

PROSPECTUS



FØROYA LANDSSTÝRI

THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 1,350,000,000 FLOATING RATE NOTES

22 JUNE 2011 / 22 JUNE 2016

This Prospectus is published on 20 June 2011.

The Føroya Landsstýri (the "Issuer" or the "Government of the Faroe Islands") will issue DKK 1,350,000,000 floating rate notes due 22 June 2016 (the "Notes"). The Notes will constitute direct, general and unconditional obligations of the Faroe Islands.

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

The Prospectus has been scrutinised and approved by NASDAQ OMX Iceland hf. (the "Exchange") on behalf of the Financial Service Authority in Iceland, 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 from the Arrangers: Nordea Bank Danmark A/S, Strandgade 3, DK-1401 Copenhagen K, Denmark and Landsbanki Føroya, Yviri við Strond 15, FO-110 Tórshavn, Faroe Islands.

The Prospectus may also be obtained from the website www.landsbankin.fo (look for Publications → Prospectus)

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I. SUMMARY

General

This Summary should be read as an introduction to and in conjunction with the entire Prospectus dated 20 June 2011. The Summary is qualified in its entirety by more detailed information stated in the Registration Document and the Securities Note.

Any decision to invest in the Notes should be based on consideration of the Prospectus as a whole by the investor.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the relevant legislation, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

The Notes

On 22 June 2011 (the "Issue Date") the Government of the Faroe Islands will issue DKK 1,350,000,000 floating rate notes due 22 June 2016 (the "Notes") subject to the terms and conditions as specified in this Prospectus.

The currency of the Notes is Danish kroner ("DKK") and each note will be issued with the denomination of DKK 1,000 per Note. The Notes will redeem on 22 June 2016 (the "Maturity Date"), unless the Notes have been redeemed prior to that day, due to an Event of Default. The Notes are issued on Issue Date at an issue price of 100.00 per cent.

The Notes bear interest from and including the Issue Date. Interest is payable quarterly on 22 March, 22 June, 22 September and 22 December in each year.

The interest rate (the "Interest Rate") is determined by the Calculation Agent on each Interest Determination Date on the basis of the Reference Rate being 3-months CIBOR plus a Margin of 0.75 per cent. per annum.

The Interest payable per Notes on each Interest Payment Date shall be determined by applying the Interest Rate to the principal amount of a Note, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 (ACT/360 day count fraction).

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.

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 free of charge to investors. The Notes will be closed for further issues on 22 May 2016.

Nordea Bank Danmark A/S, Strandgade 3, DK-1401 Copenhagen, Denmark, will act as Account Holding Institute (in Danish: *Kontoførende Institut*) in relation to VP SECURITIES A/S.

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.

The Notes are issued in accordance with authorisation given by the Faroese Minister of Finance on 10 June 2011.

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

DKK 350,000,000 for the financing of a deficit in the national budget for 2010 and 2011 and up to approximately DKK 1,000,000,000 for the financing of the repurchase of Føroya Landsstýri 2.00 per cent Fixed Rate Notes due 11 June 2012 (LB-FO 120611) with ISIN code DK0030172812.

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

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

The Prospectus has been approved by NASDAQ OMX Iceland hf. acting on behalf of the Financial Supervisory Authority – Iceland (FME) as the competent authority in Iceland for the purpose of Directive 2003/71/EC (the Prospectus Directive) and the relevant laws and regulations for approval of the Prospectus. 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 22 June 2011.

The Prospectus is expected to be passported to the Kingdom of Denmark prior to the 22 June 2011. Following the 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 22 June 2011.

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.

Costs of the Notes issue

The total costs of the Notes issue are DKK 2,991,260 (including placing commission and arranging fees). The Issuer will bear the costs related to the issuance of the Notes.

Risk factors

Investors should read this prospectus carefully. Investing in the Notes involves risks, which the investors should take into account prior to deciding to make an investment in the Notes.

The Issuer believes that the following risk factors mentioned below are material and associated with investing in the Notes being offered and admitted to trading and official listing:

- market risk
- liquidity risk
- legal risk
- credit risk

In addition to the above mentioned risk factors associated with investing in the Notes, there are also risks associated with the Issuer's inability to pay interest, principal or other amounts in connection with the Notes relating to the Faroese economy; the political environment of the Faroe Islands, and the relations between the Faroe Islands and the Kingdom of Denmark. The inability of the Issuer to pay interest, principal or other amounts in connection with the Notes may also occur for other reasons, which may not be considered material or significant by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Information concerning the Issuer

The name of the Issuer is the Føroya Landsstýri (the Government of the Faroe Islands).

Description of the Faroe Islands

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

The currency of the Faroe Islands is the Faroese króna, issued by Danmarks Nationalbank, the Danish central bank. The basis of the Faroese króna is an equal amount of Danish kroner deposited in an account in the Danish central bank. If the Kingdom of Denmark decides to change its official currency from Danish kroner to Euro, the Faroe Islands can be expected to follow.

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"). 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.

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

The Faroese Parliament, the legislative assembly for Faroese affairs, appoints the Prime Minister, who – along with his/her cabinet ministers – constitutes the Government of the Faroe Islands.

The Faroese head of state is the Danish head of state, Queen Margrethe II. The present Prime Minister is Kaj Leo Johannesen (The Unionist Party).

The Faroe Islands are a modern, developed society with a standard of living comparable to other Nordic countries. Fishery and related industries are of major importance to the economy of the Faroe Islands. The dependence on a resource-based industry is evident in the export figures, of which fish products account for about 95% of the export value.

Exports (fob) by product

Table 1

<i>Million DKK</i>	2008	2009	2010	Diff 2009 to 2010 (%)
Cod	605	403	525	-30.4
Haddock	172	99	102	2.6
Pollock	494	573	550	-4.0
Salmon	824	1203	1,338	11.3
Trout	139	175	138	-21.1
Blue whiting	54	31	111	263.2
Herring	152	186	172	-7.5
Atlantic mackerel	175	185	281	51.8
Prawn	117	106	90	-15.2
Other fish products	829	694	901	29.8
Total exports of fish products	3,562	3,655	4,209	15.1
Other products	179	217	180	-16.9
Vessels	604	226	217	-3.8
Total exports of products	4,346	4,098	4,606	12.4

Source: Statistics Faroe Islands

In 2008, GDP decreased after significant increases the years before. GDP decreased a further 1.6% in 2009.

In its publication "Economic Outlook for 2011 and 2012", Landsbanki Føroya forecasts GDP growth to be 0.7% in 2010; 6% in 2011 and 4% in 2012. This increase in expected GDP is due to prospects of improved demersal fisheries in Faroese waters during the in coming years, as well as an expected increase in private consumption.

National income, expenditure and savings

Table 2

<i>Million DKK</i>	2006	2007	2008	2009
Gross domestic product	11,716	12,402	12,303	12,100
+ Wages and salaries from abroad	362	408	476	513
- Wages and salaries to abroad	139	182	209	168
+ Property income from abroad	525	601	463	110
- Property income to abroad	449	533	727	544
National income, gross	12,013	12,697	12,305	12,011
+ Current transfers from abroad	977	1,275	879	932
- Current transfers to abroad	128	130	128	83
National disposable income, Gross	12,862	13,842	13,056	12,860
- Final consumption expenditure	10,100	10,528	10,849	10,858
Savings, gross	2,763	3,313	2,207	2,002
- Gross capital formation	2,771	3,890	2,538	2,148
Net lending (+) / Net borrowing (-)	-8	-577	-330	-145

Source: Statistics Faroe Islands. The GDP figures for 2009 are preliminary.

Total wage expenditure by business sector

Table 3

<i>Million DKK</i>	2008	2009	2010	Diff 2009 to 2010 (in %)
Fishing	724	576	714	24.0
Aquaculture	153	172	170	-0.9
Fish processing	315	303	315	4.0
Trade and industry, construction and energy etc	1,046	910	861	-5.5
Sales and services, transport, communication etc	2,256	2,116	2,078	-1.8
Public administration and services	2,341	2,440	2,486	1.9
Other	183	185	188	1.5
Total	7,018	6,701	6,811	1.6

Source: Statistics Faroe Islands.

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

In January 2011 there were about 23,136 employees in private and public businesses (51% males and 49% females). Unemployment rose significantly during 2009 and 2010 and is currently at 7.8%, coming from 3.4% in March 2009.

Industries

In 2007, the total Faroese catch was 582,000 tonnes, in 2008 it was 521,000 tonnes and in 2009 it was 351.922 tonnes. The large reduction from 2008 to 2009 was due to significant reductions in quotas for pelagic species.

The fish farming industry has experienced a positive trend in recent years after a major crisis around 2003. The export value in 2009 was around DKK 1,350 million. Industry estimates are that app. 60,000 tonnes will be harvested in 2011 compared with 47,000 tonnes in 2010. The quantity of new stocks released in the coming two to three years will increase compared with previous years, which means that the harvest is likely to be app. 60-70,000 tonnes for the next 2 to 3 years. The fish farming industry accounts for 30% of total Faroese exports.

The construction industry in the Faroe Islands has had a significant impact on the economy. Recently, the industry has undergone great changes as the demand for construction has decreased dramatically. Both the firm concentration and the number of employees and wages have decreased, and the development in the construction industry in the near future now depend on governmental projects as well as the municipality of Tórshavn, which are the main investors in construction.

The transport sector on the Faroe Islands has in general been affected by the international financial crisis and economic slowdown. There has been a decrease in the number of passengers travelling to and from the Faroe Islands. From 2008 to 2009 the number of travellers through Vagar Airport fell by 8.2%. Currently, Atlantic Airways is the only operator offering routes to and from the Faroe Islands. In 2010, 199,998 passengers travelled through Vagar airport which is 1.7% less than in 2009.

Tourism is presently of minor importance to the Faroese economy. Efforts have been made to develop the tourism industry to diversify the Faroese economy. The direct income effect of the tourism industry is estimated to be DKK 150-200 million. This figure excludes transport to and from the Faroe Islands.

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. Oil and gas explorations in the Faroese subsoil will continue in new areas in the coming years.

The financial market in the Faroe Islands is served by four banks – Eik Banki Føroya P/F, P/F BankNordik, Norðoya Sparikassi and Suðuroyar Sparikassi. In 2010 Eik Banki P/F became insolvent and was taken over by the Danish Stability Company (Finansiel Stabilitet). The Faroese branch of the bank, Eik Banki Føroya P/F has since been sold to TF-Holding, the largest insurance company on the Faroe Islands, which now owns 70% of Eik Banki Føroya P/F, while the remaining 30% are still owned by Finansiel Stabilitet.

For the year 2009 P/F BankNordik has presented pre-tax profit of 135 million, and in 2010 pre-tax profits were DKK 416 million. The result in 2010 is positively affected by the sales of shares in P/F Bakkafrost, the largest fish farming company on the Faroe Islands

The smaller banks Suðuroyar Sparikassi and Norðoya Sparikassi have not been able to generate profits; particularly Norðoya Sparikassi has been significantly affected by financing unsuccessful sectors of the Faroese economy.

All Faroese banks have a general obligation to contribute to the Deposit Guarantee Fund, and 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.

Rating

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.

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

Financial information

Central government accounts

Table 4

<i>Million DKK</i>	Actual 2008	Actual 2009	Actual 2010	Budget 2011
Taxes, direct	1,826	1,750	1,922	1,989
Taxes, indirect	1,934	1,726	1,810	1,867
Transfers from the Danish State	673	663	669	666
Transfers from municipalities and govt inst	164	143	139	108
Fees	73	77	84	79
Other	689	711	693	739
Operating revenues, excl interest	5,359	5,068	5,317	5,447
Compensation of employees	2,036	2,120	2,189	2,265
Transfers	1,959	2,033	1,971	2,079
Other operating expenditures	1,448	1,365	1,526	1,409
Operating expenses, excl interest	5,443	5,518	5,686	5,753
Primary operating balance	-84	-450	-369	-306
Interest income and dividends	168	205	118	80
Interest expenses	131	219	164	112
Gross operating balance	-47	-464	-415	-338
Debt repayment	1,015	1,427	677	15
Net operating balance	-1,062	-1,891	-1,092	-353
Sale of fixed assets	11	7	4	20
Sale of shares	0	0	0	65
Repayments of loans	24	22	86	20
Privatisation / decapitalisation	414	0	0	0
Intergovernmental revenue	65	100	0	200
Total capital revenues	515	129	90	305
Construction of fixed capital	217	163	138	214
Acquisition of fixed capital	11	26	17	22
Injection of cap. into publ. LDT's	542	150	0	200
Lending	327	15	81	34
Total capital expenses	1,097	353	237	470
Financing surplus/deficit	-630	-688	-562	-503

Source: Faroese government accounts

Central government assets and liabilities

Table 5

<i>Million DKK</i>	2007	2008	2009	2010
ASSETS				
Deposits in Landsbanki Føroya	2,467	2,158	1,551	1,882
Others in circulation	959	841	1,062	1,204
Fixed assets	1,767	2,283	2,358	2,385
Total assets	5,193	5,282	4,972	5,470
LIABILITIES				
Long-term debt (Kingdom of Denmark)	500	500	500	500
Bond loan	2,160	2,119	2,707	3,726
Other debt	719	971	695	741
Total debt	3,379	3,590	3,903	4,967
Net assets	1,814	1,692	1,069	503

Source: Landsbanki Føroya

Outstanding bonds

Table 6

<i>Million DKK</i>	Annual coupon	Maturity date	Present structure	Structure after 22 June 2011
FO-LB 160622 Bit	Floating Rate	22-Jun-16	-	1,350
FO-LB 140407 Bit	3.125%	07-Apr-14	1,650	1,650
FO-LB 120611 Bit	2.00%	11-Jun-12	1,900	1,225
FO-LB 180610 Ann	3.50%	10-Jun-18	127	127
Outstanding bonds			3,677	4,352

Source: Landsbanki Føroya

Balance of payments

Table 7

<i>Million DKK</i>	2006	2007	2008	2009
Goods	-600	-1227	-457	74
Services	-554	-788	-626	-980
Goods and services	-1,154	-2,015	-1083	-905
Wages	222	226	267	345
Rents	226	69	-265	-434
Income transfers	448	294	2	-89
Government sector	736	731	739	836
Other sectors	113	414	12	13
Other transfers	849	1145	751	849
Current account surplus (+) / deficit (-)	143	-576	-331	-145

Source: Statistics Faroe Islands

Landsbanki Føroya's financial assets

Table 8

<i>Million DKK</i>	2007	2008	2009	2010
Total financial assets	2,910	2,764	2,407	2,473
- of which abroad	1,941	1,671	1,623	1,883

Source: Landsbanki Føroya

Auditing procedures

The annual national budget of the Faroe Islands is approved by the Faroese Parliament before 1 January in the relevant national budget year. 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.

Trends

In addition to the estimates of the future trend in the Faroese economy as specified in the description above, the financial crisis and the uncertainty regarding the global economy make it more difficult than usual to evaluate the outlook for the Faroese economy. The economic trend in 2011 can only to a certain extent be seen as a continuation of previous developments. The financial institutions are expected to be cautious in granting loans as a consequence of the slowdown in the domestic and global economy, together with higher financial costs. This will be relevant to both households and the business sector.

Arranger and adviser

Nordea Bank Danmark A/S and Landsbanki Føroya are the arrangers of the issue of the Notes, and have acted as advisers to the Government of the Faroe Islands in the preparation of this Prospectus.

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:

Landsbanki Føroya, the Governmental Bank

- Economic Assessment (published annually)
 - Economic Outlook 2011 and 2012 (published 10 March 2011)
- Information Memorandum, (published annually)
 - Information Memorandum 2009 (published November 2009)
- Moody's Investors Service's latest rating documents concerning the Government of the Faroe Islands (published April 2011)

On the website of Landsbanki Føroya, there will also be an overview of various economic indicators available.

Website: www.landsbankin.fo

Hagstova Føroya, Statistics Faroe Islands

Comprehensive statistical database covering demographic, business and economic statistics etc. Additional information in the booklet: Faroe Islands in figures 2009.

Website: www.hagstova.fo

Fíggjarmálaráðið, the Ministry of Finance

The public budget and account (in Faroese only)

Website: 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

Løgmansskrivstovan, Prime Minister's Office

Information about political matters in the Faroe Islands

Website: www.tinganes.fo

The High Commissioner of the Faroe Islands

Annual report on the Faroe Islands (in Danish only)

Website: www.rigsombudsmanden.fo

II. REGISTRATION DOCUMENT

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1. Risk factors

Prospective investors should read this Prospectus carefully. Investing in the Notes involves certain risks factors that may affect the Issuer's ability to fulfil its obligations under the Notes to the investors, and which the investor should take into consideration prior to deciding to make an investment in the Notes. Most of the risk factors mentioned below are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of such contingencies occurring. The following is not intended as, and should not be construed as, an exhaustive list of relevant risk factors. There may be other risks that a prospective investor should consider that are relevant to the investor's own particular circumstances or generally. Investors should consider, among other things, the following.

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.

The economic outlook is affected by the government deficit of approximately DKK 500 million in the budget for 2011. However, it is estimated that most industrial groupings in the economy can expect to contribute to growth in GDP at current prices in 2011 and 2012.

Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. This dependence on a resource-based industry is evident in the export figures, of which fish products account for about 91% of the export value. 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 unemployment rate has risen significantly, from 1.3% on average in 2008 to 7.8% in January 2011. Landsbanki Føroya expects the unemployment rate to fall again in 2011 to about 6% on average and falling further in 2012.

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

As a food-exporting country, the effects on the Faroese economy from the global economic recovery are expected to be relatively limited compared to most other and larger industrialised economies.

The Faroese demersal fish stocks are in a weak but somewhat improving state and the catches will contribute to an improvement in government revenues and to a reduction in the government budget deficit in 2011 and 2012.

The Faroese economy has been affected less by the financial crisis than other larger economies with which it cooperates and with which goods and services are traded. The direct effects are more linked to the decline in the real economy of the trading partners of the Faroese economy. This will probably also be true when the trading partners experience recovering economies.

The changes in the surrounding world affect the Faroese economy in different ways. In 2009 consumer prices decreased greatly after several years of significant increases. This

was also the case for Faroese export prices in 2009, which though recovered to a great extent in 2010. The nature of the Faroese economy makes it very exposed to especially energy and food price changes, and together with a dramatic fall in import this has had a positive effect on the balance of payments.

Eik Banki P/F went bankrupt in September 2010, mainly because of investments in Denmark especially in real estate which were hit hard by the financial crisis there. The bank was restructured by Finansiell Stabilitet A/S and sold to TF-Holding as owner of 70% of the shares. Otherwise the Faroese banks are mainly affected by the international financial crisis through increased financing costs. This has affected their capacity to lend to households and companies in the Faroe Islands. Likewise, the level of equity in securities and fixed assets has fallen considerably since the autumn of 2007. This, together with the uncertainty surrounding the economic outlook has affected households, in that they have reduced consumption and thereby increased savings rates. Late in 2010 households have probably increased their consumption somewhat again and Landsbanki Føroya expects some increase in consumption in 2011 and 2012.

Moreover, when households in major economies increase savings significantly within a short period of time, this first and foremost affects countries that produce raw materials for industrial production as well as industrialised and export-dependent economies producing consumption goods (durable and high-price goods) other than food. It is therefore expected that food-exporting countries will be less affected by falling demand for exports. Food-exporting countries were most likely more affected by falling export prices in the economic crisis following the financial crisis in 2008, while they were expected to be able to sell the unchanged amounts of produced food commodities. The effects of the global economy on the Faroese economy are likely to be firstly that it will become increasingly expensive to borrow money. A deciding factor regarding the effects on the Faroese economy in the near future are balances in the growth of prices among oil, raw materials, manufactured goods and food products. It is not yet clear how this balance will turn out and therefore, it is not easy to predict the effects in the coming years.

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.

After a number of major mergers and acquisitions in recent years, company mergers and acquisitions have come to a stop as a consequence of the global economic crisis having an impact on both market concentration and overall ownership of several industries. It is the opinion of Landsbanki Føroya that structural changes and increased productivity are clear prerequisites for economic growth in coming years.

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.

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.

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.

Aksel V. Johannesen
Minister of Finance
Føroya Landsstýri
Fíggjarmálaráðið
Tórshavn, 20 June 2011

Atli S. Leo
Director
Føroya Landsstýri
Fíggjarmálaráðið
Tórshavn, 20 June 2011

2.2 Statements from the Arrangers

We, Landsbanki Føroya, registered office at Yviri við Strond 15, FO-110 Tórshavn, Faroe Islands, have been the arranger to the Issuer in the preparation of the Registration Document. We have, on behalf of the Issuer, compiled and prepared this Registration Document, having taken all reasonable care to ensure that, to the best of our knowledge, the information contained in the Registration Document, is in accordance with the facts and contains no omission likely to affect its import.

Sigurd Poulsen
Managing Director
Landsbanki Føroya
Tórshavn, 20 June 2011

Jens Erik Magnussen
Deputy Director
Landsbanki Føroya
Tórshavn, 20 June 2011

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Peter Brink Jensen
Senior Analyst
Nordea Bank Danmark A/S
Copenhagen, 20 June 2011

Fredrik Dahlström
Director
Nordea Bank Danmark A/S
Copenhagen, 20 June 2011

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
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Tel: +298 352020
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E-mail: fmr@fmr.fo

The Faroese Parliament (Føroya Løgting):

Tinghúsvegur 1-3
PO Box 208
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Tel: +298 363900
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Landsbanki Føroya, the Governmental Bank:

Landsbanki Føroya
Yviri við Strond 15
PO Box 229
FO-110 Tórshavn
Faroe Islands
Tel: +298 350300
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Nordea Bank Danmark A/S:

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Strandgade 3
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3.3 Recent developments

There have been no recent events, with material effect to the Issuer's solvency, other than already described in this Registration Document.

3.4 Economy

The Faroe Islands are a modern, developed society with a standard of living comparable to other Nordic countries, with disposable income of about 80% of Denmark's according to the Credit Analysis Report from Moody's Investors Service from June 2010 (available at <http://www.landsbankin.fo>. See under Publications). However, the economy is not yet as diversified as in other highly developed countries.

Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. This dependence on a resource-based industry is evident in the export figures, of which fish products account for about 91% of the export value.

Exports (fob) by product

<i>Million DKK</i>	2008	2009	2010	Diff 2009 to 2010 (%)
Cod	605	403	525	-30.4
Haddock	172	99	102	2.6
Pollock	494	573	550	-4.0
Salmon	824	1203	1,338	11.3
Trout	139	175	138	-21.1
Blue whiting	54	31	111	263.2
Herring	152	186	172	-7.5
Atlantic mackerel	175	185	281	51.8
Prawn	117	106	90	-15.2
Other fish products	829	694	901	29.8
Total exports of fish products	3,562	3,655	4,209	15.1
Other products	179	217	180	-16.9
Vessels	604	226	217	-3.8
Total exports of products	4,346	4,098	4,606	12.4

Source: Statistics Faroe Islands

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

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

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

In its publication "Economic Outlook for 2011 and 2012", Landsbanki Føroya expects forecasts GDP growth to be 0.7%% in 2010, 6% in 2011 and 4% in 2012. This increase in expected GDP is due to prospects of improved demersal fisheries in Faroese waters in coming years, as well as an expected increase in private consumption. However, the uncertainty regarding the global economy makes it more difficult than usual to evaluate the outlook for the Faroese economy

The growth rate in total wage expenditure in the Faroe Islands was on average 5.9% for the years 2001 to 2007. The growth in total wage expenditure was above average in 2006 and 2007, while the growth in 2008 was well below average. The decrease in total wage expenditure from 2008 to 2009 was 4.5%, but for 2010 there was a small increase of 1.5%.

Total wage expenditure by business sector

Table 2

<i>Million DKK</i>	2008	2009	2010	Diff 2009 to 2010 (in %)
Fishing	724	576	714	24.0
Aquaculture	153	172	170	-0.9
Fish processing	315	303	315	4.0
Trade and industry, construction and energy etc	1,046	910	861	-5.5
Sales and services, transport, communication etc	2,256	2,116	2,078	-1.8
Public administration and services	2,341	2,440	2,486	1.9
Other	183	185	188	1.5
Total	7,018	6,701	6,811	1.6

Source: Statistics Faroe Islands.

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

In December 2010 there were 24,019 employees in private and public businesses, 51% males and 49% females.

According to a labour survey from November 2007, 81% of the male employees and 51% of the female employees are in full-time employment.

From 2008 to 2010 the number of employees in the fishing industry decreased about 15%, while in the construction sector, the number of employees decreased 22% during this same period.

Towards the end of 2010 unemployment was greatly affected by the bankruptcy of Faroe Seafood, the largest fish processing company on the Faroe Islands. Thus there has been a significant increase in unemployment during the last 2 years. The latest numbers from February 2011 show unemployment at 7.8%

The total number of employees has held steady throughout 2010, thus alleviating fears of escalating migration

INDUSTRIES

Fishery and the fishing industry

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

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

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

2010 has fared somewhat better than 2008 and 2009, despite catches in Faroese waters were low compared with historical figures. Cod landings were app. 14,000 tonnes in 2010 compared with average yearly landings of app. 23,000 tonnes since 1961. Haddock landings were 5,000 tonnes in 2010 compared with average yearly landings of app. 17,000 tonnes since 1957. Saithe landings were app. 40,000 tonnes in 2010, which is close to average catches since 1961. In the 4th quarter of 2010 and in early 2011 saithe fisheries have been very poor.

In 2007, the total Faroese catch was 582,000 tonnes, in 2008 it was 521,000 tonnes and in 2009 it was 351,922 tonnes. The large reduction from 2008 to 2009 is due to significant reductions in quotas for pelagic species. Of the total catches, wet fish accounted for about 112,000 tonnes in 2008 which were mainly fished in Faroese waters. Of the total cod catches in 2008, nearly 65% were fished in foreign fishing areas like the Barents Sea and East Greenland. This is mainly caused by a significant fall in the catches of cod in Faroese waters over the last three years. Most of the cod fished in foreign waters is caught by big filleting trawlers.

On-land fish industry

After the economic crisis in 1992, the on-land fish industry went through a restructuring process, and the number of plants was reduced to fewer, bigger or more specialised plants. The filleting factories produce a range of fresh, iced and frozen products to the retail and food service markets. About 34% of the total fish export value in 2010 was fresh, frozen or salted fillets: DKK 455 million in cod fillets, DKK 30 million in haddock fillets, DKK 503 million in saithe fillets, salmon fillets DKK 424 and other species DKK 185 million. The fish fillet plants depend on a stable supply of raw material. This has led to vertical integration of some plants and ships. Other smaller factories produce more specialised fish products.

2010 has again seen major restructuring in the on-land fish industry in the wake of the bankruptcy of Faroe Seafood, the largest fish processing company on the Faroe Islands. 6 processing plants have been sold to new owners and at present only 1 is up and running again.

Exports of fried fishmeal and fish feed produced from pelagic species were 13,407 tonnes in 2010 compared to 10,634 tonnes in 2009. The export value was DKK 113 million in 2010 compared to DKK 80 million in 2009.

Aquaculture

The fish farming industry is relatively new in the Faroe Islands. Farming of salmon and trout started in the early 1980s and has since emerged as the second-largest export industry in the Faroese economy. Production has been volatile over the years, and the

industry is currently in a redevelopment phase. The harvest in 2004 was much less than previous years – around 37,000 tonnes. The harvest took a new plunge in 2005 with 19,000 tonnes. The fish farming industry is now in a more positive development stage. The industry seems to have successfully fought the fish disease plague and production is growing.

Industry estimates are that app. 60,000 tonnes will be harvested in 2011 compared with 47,000 tonnes in 2010. The quantity of new stocks released in the coming 2 to 3 years will increase compared with previous years, which means that the harvest is likely to be app. 60-70,000 tonnes for the next 2 to 3 years. The price of farmed fish is high and it is uncertain how long current market prices can be maintained. This depends on the quantity of Chilean exports of farmed fish on the market. Based on current market prices the export value of Faroese farmed fish was app. DKK 1.4 billion in 2010. This corresponds to about 30% of total Faroese exports.

Compensation of employees in the aquaculture industry was DKK 152 million in 2008, DKK 171 million in 2009 and DKK 170 million in 2010.

Construction

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

The contraction in the Faroese economy during 2008 and 2009 had grave implications for the construction industry, where employment fell. From January 2008 to January 2010 employment fell about 23%, but has held steady since. Increased difficulties in obtaining funding for new investments due to the financial crisis and the poorer economic outlook may have caused problems for new investments, and this contributed to the slowdown in the construction industry from late 2008. Now governmental projects and the municipality of Tórshavn are major drivers in the demand for construction.

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.

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

Both passenger and cargo transport are provided daily to all but two of the inhabited islands and most villages. Ferries and helicopter services are available to the islands that are not directly linked to the road system, and bus service is the most common form of transport for all other areas. As of 1 January 2010, there were 19,873 registered private cars, equivalent to 4.10 cars per 1,000 inhabitants.

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

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 2010, 199,998 passengers travelled through Vagar airport which is 1.7% less than in 2009.

On 1 May 2007, Vagar Airport was taken over from the Danish authorities by a Faroese public limited company. A building project budgeted at DKK 365 million will offer better transit facilities, and the runway will be extended to 1.6 km. The project is financed by the decapitalisation of the Investment Fund (Íleggjargrunninum) by a corresponding amount. Construction is currently underway and is progressing according to schedule.

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. 56,566 passengers travelled to the Faroe Islands by sea in 2009, which are 7,800 fewer passengers than in 2008. In 2010 60,661 passengers travelled to the Faroe Islands by sea. The limited company Smyril Line which runs *Norröna* was restructured in November 2008 with a 70% write-down of existing shares, DKK 40 million in new share capital (DKK 30 million from the government), conversion of DKK 30 million of subordinated loans to equity and new loans of DKK 26 million. The business model has been changed in such a way that the ferry only sails between Iceland, the Faroe Islands and Denmark from 1 January 2009.

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

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

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

Telecommunications

At the end of 2008 there were about 20,100 ordinary fixed network telephone subscriptions. The number of fixed network subscriptions has been falling for some years now. Two telephone companies, Faroese Telecom and Vodafone, have market shares of 80% and 20%, respectively. Mobile telephone subscriptions totalled 54,860 in 2008. The use of mobile technology has increased significantly in recent years. For outgoing domestic mobile traffic the market shares in the second half of 2008 were 66% for Faroese Telecom and 34% for Vodafone. The figures for outgoing international mobile traffic were 76% for Faroese Telecom and 24% for Vodafone.

Some minor companies also operate in the telecommunications sector.

Broadband coverage is high (well over the OECD average) with 14,878 subscribers in 2008 or 30 subscribers per 100 inhabitants.

In 2009 there were about 16,000 satellite or cable television subscribers.

Viewers and listeners of television and radio by the Faroese Broadcast Company (Kringvarp Føroya) are required to pay a licence fee if they have a receiving set.

The Postal and Telecom Surveillance Authority's (www.fse.fo) telecom statistics for the first half of 2009 are the sources for the description of the telecommunication sector.

Tourism

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

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

About 116,000 tourist stays were registered in the Faroe Islands in 2006. About 75% of the total stays were foreign visitors, mostly from Scandinavian countries. From 2005 to 2006 the number of overnight visitors from foreign countries increased by about 19%.

Recent indications from the tourism industry are that growth has come to a temporary standstill.

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

Oil

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

So far the explorations have discovered no commercial findings, but they have showed the presence of an active hydrocarbon system in Faroese subsurface. The influence from the oil industry has not yet had the economic effect that was expected when the explorations first took place. Expectations have become more moderate, as fewer oil companies were interested when the third licensing round was held in November 2008. At present oil companies hold 11 licences. Three consortia applied for licences in the third round. Recent reports suggest some exploration activities.

It is difficult to estimate the outlook for future activity. Oil and gas exploration in the Faroese subsoil will continue in new areas in the coming years, and expectations are still kept alive. Exploratory wells are to be drilled in 2011.

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 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 year for the sector. In 2008 and 2009 there were significant losses in the major banks, only P/F BankNordik showed profit in both 2008 and 2009. The situation deteriorated further during 2010, culminating with the bankruptcy of Eik Banki P/F in the fall of 2010.

Balance sheets in the banking sector are still affected by the fact that they heavily increased borrowings on the European capital markets in the years between 2004 and 2007 and by the fact that they have been part of the Danish State's Financial Guarantee Scheme since the international financial crisis of 2008. The Guarantee Scheme was at first a general guarantee for all Danish financial institutions, which then was turned into an individual guarantee where financial institutions upon application were granted hybrid capital and a State guarantee at a cost. The former Eik Banki P/F also received a capital injection and the parts of the bank's business that were in poor condition have been acquired by the Financial Stability Company, including all activities in Denmark. The State guarantee is similar to the guarantees that have been granted banks in most western countries. Currently, it is planned that banks in the Danish Realm are to be able to stand alone without the state guarantee scheme from the second half of 2013 and onwards.

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

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

The new Eik Banki Føroya P/F has continued its operations throughout the turmoil, and the conclusion of the sale process will serve to stabilize the Faroese Financial sector.

The formerly publicly owned P/F BankNordik has shown good profits in 2006, 2007 and 2008 from operations. Somewhat surprisingly, P/F BankNordik managed to display a pre-tax profit of DKK 100 million in 2008. For the year 2009 P/F BankNordik has presented pre-tax profit of 135 million, and in 2010 pre-tax profits were DKK 416 million. The result in 2010 is positively affected by the sales of shares in P/F Bakkafrost, the largest fish farming company on the Faroe Islands. This sale contributed about DKK 318 million to pre-tax profits. The reason that P/F BankNordik has escaped the financial crisis relatively unscathed is 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. In an attempt to move activity abroad, P/F BankNordik has acquired 12 branches in Denmark and Greenland in 2010 as well as buying into an Icelandic Insurance Company. P/F BankNordik is comprised by the state guarantee scheme and

has received a DKK 204 million capital contribution (hybrid capital) under the transition scheme. The Government of the Faroe Islands sold two-thirds of its shares in P/F BankNordik when the bank was listed in 2007, but the Government of the Faroe Islands still holds one-third of the shares. See www.banknordik.fo for more information.

P/F BankNordik was rated by Moody's Investors Service on 16 February 2011. Moody's Investors Service downgraded P/F BankNordik's long term deposit rating by one notch from A3 to Baa1 and placed the long term deposit rating and the P-2 short-term bank deposit on review for possible downgrade. P/F BankNordik is listed on NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S.

Two small banks, Norðoya Sparikassi and Suðuroyar Sparikassi, complete the Faroese banking sector. With DKK 31 million in pre-tax profits in 2006 and DKK 30 million in 2007, Norðoya Sparikassi suffered a loss of DKK 64 million in 2008, which to a large degree stems from losses in the local fishing industry, situated in and around Klaksvík, the second-largest city in the Faroe Islands. For the year 2009 Norðoya Sparikassi has presented a net deficit of DKK 46 million. (Figures for 2010 are forthcoming)

The smallest bank, Suðuroyar Sparikassi with DKK 2 million in pre-tax profits in 2006 and DKK 4 million in 2007, just about broke even in 2008. For the year 2009 Suðuroyar Sparikassi has presented a pre-tax profit of DKK 1.7 million and in 2010 it presented a loss of DKK 2.6 million.

See their respective websites: www.ns.fo and www.sparsu.fo.

According to the 2008 report on the Faroe Islands by the High Commissioner of the Faroe Islands (page 75), the total profit in the Faroese banking sector was DKK 507 million in 2006 and DKK 652 million in 2007, which was the best result ever. However, things changed drastically in 2008 when the sector went into the red with a total deficit of DKK 215 million, caused by heavy losses by Eik Banki P/F and Norðoya Sparikassi. In 2009 the total deficit was DKK 228 million. The 2010 report (in Danish only) can be found on the website of the High Commissioner of the Faroe Islands: www.rigsombudsmanden.fo.

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

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

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

Deposit Guarantee Fund

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

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.

The Faroese Securities Market

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

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

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

Currency

The currency of the Faroe Islands is the Faroese króna, and is issued by Danmarks Nationalbank, the Danish central bank. 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 Gross domestic product

National income, expenditure and savings

Table 3

Million DKK	2006	2007	2008	2009
Gross domestic product	11,716	12,402	12,303	12,100
+ Wages and salaries from abroad	362	408	476	513
- Wages and salaries to abroad	139	182	209	168
+ Property income from abroad	525	601	463	110
- Property income to abroad	449	533	727	544
National income, gross	12,013	12,697	12,305	12,011
+ Current transfers from abroad	977	1,275	879	932
- Current transfers to abroad	128	130	128	83
National disposable income, Gross	12,862	13,842	13,056	12,860
- Final consumption expenditure	10,100	10,528	10,849	10,858
Savings, gross	2,763	3,313	2,207	2,002
- Gross capital formation	2,771	3,890	2,538	2,148
Net lending (+) / Net borrowing (-)	-8	-577	-330	-145

Source: Statistics Faroe Islands. The GDP figures for 2009 are preliminary.

3.6 Description of the Issuer's political system and government

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

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

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

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

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

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

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

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

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

Head of the Government of the Faroe Islands

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

Present government

The Government of the Faroe Islands (Føroya Landsstýri) consists of at least two Cabinet Ministers led by the Prime Minister. On 6 April 2011 the cabinet was reduced from nine to six ministers, including the Prime Minister. The Government of the Faroe Islands coalition is currently made up of representatives from the Unionist Party and the Social Democrats, which form a minority government. The People's party left the coalition in April 2011 and new elections are to be held on 19 January at the latest.

4. Public finance and trade

4.1 The tax and budgetary systems

Income taxes

Income tax levied by the Customs and Tax Administration is calculated on a sliding scale, with various allowances having the highest marginal rate of 35% in 2011. However, municipal taxes are calculated on a fixed rate.

A gross tax system was introduced in 1997. This means that instead of providing for tax deductions, specific subsidies are allowed to compensate for certain expenses. The basic personal allowance is DKK 30,000, which can be transferred between husband and wife.

Municipal taxes are assessed using the same calculation of income as that of the Customs and Tax Administration, except that a flat tax rate is used. The economic situations of the municipalities differ greatly. In 2010, municipal taxes ranged from 16% to 23.5%. On average, the tax is 21.37%. For each child under 18 years the annual income is reduced by between DKK 3,000 and DKK 6,500 depending on the municipality in which one resides.

Members of the National Church also pay church tax, on average 0.66%.

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 special tax based on total wages and salaries pay – financial services companies pay 10% and private sector health services pay 2.5%.

Shipping firms with ships registered in the Faroese International Ship Register (FAS) will get back 30% of wages and other payments made to persons liable to pay taxes in the Faroe Islands.

A new tax was introduced in 2011, which targets companies in the primary sector, namely fishery- and fish farming companies. The tax applies to pre-tax profits of DKK 1 million and above and is set at 2.5% in 2011, which is expected to raise DKK 25 million. This tax is seen as a first step in introducing resource based taxes in the primary industry.

Capital gains tax

Interest on deposits in Faroese banks is not included in the income subject to income tax. Instead, a yearly tax of 38% 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. The capital gains tax is set to fall to 35% in 2014.

Customs and VAT

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

The budgetary system

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

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

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

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

Capital expenses in 2010 were DKK 237 million of which construction of fixed capital were DKK 138 million and lending were DKK 81 million. The majority of the investments were allocated to education, health, transport and communication. Most of the lending was to municipalities for finance of construction in social security.

Operating expenses in 2010 were DKK 5,686 million, of which compensation of employees was DKK 2,189 million, transfers were DKK 1,971 million and other operating expenses were DKK 1,526. The governments operating revenues in 2010 were DKK 5,317 million. Income and corporate taxes were DKK 1,922, VAT and other indirect taxes were DKK 1,810 million, transfers from the Danish state were DKK 669 million and other revenues (mainly sales of goods and services) were DKK 693 million.

The government accounts showed a deficit of about DKK 562 million in 2010.

4.2 Gross public debt

Central government assets and liabilities

Table 4

<i>Million DKK</i>	2007	2008	2009	2010
ASSETS				
Deposits in Landsbanki Føroya	2,467	2,158	1,551	1,882
Others in circulation	959	841	1,062	1,204
Fixed assets	1,767	2,283	2,358	2,385
Total assets	5,193	5,282	4,972	5,470
LIABILITIES				
Long-term debt (Kingdom of Denmark)	500	500	500	500
Bond loan	2,160	2,119	2,707	3,726
Other debt	719	971	695	741
Total debt	3,379	3,590	3,903	4,967
Net assets	1,814	1,692	1,069	503

Source: Landsbanki Føroya

Outstanding bonds

Table 5

<i>Million DKK</i>	Annual coupon	Maturity date	Present structure	Structure after 22 June 2011
FO-LB 160622 Bit	Floating Rate	22-Jun-16	-	1,350
FO-LB 140407 Bit	3.125%	07-Apr-14	1,650	1,650
FO-LB 120611 Bit	2.00%	11-Jun-12	1,900	1,225
FO-LB 180610 Ann	3.50%	10-Jun-18	127	127
Outstanding bonds			3,677	4,352

Source: Landsbanki Føroya

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>	2006	2007	2008	2009
Goods	-600	-1227	-457	74
Services	-554	-788	-626	-980
Goods and services	-1,154	-2,015	-1083	-905
Wages	222	226	267	345
Rents	226	69	-265	-434
Income transfers	448	294	2	-89
Government sector	736	731	739	836
Other sectors	113	414	12	13
Other transfers	849	1145	751	849
Current account surplus (+) / deficit (-)	143	-576	-331	-145

Source: Statistics Faroe Islands

4.4 Foreign exchange reserves

Landsbanki Føroya does not hold specific foreign exchange reserves, as the Faroe Islands are part of the Danish currency area. However, part of Landsbanki Føroya's financial assets is 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.

Landsbanki Føroya's financial assets

Table 7

<i>Million DKK</i>	2007	2008	2009	2010
Total financial assets	2,910	2,764	2,407	2,473
- of which abroad	1,941	1,671	1,623	1,883

Source: Landsbanki Føroya

4.5 Income and expenses

Central government accounts

Table 8

<i>Million DKK</i>	Actual 2008	Actual 2009	Actual 2010	Budget 2011
Taxes, direct	1,826	1,750	1,922	1,989
Taxes, indirect	1,934	1,726	1,810	1,867
Transfers from the Danish State	673	663	669	666
Transfers from municipalities and govt inst	164	143	139	108
Fees	73	77	84	79
Other	689	711	693	739
Operating revenues, excl interest	5,359	5,068	5,317	5,447
Compensation of employees	2,036	2,120	2,189	2,265
Transfers	1,959	2,033	1,971	2,079
Other operating expenditures	1,448	1,365	1,526	1,409
Operating expenses, excl interest	5,443	5,518	5,686	5,753
Primary operating balance	-84	-450	-369	-306
Interest income and dividends	168	205	118	80
Interest expenses	131	219	164	112
Gross operating balance	-47	-464	-415	-338
Debt repayment	1,015	1,427	677	15
Net operating balance	-1,062	-1,891	-1,092	-353
Sale of fixed assets	11	7	4	20
Sale of shares	0	0	0	65
Repayments of loans	24	22	86	20
Privatisation / decapitalisation	414	0	0	0
Intergovernmental revenue	65	100	0	200
Total capital revenues	515	129	90	305
Construction of fixed capital	217	163	138	214
Acquisition of fixed capital	11	26	17	22
Injection of cap. into publ. LDT's	542	150	0	200
Lending	327	15	81	34
Total capital expenses	1,097	353	237	470
Financing surplus/deficit	-630	-688	-562	-503

Source: Faroese government accounts

4.6 Auditing procedures

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

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

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

5. Significant changes

In the opinion of the Issuer there have been no significant changes to the information in the Registration Document, Section 4 above, since the end of the last fiscal year 2010, 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.

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

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

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

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

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

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:

Landsbanki Føroya, the Governmental Bank:

- Economic Assessment (published annually)
 - Economic Outlook 2011 and 2012 (published 10 March 2011)
- Information Memorandum, (published annually)
 - Information Memorandum 2009 (published November 2009)
- Moody's Investors Service's latest rating documents concerning the Government of the Faroe Islands (published April 2011)

On the website of Landsbanki Føroya, there will also be an overview of various economic indicators available.

Website: www.landsbankin.fo (see under Publications).

Hagstova Føroya, Statistics Faroe Islands:

Comprehensive statistical database covering demographic, business and economic statistics etc. Additional information in the booklet: Faroe Islands in figures 2009

Website: www.hagstova.fo

Fíggjarmálaráðið, the Ministry of Finance:

The public budget and account (in Faroese only)

Website: 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

Løgmannsskrivstovan, Prime Minister's Office:

Information about political matters in the Faroe Islands

Website: www.tinganes.fo

The High Commissioner of the Faroe Islands:

Annual report on the Faroe Islands (in Danish only)

Website: www.rigsombudsmanden.fo

III. SECURITIES NOTE

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1. Risk factors

Investors should read this Securities Note carefully. Investing in securities involves certain risks, which the investors should take into consideration prior to deciding to make an investment in the Notes. The Issuer believes that the following risk factors mentioned below are material to the Notes being offered and admitted to trading, 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 material or significant by the Issuer based on information currently available to it or which it may not currently be able to anticipate. The below-mentioned risk factors are contingencies which may or may not occur. In addition, for risk specifically associated with the Issuer, investors are advised to consider the section "Risk factors" in the Registration Document. Investors should consider, among other things, the following.

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, Landsbanki Føroya and Nordea Bank Danmark A/S will aim to maintain a market for the Notes by quoting purchase and sales prices on an ongoing 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.

Aksel V. Johannesen
Minister of Finance
Føroya Landsstýri
Fíggjarmálaráðið
Tórshavn, 20 June 2011

Atli S. Leo
Director
Føroya Landsstýri
Fíggjarmálaráðið
Tórshavn, 20 June 2011

2.2 Statements from the Arrangers

We, Landsbanki Føroya, registered office at Yviri við Strond 15, FO-110 Tórshavn, Faroe Islands, have been the arranger to the Issuer in the preparation of the Prospectus. We have, on behalf of the Issuer, compiled and prepared the Prospectus. We hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Securities Note is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Sigurd Poulsen
Managing Director
Landsbanki Føroya
Tórshavn, 20 June 2011

Jens Erik Magnussen
Deputy Director
Landsbanki Føroya
Tórshavn, 20 June 2011

We, Nordea Bank Danmark A/S, with registered office at Strandgade 3, DK-1401 Copenhagen, Denmark, have been the arranger to the Issuer in the preparation of this Securities Note. We have, on behalf of the Issuer, compiled and prepared this Securities Note. We hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Securities Note is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Peter Brink Jensen
Senior Analyst
Nordea Bank Danmark A/S
Copenhagen, 20 June 2011

Fredrik Dahlström
Director
Nordea Bank Danmark A/S
Copenhagen, 20 June 2011

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:

Landsbanki Føroya, the Governmental Bank:

Landsbanki Føroya
Yviri við Strond 15
PO Box 229
FO-110 Tórshavn, Faroe Islands
Tel: +298 350300
Fax: +298 350301
E-mail: landsbank@landsbank.fo

Arranger and Account Holding Institute:

Nordea Bank Danmark A/S:

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

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

Neither the Arrangers 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:

DKK 350,000,000 for the financing of a deficit in the national budget for 2010 and 2011 and up to approximately DKK 1,000,000,000 for the financing of the repurchase of Føroya Landsstýri 2.00 per cent Fixed Rate Notes due 11 June 2012 (LB-FO 120611) with ISIN code DK0030172812.

The Issuer will bear the costs directly related to the issuance of the Notes. The total costs are expected to amount to approximately DKK 2,991,260, including placing commission and arranging fees. The net proceeds from the issue of the Notes are approximately DKK 1,347,008,740.

Costs incurred at NASDAQ OMX Iceland hf. in relation to the admission for trading and official listing on the main market (Faroese Securities Market) of NASDAQ OMX Iceland hf. will be paid by the Issuer. The costs related to the admission for trading and official listing are ISK 450,000 corresponding to approximately DKK 15,975. The annual expenses for the admission to trading and official listing will be a fixed fee of ISK 165,000 corresponding to approximately DKK 5,857 (a total of DDK 29,285 for the life of the Notes) plus a variable fee of 0.001% of the market value of the Notes.

Costs incurred at NASDAQ OMX Copenhagen A/S in relation to the admission for trading and official listing on the main market of NASDAQ OMX Copenhagen A/S will be paid by the Issuer. The costs related to the admission for trading and official listing are DKK 10,000. The annual expenses for the admission to trading and listing will be approximately DKK 10,600 (a total of DKK 53,000 for the life of the Notes).

Costs incurred at VP SECURITIES A/S and to the Account Holding Institute in relation to the registration of the Notes in the system of VP SECURITIES A/S will be paid by the Issuer. The total costs related to registration of the Notes and fees to VP SECURITIES A/S and the Account Holding Institute are approximately DKK 193,000.

4. Information concerning the Notes

4.1 Description of the Notes

Title of the Notes:	Føroya Landsstýri DKK 1,350,000,000 Floating Rate Notes 22 June 2011 / 22 June 2016
Issue Date:	22 June 2011
Maturity Date:	22 June 2016
Currency:	Danish kroner ("DKK")
Principal Amount per Note:	DKK 1,000
Total Principal Amount:	DKK 1,350,000,000
Interest Rate:	Floating rate determined as 3-months CIBOR + 0.75 per cent margin per annum, with quarterly interest payments.
Issue Price:	100.00 per cent
Class:	The issue of the Notes consists of only one class
ISIN:	DK0030277249
INET code	FO-LB 160622 (NASDAQ OMX Iceland hf.)
Saxess code:	FO-LB JUN16 (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, 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. 298 of 8 April 2011 and Government Regulation no. 369 of 14 May 2009 regarding registration of fund assets in a securities centre. For the avoidance of doubt, Notes registered with VP SECURITIES A/S are negotiable instruments not subject to any restrictions on the free negotiability within the Kingdom of Denmark, under Danish Law.

4.4 Currency of the Notes

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

4.5 Status of the Notes

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

4.6 Rights etc.

Redemption by the Issuer

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

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.

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.

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.

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) 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.

Force majeure

The Government of the Faroe Islands 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 Government of the Faroe Islands be liable for any loss caused by strikes, lockouts, boycotts or blockades, whether or not the Government of the Faroe Islands itself is a party to the dispute, and notwithstanding that the dispute may affect only part of the functions of the Government of the Faroe Islands. Nor shall the Government of the Faroe Islands be liable for any loss arising from any overdue payment caused by the above events.

Charging

As long as any of the Notes are outstanding, the Government of the Faroe Islands 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 22 June 2011 to but excluding the 22 June 2016.

The interest rate (the "Interest Rate") payable from time to time in respect of the Notes will be determined on the basis of the Reference Rate (as defined below) plus a margin of 0.75 per cent. per annum (the "Margin").

Interest Payment Dates

Interest is payable on 22 March, 22 June, 22 September and 22 December in each year, from and including 22 September 2011 to and including 22 June 2016 (each an "Interest Payment Date"), provided however, that if any Interest Payment Date would otherwise fall on a date (a "Scheduled Interest Payment Date") which is not a business day, 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"), it will be postponed to the next Business Day (Following Business Day Convention).

Interest Amount

The interest amount payable per Note on each Interest Payment Date (the "Interest Amount") shall be determined by applying the applicable Interest Rate to the Principal Amount of a Note, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 (ACT/360 day count fraction).

Where the interest amount is to be calculated for a period including an incomplete month, such interest amount shall be calculated applying the applicable Interest Rate to the Principal Amount of a Note multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 (ACT/360 day count fraction).

Interest Period

The first interest period shall be the period from (and including) the Issue Date to (but excluding) the first Scheduled Interest Payment Date being 22 September 2011; and with respect to the subsequent interest periods, the period from (and including) a Scheduled Interest Payment Date to (but excluding) the next Scheduled Interest Payment Date (each an "Interest Period").

Determination of Interest Rate

The Interest Rate is determined by Nordea Bank Danmark A/S acting as calculation agent (the "Calculation Agent"), two (2) Business Days before the commencement of each Interest Period (each an "Interest Determination Date"). However, with respect to the first Interest Period from (and including) 22 June 2011 to (but excluding) 22 September 2011, the first Interest Determination Date will be the 15 June 2011. On each Interest Determination Date, the Calculation Agent or its duly appointed successor, will determine the Reference Rate as soon as practicable after 11.00 a.m. (CET), as the Reference Rate plus the Margin.

The Reference Rate is the 3-months CIBOR interest rate referring to the interest rate for liquidity offered in the Danish inter-bank market on an uncollateralised basis with a maturity of three months. 3-months CIBOR is published by NASDAQ OMX Copenhagen A/S on a daily basis at approximately 11.00 a.m. (CET).

If Reference Rate for any reason is unavailable on an Interest Determination Date, the Calculation Agent shall determine the Reference Rate for that Interest Period, as the arithmetic mean of the rates for loans in the Danish inter-bank market with a maturity of three months quoted by larger Danish commercial banks selected in the reasonable commercial opinion by the Calculations Agent (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards).

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.

Accrued Interest

The Notes shall be traded with accrued interest. Over the life of the Note, accrued interest shall be the Interest Rate applicable from time to time. Accrued interest shall be calculated on the basis of actual number of days divided by 360 (ACT/360 day count fraction).

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 22 June 2016 (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

Not applicable

4.10 Representation of noteholders

There is no representation of the noteholders.

4.11 Authorisation

The Notes are issued in accordance with authorisation given by the Faroese Minister of Finance on 10 June 2011.

4.12 Issue Date

The Notes will be issued on 22 June 2011 (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.

Investors located in the Faroe Islands

Resident individuals in the Faroe Islands are subject to 38% tax on capital gains payments in 2011. The tax rate on capital gains will decrease one percentage point in each year until 2014 where the tax rate will be 35%.

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

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

According to current legislation all payments of interest on the Notes will be made without withholding or deduction tax (coupon tax) on the Faeroe Islands. In the event that withholding or deduction tax is required by law on the Faeroe Islands, the Government of the Faroe Islands will withhold such tax before paying interest to the noteholders registered. In such case, the Issuer will not compensate the noteholders.

Any interest due for payment as well as possession, repayment and transfer of the Notes will be reported by the relevant custodian bank to the Danish tax authorities in accordance with the applicable tax rules.

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 1,350,000,000 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 22 May 2016.

5.2 Placing and underwriting

Nordea Bank Danmark A/S and Landsbanki Føroya (the "Arrangers") have arranged for the Notes to be purchased by a group of institutional investors.

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

5.3 Issue Price

The Notes are being issued at a price of 100.00 per cent.

5.4 Payment and settlement

Payment and settlement of the Notes will be effected three business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 22 June 2011. 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. acting on behalf of the Financial Supervisory Authority – Iceland (FME) as the competent authority in Iceland for the purpose of the Directive 2003/71/EC (the Prospectus Directive) and the relevant laws and regulations for approval of the Prospectus. NASDAQ OMX Iceland hf. has scrutinised and approved this Prospectus, which is only published in English. 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 22 June 2011.

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 the 22 June 2011. 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 22 June 2011.

7. Additional information

7.1 Audit of information

The Issuer's auditors have not audited the information contained in this Prospectus.

7.2 Rating

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

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.

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

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

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

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

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