denmark	103	0
Repayments of loans, domestic	17	39
Repayment of loans, Iceland	0	0
Abolishment of Landsbanki Føroya	164	0
<b>Total capital revenues</b>	<b>297</b>	<b>57</b>
Construction of fixed capital	-239	-351
Acquisition of fixed capital	-33	-9
Injection of cap. into publ. Ltd.'s	-83	-17
Net lending, domestic	-13	-20
<b>Total capital expenses</b>	<b>-368</b>	<b>-397</b>
<b>Financing surplus/deficit</b>	<b>-236</b>	<b>-237</b>
Debt repayment	-434	-1.512
<b>Gross financing surplus/deficit</b>	<b>-670</b>	<b>-1.749</b>
<b>New borrowing</b>	<b>1.000</b>	<b>1.100</b>
<b>Net financing surplus/deficit</b>	<b>330</b>	<b>-649</b>

Source: Faroese government accounts.

(1) Audited by the National Audit Office and approved by the Faroese Parliament.

(2) Actual as of 15 April 2015, unaudited

#### Central government assets and liabilities

<i>Million DKK end of year</i>	2013	2014
<b>ASSETS</b>		
Securities and deposits	3,150	2,536
Deposits in banks		
Others in circulation	497	555
Loan to Iceland		
Financial assets	1,882	2,065
<b>Total assets</b>	<b>5,529</b>	<b>5,156</b>
<b>LIABILITIES</b>		
Long-term debt (Denmark)	500	500
Bond loan	4,820	4,417
Other debt	789	824
<b>Total debt</b>	<b>6,109</b>	<b>5,741</b>
<b>Net assets</b>	<b>-580</b>	<b>-585</b>

Source: Føroya Gjaldstova .

<b>Balance of payments</b>		
<i>Million DKK</i>	<b>2012</b>	<b>2013</b>
Goods	-978	30
Services	-1,063	-981
<b>Goods and services</b>	<b>-2,040</b>	<b>-951</b>
Wages	829	741
Rents	-89	-184
<b>Income transfers</b>	<b>740</b>	<b>556</b>
Government sector	801	811
Other sectors	53	0
<b>Other transfers</b>	<b>854</b>	<b>810</b>
<b>Current account surplus (+)/def (-)</b>	<b>-447</b>	<b>415</b>
<small>Source: Statistics Faroe Islands</small>		

<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 11 May 2020.</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 DK0030361894.</p> <p>The INET code for the Notes is FO-LB 200611.</p> <p>NASDAQ OMX Copenhagen A/S short name for the Notes is FØROYA LAN JUN20.</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</p>

		<p>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 11 June 2015 to but excluding 11 June 2020.</p> <p>The Notes will pay a fixed rate interest of 1.00 per cent. per annum (the "Interest Rate") payable in arrears annually on in each year commencing on 11 June 2016 and ending on 11 June 2020 (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 1.00 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 0.963 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 11 June 2020.</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	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 11 June 2015. The

		Prospectus is expected to be passported to the Kingdom of Denmark prior to 11 June 2015. 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 11 June 2015.
--	--	---

<b>Section D – Risks</b>		
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. According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 7.5% in 2013, while the average increase in the consumer price index was 1.0 per cent. The Economic Council and Statistics Faroe Islands estimate that economic growth will be approx. 4.1% in 2014.</li> <li>• <i>Unemployment</i> - Unemployment rose significantly from 3.9% during 2009 and 2010 to 7.5% in February 2011. The unemployment rate has been reduced since and was 3.1% in April 2015.</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 a positive trend since 2011. There is still an ongoing dispute with Norway regarding fishing rights for herring, but as herring fishery is at a low level as part of total pelagic fisheries any negative effects on the fishing industry are expected to be limited. The export of the fish farming industry currently constitutes 48% of total fish exports. Profitability in fish farming depends to a large degree on export prices and the industry's ability to avoid the fish disease plague.</li> <li>• <i>Service and production industries</i> - Companies in the service and production industries producing for the home market faced difficulties after 2008. Many companies therefore adjusted their operations to cope with low demand while maintaining the ability to increase production when demand rises. Indicators now show that domestic demand is on the increase.</li> <li>• <i>The financial markets</i> - The Faroese financial institutions</li> </ul>

		<p>have experienced reduced demand for lending by households as well as 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 governmental sector</i> - The governmental sector has experienced significant deficits since 2009 when the total deficit was DKK 688 million, i.e. 5.7% of GDP. According to preliminary unaudited figures the deficit will be DKK 237 million in 2014, i.e. 1.6 % 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>
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>

Section E – Offer		
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) DKK 155 million for the financing of a deficit in the national budget for 2015 and liquidity;</p> <p>(2) DKK 880 million for the financing of the redemption of Føroya Landsstýri 1.5 per cent Fixed Rate Notes due 11 June 2015 (LB-FO 150611) with ISIN code DKK 0030300322 and</p> <p>(3) DKK 10 million for the payment of the annual instalment on Føroya Landsstýri 3.75 per cent Fixed Rate Notes due 10 June 2018 (LB-FO 180610) with ISIN code DK0030016449.</p>
E.3	Terms and conditions of the offer	<p><i>Nominal amount</i></p> <p>Notes with a total principal amount of DKK 1,045,000,000] 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 11 May 2020.</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 100.18 per cent.</p> <p><i>Payment and settlement</i></p> <p>Payment and settlement of the Notes will be effected two business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 11 June 2015. 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 1,045,000,000 1.00 PER CENT

FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

REGISTRATION DOCUMENT

# II. REGISTRATION DOCUMENT

---

## TABLE OF CONTENTS

- 1. Risk factors ..... 3
  - 1.1 The Faroese economy ..... 3**
- 2. Persons responsible..... 7
  - 2.1 Statement from the Issuer..... 7**
- 3. Information about the Issuer ..... 8
  - 3.1 Name of Issuer ..... 8**
  - 3.2 Addresses, etc..... 8**
  - 3.3 Recent developments..... 9**
  - 3.4 Economy ..... 9**
  - 3.5 Description of the Issuer’s political system and government ..... 19**
- 4. Public finance and trade.....21
  - 4.1 The tax and budgetary systems ..... 21**
  - 4.2 Gross public debt ..... 23**
  - 4.3 Foreign trade and balance of payments ..... 23**
  - 4.4 Foreign exchange reserves ..... 23**
  - 4.6 Auditing procedures..... 25**
- 5. Significant changes .....26
- 6. Legal and arbitration proceedings .....27
- 7. Statements by experts and declaration of any interest.....28
- 8. Documents on display.....29

## 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 9 June 2015. 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

According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 7.5% in 2013,<sup>1</sup> and it is therefore likely that total production grew by approx. 8%, as the average decrease in the consumer price index was 1% for the same period. Faroese households have been cautious to increase spending for several years, but wage and salary expenditures of companies have been increasing over the last year, and indicators now show that domestic demand is on the increase. In the Economic Council publication "*Búskaparfrágreiðing á várið 2015*" from March 2015 the Economic Council and Hagstova Føroya (Statistics Faroe Islands) estimate that economic growth will be approx. 4.1% in 2014. 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 more than 90% of the export value of goods. Because the Faroese fishing fleet is very oil dependent, major changes in oil prices also constitute a risk factor for the Faroese economy.

#### 1.1.2 Employment

Unemployment rose significantly from 3.9% during 2009 and 2010 to 7.5% in February 2011. The unemployment rate has reduced since and was 3.1% in April 2015.

---

<sup>1</sup> Source: Economic Council, website: [setur.fo/buskaparradid](http://setur.fo/buskaparradid)

In the 10 years period from 2004-2013 there has been an average net emigration of 240 persons annually, as the Faroese labour market has not been able to absorb all jobseekers, and they have emigrated to find jobs or education in other countries mainly Denmark and Norway. However in 2014, there was a net immigration to the Faroe Islands of 300. With a natural increase of 240, the number of inhabitants increased 540 in 2014.

Two important factors have led to this development. The first is the improvement in the employment possibilities, as companies have started to hire more people. Employment has increased approximately 550 from October 2013 to October 2014. The other factor is that the imbalance between the number of young people coming to the labour market and the number of people leaving the labour market has been reduced. In January 2008 there were 823 people of the age of 18, whereas there were 406 at the age of 66. In January 2014 there were 721 of the age of 18, whereas there were 521 of the age of 66. The difference between people coming to the labour market and those leaving has thus been reduced from 400 to 200, so the Faroese labour market is now able to absorb a larger number of job seekers than those living in the Faroe Islands at present.

### 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 the past ten years. Demersal stocks are fragile as a large proportion of the stocks are harvested every year. Cod catches in 2014 were 10,000 tonnes. Long term average catches of cod have been 28-30,000 tonnes. Haddock catches were 3,000 tonnes in 2014, whereas long term average catches have been 15-20,000 tonnes. Saithe catches were 22,000 tonnes in 2014, whereas average catches have been 40-45,000 tonnes. The Faroe Marine Research Institute recommends that the fishing days of the cod and haddock fleet should be cut by 25% of the actually used fishing days as a part of a long term plan to have an even lower fishing effort in 2015/2016. This is part of a more detailed recovery plan for cod and haddock.<sup>2</sup> The Faroe Marine Research Institute also recommends that the fishing days of the saithe fleet should be reduced by 25%.<sup>3</sup> In addition to this, the innermost waters were closed for fisheries and the total number of days of fishing was reduced during 2011 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 in Russian part of the Barents Sea were given larger quotas in 2012 and 2013.<sup>3</sup> These fishing rights are granted in exchange for Russian ships being allowed to fish in Faroese waters.

On 12 March 2014, the Faroe Islands came to an agreement with the EU and Norway on fishing rights for catching mackerel, which has brought an end to disagreements that have lasted for several years. In August 2013 the disputes caused an EU ban on imports of mackerel and herring from the Faroe Islands. The ban was abolished in the summer 2014. The new agreement with EU and Norway will last for five years. There is still an ongoing dispute with Norway regarding fishing rights for herring, but as herring fishery is

---

<sup>2,3</sup> Source: Faroe Marine Research Institute, website: [www.hav.fo](http://www.hav.fo)

<sup>3</sup> Source: Governmental Bank, Economic Assessment, March 2013, p.14

at a low level as part of total pelagic fisheries, any negative effects on the fishing industry will be limited.

Pelagic fisheries had very good years in 2012, 2013 and 2014 due to successful mackerel fisheries, and mackerel catches are also expected to have significant value in 2015, amongst other due to increased fishing rights agreed with EU and Norway. The value of herring catches have increased from DKK 120 million in 2007 to DKK 400 million in 2013, but decreased to DKK 300 million in 2014.

Fish farming, which has made a large contribution to economic growth in recent years, have produced similar quantities in the years from 2012 to 2014, but at significantly higher values, as salmon prices increased during 2013 and again in 2014, so that the export value increased from 1.6 billion DKK in 2012 to 2.9 billion DKK in 2014. The quantities and prices are expected to be stable during 2015.

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.

As catches of demersal species is still at a very low level, production in the fish processing industry is still at a very low level.

#### 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. Whereas consumption has been stagnant after 2008, there are now some signs of increasing consumption and increasing domestic demand. Imports of consumption products have been increasing over the last year and consumer confidence indicators show highest optimism since 2008<sup>4</sup>.

#### 1.1.5 The financial markets

Faroese financial institutions experienced reduced demand for lending by households as well as businesses after the 2008 recession. Loans decreased until end of 2013, and have been stagnant since. 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.

The market for 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

---

<sup>4</sup> Economic Council: Spring Report 2015, March 6th 2015, p. 7.

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.

#### 1.1.6 The governmental sector

The governmental sector has experienced significant deficits since 2009 when the total deficit was DKK 688 million, i.e. 5.7% of GDP. According to preliminary unaudited figures the deficit will be DKK 237 million in 2014.

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>5</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.

---

<sup>5</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, 9/6 -2015



Bjarni Askham Bjarnason  
Director  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 9/6 -2015

### 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 a GDP per capita that is approx. 85% of Denmark's. However, disposable income per capita, which includes the Danish state grant and salaries from Faroese employees working abroad, is approx. 95% of Denmark's.<sup>6</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 more than 90% of the export value.

<b>Exports (fob) by product</b>		<b>Table 1</b>				
<i>Million DKK</i>	<i>2003</i>	<i>2009</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	
Cod	941	403	452	513	540	
Haddock	331	99	62	68	94	
Saithe	318	575	419	329	314	
<b>Main demersal species</b>	<b>1,590</b>	<b>1,077</b>	<b>933</b>	<b>910</b>	<b>948</b>	
Salmon	805	1,204	1,822	2,452	2,942	
Trout	160	175	0	3	0	
<b>Total Fish Farming</b>	<b>965</b>	<b>1,379</b>	<b>1,822</b>	<b>2,455</b>	<b>2,942</b>	
Blue Whiting	128	31	160	103	110	
Herring	42	191	325	409	291	
Atlantic Mackerel	63	185	827	804	887	
<b>Main pelagic species</b>	<b>233</b>	<b>407</b>	<b>1,312</b>	<b>1,316</b>	<b>1,288</b>	
Prawns	221	112	103	62	104	
Other species	755	707	844	993	869	
<b>Prawn and other species</b>	<b>976</b>	<b>819</b>	<b>947</b>	<b>1,055</b>	<b>973</b>	
<b>Total fish products</b>	<b>3,764</b>	<b>3,682</b>	<b>5,014</b>	<b>5,736</b>	<b>6,151</b>	
Other products	9	198	173	194	176	
Ships and aeroplanes	139	225	306	103	12	
<b>Total export of products</b>	<b>3,912</b>	<b>4,105</b>	<b>5,493</b>	<b>6,033</b>	<b>6,339</b>	

Source: Statistics Faroe Islands

<sup>6</sup> Source: Statistics Faroe Islands, Statistics Denmark

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 total fish exports have increased from DKK 3.7 billion in 2009 up to DKK 6.2 billion in 2014, an increase of approx. 67%.

The composition of the Faroese fish export has changed significantly over the past ten years.

Part of the Faroese wet fish fleet is fishing demersal species as cod, haddock and saithe in the Faroese fisheries zone, while another part of the fleet consisting of factory trawlers are fishing cod in the Barents Sea. The traditional cod fisheries in Faroese and foreign waters have during the period 2003-2012 decreased significantly from having a total export value of DKK 940 million in 2003 to DKK 540 million in 2014, while the export value of the most important demersal species has decreased from DKK 1.6 billion in 2003 to DKK 950 million in 2014.

On the other hand the export value of catches by the pelagic fleet (fishing herring, mackerel and blue whiting) has increased from around DKK 200 million in 2003 to DKK 1.3 billion in 2014.

Another significant change is that the fish farming industry has expanded, and that the export value of salmon consequently has increased from DKK 965 million in 2003 to DKK 2.9 billion in 2014.

The Faroese Economy contracted somewhat during 2008 and 2009 due to the global economic slowdown and more moderate domestic private consumption. The years 2006 and 2007 were characterized by an unusually high level of credit-financed private consumption.

According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 7.5% in 2013<sup>7</sup>. The average decrease in the consumer price index was 1.0% from 3<sup>rd</sup> quarter 2012 to 3<sup>rd</sup> quarter 2013. Faroese households have been cautious to increase spending, but imports of consumption items have increased by 5.4% in 2014, which indicates an increase in consumption in general. In the Economic Council publication "*Búskaparfrágreiðing várið 2015*" from March 2015, the Economic Council and Hagstova Føroya (Statistics Faroe Islands) estimate that economic growth will be approx. 4.1% in 2014.

The growth rate in total wage expenditure (wage compensation) in the Faroe Islands was on average 5.9% for the years 2001 to 2007. The growth in total wage expenditure has been slow after 2007, only 4% from 2007 to 2013. However, the wage expenditure increased from DKK 7,182 million in 2013 to DKK 7,549 million in 2014, that is 5.1%.

---

<sup>7</sup> Source: Statistics Faroe Islands, website: hagstova.fo

The wage expenditure has increased by 7.5% from first quarter 2014 to first quarter 2015.

<b>National income, expenditure and savings</b>						<b>Table 2</b>
<i>Million DKK</i>	<b>2003</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Gross domestic product</b>	<b>9,795</b>	<b>12,100</b>	<b>12,942</b>	<b>13,254</b>	<b>13,650</b>	<b>14,678</b>
+ Wages and salaries from abroad	341	744	823	851	1,025	993
- Wages and salaries to abroad	34	168	175	185	196	251
+ Property income from abroad	386	110	355	431	705	561
- Property income to abroad	331	727	537	443	794	747
<b>National income, gross</b>	<b>10,157</b>	<b>12,058</b>	<b>13,409</b>	<b>13,908</b>	<b>14,389</b>	<b>15,233</b>
+ Current transfers from abroad	871	913	1,015	1,242	993	1,050
- Current transfers to abroad	124	147	193	153	139	238
<b>National disposable income, Gross</b>	<b>10,905</b>	<b>12,824</b>	<b>14,231</b>	<b>14,998</b>	<b>15,243</b>	<b>16,045</b>
- Final consumption expenditure	8,210	10,851	10,885	11,522	11,741	11,976
<b>Savings, gross</b>	<b>2,695</b>	<b>1,973</b>	<b>3,346</b>	<b>3,476</b>	3,503	4,069
- Gross capital formation	2,916	2,101	2,536	2,433	3,949	3,653
<b>Net lending (+) / Net borrowing (-)</b>	<b>-221</b>	<b>-128</b>	<b>810</b>	<b>1,043</b>	<b>-447</b>	<b>416</b>

Source: Statistics Faroe Islands, 2013 preliminary figures.

The total number of employees increased in the years from 2004 to 2008, but then decreased from 2008 to 2011. After 2011 the number of employees has stabilised around 23,500, but there has been a significant increase from autumn 2013 to 2014 of around 550 employees. The industry structure has changed significantly over the past ten years.

The catches of the demersal fleet in Faroese waters has decreased steadily over the last decade and this has caused a significant loss of jobs both in fisheries and fish processing. The reason is that the demersal fleet is labour intensive and creates many jobs in the fish processing industry. Employment in fisheries has decreased from 2,500 in 2004 to 1,500 in 2014. Employment in fish processing has decreased from 2,000 in 2004 to 1,400 in 2014.

As mentioned above the pelagic fisheries have increased more than the decrease in the catches of demersal species, but as pelagic fisheries are very capital intensive, there has been a significant loss of employment in fisheries. However, it can be seen in table 2 above, wages and salaries earned by Faroese employees working abroad have increased from around DKK 300 million in 2003 up to DKK 1.0 billion in 2013.

The average salary of employees working for foreign countries can be estimated at around DKK 400,000 per year. The employment of Faroese employees in foreign countries has increased from around 750 persons up to around 2,550 person, indicating that a large part of seamen have found employment in neighbouring countries.

Faroese sailors have been working in considerable numbers in the Danish merchant fleet and in fishing vessels in Greenland since the 1960ies. The big change is that many now work in supply service in the Norwegian oil industry, and that there are also many electricians working in the land based oil industry mainly in construction of new plants.

Unemployment increased from 2008 to 2011. However, the number of unemployed decreased steadily after 2011. The latest numbers from April 2015 show an unemployment rate at 3.1%.

The total number of employees has increased throughout 2014. The increased number of employees is one explanation that a net emigration of 300 in 2012 and 100 in 2013 has turned into a net immigration of 300 in 2014.

Table 3 below shows the development of employees in the various business sectors from 2004 to 2013.

**Employees by business sector 2004-2014\***

**Tabel 3**

	Oct.2004	Oct. 2008	Oct. 2011	Oct. 2013	Oct.2014
Agriculture	61	88	64	76	89
Fishing	2,475	1,796	1,645	1,628	1,513
Aquaculture	500	637	695	839	922
Extraction of raw materials	58	75	89	102	119
Fish processing	2,053	1,505	1,227	1,339	1,402
Shipyards/machine shops	560	605	497	565	674
Other manufacturing	985	987	759	717	785
Construction	1,728	2,164	1,563	1,553	1,663
Energy	156	147	151	145	155
Trade and repair	3,049	3,309	2,885	2,990	3,069
Hotels and restaurants	509	585	535	640	684
Sea transport	744	751	896	897	905
Other transport	557	719	576	707	723
Communication	626	583	488	397	383
Finance and insurance	829	970	848	796	712
Business services	664	868	694	737	707
Household services	232	293	336	305	314
Public administration	587	626	632	642	645
Municipalities etc,	2,426	2,914	3,001	3,087	3,136
Education	1,540	1,527	1,624	1,586	1,616
Health & social work	3,563	3,673	3,539	3,389	3,406
Culture, organizations etc	561	672	599	598	607
Activities n,e,i,	100	147	2	94	105
<b>Total</b>	<b>24,563</b>	<b>25,641</b>	<b>23,345</b>	<b>23,829</b>	<b>24,334</b>

\* These statistics reflect the number of persons employed in each business sector, and not the number of full-time workers in each sector,

### 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 has been stable from 2003 to 2009 at around DKK 3.7 billion. From 2009 to 2014 the export increased from DKK 3.7 billion to DKK 6.2 billion.

From 2003 to 2014 the catches of cod, haddock and saithe has decreased from DKK 1.6 billion to DKK 950 million, while the pelagic fisheries export has increased from DKK 200 million to DKK 1.3 billion.

In addition to that, the fish farming exports, mostly salmon, have increased from DKK 1.0 billion in 2003 to DKK 2.9 billion in 2014.

Of the total catches, wet fish accounted for about 84,000 tonnes in 2012 which were mainly fished in Faroese waters. Of the total cod catches in 2013, over 80% 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 past ten years. Most of the cod fished in foreign waters is caught by big filleting trawlers.

On 12 March 2014, the Faroe Islands came to an agreement with the EU and Norway on fishing rights for catching mackerel, which has brought an end to disagreements that have lasted for several years. In August 2013 the disputes caused an EU ban on imports of mackerel and herring from the Faroe Islands. The ban was abolished in the summer 2014. The new agreement with EU and Norway will last for five years. There is still an ongoing dispute with Norway regarding fishing rights for herring, but as herring fishery is at a low level as part of total pelagic fisheries, any negative effects on the fishing industry are expected to be limited.

### ***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.

The fish processing industry has undergone significant changes over the last four years, and following the bankruptcy proceedings of the Faroese company, Faroe Seafood in 2010, 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 2004 the total work force in fish processing has decreased from 2,000 persons to 1,400 persons in 2014. 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.

The processing capacity for pelagic species has been increased significantly the past ten years, as there is both a wish in the Faroe Islands to create new jobs, and pressure from the outside world that as much as possible of the fishery catches should be processed into goods for human consumption. The first factory was built in Kollafjørð, and its

capacity has been increased subsequently. A processing plant for pelagic fish has been built in the town of Tvøroyri in 2012 and one in Fuglafjørður in 2014.

### ***Aquaculture***

The fish farming industry is relatively new in the Faroe Islands. Farming of salmon started in the early 1980s and has since emerged as the second-largest export industry in the Faroese economy. The industry seems to have successfully fought the fish disease plague and production is growing.

Approximately 80,000 tonnes were harvested in 2014, and the harvest in 2015 is expected to be roughly the same.<sup>8</sup> The quantities harvested in fish farming will most likely remain stable in 2015 and 2016. The export value of Faroese farmed fish was approx. DKK 2.9 billion in 2014, mainly due to the large increase in salmon prices. DKK 2.9 billion corresponds to approx. 46% of the total Faroese fishery exports. The average export prices of Norwegian Farmed salmon were NOK 28 per kg in 2012, but increased to NOK 40 per kg in 2013 and 41 NOK per kg in 2014.<sup>9</sup> Forward prices for 2015 are around NOK 40 per kg.<sup>10</sup>

The number of employees in the fish farming industry has increased from 637 in 2008 to 922 in 2014.

### ***Construction***

Construction activities have decreased significantly since 2008. Consequently, the number of employees in the industry has also decreased substantially. From October 2008 to October 2011 employment fell 28% (from 2,164 to 1,563 employees), but has increased into 1,663 in October 2014. Small construction companies have had sufficient orders, while larger companies, usually working on larger public projects, have had less activity and have laid off employees. There is, however, a couple of large public construction projects ongoing, e.g. the secondary school at Marknagil, which will cost around DKK 500 million and several other construction projects are in the pipeline as well, including the planned sub-sea tunnels, one to Eysturoy and one to Sandoy. 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 Vágur and Streymoy. This is the first partially user-financed investment of its kind in the Faroe Islands. The construction of this tunnel increased the percentage of the Faroese population being connected by road transport from 69% to 75%. A second sub-sea

---

<sup>8</sup> Source: Economic Council: Búskaparfrágreiðing várið 2015, March 2015, p. 11.

<sup>9</sup> Source: Norwegian Seafood Council, website: [seafood.no](http://seafood.no)

<sup>10</sup> Source: Fish Pool - The Norwegian marketplace for financial salmon contracts, website: [fishpool.eu](http://fishpool.eu)

tunnel between Borðoy and Eysturoy opened in May 2006. The construction of this tunnel made it possible for 86% of the total population to reach each other by road transport.

All parties in the parliament have made a joint decision to build a sub-sea tunnel from Streymoy to Eysturoy, having an estimated cost of DKK 1,050 million. This tunnel will shorten the traveling distance between Torshavn and most parts of Eysturoy by 30 to 50 km. The construction is going to take place in the years 2016-2019.

When the Eysturoy tunnel is completed, construction will start of a sub-sea tunnel from Streymoy to Sandoy, having an estimated cost of DKK 860 million. Around 1,300 inhabitants (additional 3% of the total population) will be connected to the other islands by constructing this sub-sea tunnel. The construction is going to take place in the years 2018-2021.

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 2014, there were 20,817 registered private cars, equivalent to 432 cars per 1,000 inhabitants.

### *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 2014, 250,287 passengers travelled through Vágar airport which is 6.0% more than in 2013, and 50% more than in 2004.

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. 49,191 passengers travelled to the Faroe Islands by sea in 2014, which are 1,400 less passengers than in 2013.

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

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

### ***Telecommunications***

At the end of 2014 there were 17,308 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 70% and 30%, respectively. Mobile telephone subscriptions totalled 61,388 at the end of 2014. The use of mobile technology has increased significantly in recent years.

Broadband coverage is high (well over the OECD average) with 17,026 subscribers at the end of 2014 or 35 subscribers per 100 inhabitants.

There were about 12,593 satellite or cable television subscribers in 2014. The number of subscribers has been decreasing for some years. Internet TV is not included in the numbers, and it is assumed that the increasing supply from internet TV channels is leading to weaker demand for satellite and cable TV.

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

### ***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.

Over the last years there has been made a specific effort to increase tourism to the Faroe Islands. The turnover of the total industry has increased from DKK 448 million in 2011 to DKK 577 million in 2013. Value added has increased from DKK 175 million in 2011 to DKK 226 million in 2013. The value added has increased from 1.3% to 1.6% of GDP.

Transportation is 77% of total turnover in the tourist industry. Hotels, bed and breakfast, camping etc. are 12% of the turnover and the sales of food and drinks are 4%. Their combined turnover has increased from DKK 74 million in 2011 to DKK 91 million in 2013.

### ***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 three licences

The Geological Survey, an institution under the Faroese Government undertakes new evaluations of existing seismic data to point out possibilities for potentially interested parties in the oil industry.

It is difficult to estimate the outlook for future activity.

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>11</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.

---

<sup>11</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.

## ***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.

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 retained a 30% stake in the company.

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 had a pre-tax profit of DKK 123.1 million in 2014. The bank's solvency ratio was by end of 2014, 23.6%, and the individual solvency requirement was 11.8%.

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. P/F BankNordik had a deficit of DKK 99 million in 2014. The bank's solvency ratio was by end of 2014, 14.8%, and the individual calculated solvency requirement was 9.0%.

Two smaller banks, Norðoya Sparikassi and Suðuroyar Sparikassi, complete the Faroese banking sector.

Norðoya Sparikassi had a pre-tax profit of DKK 5 million in 2013, and a solvency ratio of 19.4% at the end of 2013. The individual calculated solvency requirement was 12.2%.

The smallest bank, Suðuroyar Sparikassi had a pre-tax profit of DKK 2.3 million in 2014, and a solvency ratio of 15.8% at the end of 2014. The individual calculated solvency requirement was 10.0%.

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 October 2013 an agreement was reached in the Danish parliament about the framework for the regulation of Danish SIFIs,

In February 2014, the Faroese Government and the Danish Government agreed that three Faroese banks, Bank Nordic, Eik Bank and Norðoya Sparikassi shall be considered SIFI banks (Systemically Important Financial Institutions). These three banks have a combined market share of 96% of bank loans in the Faroe Islands.

The law regarding legislation of SIFI banks and the implementation of CRD IV was passed in the Danish Parliament in 2014 and the Faroese Løgting passed the on 24 April 2015. The law will take effect as of 1 July 2015.

#### **Currency**

The currency of the Faroe Islands is the Faroese króna, issued by the Danish Central Bank, Danmarks Nationalbank. The Danish Central Bank 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 the Danish Central Bank. 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. The Danish Central Bank is the lender of last resort and all local Faroese accounts are denominated in Danish kroner.

If the Kingdom of Denmark decides to change 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 citizenship, high court, foreign policy and defence policy.

Other matters (referred to as "joint 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. Examples of such joint matters 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. These are referred to as "special matters". Examples hereof 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 constitute 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 since 26 September 2008 is Kaj Leo Holm Johannesen (The Unionist Party).

### ***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 (Sambandsflokkurin), the People's Party (Fólkaflokkurin) and the Centre Party (Miðflokkurin).

## 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.

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. There is no central governmental income tax on incomes from DKK 0 to DKK 65,000. Income from DKK 65,000 to DKK 500,000 is taxed with 20%, income from DKK 500,000 to DKK 800,000 is taxed with 25%, and income over DKK 800,000 is taxed with 30%.

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 applied. There is no municipal income tax on incomes under DKK 30,000. Income over DKK 30,000 is taxed by a flat rate. All except three municipalities have tax rates between 20% and 23.5%, and the average municipal tax rate is 22%.

Members of the National Church also pay church tax, in 2015 on average 0.79%.

Labour market contributions are 1.75% to the labour market pension fund. The allocation is 1% to the unemployment fund and 0.62% to the maternity leave fund. The highest marginal tax rate for is therefore approx. 46.16% for incomes from DKK 65,000 to DKK 500,000, 51.16% for incomes from DKK 500,000 to DKK 800,000 and 56.16% for income above DKK 800,000.

#### 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 receive a 35% refund of wages and other payments made to persons liable to pay taxes in the Faroe Islands.

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 brought the Faroese Treasury a revenue of DKK 126 million in 2014.

From 2014 the fish farming industry pays two industry specific taxes. In 2014 the industry paid DKK 9.4 million in taxes calculated as 0.5% of sales, and DKK 31.4 million in taxes calculated as 4.5% of taxable income in addition to the general corporate tax of 18%.

## Capital gains tax

Interest on deposits in Faroese banks is not included in the income subject to income tax. Instead, a yearly tax of 35% 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 35%. However, this does not include corporations and some foundations, which pay a corporate tax of 18%. There is no property or wealth tax.

## 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 the 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.

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 Vágur and Streymoy, and the sub-sea tunnel between Eysturoy and Borðoy.

Capital expenses in 2014 were DKK 397 million of which construction of fixed capital were DKK 351 million and lending were DKK 20 million. The majority of the investments were allocated to education, health, transport and communication.

The final government accounts for 2014 are not yet available, and the following numbers represent the preliminary accounts as of 15 April 2015. Operating expenses in 2014 were DKK 6,101 million, of which compensation of employees was DKK 2,310 million. Transfers were DKK 2,388 million and purchases of goods and services were DKK 1,403 million. The governments operating revenues in 2014 were DKK 6,175 million. Income and corporate taxes were DKK 2,360 million, VAT and other indirect taxes were DKK 2,043 million. Transfers from the Danish state were DKK 671 million, other domestic transfers were DKK 205 million, and other revenues (mainly sales of goods and services) were DKK 851 million. The preliminary government accounts show a deficit of DKK 237 million in 2014.

## 4.2 Gross public debt

### Central government assets and liabilities

Table 4

<i>Million DKK</i>	2012	2013	2014
<b>ASSETS</b>			
Securities and deposits	2,559	3,150	2,536
Deposits in banks			0
Others in circulation	508	497	555
Loan to Iceland			0
Financial assets	1,815	1,882	2,065
<b>Total assets</b>	<b>4,882</b>	<b>5,529</b>	<b>5,156</b>
<b>LIABILITIES</b>			
Long-term debt (Kingdom of Denmark)	500	500	500
Bond loan	4,254	4,820	4,417
Other debt	662	789	824
<b>Total debt</b>	<b>5,416</b>	<b>6,109</b>	<b>5,741</b>
<b>Net assets</b>	<b>-534</b>	<b>-580</b>	<b>-585</b>

Source: Føroya Gjaldstova

### Outstanding bonds

Table 5

<i>Million DKK</i>	Annual coupon	Maturity date	Present structure	Structure end of 2015
FO-LB 150611 Bit	1.50%	11-Jun-2015	880	0
FO-LB 160622 Bit	Floating Rate	22-Jun-16	1,350	1,350
FO-LB 170627 Bit	1.75%	27-Jun-17	1,000	1,000
FO-LB 180610 Ann	3.50%	10-jun-18	40	31
FO-LB 190620 Bit	1.75%	20-Jun-19	1,100	1,100
FO-LB 200611 Bit	1.00%	11-Jun-20	0	1,045
<b>Outstanding bonds, total</b>			<b>4,370</b>	<b>4,526</b>

Source: Føroya Gjaldstova, Fíggjng 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 6

<i>Million DKK</i>	2009	2010	2011	2012	2013
Goods	70	509	306	-978	30
Services	-926	-987	-1,116	-1,063	-981
<b>Goods and services</b>	<b>-856</b>	<b>-478</b>	<b>-810</b>	<b>-2,040</b>	<b>-951</b>
Wages	576	649	666	829	741
Rents	-618	-181	-66	-89	-184
<b>Income transfers</b>	<b>-42</b>	<b>468</b>	<b>604</b>	<b>740</b>	<b>556</b>
Government sector	783	791	791	801	811
Other sectors	-17	31	299	53	0
<b>Other transfers</b>	<b>766</b>	<b>821</b>	<b>1,090</b>	<b>854</b>	<b>810</b>
<b>Current account surplus (+) / deficit (-)</b>	<b>-132</b>	<b>811</b>	<b>884</b>	<b>-447</b>	<b>415</b>

Source: Statistics Faroe Islands

The deficit on the balance of payments in 2012 was mainly caused by imports of aeroplanes and fishing vessels with total value of DKK 1,330 million.

## 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, according to Faroese parliament act, the

Faroese Government holds a minimum reserve liquidity of 15% of GDP. The minimum reserve liquidity was DKK 2,025 million in 2014. Parts of the Faroese Government'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.

As of the 1 April 2013, Føroya Gjaldstova has been acting as investment manager for the Faroese Government.

### Securities and deposits

**Table 7**

<i>Million DKK</i>	2012 <sup>1)</sup>	2013 <sup>2)</sup>	2014 <sup>2)</sup>
Total financial assets <sup>1)</sup>	2,456	3,035	2,452
- of which abroad	2,231	2,318	1,947

Source: Føroya Gjaldstova

1) Excluding governmental institutions' operating liquidity

## 4.5 Income and expenses

### Central government accounts

**Table 8**

<i>Million DKK</i>	<i>Realized<sup>(1)</sup></i>	<i>Realized<sup>(1)</sup></i>	<i>Realized<sup>(1)</sup></i>	<i>Realized<sup>(2)</sup></i>	<i>Budget<sup>(3)</sup></i>
	2011	2012	2013	2014	2015
Taxes, direct	2.118	2.138	2.190	2.360	2.228
Taxes, indirect	1.792	1.853	1.829	2.043	2.150
Transfers from Denmark	658	660	665	671	676
Sales of goods and services	686	752	793	851	677
Revenue from fees	176	148	224	205	206
Other	91	36	52	45	34
Operating revenues, ex. Interest	5.521	5.587	5.753	6.175	5.971
Personnel cost	-2.196	-2.185	-2.232	-2.310	-2.112
Transfers to individuals	-1.534	-1.562	-1.594	-1.623	-1.677
Other transfers	-398	-343	-389	-422	-439
Purchase of goods and services	-1.275	-1.330	-1.367	-1.403	-1.203
Transfers to other public entities etc	-216	-270	-293	-343	-399
Operating expenses, ex. Interest	-5.619	-5.690	-5.875	-6.101	-5.830
<b>Primary operating balance</b>	<b>-98</b>	<b>-103</b>	<b>-122</b>	<b>74</b>	<b>141</b>
<b>Interest income and dividends</b>	<b>155</b>	<b>142</b>	<b>94</b>	<b>146</b>	<b>107</b>
<b>Interest expenses</b>	<b>-176</b>	<b>-179</b>	<b>-137</b>	<b>-117</b>	<b>-115</b>
<b>Operating balance</b>	<b>-119</b>	<b>-140</b>	<b>-165</b>	<b>103</b>	<b>133</b>
Sale of fixed assets	2	2	13	11	92
Sale of shares	0	0	0	7	0
Capital revenues from Denmark	99	51	103	0	0
Repayments of loans, domestic	17	20	17	39	21
Repayment of loans, Iceland	0	300	0	0	0
Abolishment of Landsbanki Føroya	0	0	164	0	0

Total capital revenues	118	373	297	57	113
Construction of fixed capital	-129	-173	-239	-351	-326
Acquisition of fixed capital	-17	-10	-33	-9	-24
Injection of cap. into publ. Ltd.'s	-97	-51	-83	-17	-8
Net lending, domestic	-66	-32	-13	-20	-23
Appropriations transferred from previous years					-106
Total capital expenses	-309	-266	-368	-397	-487
Financing surplus/deficit	-310	-33	-236	-237	-241
Debt repayment	-712	-1.220	-434	-1.512	-890
Gross financing surplus/deficit	-1.022	-1.253	-670	-1.749	-1.131
New borrowing	1.350	1.128	1.000	1.100	1.045
Net financing surplus/deficit	328	-125	330	-649	-86

Source: Faroese central government accounts.

(1) Audited by the National Audit Authority and approved by the Parliament

(2) Realized as of April 15 2015 but unaudited.

(3) Fiscal act as approved by the parliament in December 2014

## 4.6 Auditing procedures

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

From and including the fiscal year 1991, 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 2014, ending 31 December 2014, 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.

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. Since then The Moody's Investors Service has restated the rating Aa3 with negative outlook, the last rating dated 2 October 2014.

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 Føroya Gjaldstova's website:

<http://gjaldstovan.gov.fo/tidindi/Economic%20reports/Moody's/Pages/default.aspx>.

## 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: <http://gjaldstovan.gov.fo/tidindi/Economic%20reports/Pages/default.aspx>

Moody's Investors Service's latest rating documents concerning the Government of the Faroe Islands (published April 2011 and July 2012, September 2013 and October 2014)

Economic Assessment 2013 (published by the Government Bank in March 2013)

### ***Búskaparráðið, Economic Council:***

Economic Reports, reports on Short Term Economic Outlook in spring and autumn.

Spring Report 2015 March 6th 2015 (with executive summary in English).

Autumn report 2014 October 9th 2014 (with executive summary in English).

Website: [setur.fo/buskaparradid](http://setur.fo/buskaparradid)

### ***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)

### ***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 1,045,000,000 1.00 PER CENT

FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

SECURITIES NOTE

# III. SECURITIES NOTE

---

## TABLE OF CONTENTS

1. RISK FACTORS .....	3
<b>1.1 Market risk</b> .....	<b>3</b>
<b>1.2 Liquidity risk</b> .....	<b>3</b>
<b>1.3 Legal risk</b> .....	<b>3</b>
<b>1.4 Credit risk</b> .....	<b>4</b>
2. Persons responsible.....	5
<b>2.1 Statement from the Issuer</b> .....	<b>5</b>
3. Key information .....	6
<b>3.1 Interest of natural and legal persons involved in the issue</b> .....	<b>6</b>
<b>3.2 Reasons for the issue and use of proceeds</b> .....	<b>6</b>
4. Information concerning the Notes .....	8
<b>4.1 Description of the Notes</b> .....	<b>8</b>
<b>4.2 Legislation</b> .....	<b>8</b>
<b>4.3 Form of the Notes</b> .....	<b>8</b>
<b>4.4 Currency of the Notes</b> .....	<b>9</b>
<b>4.5 Status of the Notes</b> .....	<b>9</b>
<b>4.6 Rights etc.</b> .....	<b>9</b>
<b>4.7 Interest</b> .....	<b>10</b>
<b>4.8 Maturity and repayment</b> .....	<b>11</b>
<b>4.9 Yield</b> .....	<b>11</b>
<b>4.10 Representation of noteholders</b> .....	<b>11</b>
<b>4.11 Authorisation</b> .....	<b>11</b>
<b>4.12 Issue Date</b> .....	<b>11</b>
<b>4.13 Transferability</b> .....	<b>12</b>
<b>4.14 Taxation</b> .....	<b>12</b>
5. Terms and conditions of the offer.....	14
<b>5.1 Nominal amount</b> .....	<b>14</b>
<b>5.2 Placing and underwriting</b> .....	<b>14</b>
<b>5.3 Issue Price</b> .....	<b>14</b>
<b>5.4 Payment and settlement</b> .....	<b>14</b>
<b>5.5 Account Holding Institute</b> .....	<b>14</b>
6. Admission to trading and official listing .....	15
<b>6.1 Admission to trading and official listing</b> .....	<b>15</b>
<b>6.2 Admission to trading and official listing on other regulated markets</b> ....	<b>15</b>
7. Additional information .....	16
<b>7.1 Audit of information</b> .....	<b>16</b>
<b>7.2 Rating</b> .....	<b>16</b>

## 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 9 June 2015. 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

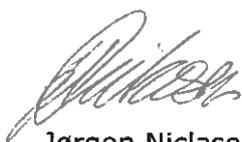
The Government of the Faroe Islands' liability to make payments according to the terms and conditions in this Prospectus constitutes direct and unsecured obligations of the Government of the Faroe Islands and constitutes unsubordinated loan indebtedness ranking *pari passu* with all other loan indebtedness 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, 9/6 -2015



Bjarni Askham Bjarnason  
Director  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 9/6 -2015

### 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  
Kvíggjartún 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  
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) DKK 155 million for the financing of the deficit in the national budget for 2015 and liquidity; and

(2) DKK 880 million for the financing of (i) the redemption of Føroya Landsstýri 1.50 per cent Fixed Rate Notes due 11 June 2015 (LB-FO 150611) with ISIN code DKK0030300322 and

(3) DKK 10 million for the payment of the annual instalment on Føroya Landsstýri 3.75 per cent Fixed Rate Notes due 10 June 2018 (LB-FO 180610) with ISIN code DK0030016449.

The Issuer will bear the costs directly related to the issuance of the Notes. The total costs are expected to amount to approximately DKK 2,441,801, including placing commission and arranging fees. The net proceeds from the issue of the Notes are approx. DKK 1,044,439,199.

The 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 465,000 corresponding to approx. DKK 23,480. The annual expenses for the admission to trading and official listing will be a fixed fee of ISK 170,000 corresponding to approximately DKK 8,585 (a total of DKK 42,925 for the life of the Notes) plus a variable fee of 0.00025% 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 approx. DKK 9,360 (a total of DKK 46,800 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 approx. DKK 180,600.

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 493,750 corresponding to approx. DKK 24,934.

## 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 1,045,000,000 1.00 per cent Fixed Rate Notes 11 June 2015 / 11 June 2020
Issue Date:	11 June 2015
Maturity Date:	11 June 2020
First trading date:	11 June 2015
Currency:	Danish kroner ("DKK")
Principal Amount per Note:	DKK 1,000
Total Principal Amount:	DKK 1,045,000,000
Interest Rate:	The Notes will pay an interest of 1.00 per cent per annum payable annually in arrears on in each year commencing on 11 June 2016 and ending on 11 June 2020.
Issue Price:	100.18 per cent
Class:	The issue of the Notes consists of only one class
ISIN:	DK0030361894
INET code	FO-LB 200611 (NASDAQ OMX Iceland hf.)
Short name:	FØROYA LAN JUN20 (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. 831 of 12 June 2014 and Government Regulation no. 819 of 26 June 2013 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 11 June 2015 to but excluding the 11 June 2020.

The Notes will pay a fixed rate interest of 1.00 per cent. per annum (the "Interest Rate") payable annually in arrear on 11 June in each year commencing on 11 June 2016 and ending on 11 June 2020 (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 11 June 2020 (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 0.963 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 100.18 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 21 March 2014.

#### 4.12 Issue Date

The Notes will be issued on 11 June 2015 (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 are subject to 35% tax on capital gains payment.

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 1,045,000,000 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 11 May 2020.

### 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 have being issued at a price of 100.18 per cent.

### 5.4 Payment and settlement

Payment and settlement of the Notes will be effected two business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 11 June 2015. 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 11 June 2015.

### 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 11 June 2015. 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 11 June 2015.

## 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 from 2010 to 2013 specified in the Registration Document, table 8 (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,

<b>Ratings Category</b>	<b>Moody's Rating</b>
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. Since the Moody's Investors Service has restated the rating Aa3 with negative outlook, the last rating dated 2 October 2014.

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 Føroya Gjaldstova's website:  
<http://gjaldstovan.gov.fo/tidindi/Economic%20reports/Pages/default.aspx>