

# PROSPECTUS



## FØROYA LANDSSTÝRI

THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 300,000,000 1.00 PER CENT

FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

ISSUED UNDER AND TO BE CONSOLIDATED AND FORM A SINGLE  
SERIES WITH THE DKK 1,045,000,000 1.00 PER CENT FIXED RATE  
NOTES DUE 11 JUNE 2020 ISSUED ON 11 JUNE 2015, ISIN  
DK0030361894

This Prospectus is published on 18 June 2019.

The Føroya Landsstýri (the "Issuer" or the "Government of the Faroe Islands") will issue notes in order to increase the DKK 1,045,000,000 1.00 per cent Fixed Rate Notes due 11 June 2020, ISIN DK0030361894 by way of a tap issue of DKK 300,000,000 1.00 per cent Fixed Rate Notes due 11 June 2020 each with a Principal Amount per Note of DKK 1,000 (the "Notes") to be consolidated and form single series with the DKK 1,045,000,000 1.00 per cent Fixed Rate Notes due 11 June 2020 issued on 11 June 2015, ISIN DK0030361894 (the "Initial Notes"). The Notes are issued on a fully paid basis at an issue price of 101.3288 per cent. of the Total Principal Amount plus accrued interest from 11 June 2019.

The Notes will constitute direct, general and unconditional obligations of the Issuer.

The Notes issued shall benefit from and be subject to these terms and conditions and, for the avoidance of doubt, the ISIN, the Interest Rate, the nominal amount and the Maturity Date as those applicable to the Initial Notes. The Notes shall entitle the holder to Interest from and including the immediately preceding Interest Payment Date in accordance with Section 4.7 of the Securities Note, and otherwise have the same rights as the Initial Notes.

Application has been filed with Nasdaq Iceland hf. for the trading and official listing of the Notes on the main market of Nasdaq Iceland hf. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Iceland hf. is expected to have effect from 20 June 2019.

The Prospectus is expected to be passported to the Kingdom of Denmark prior to 20 June 2019. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with Nasdaq Copenhagen A/S for the trading and official listing on the main market of Nasdaq Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Copenhagen A/S is expected to have effect from 20 June 2019.

The Prospectus was prepared for the primary official listing and trading on the main market of Nasdaq Iceland hf. and the main market of Nasdaq Copenhagen A/S, respectively.

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

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

This Prospectus is available at the following locations: Nordea Danmark, Filial af Nordea Bank Abp, Finland, Grønlandsvej 10, DK-2300 Copenhagen S, Denmark (the "Arranger") and Landsbanki Føroya, Kvíggjartún 1, FO-160 Argir, Faroe Islands.

The Prospectus may also be obtained from the website: <https://landsbankin.fo/en-gb/liquidity-and-debt/debt/prospectus-for-current-loans>

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

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

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

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

This Prospectus may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may be subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1980 and the regulations thereunder), except pursuant to an

exemption from, or in a transaction not subject to the registration requirements of, the U.S. Securities Act and applicable state or local securities laws.

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate and (iii) the following channels for distribution of the Notes to retail clients are appropriate - investment advice, portfolio management, and non-advised sales or execution with appropriateness test, subject to the distributor's (as defined below) suitability and appropriateness obligations under MiFID II, as applicable. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable.

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

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

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

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### SUMMARY

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

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

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

<b>Section A – Introduction and warnings</b>		
A.1	Introduction and warnings	<p>The Issuer informs potential investors that:</p> <ul style="list-style-type: none"> <li>• this summary should be read as introduction to the Prospectus;</li> <li>• any decision to invest in the Notes should be based on consideration of the Prospectus as a whole by the investor;</li> <li>• where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Faroe Islands, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and</li> <li>• civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Notes.</li> </ul>
A.2	Consent	Not applicable

<b>Section B – Issuer</b>		
B.17	Issuer ratings	<p>The Notes have not specifically been rated by a rating agency.</p> <p>The Faroe Islands hold a foreign currency rating of Aa3 with stable outlook assigned by Moody's Investors Service.</p>
B.47	Description of the issuer	<p>The Government of the Faroe Islands (Føroya Landsstýri). The Faroe Islands are a self-governing country within the Kingdom of Denmark which also comprises Greenland.</p> <p>The Faroe Islands legislate and govern a wide range of areas in accordance with the Faroe Islands Home Rule Act no. 137 of 23</p>

	<p>March 1948 (the "Home Rule Act"). Certain matters are to remain the responsibility of the Danish Government as long as the Faroe Islands are part of the Kingdom of Denmark.</p> <p>The Faroe Islands are not a member of the European Union.</p> <p>The Faroe Islands are a modern, developed society with a standard of living comparable to other Nordic countries. Fishery, fish farming and related industries are of major importance to the economy of the Faroe Islands. The dependence on a resource-based industry is evident in the export figures, of which fish products account for more than 90% of the export value of goods.</p> <p>In the aftermath of the financial crisis in 2008, the total employment fell from 25,641 in 2008 to 23,345 in 2011, (approx. 9%). The employment was since stable for a number of years but has increased from 23,775 in October 2013 to 27,149 in February 2019, which is an increase of 3,374 (approx. 14.2%), so it is now 5.5% over the pre-crisis level.</p> <p>Unemployment rose significantly from 3.9% during 2009 and 2010 to 7.5% in February 2011. The unemployment rate has since been reduced to 1.2% in January 2019.</p> <p>Several large public construction projects are currently ongoing, e.g. the sub-sea tunnel to Eysturoy, which will have an estimated cost around DKK 1.5 billion. In the pipeline is also a subsea tunnel to Sandoy, with an estimated cost around DKK 1.1 billion, which is due to start in 2020. Because of the relatively high construction activity on the Faroes Islands a substantial number of foreign construction workers are now employed by Faroese companies.</p> <p>In 1992, the Danish Government agreed to transfer the rights to mineral resources in the subsoil of the Faroe Islands to the Government of the Faroe Islands. So far, the explorations have discovered no commercial findings, but they have showed the presence of an active hydrocarbon system in the Faroese subsurface. The influence from the oil industry has so far had a limited economic effect and expectations have become more moderate.</p> <p>The financial market in the Faroe Islands is served by four banks – Betri Banki P/F (former Eik Banki P/F), P/F BankNordik, Norðoya Sparikassi and Suðuroyar Sparikassi.</p>
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B.48

Public  
finance and  
trade  
information

According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 3.3% in 2017, while the average increase in the consumer price index was 1.1% from 2016 to 2017. The Economic Council and Statistics Faroe Islands estimate that economic growth will be approx. 2.4% in 2018.

The central government accounts show a surplus of DKK 692 million in 2018 (3.5% of GDP), whereas the budget for 2019 indicates a surplus of DKK 370 million.

<b>Central Government Accounts Million DKK</b>	<b>Realized 2017</b>	<b>Realized 2018</b>	<b>Budget 2019 <sup>1)</sup></b>
Taxes, direct	2,716	2,869	2,921
Taxes, indirect	2,333	2,403	2,469
Transfers from Denmark	698	695	687
Sales of goods and services	743	706	710
Revenue from fees	574	539	601
Other	39	44	61
<b>Operating revenues, ex. interest</b>	<b>7,103</b>	<b>7,256</b>	<b>7,449</b>
Personel cost	-2,277	-2,392	-2,559
Transfers to individuals	1,721	-1,782	-1,820
Other transfers	-494	-489	-496
Purchase of goods and services	-1,445	1,476	-1,419
Other expenses	-472	480	-456
<b>Operating expenses, ex. interest</b>	<b>-6,409</b>	<b>-6,619</b>	<b>-6,750</b>
<b>Primary Operating Balance</b>	<b>694</b>	<b>637</b>	<b>699</b>
Interest income and dividends	221	2	93
Interest expenses	-80	-24	-44
<b>Operating Balance</b>	<b>835</b>	<b>615</b>	<b>748</b>
Sale of fixed assets	26	22	35
Sales of shares	-	-	-
Repayments of loans, domestic	48	21	15
Capital revenues from Denmark	-	500	-
<b>Total capital revenues</b>	<b>74</b>	<b>543</b>	<b>50</b>
Construction of fixed capital	-296	-407	-371
Acquisition of fixed capital	-20	-16	-14
Injection of cap. into publ. Ltd.'s	-35	-35	-35
Net lending, domestic	-19	-8	-8
<b>Total capital expenses</b>	<b>-370</b>	<b>-466</b>	<b>-428</b>
<b>Budget surplus/deficit</b>	<b>539</b>	<b>692</b>	<b>370</b>
Debt repayment	-1,010	-10	-700
<b>Gross financing surplus/deficit</b>	<b>-471</b>	<b>682</b>	<b>-330</b>
New borrowing	1,000	-	300
<b>Net financing surplus/deficit</b>	<b>529</b>	<b>682</b>	<b>-30</b>

1) Government Budget Act as approved by the parliament in December 2018.

2) For the fiscal year 2019, appropriations transferred from 2018 are DKK 79 m.

**Central government assets and liabilities**



		<b>Million DKK</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
		<b>ASSETS</b>			
		Securities and deposits <sup>1</sup>	2,905	3,479	3,667
		Others in circulation	533	587	521
		Financial assets	2,103	2,164	2,089
		<b>Total assets</b>	<b>5,541</b>	<b>6,230</b>	<b>6,277</b>
		<b>LIABILITIES</b>			
		Long-term debt (Denmark)	500	500	0
		Bond loan	4,334	4,644	4,608
		Other debt	917	988	864
		<b>Total debt</b>	<b>6,051</b>	<b>6,132</b>	<b>5,472</b>
		<b>Net assets</b>	<b>-510</b>	<b>98</b>	<b>805</b>
		<b>Source: Landsbanki Føroya</b>			
		1) Including liquidity for appropriations transferred from previous years.			
		<b>Balance of payments</b>			
		<b>Million DKK</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
		Goods	48	587	1,027
		Services	-557	-590	-888
		<b>Goods and services</b>	<b>-510</b>	<b>-3</b>	<b>138</b>
		Wages	806	802	758
		Rents	19	-213	-290
		<b>Income transfers</b>	<b>825</b>	<b>589</b>	<b>469</b>
		Government sector	780	806	817
		Other sectors	40	17	45
		<b>Other transfers</b>	<b>820</b>	<b>823</b>	<b>861</b>
		<b>Current account surplus (+)/deficit (-)</b>	<b>1,135</b>	<b>1,409</b>	<b>1,469</b>
		<b>Source: Statistics Faroe Islands</b>			

<b>Section C – Securities</b>		
C.1	Type and class of securities being offered / admitted to trading	<p>The Notes constitute direct and unsecured obligations of the Government of the Faroe Islands and constitute unsubordinated loan indebtedness ranking <i>pari passu</i> with all other loan indebtedness of the Government of the Faroe Islands.</p> <p>On Issue Date the Notes will be consolidated and form single series with the Initial Notes. The consolidated Total Principal Amount is hereafter DKK 1,345,000,000.</p> <p>The Notes shall benefit from and be subject to the terms and conditions of the Initial Notes and, for the avoidance of doubt, the ISIN, the Interest Rate, the nominal amount and the Maturity Date as those applicable to the Initial Notes. The Notes shall entitle the holder to Interest from and including the immediately preceding Interest Payment Date in accordance with Section 4.7 of the Securities Note, and otherwise have the same rights as the Initial Notes.</p> <p>The Notes will be issued and registered as dematerialised securities, in book-entry form with the Danish central securities depository, VP SECURITIES A/S, on the Issue Date. The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price. The Notes will be closed for further issues from 11 May 2020.</p> <p>Nordea Danmark, Filial af Nordea Bank Abp, Finland, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark, will act as</p>

		<p>Account Holding Institute (in Danish: <i>Kontoførende Institut</i>) in relation to VP SECURITIES A/S.</p> <p>The International Securities Identification Number (ISIN) for the Notes is DK0030361894.</p> <p>The INET code for the Notes is FO-LB 200611.</p> <p>Nasdaq Copenhagen A/S short name for the Notes is FOROYA LAN JUN20.</p>
C.2	Currency of the Notes	The Notes will be issued in DKK.
C.5	A description of any restrictions on the free transferability of the Notes	Not applicable; the Notes are issued as negotiable securities.
C.8	Description of rights attached to the Notes	<p><i>Ranking</i></p> <p>The Notes constitute direct and unsecured obligations of the Government of the Faroe Islands and constitute unsubordinated loan indebtedness ranking <i>pari passu</i> with all other loan indebtedness of the Government of the Faroe Islands. The Notes of each series will rank equally with each other, without any preference among themselves.</p> <p><i>Early redemption</i></p> <p>The Notes are not redeemable by the Issuer prior to the Maturity Date. The noteholders may not demand redemption of the Notes prior to the Maturity Date, unless there is an Event of Default.</p> <p><i>Governing law</i></p> <p>The Notes are governed by Danish law.</p>
C.9	Interest and yield; redemption at maturity; name of representative of holders of Notes	<p><i>Interest</i></p> <p>The Notes bear interest from and including 11 June 2019 to but excluding 11 June 2020.</p> <p>The Notes will pay a fixed rate interest of 1.00 per cent. per annum (the "Interest Rate") payable once being 11 June 2020 (the "Interest Payment Date").</p> <p>The yield on the Notes is -0.3575 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 101.3288 per cent. The yield is not an indication of future yield.</p> <p><i>Redemption at maturity</i></p> <p>Unless previously redeemed due to an Event of Default, or purchased and cancelled, the Issuer will redeem the Notes at</p>

		<p>their outstanding principal amount, together with accrued interest thereon, on 11 June 2020.</p> <p><i>Representative of noteholders</i></p> <p>There is no representative of the noteholders.</p>
C.10	Derivative component in the interest payment	Not applicable; the Notes do not have a derivative component in the interest payment.
C.11	Admission to trading	<p>Application has been filed with Nasdaq Iceland hf. for the trading and official listing of the Notes on the main market of Nasdaq Iceland hf. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Iceland hf. is expected to have effect from 20 June 2019. The Prospectus is expected to be passported to the Kingdom of Denmark prior to 20 June 2019. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with Nasdaq Copenhagen A/S for the trading and official listing on the main market of Nasdaq Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Copenhagen A/S is expected to have effect from 20 June 2019.</p>

<b>Section D – Risks</b>		
D.2	Risks relating to the Issuer	<p>The Issuer is exposed to a number of risks in respect of the conditions of the Faroese economy, including with regard to:</p> <ul style="list-style-type: none"> <li>• <i>Production</i> – Fishery, fish farming and related industries are of such importance that their influence determines the overall performance of the Faroese economy. According to preliminary national accounts from Statistics Faroe Islands, the nominal GDP increased by 3.3% in 2017, while the average increase in the consumer price index was 1.1% from 2016 to 2017. The Economic Council and Statistics Faroe Islands estimate that economic growth was approx. 2.4% in 2018.</li> <li>• <i>Unemployment</i> - Unemployment rose significantly from 3.9% during 2009 and 2010 to 7.5% in February 2011. The unemployment rate has since been reduced to 1.2% in January 2019.</li> <li>• <i>Fishery, fish farming and fishing industry</i> - Fishery and related industries are of such importance that their influence determines the overall performance of the Faroese economy. Demersal fisheries in Faroese waters are experiencing considerable difficulties, whereas pelagic fisheries have had a positive trend since 2011 but has decreased in 2018 due to reduced quotas. The export of the fish farming industry currently constitutes</li> </ul>

		<p>45% of total fish exports in 2018. Profitability in fish farming depends to a large degree on export prices and the industry's ability to avoid the fish disease plague.</p> <ul style="list-style-type: none"> <li>• <i>Service and production industries</i> - Whereas consumption and domestic demand was stagnant years after 2008, imports of consumption products have increased from DKK 1,134 million in 2011 to 1,590 million in 2018, i.e. 40%.</li> <li>• <i>The financial markets</i> – Lending from Faroese financial institutions was DKK 18.1 billion in 2008 but has since been stagnant. At the end of 2018 lending was DKK 18.6 billion. GDP was DKK 12.4 billion in 2008 and has increased to DKK 19.6 billion in 2018. Accordingly, lending has decreased from being 146% of GDP in 2008 to 95% of GDP in 2018. One of the reasons that lending has been stagnating the past 10 years, is that several of the large companies in the fishing industry and fish farming have had large profits, and therefore have been less dependent on banks for undertaking investments.</li> <li>• <i>The governmental sector</i> - The central government accounts show a surplus of DKK 692 million in 2018 (3.5% of GDP), whereas the budget for 2019 indicates a surplus of DKK 370 million.</li> <li>• <i>The political environment</i> - Any changes in the political environment of the Faroe Islands or in the relationship between the Faroe Islands and Denmark may affect the Faroese economy. Precipitous political actions taken either by the Faroe Islands or the Kingdom of Denmark could have significant impact on the Faroese economy.</li> </ul>
D.3	Risks relating to the Notes	<p>The Issuer believes that the following factors represent the principal risks inherent in investing in the Notes:</p> <ul style="list-style-type: none"> <li>• <i>Market risk</i> - The market of the Notes issued by the Issuer is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates.</li> <li>• <i>The secondary market generally</i> - The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.</li> <li>• <i>The Notes may not be a suitable investment for all investors</i> - Each potential investor in the Notes must determine the suitability of that investment in light of its</li> </ul>

		<p>own circumstances. In particular, each potential investor should:</p> <p>(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement to this Prospectus;</p> <p>(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;</p> <p>(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e. DKK, is different from the currency in which such potential investor's financial activities are principally denominated;</p> <p>(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and</p> <p>(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.</p> <ul style="list-style-type: none"> <li>• <i>Liquidity risk</i> - There can be no assurance that an active trading market for the Notes will be developed and maintained, which may affect the trading price and the liquidity of the Notes. The Issuer has not made any arrangement with any persons or companies to ensure the liquidity of the Notes.</li> <li>• <i>Legal risk</i> - The terms and conditions of the Notes are based on Danish law in effect on the date of this Prospectus. No assurance can be given that as to the impact of any possible judicial decisions or changes to Danish and Faroese law after the date of this Prospectus.</li> <li>• <i>Limitations to the liability of the Issuer</i> - The Issuer shall not be liable for any loss incurred by the noteholders as a consequence of statutory provisions, measures adopted by any governmental or other authority actual or imminent war, insurrections, civil commotion, terrorism, sabotage or Acts of God. Nor shall the Issuer be liable for any loss caused by strikes, lockouts, boycotts or blockades, whether or not the Issuer itself is a party to the dispute, and notwithstanding that the dispute may affect only part of the functions of the Issuer. Nor shall</li> </ul>
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		<p>the Issuer be liable for any loss arising from any overdue payment caused by the above events.</p> <ul style="list-style-type: none"> <li>• <i>Credit risk</i> - Issuer's liability to make payments according to the terms and conditions in this Prospectus constitutes direct and unsecured obligations of the Government of the Faroe Islands and constitutes unsubordinated loan indebtedness ranking <i>pari passu</i> with all other loan indebtedness of the Government of the Faroe Islands.</li> </ul> <p><i>Withholding tax</i> - The Issuer does not accept any liability for tax withheld or for collection of withholding tax irrespective of where the Notes are registered. If the Issuer is obliged to withhold tax or collect withholding tax pursuant to rules introduced after the Notes have been issued, the Issuer will do so, and the Issuer will not be obliged to pay any additional amounts to the Noteholders nor will the Issuer accept liability for any deduction in the amount disbursed to Noteholders.</p>
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<b>Section E – Offer</b>		
E.2b	Purposes of the offer and use of proceeds when different from making profit and/or hedging certain risks	The proceeds from the issue of the Notes will be used for financing of the redemption of Føroya Landsstýri DKK 1,100,000,000 1.75 per cent. Fixed Rate Notes due 20 June 2019 (FB-LB 190620) with ISIN code DK0030334735.
E.3	Terms and conditions of the offer	<p><i>Nominal amount</i></p> <p>Notes with a total principal amount of DKK 300,000,000 are being issued by the Issuer. On Issue Date the Notes will be consolidated and form single series with the Initial Notes. The consolidated Total Principal Amount is hereafter DKK 1,345,000,000.</p> <p><i>Placing and underwriting</i></p> <p>Nordea Danmark, Filial af Nordea Bank Abp, Finland arranged for the Notes to be purchased by a group of institutional investors.</p> <p>The issue of the Notes has not been underwritten with a firm commitment.</p> <p><i>Issue Price</i></p> <p>The Notes are being issued at a price of 101.3288 per cent.</p>

		<p><i>Payment and settlement</i></p> <p>Payment and settlement of the Notes will be effected two business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 20 June 2019. The settlement will be effected against payment and registration with VP SECURITIES A/S.</p> <p><i>Account Holding Institute</i></p> <p>The Issuer has appointed Nordea Danmark, Filial af Nordea Bank Abp, Finland as Account Holding Institute.</p>
E.4	Interests material to issue including conflicting interests	Save for any fees payable to the Arranger, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.
E.7	Estimated expenses charged to investors	Any investor intending to acquire any Notes from a bank, financial intermediary or other entity (other than the Arranger in its capacity as such) will do so in accordance with any terms and other arrangements in place between the seller and such investor, including as to price, allocations and settlement arrangements. The Issuer will not be a party to such arrangements with investors, and, accordingly, investors must obtain such information from the relevant seller.

# FØROYA LANDSSTÝRI



## THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 300,000,000 1.00 PER CENT

FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

ISSUED UNDER AND TO BE CONSOLIDATED AND FORM  
A SINGLE SERIES WITH THE DKK 1,045,000,000 1.00  
PER CENT FIXED RATE NOTES DUE 11 JUNE 2020  
ISSUED ON 11 JUNE 2015, ISIN DK0030361894

**REGISTRATION DOCUMENT**



# II. REGISTRATION DOCUMENT

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# 1. Risk factors

Prospective investors should read this Prospectus carefully. The Prospectus consists of three documents: Summary, Registration Document and the Securities Note all of which have been dated 18 June 2019. Investing in the Notes involves risks factors that may affect the Issuer's ability to fulfil its obligations under the Notes to the investors, and which the potential investor should take into consideration prior to deciding to make an investment in the Notes.

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

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

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

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

## 1.1 The Faroese economy

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

### 1.1.1 Production

According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 3.3% in 2017<sup>1</sup>, and it is therefore likely that the real economic growth was approx. 2.2% in 2017, as the average increase in the consumer price index was 1.1% for the same period. Faroese households have been cautious to increase spending for several years, but wage and salary expenditures of companies have been increasing over the last years, and imports of consumption products have increased from DKK 1,134 million in 2011 to 1,589 million in 2018, i.e. 40%. In the Economic Council publication "*Búskaparfrágreiðing á várið 2019*"<sup>2</sup> from March 2019, the Economic Council and Hagstova Føroya (Statistics Faroe Islands) estimate that economic growth will be approx. 2.4% in 2018. Fishery, fish farming and related industries are of such importance that their influence determines the overall performance of the Faroese economy. The dependence on a resource-based industry is evident in the export figures, of which fish products account for more than 90% of the export value of goods. Because the Faroese fishing fleet is very oil dependent, major changes in oil prices also constitute a risk factor for the Faroese economy.

### 1.1.2 Employment

In the aftermath of the financial crisis in 2008, the total employment fell from 25,641 in 2008 to 23,345 in 2011, (approx. 9%). The employment was since stable for a number

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<sup>1</sup> Source: Statistics Faroe Islands

<sup>2</sup> Source: [https://setur.fo/media/5711/várfrágreiðing\\_1-2019-final-pdf.pdf](https://setur.fo/media/5711/várfrágreiðing_1-2019-final-pdf.pdf)

of years but has increased from 23,351 in March 2013 to 27,227 in January 2019, which is an increase of 3,876 (approx. 16.6%), which is approximately 1,600 higher than before the financial crisis. Unemployment rose significantly from 3.9% during 2009 and 2010 to 7.5% in February 2011. The unemployment rate has since been reduced to 1.2% in January 2019.

In the 10 years period from 2004-2013 there has been an average net emigration of 240 persons per year, mainly caused by the Faroese labour market not being able to absorb all jobseekers, but also caused by people having left the Faroe Islands for education purposes. However, from 2014 to 2018, there has been a net immigration to the Faroe Islands of 400 persons per year. With a natural increase of 250 persons per year, the number of inhabitants increased by 650 persons annually in the years 2014 to 2018. The population has increased from 48,153 in January 2014 to 51,371 in January 2019, which is an increase of 6.7% over the last 5 years.

Two important factors have led to the increase of the population. The first is the improvement in the employment possibilities, as companies have been hiring more people. The other factor is the increasing number of people reaching retirement age and thereby providing an opening to the labour market for younger people. In 2006, 335 persons reached the age of 67, whereas the number in 2018 has increased to 557 persons.

### 1.1.3 Fishery, fish farming and fishing industry

Demersal fisheries in Faroese waters are experiencing considerable difficulties. The cod and haddock stocks continue being historically low. While saithe stocks are relatively good and saithe in the past have been a source of sound fisheries, catches have declined substantially in the past ten years. Demersal stocks are fragile as a large proportion of the stocks are harvested every year. Cod catches in Faroese waters during 2018 were 13,000 tonnes. Long term average catches of cod have been 28-30,000 tonnes. Haddock catches were 6,000 tonnes in 2018, whereas long term average catches have been 15-20,000 tonnes. Saithe catches were 22,000 tonnes in 2018, whereas average catches have been 40-45,000 tonnes.

There are some positive signs in the reports and recommendations from the Faroe Marine Institute in 2018. There is an increase in the number of small cod and haddock, and the Faroe Marine Research Institute recommends increasing the areas with fishing ban where there are large numbers of small fish in order to protect the small cods and haddocks. The Faroe Marine Institute still thinks that the fishing effort is too big and recommends calling back the fishing days that have not been used the last years, and to also reduce the number of fishing days in the segments of the fleet that have used the fishing days fully. In 2011 the innermost waters were closed for fisheries and the total number of fishing was reduced for small fishing vessels in order to improve the conditions for young fish to reach maturity. If these measures have the intended effect, it will improve the state of the cod stock and eventually lead to a growth in cod catches.

Cod fisheries in the Russian part of the Barents Sea have increased from 12,000 tonnes in 2012 to around 18,000 tonnes in the years 2014-2017. These fishing rights are granted in exchange for Russian ships being allowed to fish in Faroese waters.

On 12 March 2014, the Faroe Islands came to an agreement with the EU and Norway on fishing rights for catching mackerel, which brought an end to disagreements that had lasted for several years. In August 2013 the disputes caused an EU ban on imports of mackerel and herring from the Faroe Islands. The ban was abolished in the summer 2014. The agreement with EU and Norway will last for five years. The 2014 agreement

with EU and Norway has lasted for five years and has been extended by two more years in 2019.

Pelagic fisheries had very good years in 2011-2016 due to successful mackerel fisheries, and mackerel catches are also expected to have significant value in 2017, amongst other due to increased fishing rights agreed with EU and Norway. The value of herring catches has increased from DKK 120 million in 2007 to DKK 410 million in 2016. Total export of pelagic species was DKK 200-400 million in the years 2003-2008, but from 2012-2016 they have been increased to DKK 1,300-1,600 million. However, the value of the pelagic fleet's catches decreased in 2018 due to lower quotas.

Fish farming, which has made a large contribution to economic growth in recent years, have produced similar quantities in the years from 2012 to 2018, but at significantly higher values, as salmon prices increased first during 2013 and 2014, and again in 2016, so that the export value increased from DKK 1.6 billion in 2012 to DKK 2.9 billion in 2014. In 2016 the prices increased again, so the export value increased to DKK 3.6 billion. In 2018, however the export value has decreased to DKK 3.3 billion.

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

Catches of demersal species have been at a very low level since 2008, and production in the fish processing industry has consequently also been at a very low level.

#### 1.1.4 Service and production

Whereas consumption and domestic demand were stagnant several years after 2008, they have increased since 2011. Imports of consumption products have increased from DKK 1,134 million in 2011 to 1,589 million in 2018, i.e. 40%. Imports of personal cars have more than tripled since 2011, from DKK 107 million to 359 million in 2018.

#### 1.1.5 The financial markets

Lending from Faroese financial institutions was DKK 18.1 billion in 2008 but has since been stagnant. At the end of 2018 lending was DKK 18.6 billion. GDP was DKK 12.4 billion in 2008 and has increased to DKK 19.6 billion in 2018. Accordingly, lending has decreased from being 146% of GDP in 2008 to 95% of GDP in 2018. One of the reasons that lending has been stagnating the past 10 years, is that several of the large companies in the fishing industry and fish farming have had large profits, and therefore have been less dependent on banks for undertaking investments.

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

#### 1.1.6 The governmental sector

The central government accounts have since 2016 shown a surplus. In 2018 the surplus was DKK 692 million (3.5% of GDP), and the budget for 2019 indicates a surplus of DKK 370 million.

### 1.1.7 The political environment

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

## 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.



Kristina Háfoss  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið



Bjarni Askham Bjarnason  
Permanent Secretary  
Føroya Landsstýri  
Fíggjarmálaráðið

Tórshavn, 18 June 2019

Tórshavn, 18 June 2019

### 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  
Tinganes  
PO Box 2039  
FO-110-Tórshavn  
Faroe Islands  
Tel: +298 352020  
Fax: +298 352025  
E-mail: fmr@fmr.fo

The Faroese Parliament (Føroya Løgting):

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

Landsbanki Føroya:

Kvíggjartún 1  
FO-160 Argir  
Faroe Islands  
Tel: +298 360600

E-mail: landsbankin@landsbankin.fo

### 3.3 Recent developments

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

### 3.4 Economy

The Faroe Islands are a modern, developed society with a standard of living comparable to other Nordic countries, with a GDP per capita that is somewhat lower level than level than in Denmark. However, disposable income per capita, which includes the Danish state grant and salaries from Faroese employees working abroad, is approx. at the same level as Denmark's.<sup>3</sup> It should be taken into consideration that the economy is not yet as diversified as in other highly developed countries, so the level of GDP per capita in the Faroe Islands fluctuates more than in more diversified economies.

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

<b>Exports (fob) by product</b>						<b>Table 1</b>
<b>Million DKK</b>	<b>2009</b>	<b>2013</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Cod	403	516	717	690	725	875
Haddock	99	68	98	100	101	156
Saithe	575	331	363	319	326	276
<b>Main demersal species</b>	<b>1.077</b>	<b>915</b>	<b>1.178</b>	<b>1.109</b>	<b>1.152</b>	<b>1.307</b>
Salmon	1.204	2.456	2.805	3.662	3.868	3.342
Trout	175	3	0	0	4	5
<b>Total Fish Farming</b>	<b>1.379</b>	<b>2.459</b>	<b>2.805</b>	<b>3.662</b>	<b>3.872</b>	<b>3.347</b>
Blue Whiting	31	152	161	176	145	153
Herring	191	410	484	402	654	495
Atlantic Mackerel	185	814	854	990	1.043	682
<b>Main pelagic species</b>	<b>407</b>	<b>1.376</b>	<b>1.499</b>	<b>1.568</b>	<b>1.842</b>	<b>1.330</b>
Prawns	112	62	127	118	80	77
Other species	707	987	1.102	1.216	1.465	1.431
<b>Prawn and other species</b>	<b>819</b>	<b>1.049</b>	<b>1.229</b>	<b>1.334</b>	<b>1.545</b>	<b>1.508</b>
<b>Total fish products</b>	<b>3.682</b>	<b>5.799</b>	<b>6.711</b>	<b>7.673</b>	<b>8.411</b>	<b>7.492</b>
Other products	198	194	120	194	312	447
Ships and aeroplanes	225	103	51	222	90	90
<b>Total export of products</b>	<b>4.105</b>	<b>6.096</b>	<b>6.882</b>	<b>8.089</b>	<b>8.813</b>	<b>8.029</b>

Source: Statistics Faroe Islands

<sup>3</sup> Source: Statistics Faroe Islands, Statistics Denmark



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

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

The total fish exports have increased from DKK 3.7 billion in 2009 up to DKK 7.5 billion in 2018, an increase of approx. 106%.

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

Part of the Faroese wet fish fleet is fishing demersal species as cod, haddock and saithe in the Faroese fisheries zone, while another part of the fleet consisting of factory trawlers are fishing cod in the Barents Sea. The traditional cod fisheries in Faroese and foreign waters have during the period 2003-2009 decreased significantly from having a total export value of DKK 940 million in 2003 to DKK 400 million in 2009, but has increased to DKK 875 million in 2018, mostly due to increased quotas in the Barents Sea.

The export value of catches by the pelagic fleet (fishing herring, mackerel and blue whiting) has increased from around DKK 400 million in 2009 to DKK 1.8 billion in 2017 but has decreased to DKK 1.3 billion in 2018. As the pelagic stocks are at a low level, it is expected that the export value of pelagic species will be at a somewhat lower level in 2019<sup>4</sup>.

Another significant change is that the fish farming industry has expanded, and that the export value of salmon consequently has increased from DKK 1,380 million in 2009 to DKK 3.3 billion in 2018.

According to national accounts from Statistics Faroe Islands, the nominal GDP increased by 3.3% in 2017<sup>5</sup>. The average increase in the consumer price index was 1.1% from 2016 to 2017. Faroese households were cautious to increase spending after the 2008 crisis, but imports of consumption items have increased by 40% from 2011 to 2018, which indicates an increase in consumption in general. In the Economic Council publication "*Búskaparfrágreiðing várið 2019*"<sup>6</sup> from March 2019, the Economic Council and Hagstova Føroya (Statistics Faroe Islands) estimate that economic growth will be approx. 2.4% in 2018.

The growth in total wage expenditure was slow from 2007 to 2013, as the wages and salaries only increased from DKK 6.9 billion to DKK 7.2 billion, i.e. only 4% for 6 years. However, the wage expenditure increased from DKK 7.2 billion in 2013 to DKK 9.4 billion in 2018, i.e. 31%.

The total number of employees increased in the years from 2004 to 2008, but then decreased from 2008 to 2011. After 2011 the number of employees has stabilised around 23,500, but there has been a significant increase from autumn 2013 to 2018 of around

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<sup>4</sup> Source: Economic Council: [https://setur.fo/media/5711/várfrágreiðing\\_1-2019-final-pdf.pdf](https://setur.fo/media/5711/várfrágreiðing_1-2019-final-pdf.pdf)

<sup>5</sup> Source: Statistics Faroe Islands, website: [hagstova.fo](http://hagstova.fo)

<sup>6</sup> Source: Economic Council: [https://setur.fo/media/5711/várfrágreiðing\\_1-2019-final-pdf.pdf](https://setur.fo/media/5711/várfrágreiðing_1-2019-final-pdf.pdf)

3,300 employees. The industry structure has changed significantly over the past ten years.

The catches of the demersal fleet in Faroese waters has decreased steadily over the last decade and this has caused a significant loss of jobs both in fisheries and fish processing. The reason is that the demersal fleet is labour intensive and creates many jobs in the fish processing industry. Employment in fisheries has decreased from 2,500 in 2004 to 1450 in 2018. Employment in fish processing has decreased from 2,000 in 2004 to 1,400 in 2018.

As mentioned above the pelagic fisheries have increased more than the decrease in the catches of demersal species, but as pelagic fisheries are very capital intensive, there has been a significant loss of employment in fisheries. However, wages and salaries earned by Faroese employees working abroad have increased from approx. DKK 300 million in 2003 up to an estimated DKK 1.0 billion in 2018.

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

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

In the aftermath of the financial crisis in 2008, the total employment fell from 25,641 in 2008 to 23,345 in 2011, (approx. 9%) and stabilised around 23,500 until 2013. However, since 2013 the number of employees has increased from 23,800 in 2013 to 27,100 in 2018.

Unemployment rose significantly from 3.9% during 2009 and 2010 to 7.5% in February 2011. The unemployment rate has since been reduced to 1.2% in January 2019.

Table 2 below shows the development of employees in the various business sectors for the years 2008, 2013 and 2016-2018.

<b>Employees by business sector 2008-2018<sup>(1)</sup></b>	<b>Table 2</b>				
	<b>Oct. 2008</b>	<b>Oct. 2013</b>	<b>Oct.2016</b>	<b>Oct. 2017</b>	<b>Oct. 2018</b>
Agriculture	88	76	91	90	116
Fishing	1,796	1,553	1,485	1,498	1,442
Aquaculture	637	839	1,074	1,150	987
Extraction of raw materials	75	102	82	77	96
Fish processing	1,505	1,413	1,407	1,387	1,422
Shipyards/machine shops	605	574	701	756	797
Other manufacturing	987	718	861	864	882
Construction	2,164	1,552	1,899	2,094	2,313
Energy	147	145	167	170	173
Trade and repair	3,309	2,987	3,071	3,148	3,195
Hotels and restaurants	585	641	713	828	882
Sea transport	751	898	961	981	931
Other transport	719	708	782	807	835

Communication	583	396	380	342	363
Finance and insurance	970	738	722	726	749
Business services	868	739	822	895	930
Household services	293	303	347	365	408
Public administration	626	641	620	622	630
Municipalities etc,	2,914	3,090	3,455	3,481	3,634
Education	1,527	1,588	1,639	1,657	1,743
Health & social work	3,673	3,386	3,469	3,527	3,553
Culture, organizations etc	672	598	647	672	720
Activities n.e.i.	147	90	111	133	256
<b>Total</b>	<b>25,641</b>	<b>23,775</b>	<b>25,506</b>	<b>26,270</b>	<b>27,057</b>

(1) These statistics reflect the number of persons employed in each business sector, and not the number of full-time workers in each sector,

### 3.4.1 INDUSTRIES

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

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

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

The export value of fish products was stable from 2003 to 2009 at around DKK 3.7 billion. From 2009 to 2018 the export increased from DKK 3.7 billion to DKK 7.5 billion.

From 2003 to 2013 the catches of cod, haddock and saithe decreased from DKK 1.6 billion to DKK 0.9 billion, however they have increased to DKK 1.3 billion in 2018. The pelagic fisheries export has increased from DKK 200 million in 2003 to DKK 1.3 billion in 2018.

In addition to that, the fish farming exports, mostly salmon, have increased from DKK 1.0 billion in 2003 to DKK 3.3 billion in 2018.

Of the total catches, wet fish accounted for about 75,000 tonnes in 2018 which were mainly fished in Faroese waters. Total cod catches in 2018 were 43,000 tonnes, of which 13,000 were fished in Faroese waters, 8,000 in East Greenland, 17,000 in the Barents Sea and 2,000 in Icelandic waters. The cod catches in Faroese waters have been low the past ten years but seem to be recovering slowly. Most of the cod fished in foreign waters is caught by big filleting trawlers.

On 12 March 2014, the Faroe Islands came to an agreement with the EU and Norway on fishing rights for catching mackerel, which brought an end to disagreements that had lasted for several years. In August 2013 the disputes caused an EU ban on imports of mackerel and herring from the Faroe Islands. The ban was abolished in the summer

2014. The 2014 agreement with EU and Norway has lasted for five years and has been extended by two more years in 2019.

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

After the economic crisis in 1992, the on-land fish industry went through a restructuring process, and the number of plants was reduced to fewer, bigger or more specialised plants. The filleting factories produce a range of fresh, iced and frozen products to the retail and food service markets.

The fish processing industry has undergone significant changes following the bankruptcy proceedings of the Faroese company, Faroe Seafood in 2010, after which the fish processing industry has been restructured. Only a small number of the company's processing plants have reopened after the bankruptcy. The number of wage earners in the industry has for many years decreased steadily. Since 2004 the total work force in fish processing has decreased from 2,000 persons to 1,400 persons in 2018. The resource base for production has decreased over the last ten years and total demersal catches in Faroese waters have not been lower since the early 1990ies. However, there are signs that the number of cod and haddock from the years 2016 and 2017 are over average and this has brought hopes that the stocks are in a slow recovery, and that resource base for on-land fishery industry might be recovering.

The processing capacity for pelagic species has been increased significantly the past ten years. The first factory was built in Kollafjørð, and its capacity has been increased subsequently. Processing plants for pelagic fish have been built in the town of Tvøroyri in 2012 and in Fuglafjørður in 2014.

### ***Aquaculture***

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

Approximately 72,000 tonnes were harvested in 2018, and the harvest in 2019 is expected to be slightly higher, at around 80,000 tonnes<sup>7</sup>. The export value of Faroese farmed fish was approx. DKK 3.3 billion in 2018. DKK 3.3 billion corresponds to approx. 42% of the total Faroese fishery exports. The average export prices of Norwegian Farmed salmon were NOK 28 per kg in 2012 but increased to NOK 40 per kg in 2013 and 43 NOK per kg in 2015. The prices were exceptionally high in 2016 at NOK 55 per kg. The average forward prices for 2019 are around NOK 60 per kg<sup>8</sup>.

The number of employees in the fish farming industry has increased from 637 in 2008 to 987 in 2018.

### ***Construction***

Construction activities decreased significantly after 2008. Consequently, the number of employees in the industry also decreased. From October 2008 to October 2011 employment fell 28% (from 2,164 to 1,563 employees) but has increased over the last years to 2,313 employees in October 2018. Several large public construction projects are currently ongoing, e.g. the sub-sea tunnel to Eysturoy, which has an estimated cost

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<sup>7</sup> Source: Website: industry.fo, Ragnar Nystøyl, Kontali Analyse.

<sup>8</sup> Source: Fish Pool - The Norwegian marketplace for financial salmon contracts, website: fishpool.eu

around DKK 1.5 billion. In the pipeline is also a subsea tunnel to Sandoy, with an estimated cost around DKK 1.1 billion, which is due to start in 2019. Because of relatively high construction activity in the Faroes a substantial number of foreign construction workers are now employed by Faroese companies.

## ***Transportation***

### *Internal*

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

In December 2002, the first sub-sea tunnel in the Faroe Islands was opened between Vágur and Streymoy. This is the first partially user-financed investment of its kind in the Faroe Islands. The construction of this tunnel increased the percentage of the Faroese population being connected by road transport from 69% to 75%. A second sub-sea tunnel between Borðoy and Eysturoy opened in May 2006. The construction of this tunnel made it possible for 86% of the total population to reach each other by road transport.

All parties in the parliament have made a joint decision to build the sub-sea tunnel from Streymoy to Eysturoy. This tunnel will shorten the traveling distance between Torshavn and most parts of Eysturoy by 30 to 50 km. The Eysturoy tunnel is expected to be completed late in 2020.

When the drilling of the Eysturoy tunnel is completed in May 2019, the construction work will start for the sub-sea tunnel from Streymoy to Sandoy. Approx. 1,300 inhabitants (additional 3% of the total population) will be connected to the other islands by constructing this sub-sea tunnel. The construction work is going to take place in the years 2019-2022.

Both passenger and cargo transport are provided daily to all but one 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 30 April 2019, there were 25,335 registered private cars, equivalent to 490 cars per 1,000 inhabitants.

### *External*

Atlantic Airways, the national airline carrier of the Faroe Islands and SAS are currently the only operators offering routes to and from the Faroe Islands. Depending on the season, there are five to eight daily flights to Denmark (Copenhagen, Aalborg and Billund). There are also flights each week to Iceland, Norway and the UK depending on the season. In the summer season there are flights to destinations around the Mediterranean Sea and to the Canary Islands. In 2018, 377,813 passengers travelled through Vágur airport which is 44% more than in 2013, and 124% more than in 2004.

The ferry Norröna (a combined cruise/cargo ship that can carry roughly 1,500 passengers and 800 cars) offers weekly service to Denmark and Iceland. 51,253 passengers travelled to the Faroe Islands by sea in 2018, which are approx. 4% higher than in 2013.

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

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

## **Tourism**

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

The number of hotel stays measured in hotel nights has increased from 100,173 in 2013 to 151,865 in 2018.

## **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, a number of firms have been exploring the subsoil.

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

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

In the event of hydrocarbons being exploited from the Faroese subsoil, the revenue generated from such activity will be taxed pursuant to the Hydrocarbon Tax Act<sup>9</sup> and pursuant to the Faroese Ministry of Trade and Industry's Licences for Exploration and Production of Hydrocarbons.

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

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

The Faroe Island Ministry of Industry launched the 4<sup>th</sup> licencing round for new exploration licences on May 17<sup>th</sup>, 2017 in Torshavn. The Geological Survey received one application for exploration on the Faroese Continental Shelf.

## **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 – Betri Banki P/F (former Eik Banki P/F), P/F BankNordik, Norðoya Sparikassi and Suðuroyar Sparikassi – serve the financial market in the Faroe Islands.

Lending from Faroese financial institutions was DKK 18.1 billion in 2008 but has since been stagnant. At the end of 2018 lending was DKK 18.6 billion. GDP was DKK 12.4 billion in 2008 and has increased to DKK 19.6 billion in 2018. Accordingly, lending has

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<sup>9</sup> Parliament Act No 26, dated 21 April 1999 on taxation of revenue relating to hydrocarbon activities (as amended by Parliamentary Act No. 26, dated 7 March 2000).

decreased from being 146% of GDP in 2008 to 95% of GDP in 2018. One of the reasons that lending has been stagnating the past 10 years, is that several of the large companies in the fishing industry and fish farming have had large profits, and therefore have been less dependent on banks for undertaking investments.

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.

Betri Banki P/F had a pre-tax profit of DKK 117 million in 2018. The bank's solvency ratio was by end of 2018, 26.5 and the individual solvency requirement was 11.1%.

P/F BankNordik had a pre-tax profit of DKK 323 million in 2018. The bank's solvency ratio was by end of 2018 19.8%, and the individual calculated solvency requirement was 9.7%.

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

Norðoya Sparikassi had a pre-tax profit of DKK 14 million in 2018, and a solvency ratio of 20.5% at the end of 2016. The individual calculated solvency requirement was 10.7%.

The smallest bank, Suðuroyar Sparikassi had a pre-tax profit of DKK 1.9 million in 2018, and a solvency ratio of 16.6% at the end of 2018. The individual calculated solvency requirement was 8.0%.

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

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

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

#### *Deposit Guarantee Fund*

As of 1 October 2010, 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.

As all Faroese banks have a general obligation to contribute to the Deposit Guarantee Fund, any case of payments under the guarantee towards depositors and investor or winding-up of distressed banks in the Kingdom of Denmark (including the Faroe Islands

and Greenland) by the Financial Stability Company will affect the Faroese banks and their payment obligations towards the Deposit Guarantee Fund.

In October 2013 an agreement was reached in the Danish parliament about the framework for the regulation of Danish SIFIs, (Systemically Important Financial Institutions).

In February 2014, the Faroese Government and the Danish Government agreed that three Faroese banks, Bank Nordic, Betri Banki and Norðoya Sparikassi shall be considered SIFI banks. These three banks have a combined market share of 97% of bank loans in the Faroe Islands.

### **Currency**

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

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

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

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

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

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

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

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

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



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

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

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

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

The Prime Minister since 15 September 2015 is Aksel V. Johannesen (The Social Democratic Party).

### ***Present government***

The Government of the Faroe Islands (Føroya Landsstýri) consists of at least two Cabinet Ministers led by the Prime Minister. After the election the 1 September 2015 the Government of the Faroe Islands coalition was on the 15 September 2015 made up of representatives from the Social Democratic Party (Javnaðarflokkurin), the Republican Party (Tjóðveldi) and the Progressive Party (Framsókn).

## 4. Public finance and trade

### 4.1 The tax and budgetary systems

#### Income taxes

From 1 January 2012, the rate of progression for the central government income taxes has been reduced, and to offset the loss of revenue, deposits into individual pension schemes are now taxed up front. From 1 January 2016 the governmental tax rate on lower incomes have been reduced from 20% to 15%.

Income tax levied by the Customs and Tax Administration is calculated on a sliding scale.

A gross tax system was introduced in 1997. This means that instead of providing for tax deductions, specific subsidies are allowed to compensate for certain expenses. There is no central governmental income tax on incomes from DKK 0 to DKK 65,000. Income from DKK 65,000 to DKK 235,000 is taxed with 15%, from DKK 235,000 to 330,000 with 20%, from DKK 330,000 to DKK 800,000 is taxed with 25%, and income over DKK 800,000 is taxed with 30%.

Municipal taxes are assessed using the same calculation of income as that of the Customs and Tax Administration, except that a flat tax rate is applied. There is no municipal income tax on incomes under DKK 30,000. Income over DKK 30,000 is taxed by a flat rate. All except three small municipalities have tax rates between 18.75% and 22.0%, and the average municipal tax rate is 20.19%.

Members of the National Church also pay church tax, which is 0.6 in all municipalities except two municipalities.

Labour market contributions are 3.0% to the Labour Market Pension Fund (LMPF). A larger part of pension expenditures is now paid by the LMPF, and a smaller part of pension expenditures are paid over the governmental budget. The allocation is 1.25% to the unemployment fund and 0.71% to the maternity leave fund. The municipal tax and church tax together with the labour market contributions total approximately 25%. The marginal tax rate is therefore approx. 40% for lower incomes from DKK 65,000 to DKK 235,000 gradually increasing up to approx. 55% for incomes above DKK 800,000.

#### Corporate taxes

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

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

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

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

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

Since 2011 the fishing fleet has paid for fishing rights for mackerel, and since 2016 the parliament has imposed a payment per kg of mackerel, herring and blue whiting being caught. The payments provided the Faroese Treasury a revenue of DKK 160 million in 2018. Since 2017 part of the mackerel, herring blue whiting and the Barents Sea cod quotas have been sold on auctions. The government received DKK 143 million in revenues in 2018 from these auctions.

Since 2014 the fish farming industry paid two industry specific taxes. In 2015 the industry paid DKK 11.6 million in taxes, in addition to the general corporate tax of 18%.

From 2016 the fish farming industry pays one industry specific tax. The tax rates were changed in 2018. The tax is calculated on basis of how much the salmon price exceeds DKK 32. The revenues from the new tax were DKK 136 million in 2018.

## Capital gains tax

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

## Customs and VAT

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

## The budgetary system

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

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

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

Capital expenses in 2018 were DKK 466 million of which construction of fixed capital were DKK 407 million and lending were DKK 8 million. The majority of the investments were allocated to education, health, transport and communication.

Operating expenses in 2018 were DKK 6,619 million, of which compensation of employees was DKK 2,392 million. Transfers and other expenses were DKK 2,751 million and purchases of goods and services were DKK 1,476 million. The governments operating revenues in 2016 were DKK 7,256 million. Income and corporate taxes were DKK 2,869 million, VAT and other indirect taxes were DKK 2,403 million. Transfers from the Danish state were DKK 695 million, other domestic transfers were DKK 539 million, and Sales of

goods and services were DKK 706 million. The government accounts show a surplus of DKK 692 million in 2018. See table 7.

## 4.2 Gross public debt

### Central government assets and liabilities

**Table 3**

<i>Million DKK</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>ASSETS</b>				
Securities and deposits <sup>1)</sup>	2,792	2,905	3,479	3,667
Others in circulation	440	533	587	521
Financial assets	2,061	2,103	2,164	2,089
<b>Total assets</b>	<b>5,293</b>	<b>5,541</b>	<b>6,230</b>	<b>6,277</b>
<b>LIABILITIES</b>				
Long-term debt (Kingdom of Denmark)	500	500	500	0
Bond loan	4,678	4,334	4,644	4,608
Other debt	925	917	988	864
<b>Total debt</b>	<b>6,113</b>	<b>6,051</b>	<b>6,132</b>	<b>5,472</b>
<b>Net assets</b>	<b>-820</b>	<b>-510</b>	<b>98</b>	<b>805</b>

Source: Føroya Gjaldstova

1) Including liquidity for appropriations transferred from previous years.

### Outstanding bonds

**Table 4**

<i>Million DKK</i>	<b>Annual coupon</b>	<b>Maturity date</b>	<b>Present structure</b>	<b>Structure end of 2019</b>
FO-LB 190620 Blt	1.75%	20-Jun-2019	1,100	0
FO-LB 200611 Blt	1.00%	11-Jun-2020	1,045	1,345
FO-LB 210622 Blt	0.50%	22-Jun-2021	1,350	1,350
NOK 550m FXD 2023 Blt*	1,81%	03-May-2032	448	448
FO-LB 230627 Blt	0.625%	27-Jun-2023	550	550
<b>Outstanding bonds, total</b>			<b>4,493</b>	<b>3,693</b>

**\*) NOK 550m FXD 2023 (Coupon 2.70%) swapped to DKK**

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

The balance of payments statistics was revised in 2016. The statistics were revised back to 2010 after the implementation of an improved method of collection of primary statistics. The new figures show that the average yearly balance of payments surplus in the years 2010-2013 was DKK 120 million higher than previously reported.

### Balance of payments

Table 5

<i>Million DKK</i>	2013	2014	2015
Goods	48	587	1,027
Services	-5571	-590	-888
<b>Goods and services</b>	<b>-510</b>	<b>-3</b>	<b>138</b>
Wages	806	802	758
Rents	19	-213	-290
<b>Income transfers</b>	<b>825</b>	<b>589</b>	<b>469</b>
Government sector	780	806	817
Other sectors	40	17	45
<b>Other transfers</b>	<b>820</b>	<b>823</b>	<b>861</b>
<b>Current account surplus (+) / deficit (-)</b>	<b>1,135</b>	<b>1,409</b>	<b>1,469</b>

Source: Statistics Faroe Islands

## 4.4 Foreign exchange reserves

The Issuer does not hold specific foreign exchange reserves, as the Faroe Islands are part of the Danish currency area. However, according to Faroese parliament act, the Faroese Government holds a minimum reserve liquidity of 15% of GDP. The minimum reserve liquidity is DKK 2,830 million in 2019. Parts of the Faroese Government's financial assets are invested in assets held outside the Faroe Islands, as specified in the table below. The assets outside the Faroe Islands are mainly invested in government bonds and Danish mortgage bonds, which may be used as collateral within limits in an overdraft facility or as collateral in repo agreements, and as deposits in banks with good ratings. In general, the assets are liquid as securities are used as collateral in credit facility agreements.

As of the 1 January 2017 Landsbanki Føroya is acting as investment manager for the Faroese Government.

### Securities and deposits

Table 6

<i>Million DKK</i>	2014 <sup>2)</sup>	2015	2016	2017	2018
Total financial assets <sup>1)</sup>	2,452	2,753	2,899	3,383	3,706
- of which abroad	1,947	2,264	2,666	3,123	3,352

Source: Landsbanki Føroya

1) Excluding governmental institutions' operating liquidity

## 4.5 Income and expenses

### Central government accounts

Table 7

<b>Central Government Accounts Million DKK</b>	<b>Realized 2015</b>	<b>Realized 2016</b>	<b>Realized 2017</b>	<b>Realized 2018</b>	<b>Budget 2019<sup>3)</sup></b>
Taxes, direct	2.448	2,472	2.716	2,869	2,921
Taxes, indirect	2,041	2,218	2,333	2,403	2,469
Transfers from Denmark	700	695	698	695	687

Sales of goods and services	768	728	743	706	710
Revenue from fees	238	482	574	539	601
Other	36	29	39	44	61
<b>Operating revenues, ex. interest</b>	<b>6,231</b>	<b>6,624</b>	<b>7,103</b>	<b>7,256</b>	<b>7,449</b>
Personel cost	-2,073	-2,178	-2,277	-2,392	-2,559
Transfers to individuals	-1,661	-1,682	1,721	-1,782	-1,820
Other transfers	-456	-492	-494	-489	-496
Purchase of goods and services	-1,362	-1,404	-1,445	-1,476	-1,419
Other expenses	-403	-458	-472	-480	-456
<b>Operating expenses, ex. interest</b>	<b>-5,955</b>	<b>-6,214</b>	<b>-6,409</b>	<b>-6,619</b>	<b>-6,750</b>
<b>Primary Operating Balance</b>	<b>276</b>	<b>410</b>	<b>694</b>	<b>637</b>	<b>699</b>
Interest income and dividends	101	142	221	2	93
Interest expenses	-108	-63	-80	-24	-44
<b>Operating Balance</b>	<b>269</b>	<b>489</b>	<b>835</b>	<b>615</b>	<b>748</b>
Sale of fixed assets	8	27	26	22	35
Sales of shares	0	58	-	-	-
Repayments of loans, domestic	19	91	48	21	15
Capital revenues from Denmark	0	0	-	500	-
<b>Total capital revenues</b>	<b>27</b>	<b>176</b>	<b>74</b>	<b>543</b>	<b>50</b>
Construction of fixed capital	-311	-296	-296	-407	-371
Acquisition of fixed capital	-34	-14	-20	-16	-14
Injection of cap. into publ. Ltd.'s	-5	-95	-35	-35	-35
Net lending, domestic	-24	-24	-19	-8	-8
<b>Total capital expenses</b>	<b>-374</b>	<b>-429</b>	<b>-370</b>	<b>-466</b>	<b>-428</b>
<b>Budget surplus/deficit</b>	<b>-78</b>	<b>236</b>	<b>539</b>	<b>692</b>	<b>370</b>
Debt repayment	-890	-1,360	-1,010	-10	-700
<b>Gross financing surplus/deficit</b>	<b>-968</b>	<b>-1,124</b>	<b>-471</b>	<b>682</b>	<b>-330</b>
New borrowing	1,045	1,350	1,000	-	300
<b>Net financing surplus/deficit</b>	<b>77</b>	<b>226</b>	<b>529</b>	<b>682</b>	<b>-30</b>

1) Government Budget Act as approved by the parliament in December 2018.

2) At the beginning of the fiscal year 2019, appropriations transferred from previous years are DKK 79 million.

## 4.6 Auditing procedures

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

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 2018, ending 31 December 2018, 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.

<b>Ratings Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Government Bonds - Foreign Currency	Aa3
Government Bonds - Domestic Currency	NR

On 21 February 2018, Moody’s affirmed the Aa3 long-term issuer rating of the Government of the Faroe Islands with a stable outlook.

The Aa3 foreign currency rating with stable outlook for the Faroe Islands reflects a number of factors including its fiscal autonomy and revenue and expense flexibility with a track record of prudent budgeting, stable relationship with Denmark (Aaa, Stable) and a strong liquidity buffer, which mitigate the refinancing risk associated with the reliance on short term borrowing. The rating also takes into account the Faroese economy’s dependence on the fishing sector, which is somewhat offset by regular fish stock control and a push to diversify the trade partners.

Further and more detailed information about the credit rating of the Faroe Islands can be obtained on the website of the Faroese Governmental Bank: <https://landsbankin.fo/en-gb/liquidity-and-debt/debt/rating-reports>

## 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:

Moody's Investors Service's latest rating documents concerning the Government of the Faroe Islands are available at Landsbankins website: <https://landsbankin.fo>

At: <https://landsbankin.fo/en-gb/liquidity-and-debt/debt/rating-reports>

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

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

Spring Report 2019 March 2019 (with executive summary in English).

Autumn report 2018 September 2018 (with executive summary in English).

Website: [www.setur.fo/fo/setrid/samstarv/buskaparradid/buskaparfragreidingar/](http://www.setur.fo/fo/setrid/samstarv/buskaparradid/buskaparfragreidingar/)

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

Comprehensive statistical database covering demographic, business and economic statistics etc.

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

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

The public budget and account (in Faroese only)

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

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

Reports submitted by the Faroese Parliament's Audit Committee

(Some of the information in Danish and English)

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

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

Information about political matters in the Faroe Islands

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

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

Annual report on the Faroe Islands (in Danish only)

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

# FØROYA LANDSSTÝRI



## THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 300,000,000 1.00 PER CENT  
FIXED RATE NOTES

11 JUNE 2015 / 11 JUNE 2020

ISSUED UNDER AND TO BE CONSOLIDATED AND FORM  
A SINGLE SERIES WITH THE DKK 1,045,000,000 1.00  
PER CENT FIXED RATE NOTES DUE 11 JUNE 2020  
ISSUED ON 11 JUNE 2015, ISIN DK0030361894

**SECURITIES NOTE**

# III. SECURITIES NOTE

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## 1. Risk factors

Prospective investors should read this Prospectus carefully. The Prospectus consists of three documents: Summary, Registration Document and this Securities Note all of which have been dated 18 June 2019. Investing in the Notes involves certain risks, which the prospective investors should take into consideration prior to deciding to make an investment in the Notes.

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

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

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

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

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

### 1.1 Market risk

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

### 1.2 Secondary market risk

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

### 1.3 The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement to this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e. DKK, is different from the currency in which such potential investor's financial activities are principally denominated;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

## 1.4 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 of Nasdaq Iceland hf. and on the main market of Nasdaq Copenhagen A/S. The Issuer has not made any arrangement with any persons or companies to ensure the liquidity of the Notes and that the quotation follows the market price of the Notes. The Issuer has no obligation to buy back the Notes. However, without any commitment to do so, Nordea Bank AB (publ) will aim to maintain a market for the Notes by quoting purchase and sales prices on an on-going basis.

## 1.5 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.

## 1.6 Limitations to the liability of the Issuer

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

## 1.7 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.

## 1.8 Withholding tax

The Issuer does not accept any liability for tax withheld or for collection of withholding tax irrespective of where the Notes are registered. If the Issuer is obliged to withhold tax or collect withholding tax pursuant to rules introduced after the Notes have been issued, the Issuer will do so, and the Issuer will not be obliged to pay any additional amounts to the Noteholders nor will the Issuer accept liability for any deduction in the amount disbursed to Noteholders.

## 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.



Kristina Háfoss  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið



Bjarni Askham Bjarnason  
Permanent Secretary  
Føroya Landsstýri  
Fíggjarmálaráðið

Tórshavn, 18 June 2019

Tórshavn, 18 June 2019

### 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  
Tinganes  
PO Box 2039  
FO-110 Tórshavn, Faroe Islands  
Tel: +298 352020  
Fax: +298 352025  
E-mail: fmr@fmr.fo

Arranger :

Nordea Bank Abp, Finland  
Satamaradankatu 5  
Helsinki  
FI-00020 Nordea

Account Holding Institute:

Nordea Danmark, Filial af Nordea Bank Abp, Finland  
Grønjordsvej 10  
DK-2300 Copenhagen S, Denmark

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

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

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

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

The proceeds from the issue of the Notes will be used for financing of the redemption of Føroya Landsstýri DKK 1,100,000,000 1.75 per cent. Fixed Rate Notes due 20 June 2019 (FB-LB 190620) with ISIN code DK0030334735.

The Issuer will bear the costs directly related to the issuance of the Notes. The total costs are expected to amount to approx. DKK 617,200, including placing commission and arranging fees. The net proceeds from the issue of the Notes are approx. DKK 303,442,970.

The costs incurred at Nasdaq Iceland hf. in relation to the admission for trading and official listing on the main market of Nasdaq Iceland hf. will be paid by the Issuer. The

annual expenses for the admission to trading and official listing of the Notes will be variable fee of 0.00025% of the market value of the Notes.

Costs incurred at Nasdaq Copenhagen A/S in relation to the admission for trading and official listing on the main market of Nasdaq Copenhagen A/S will be paid by the Issuer. The annual expenses for the admission to trading and listing of the Notes will be approx. DKK 3,200.

Costs incurred at VP SECURITIES A/S and to the Account Holding Institute in relation to the registration of the Notes in the system of VP SECURITIES A/S will be paid by the Issuer. The total costs related to registration of the Notes and fees to VP SECURITIES A/S and the Account Holding Institute are approx. DKK 3,000.

Costs incurred at the Financial Supervisory Authority, Iceland ("FME") in relation to the vetting and approval of the Prospectus will be paid by the Issuers. The total costs to FME are ISK 210,000 corresponding to approx. DKK 11,000.

## 4. Information concerning the Notes

### 4.1 Description of the Notes

Issuer:	Føroya Landsstýri, Government of the Faroe Islands
Title of the Notes:	Føroya Landsstýri DKK 300,000,000 1.00 per cent Fixed Rate Notes 11 June 2015 / 11 June 2020 issued under and to be consolidated and form a single series with the DKK 1,045,000,000 1.00 per cent fixed rate notes due 11 June 2020 issued on 11 June 2015, ISIN DK0030361894
Issue Date:	20 June 2019
Maturity Date:	11 June 2020
First trading date:	20 June 2019
Currency:	Danish kroner ("DKK")
Principal Amount per Note:	DKK 1,000
Total Principal Amount:	DKK 300,000,000
Interest Rate:	The Notes will pay an interest of 1.00 per cent per annum payable once being 11 June 2020.
Issue Price:	101.3288 per cent.
Class:	The issue of the Notes consists of only one class
ISIN:	DK0030361894
INET code	FO-LB 200611 (Nasdaq Iceland hf.)
Short name:	FØROYA LAN JUN20 (Nasdaq 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 Danmark, Filial af Nordea Bank Abp, Finland, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark, is acting as Account Holding Institute ("Kontoførende Institut") in relation to VP SECURITIES A/S.

The Notes will be controlled by Nordea Danmark, Filial af Nordea Bank Abp, Finland as Account Holding Institute for and on behalf of VP SECURITIES A/S and the noteholders in accordance with the provisions of the Danish Capital Markets Act (Consolidated Act No. 12 of 8 January 2018, as amended) and Consolidated Act no. 1175 of 31 October 2017 regarding registration of fund assets in a securities centre. For the avoidance of doubt,

notes registered with VP SECURITIES A/S are negotiable instruments not subject to any restrictions on the free negotiability within the Kingdom of Denmark, under Danish Law.

#### 4.4 Currency of the Notes

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

#### 4.5 Status of the Notes

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

#### 4.6 Rights etc.

##### 4.6.1 Redemption by the Issuer

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

##### 4.6.2 Redemption by noteholders

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

##### 4.6.3 Events of Default

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

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

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

##### 4.6.4 Buyback

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

#### 4.6.5 Notices

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

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

#### 4.6.6 Force majeure

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

#### 4.6.7 Charging

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

### 4.7 Interest

The Notes bear interest from and including 11 June 2019 to but excluding the 11 June 2020.

The Notes will pay a fixed rate interest of 1.00 per cent. per annum (the "Interest Rate") payable once being 11 June 2020 (the "Interest Payment Date").

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

#### 4.7.1 Interest Amount

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

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

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

#### 4.7.2 Interest Payments

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

#### 4.7.3 Accrued Interest

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

#### 4.7.4 Prescription

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

### 4.8 Maturity and repayment

The Notes mature on 11 June 2020 (the "Maturity Date") unless the Notes have been redeemed prior to that day due to Events of Default according to Section 4.6.

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

#### 4.9 Yield

The yield on the Notes is -0.3575 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 101.3288 per cent. The yield is not an indication of future yield.

#### 4.10 Representation of noteholders

There is no representation of the noteholders.

#### 4.11 Authorisation

The Notes will be issued on Issue Date in accordance with authorisation given by the Faroese Minister of Finance on 23 May 2019.

#### 4.12 Issue Date

The Notes will be issued on 20 June 2019 (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.

The Issuer does not accept any liability for tax withheld or for collection of withholding tax irrespective of where the Notes are registered. If Issuer is obliged to withhold tax or collect withholding tax pursuant to rules introduced after the Notes have been issued, the issuer will do so, and the Issuer will not be obliged to pay any additional amounts to the Noteholders nor will the Issuer accept liability for any deduction in the amount disbursed to Noteholders.

### 4.14.1 Investors located in the Faroe Islands

Resident individuals in the Faroe Islands are subject to 35% tax on capital gains payment.

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

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

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

### 4.14.2 Investors located in Denmark and Iceland

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

For resident individuals in Denmark, payments of interest on the Notes are included in the calculation of capital income. Capital gains and losses in connection with the sale or redemption of the Notes, will be also included in the capital income, but only if the net

gains on investments in (1) the Notes and other debt obligations, (2) debt in foreign currencies or (3) non-accumulating bond investment funds; exceeds DKK 2,000. In respect of resident corporations in Denmark, payments of interest on the Notes and capital gains and losses on the Notes are included in the calculation of corporate tax. Gains and losses are calculated according to a mark-to-market principle and taxed on an accrual basis.

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

## 5. Terms and conditions of the offer

### 5.1 Nominal amount

Notes with a total principal amount of DKK 300,000,000 are being issued by the Issuer.

On Issue Date the Notes will be consolidated and form single series with the Initial Notes. The consolidated Total Principal Amount is hereafter DKK 1,345,000,000.

The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price free of charge to investors. The Notes will be closed for further issues on 11 May 2020.

### 5.2 Placing and underwriting

Nordea Danmark, Filial af Nordea Bank Abp, Finland has arranged for the Notes to be purchased by a group of institutional investors.

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

### 5.3 Issue Price

The Notes have being issued at a price of 101.3288 per cent.

### 5.4 Payment and settlement

Payment and settlement of the Notes will be effected two business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on xx June 2019. The settlement will be effected against payment and registration with VP SECURITIES A/S.

### 5.5 Account Holding Institute

The Issuer has appointed Nordea Danmark, Filial af Nordea Bank Abp, Finland 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 Iceland hf. for the trading and official listing on the main market of Nasdaq Iceland hf. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Iceland hf. is expected to have effect from 20 June 2019.

### 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 20 June 2019. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with Nasdaq Copenhagen A/S for the trading and official listing on the main market of Nasdaq Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Copenhagen A/S is expected to have effect from 20 June 2019.

## 7. Additional information

### 7.1 Audit of information

The Issuer's auditors have not audited the information contained in this Prospectus, other than the figures for the central government accounts from 2013 to 2017 specified in the Registration Document, table 7 (page 23), which have been audited by the National Audit Office and approved by The Faroese Parliament.

### 7.2 Rating

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

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

<b>Ratings Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Government Bonds - Foreign Currency	Aa3
Government Bonds - Domestic Currency	NR

On 21 February 2018, Moody's affirmed the Aa3 long-term issuer rating of the Government of the Faroe Islands with a stable outlook.

The Aa3 foreign currency rating with stable outlook for the Faroe Islands reflects a number of factors including its fiscal autonomy and revenue and expense flexibility with a track record of prudent budgeting, stable relationship with Denmark (Aaa, Stable) and a strong liquidity buffer, which mitigate the refinancing risk associated with the reliance on short term borrowing. The rating also takes into account the Faroese economy's dependence on the fishing sector, which is somewhat offset by regular fish stock control and a push to diversify the trade partners.

Further and more detailed information about the credit rating of the Faroe Islands can be obtained from: [https:// landsbankin.fo/en-gb/liquidity-and-debt/debt/rating-reports](https://landsbankin.fo/en-gb/liquidity-and-debt/debt/rating-reports)