

PROSPECTUS



FØROYA LANDSSTÝRI

THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK DENOMINATED 2 PER CENT FIXED RATE  
NOTES

10 JUNE 2009 / 11 JUNE 2012

This prospectus is published on 29 May 2009.

The Føroya Landsstýri (the "Issuer" or the "Faroese Government") is issuing Danish kroner denominated 2 per cent fixed rate notes due 11 June 2012 (the "notes") with a total nominal amount up to DKK 2,200,000,000. The notes will constitute direct, general and unconditional obligations of the Faroe Islands.

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

The Prospectus has been scrutinised and approved by the NASDAQ OMX Iceland hf. (the "Exchange") on behalf of the Financial Service Authority in Iceland, and the Prospectus constitutes a prospectus for the purposes of Directive 2003/71/EC (the "Prospectus Directive").

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

This Prospectus is available at the following places from the Arrangers: Nordea Bank Danmark A/S, Strandgade 3, DK-1401 Copenhagen K, Denmark and from Landsbanki Føroya, Yviri við Strond 15, FO-110 Tórshavn, Faroe Islands.

The Prospectus can also be obtained from the website [www.landsbankin.fo](http://www.landsbankin.fo) (look for Publications → Prospectus)

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## I. SUMMARY

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### General

The summary should be read as an introduction to and in conjunction with the entire Prospectus dated 29 May 2009. The summary is qualified in its entirety by more detailed information stated in the Registration Document and the Securities Note.

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

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

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

### The notes

On the 10 June 2009 the Faroese Government will issue Danish kroner denominated 2 per cent fixed rate notes with a total nominal amount up to DKK 2,200,000,000 subject to the terms and conditions as specified in this Prospectus. The currency of the notes is Danish kroner ("DKK") and each note will be issued with the denomination of DKK 1,000. The notes mature on 11 June 2012, unless the notes have been redeemed prior to that day, due to an Event of Default.

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

The notes will be issued and registered as dematerialised securities, in book-entry form with the Danish CSD, VP SECURITIES A/S, on Issue Date the 10 June 2009. 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 March 2012.

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

The notes will pay an annual interest of 2 per cent. The notes bear interest from and including 10 June 2009. Interest payment will be made annually in arrear on 11 June in each year beginning on 11 June 2010 and ending on 11 June 2012 (each an "Interest Payment Date"). Calculation of interest will be based on an actual/actual day count convention.

The notes are not redeemable by the Issuer prior to 11 June 2012. The noteholders may not demand redemption of the notes prior to the Maturity Day, unless there is an Event of Default.

The notes are issued in accordance with authorisation given by the Faroese Minister of Finance on 29 May 2009.

The total nominal amount of the notes to be issued and the issue price of the notes is expected to be published 8 June 2009 on NASDAQ OMX Iceland hf.

The proceeds from the issue of the notes will be used for refinancing an existing issue of notes of nominal DKK 974,000,000, which falls due for repayment on 24 November 2009 and financing of deficit of DKK 500,000,000 in the budget for 2009, which is a total amount of approximately DKK 1,525,000,000. Any proceeds from the issue of the notes in excess of DKK 1,525,000,000 will be used for refinancing the repurchase of notes from the issue of Føroya Landsstýri 3.75 per cent Fixed Rate Notes due 10 June 2018 (LB-FO 180610 ANN.) with ISIN DK0030016449.

Nordea Bank Danmark A/S and the Governmental Bank of the Faroe Islands, Landsbanki Føroya, have arranged for the notes to be purchased by a group of institutional investors.

Payment and settlement of the notes will be effected three business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 10 June 2009. The settlement will be effected against payment and registration with VP SECURITIES A/S.

The Prospectus has been approved by NASDAQ OMX Iceland hf. acting on behalf of the Financial Supervisory Authority - Iceland (FME) as the competent authority in Iceland for the purpose of the Directive 2003/71/EC (the Prospectus Directive) and the relevant laws and regulation for approval of the Prospectus. The notes have been approved on the 29 May 2009 by the NASDAQ OMX Iceland hf. for the trading and official listing on the main market (Faroese Securities Market) of the NASDAQ OMX Iceland hf., with effect from 10 June 2009.

The Prospectus will be passported to the Kingdom of Denmark prior to Issue Date on 10 June 2009. Approval of the notes for the trading and official listing on the main market of the NASDAQ OMX Copenhagen A/S is expected to have effect from the 10 June 2009.

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.

## Cost of the notes issue

The total costs of the notes issue are expected to amount to approximately DKK 4,771,520 (assuming a total nominal amount of notes DKK 2,200,000,000), including placing commission and arranging fees. The Issuer will bear the costs related to the issuance of the notes.

## Risk Factors

The Issuer believes that the following risk factors mentioned below are material to the notes and represents the principal risks associated with investing in the notes:

- Market Risk
- Liquidity Risk
- Legal Risk
- Credit Risk

There may also be risks associated with the Issuer's inability to pay interest, principal or other amounts in connection with the notes, relating to the Faroese economy; the

political environment of the Faroe Islands, and the relations between The Faroe Islands and the Kingdom of Denmark.

## Information concerning the Issuer

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

## Description of the Faroe Islands

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

The currency of the Faroe Islands is the Faroese króna, issued by the Danish National Bank. The basis of the Faroese króna is an equal amount of Danish kroner deposited in an account in the Danish National Bank. If Denmark decides to shift the currency to the euro, the Faroe Islands can be expected to follow.

The Faroe Islands legislate and govern a wide range of areas in accordance with the Home Rule Act of 1948. According to the Home Rule Act some matters are to remain the responsibility of the Danish Government as long as Faroe Islands are part of the Kingdom of Denmark.

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

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

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

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

### Exports (fob) by Product

<i>Million DKK</i>	2006	2007	2008	Table 1
				Diff. 2007 to 2008 (%)
Cod	595	641	605	-5.7
Haddock	319	323	171	-46.9
Pollock	574	495	494	-0.2
Salmon	374	493	817	65.8
Trout	99	101	138	36.7
Blue whiting	171	184	52	-71.6
Herring	123	123	146	18.9
Mackerel Atlantic	69	204	175	-14.5
Prawn	89	94	117	23.6
Other fish products	1,229	1,164	825	-29.1
<b>Total exports of fish products</b>	<b>3,642</b>	<b>3,822</b>	<b>3,540</b>	<b>-7.4</b>
Other products	151	141	178	26.4
Vessels	76	93	604	546.7
<b>Total exports of products</b>	<b>3,869</b>	<b>4,057</b>	<b>4,323</b>	<b>6.6</b>

Source: Statistics Faroe Islands

In 2006, the GDP increased more than 14% in current prices compared to the year before. With a moderate increase in consumer prices at about 2% in 2006, this indicated

significant growth. Landsbanki Føroya has estimated a 9.4% increase in the GDP in 2007, and a 4.6% increase in 2008.

In the publication "Economic Outlook for 2009 and 2010", Landsbanki Føroya states in an overall assessment, that the uncertainty is greater than usual, but the analysis indicates that most industrial groupings in the economy can expect a decline or at best unchanged contributions to the GDP in current prices in 2009 and 2010.

### National income, expenditure and saving

Table 2

<i>Million DKK</i>	2006	Estimation 2007	Estimation 2008
<b>Gross Domestic Product</b>	<b>11,878</b>	<b>13,000</b>	<b>13,600</b>
+ Wages and salaries from abroad	362		
- Wages and salaries to abroad	139		
+ Property income from abroad	675		
- Property income to abroad	449		
<b>National Income, Gross</b>	<b>12,326</b>		
+ Current transfers from abroad	977		
- Current transfers to abroad	128		
<b>National Disposable Income, Gross</b>	<b>13,174</b>		
- Final consumption expenditure	10,286		
<b>Savings, Gross</b>	<b>2,889</b>		
- Gross capital formation	2,746		
<b>Net Lending (+) / Net borrowing (-)</b>	<b>142</b>		

Source: Numbers for 2006 are based on Statistics Faroe Islands. The numbers for 2007 and 2008 are preliminary estimates by the Governmental Bank. The foreign account and investment figures for 2007 and 2008 are not available yet

### Total wage expenditure by business sector

Table 3

<i>Million DKK</i>	2006	2007	2008	Diff. 2007 to 2008 (in %)
Fishing	951	965	734	-23.9
Aquaculture	92	118	153	29.8
Fish processing	362	350	315	-10.0
Trades & Industries, Construction and Energy etc.	903	1,000	1,026	2.6
Sales and services, transport, communication etc.	1,980	2,232	2,346	5.1
Public administration and services	2,140	2,280	2,447	7.3
Other	13	14	16	13.3
<b>Total</b>	<b>6,442</b>	<b>6,958</b>	<b>7,035</b>	<b>1.1</b>

Source: Statistics Faroe Islands

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

In February 2009 there were about 24,900 employees in private and public businesses, 52% males and 48% females. There has been a moderate rise in unemployment figures from below 2% in 2007 and 2008 to 3.4% in March 2009.

## Industries

The fishery and the fishing industry are of major importance to the Faroese economy. In 2007, the total Faroese catch was 582,000 tonnes. From 2007 to 2008, the wet fish catch dropped by 7.7% by volume and by 25% by value. From January to March 2009 there has been an almost 8% fall in the export value of fish and fish products compared to the same period of 2008.

In the last three years the on-land fish industry has had difficulties recruiting labour, and the decrease in catches has had a negative effect on the industry's profit.

The fish farming industry is experiencing a positive development stage. The value of the 2007 export increased compared to 2006. In 2008, the industry exported 37,000 tonnes of salmon and trout products. The export value was high in 2008, DKK 955 million or 27% of the total export value of fish products. Both export quantity and value is expected to increase in 2009.

The construction industry in the Faroe Islands has had a significant impact on the economy. Recently, both private and public construction has been booming and compensation of employees has risen to DKK 531 million in 2008. Increased difficulties in getting funding for new investments due to the financial crisis and the poorer economic outlook may have caused problems for new investments and may therefore indicate a slow down in the construction industry from late 2008 and onwards. The newest numbers support this assertion.

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

In 1992, the Danish Government agreed to transfer the rights to mineral resources in the subsoil of the Faroe Islands to the Faroese Government. 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 a significant economic effect and expectations have become more moderate. Oil and gas explorations in the Faroese subsoil will continue in new areas in the coming years.

Four banks – Eik Banki, Føroya Banki, Norðoya Sparikassi, and Suðuroyar Sparikassi – service the financial market in the Faroe Islands. The high level of activity in the Faroese economy has given rise to greater profits within the financial sector. The total profit in the Faroese bank sector was DKK 507 in 2006 and DKK 652 million in 2007 which is the best result ever. But 2008 has proved difficult and the sector has experienced red numbers, mainly due to significant losses in Eik Banki and Norðoya Sparikassi.

The four Faroese banks all participate in the Private Contingency Association ("Bankpakke 1") and are included in the bailout fund established by the Danish government and the Danish banking sector in October 2008. Eik Banki has also opted to participate in "Bankpakke 2"



## Financial information

### Public Account

**Table 4**

<i>Million DKK</i>	Realized 2006	Realized 2007	Realized 2008	Budget 2009
Total revenues	5,750	6,870	5,987	5,369
Total expenses	5,075	5,428	6,337	6,171
<b>Operating Revenues</b>				
Taxes	3,482	3,799	3,759	3,612
<i>Direct tax</i>	1,676	1,786	1,826	1,805
<i>Indirect tax</i>	1,806	2,013	1,934	1,807
Intergovernmental rev.	781	814	816	789
<i>From the state (gen. grants)</i>	658	668	652	672
<i>From municipalities and gov. inst.</i>	123	145	164	117
Other	850	862	908	841
<b>Total operating revenues</b>	<b>5,113</b>	<b>5,475</b>	<b>5,483</b>	<b>5,241</b>
<b>Operating expenses</b>				
Adm. & personnel costs	1,775	1,893	2,036	2,170
General expenses	2,878	3,125	3,407	3,220
Interest expenses	51	81	109	118
<b>Total operating expenses</b>	<b>4,704</b>	<b>5,100</b>	<b>5,551</b>	<b>5,508</b>
<b>Gross Operating Balance</b>	<b>409</b>	<b>375</b>	<b>-68</b>	<b>-267</b>
<b>CAPITAL REVENUES</b>				
Asset sales and repayments	636	1395	503	128
<b>Total capital revenues</b>	<b>636</b>	<b>1395</b>	<b>503</b>	<b>128</b>
<b>CAPITAL EXPENSES</b>				
Investments	227	270	217	198
Asset purchases and lending	144	58	569	465
<b>Total capital expenses</b>	<b>372</b>	<b>328</b>	<b>786</b>	<b>663</b>
<b>Gross Capital Balance</b>	<b>265</b>	<b>1,068</b>	<b>-282</b>	<b>-535</b>
<b>Financing Surplus/Deficit (-)</b>	<b>674</b>	<b>1,443</b>	<b>-350</b>	<b>-802</b>

Source: The Faroese Government Accounts

### Assets and liabilities

**Table 5**

<i>Million DKK</i>	2007	2008
<b>ASSETS</b>		
Deposits in the Faroese Governmental Bank	2,465	2,318
Others in circulation	949	949
Financial assets	1,339	1,217
<b>Total assets</b>	<b>4,753</b>	<b>4,484</b>
<b>LIABILITIES</b>		
Kingdom of Denmark	500	500
Bond Loan	2,149	2,109
Other Debt	718	719
<b>Total debt</b>	<b>3,367</b>	<b>3,328</b>
<b>Net assets</b>	<b>1,386</b>	<b>1,156</b>

Source: The Governmental Bank

### Outstanding bonds

**Table 6**

<i>Million DKK</i>	Annual Coupon	Maturity date	Present Structure	Structure after 10 June 2009
FO-LB 091124 Blt	5.25%	24-nov-09	974	
FO-LB 120611 Blt	2%	11-jun-12		2,200*
FO-LB 100601 Blt	3.5%	01-jun-10	550	550
FO-LB 180610 Ann	3.5%	10-jun-18	607	0*
<b>Outstanding Bonds</b>			<b>2,131</b>	<b>2,750*</b>

\* Depending on the total nominal amount of the issue of FO-LB 120611 Blt. DKK 2,200,000,000 being the max. total nominal amount

Source: Landsbanki Føroya

**Balance of Payments****Table 7**

<i>Million DKK</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Goods	-722	-600	-1,277	-690
Services	-548	-555		
<b>Goods and Services</b>	<b>-1,271</b>	<b>1,155</b>		
Wages	203	222		
Rents	290	226		
<b>Income Transfers</b>	<b>492</b>	<b>448</b>		
Government Sector	747	736		
Other sectors	50	113		
Bond Loan	2,225	2,149		
<b>Other Transfers</b>	<b>797</b>	<b>849</b>		
<b>Balance of Payments</b>	<b>19</b>	<b>142</b>		

Source: Statistics Faroe Islands

**Financial Assets****Table 8**

<i>Million DKK</i>	<b>2007</b>	<b>2008</b>
Total financial assets	2,910	2,764
- of which abroad	1,941	1,671

Source: The Governmental Bank

## Auditing Procedures

The annual budget of the Faroe Islands is approved by the Faroese Parliament before 1 January of the following year. All government investments and other expenditures have to be approved in the budget for the year in question. The accounts and bookkeeping of the government exchequer are audited by the National Audit Office. Once audited, the books are passed on to a committee consisting of members selected by the Faroese Parliament. The accounts are finally approved by the Parliament together with the auditing report.

## Trends

In addition to the estimates of the future development in the Faroese economy as specified in the description above, the financial crisis and the uncertainty regarding the global economy makes it more difficult than usual to evaluate the outlook for the Faroese economy. The economic trend in 2009 can only to a certain extent be seen as a continuation of previous developments. The financial institutions are expected to be cautious in giving loans as a consequence of the slow down in the domestic and global economy, together with higher financial costs. This will be relevant to both households and the business sector.

## Arranger and advisor

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

## Documents on display

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

### Landsbanki Føroya, the Governmental Bank

- Economic Assessment (published annually)
  - Economic Outlook 2009 and 2010 (published 14 April 2009)
- Information Memorandum, (published annually)
- Moody's Investor Service's latest rating documents concerning the Faroese Government

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

Homepage: [www.landsbankin.fo](http://www.landsbankin.fo)

### Hagstova Føroya, Statistics Faroe Islands

Comprehensive statistical database covering Demographic, Business and Economic Statistics etc. Additional information in the booklet: Faroe Islands in figures 2008

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

### Fíggjarmálaráðið, the Ministry of Finance

The public budget and account (in Faroese only)

Homepage: [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)

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

### Løgmansskrivstovan, Prime Minister's Office

Information about political matters in the Faroe Islands

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

## The High Commissioner of the Faroe Island

Annual report on the Faroe Islands (in Danish only)

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

## II. REGISTRATION DOCUMENT

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## 1. Risk Factors

Investors should read this Registration Document carefully. Investing in the notes involves certain risks that may affect the Issuer's ability to fulfil its obligations under the notes, and which the investor should take in to consideration prior to deciding to make an investment in the notes. Most of the risk factors mentioned below are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of such contingencies occurring. Investors should consider, among other things, the following.

### 1.1 The Faroese economy

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

The uncertainty surrounding the near term economic outlook is greater than usual. It is estimated that most industrial groupings in the economy can expect a decline or at best unchanged contributions to the GDP in current prices in 2009 and 2010.

That the treasury can expect decline of almost 1 pct in operating expenses in 2009 compared to 2008, even with a deficit of 500 – 600 mill DKK means that the decline in GDP will be bigger than previously anticipated. The assessment is therefore that GDP in current prices could decline by 3%-5% in 2009. The uncertainty is of course greater in 2010. The assessment is therefore a decline of 1%-6% compared to 2009.

The unemployment rate was 1.3% on average in 2008. At the end of March 2009, the unemployment was 2.9% and The Governmental Bank expects that unemployment will average 4% in 2009. The neighbouring countries' increasing unemployment will make it more difficult for Faroese to find employment abroad. This could lead to increasing unemployment in the short term. The net growth of the workforce (those that gain working age minus those that move into retirement age) can be estimated to be 150-200 annually, compared to 400-450 for 15-20 years ago. The pressure on emigration and unemployment is therefore much smaller than for example in the crisis years in the nineties.

As a food exporting country, the effects on the Faroese economy from the global economic slowdown is expected to be relatively mild compared to most other and larger industrialized economies. However, there are indications that the effect on GDP will be at least as measurable as in the larger neighbouring countries.

This is presumably linked to the weak state of the fish stocks exploited by the Faroe Islands, and to the government's revenue and expenditure policy, which increases the treasury's deficit, while the level of operating expenditures is reduced at the same time.

The Faroese economy has, in our opinion, been affected less by the financial crisis than other larger economies that it cooperates and trades goods and services with. The direct effects are more linked to the decline in the real economy of the trading partners of the Faroese economy.

Worsening outlooks in the surrounding world affect the Faroese economy in different ways. E.g., in the first half of 2008, energy and food prices increased markedly, only to decline significantly and in tandem with the global economic slump in the second half of 2008. In the same period, the international interest rate level was very volatile with significantly falling levels in late 2008 and early 2009. Prospects are for lower interest rates for the rest of 2009. One effect of the global economic slump is also lower import

prices for the Faroese economy in the coming years. The terms of trade for the Faroese economy are also likely to improve as a result of the global economic slump.

The Faroese banks are first and foremost affected by the international financial crisis through increased financing costs. This has affected their capacity to lend to households and companies in the Faroe Islands. Likewise, the level of equity in securities and fixed assets has fallen considerably since the autumn of 2007. This together with the uncertainty surrounding the economic outlook the coming years affects households, in that they tend to reduce consumption and increase savings rates.

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

The influence from the oil industry has not yet had the economic effect that was expected when the explorations first took place. Expectations have become more moderate.

Company mergers and acquisitions are continuing. To the extent this leads to increased productivity this has a positive effect on the economy. It is difficult to estimate the prospects for this, but structural changes that further increase productivity are a clear prerequisite for economic growth in coming years.

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

Any negative changes in the political environment of the Faroe Islands or in the relations between The Faroe Islands and Denmark may also affect 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 Registration Document is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Jóannes Eidesgaard  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 29 May 2009

Petur Alberg Lamhauge  
Director  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 29 May 2009

### 2.2 Statements from the Arrangers

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

Sigurd Poulsen  
Managing Director  
Landsbanki Føroya  
Tórshavn, 29 May 2009

Jens Erik Magnussen  
Deputy Director  
Landsbanki Føroya  
Tórshavn, 29 May 2009



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Copenhagen, 29 May 2009

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### 3. Information about the Issuer

#### 3.1 Name of Issuer

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  
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##### The Faroese Parliament (Føroya Løgting):

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##### The Governmental Bank of the Faroe Islands:

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#### 3.3 Recent developments

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

### 3.4 Economy

The Faroe Islands is a modern, developed society with a standard of living comparable to other Nordic countries, with disposable income about 80% of Denmark's according to Credit Analysis Report from Moody's Investors Service from March 2008 (available at <http://www.landsbankin.fo>. See under Publications). However, the economy is not yet as diversified as in other highly developed countries.

Fishery and related industries are of such importance that its influence determines the overall performance of the Faroese economy. This dependence on a resource-based industry is evident in the export-figures, of which fish products account for about 95% of the export value.

#### Exports (fob) by Product

<i>Million DKK</i>	2006	2007	2008	<b>Table 1</b>
				Diff. 2007 to 2008 (in %)
Cod	595	641	605	-5.7
Haddock	319	323	171	-46.9
Pollock	574	495	494	-0.2
Salmon	374	493	817	65.8
Trout	99	101	138	36.7
Blue whiting	171	184	52	-71.6
Herring	123	123	146	18.9
Mackerel Atlantic	69	204	175	-14.5
Prawn	89	94	117	23.6
Other fish products	1,229	1,164	825	-29.1
<b>Total exports of fish products</b>	<b>3,642</b>	<b>3,822</b>	<b>3,540</b>	<b>-7.4</b>
Other products	151	141	178	26.4
Vessels	76	93	604	546.7
<b>Total exports of products</b>	<b>3,869</b>	<b>4,057</b>	<b>4,323</b>	<b>6.6</b>

Source: Statistics Faroe Islands

An economy with high dependence on fish products and exportation 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 dependant, a big increase in the oil price also constitutes a risk factor for the Faroese economy.

The Faroe Islands had high GDP growth rates in 2000 and 2001 - over 10% in current prices. The growth rates slowed in 2002-2005 to a yearly increase averaging 2%. In 2006, the GDP increased more than 14% in current prices compared to the year before. With a moderate increase in consumer prices at about 2% in 2006, this indicated significant growth. Landsbanki Føroya has estimated a 9.3% increase in the GDP in 2007, and a 3.5% increase in 2008, based on the assumption that the total wage expenditure increase in 2008 does not exceed 2.7%.

The high growth in 2006 and 2007 can be explained by an increase in credit-financed private consumption, and investment growth.

In the publication "Economic Outlook 2009 and 2010", Landsbanki Føroya states in an overall assessment, that the uncertainty is greater than usual, but the analysis indicates that most industrial groupings in the economy can expect a decline or at best unchanged contributions to the GDP in current prices in 2009 and 2010.

The estimated moderate growth or decline in 2008, 2009 and 2010 may have several reasons. One is a significant fall in value of fresh fish catches in 2008 and up to the present of 2009 compared to the previous years. Others include a more stagnant private house market, an increase in nominal interest rates, credit constraints, and inflation stemming from higher consumer good prices and significantly higher oil prices. Higher oil prices also mean the Faroese fishing fleet incur higher operating costs. The recent decline in oil prices will benefit the fishing industry, while high financing costs and low fish prices will hurt operations.

The growth rate in total wage expenditure in the Faroe Islands has on average been 5.9% for the years 2001 to 2007. The growth in total wage expenditure was above average in 2006 and 2007, while the growth in 2008 was well below average. The fall in total wage expenditure from January to April 2009 was 3.7% compared with the same period in 2008.

### Total wage expenditure by business sector

**Table 2**

<i>Million DKK</i>	2006	2007	2008	Diff. 2007 to 2008 (in %)
Fishing	951	965	734	-23.9
Aquaculture	92	118	153	29.8
Fish processing	362	350	315	-10.0
Trades & Industries, Construction and Energy etc.	903	1,000	1,026	2.6
Sales and services, transport, communication etc.	1,980	2,232	2,346	5.1
Public administration and services	2,140	2,280	2,447	7.3
Other	13	14	16	13.3
<b>Total</b>	<b>6,442</b>	<b>6,958</b>	<b>7,035</b>	<b>1.1</b>

Source: Statistics Faroe Islands

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

In February 2009 there were about 24,900 employees in private and public businesses, 52% males and 48% females.

According to a labour survey from November 2007, 81% of the male employee and 51% of the female employee are full time employed.

There has been a significant decrease from 2008 to 2009 of about 10% in the number of employees in the fishing industry and the construction sector compared to the numbers employed in these sectors about a year ago. The total number of employees has dropped by 3.4% in the first quarter of 2009 compared to the same period of 2008.

There has been a moderate rise in the unemployment figures from below 2% in 2007 and 2008 to 3.4% in March 2009.

## 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 have 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. 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.

In 2007, the total Faroese catch was 582,000 tonnes. 231,000 tonnes or 40% were fished in Faroese fishing areas. Of the total catches, wet fish accounted for about 131,000 tonnes, which were mainly fished in Faroese waters. However, more than 60% of the total Cod catches in 2007 was fished in foreign fishing areas like the Barents Sea and East Greenland - mainly caused by a significant fall in the catches of Cod in Faroese waters over the last 3 years. Most of the Cod fished in foreign waters is caught by big filleting trawlers.

From 2007 to 2008, the wet fish catch dropped by 7.7% by volume and 22.5% by value. The catch was nearly the same from January to March 2009 compared to same period in 2008, while the catch value dropped by 32%.

The export value of fish products peaked in 2001 with DKK 4.2 billion. In 2003-2004, the prices were lower again, but the total catch was one of the best ever. Prices were rising in 2005 and 2006, but were lower again in 2007. Good catches in 2007 compensated for the fall in price and export value increased with 4% compared to the year before. The general increase in prices and the overall growth in the catch within the Faroese exclusive economic zone have resulted in an elevation of the export value. From 2000 to 2007 the export value of fish products has been comparatively high and stable.

In 2008 the export value of fish products has decreased 7.4% compared to the previous year. From January to March 2009 there has been an almost 8% fall in the export value of fish and fish products compared to the same period of 2008. The fall in volume in the same period has been nearly 44%, which mainly comes from a big fall in the catches of blue whiting.

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

After the economic crisis in the Faroe Islands in 1992, the on-land fish industry went through a reconstruction, and the number of plants was reduced to fewer, bigger, or more specialised plants. The filleting factories are producing a range of fresh, iced, and frozen products to the retail and food service markets. About 26% of the total fish export value in 2008 was fresh, frozen, or salted fillets: DKK 420 million Cod fillets (8,289 tonnes), DKK 77 million Haddock fillets (2,512 tonnes), and DKK 428 million Saithe fillets (21,000 tonnes). 3.7% of the total export value of fish DKK 134 million (2,841 tonnes) was Salted Cod.

The fish fillet plants are dependent on a stable supply of raw material. This has led to vertical integration of some plants and ships. Other smaller factories produce more specialised fish products.

The export of fried fishmeal and fish feed produced from pelagic species was about 29,500 tonnes in 2008. The export value was DKK 165 million, which is 4.7% of the total export value of fish products. There are reasons to expect considerable reductions in the production of fishmeal due to large cuts in the allowable catch of Blue Whiting in 2009.

### ***Aquaculture***

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

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

In 2008, the industry exported 37,000 tonnes of salmon and trout products. The export value was high in 2008, DKK 955 million or 27% of the total export value of fish products. Both export quantity and value is expected to increase in 2009.

From January to March 2009, the export value of farmed fish was DKK 280 million, an increase of 59% compared to the same period in 2008. The increase in volume was 55%.

Compensation of employees in the aquaculture industry was DKK 153 million in 2008, which is about 30% higher than the previous year. From January to March 2009, the compensation of employees increased with about 25% compared to the same period in 2008.

### ***Construction***

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

Recently, both private and public construction has been booming and compensation of employees has risen to DKK 531 million in 2008. This figure is 7.4% higher than in 2007. Construction activity has slowed down from the end of 2008 and in the first quarter of 2009. In January to April 2009 the compensation of employees in the construction sector fell with 12%.

Increased difficulties in getting funding for new investments due to the financial crisis and the poorer economic outlook may have caused problems for new investments and this has led to the slow down in the construction industry from late 2008.

### ***Transport & Communication***

#### *Internal*

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

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

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

Both passenger and cargo transport is provided daily to all but two of the inhabited islands and most villages. Ferries and helicopter services are available to the islands that are not directly linked to the road system, and bus service is the most common form of transport for all other areas. As of the 1st of January 2009, there were 20,293 registered private cars, which reflect 416 per 1,000 inhabitants.

Since the beginning of 2009 the import of new cars has fallen dramatically to almost nothing.

### *External*

The national airline carrier of the Faroe Islands, Atlantic Airways, is currently the only operator which is offering routes to and from the Faroe Islands. Depending on the season, there are four to seven daily flights to Denmark (Copenhagen and Billund). There are also several flights each week to Iceland, Norway, and UK depending on the season. In 2008, 221,942 passengers travelled through Vagar Airport, which is 2.2% more than in 2007.

On 1 May 2007, the Vagar Airport was taken over from the Danish Authorities by a Faroese public limited company. A building project budgeted at DKK 365 million will offer better transit facilities, and the runway will be extended to 1.6 km. The project is financed by the de-capitalisation of the Investment Fund (Ílleggingargrunninum) with a corresponding amount.

The ferry *Norröna* (a combined cruise/cargo ship that can carry roughly 1,500 passengers and 800 cars) offers weekly service to Denmark and Iceland. Nearly 64,355 passengers travelled to the Faroe Islands by sea in 2008, which are 5,000 fewer passengers than in 2007. The limited company *Smyril Line* which runs *Norröna* was restructured in November last year with 70% write down of existing shares, DKK 40 million in new share capital (DKK 30 million from the government), conversion of DKK 30 million of subordinated loans to equity and new loans of DKK 26 million. The business model has been changed such that the ferry only sails between Iceland, Faroe Islands and Denmark from 1st January 2009.

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

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

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

### ***Telecommunication***

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

Some minor companies also operate in the telecommunication sector.

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

In 2008 there were about 16,000 satellite or cable television subscribers.

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

The Postal and Telecom Surveillance Authority's ([www.fse.fo](http://www.fse.fo)) Telecom statistics - second half of 2008 are sources for Telecommunication

### ***Tourism***

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

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

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

Recent indications from the tourism industry indicate that the growth in the tourist industry has come to a temporary standstill.

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

### ***Oil***

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

So far the explorations have discovered no commercial findings, but they have showed the presence of an active hydrocarbon system in Faroese subsurface. The influence from the oil industry has not yet had the economic effect that was expected when the explorations first took place. Expectations have become more moderate, as fewer oil companies were interested when the 3rd licensing round was held in November 2008. At present oil companies hold 11 licenses. Three consortia applied for licenses in the 3rd round.

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

### ***The Financial Market***

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

Four banks – Eik Banki, Føroya Banki, Norðoya Sparikassi, and Suðuroyar Sparikassi – service the financial market in the Faroe Islands.



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

The Faroese economy enjoyed a period of high economic activity during 2006-2007, which gave rise to greater profits within the financial sector. But 2008 has proved to be very challenging year for the sector.

Eik Banki (until December 2006 Føroya Sparikassi) had good profits from operations in 2006 (DKK 307 million) and in 2007 (DKK 465 million), but came out with a heavy loss in 2008, (DKK -416 million before tax). The loss mostly stems from write downs of assets in Denmark and value adjusted securities. However, profits from core operations have grown consistently, from DDK 250 million in 2006 to DDK 392 million in 2008. It expects profits from core operations in 2009 to be around DKK 350 million Eik Banki is participating in both "Bankpakke 1" and "Bankpakke 2" and this is expected to adversely affect the result for 2009 by DKK 122 million. At year end 2008 Eik Grunnurin (the Eik Fund) held 52% of shares in Eik Banki. See [www.eik.fo](http://www.eik.fo) for more information.

The formerly publicly owned Føroya Banki has shown good profits in 2006 (DKK 193 million) and in 2007 (DKK 180 million) from operations. Somewhat surprisingly Føroya Banki managed to display a record profit of DKK 200 million in 2008. The reason Føroya Banki is relatively unscathed by the financial crises, stems from its limited exposure abroad. The Faroese housing market has proved very robust, and write downs in this field have been limited, in contrast to many other countries. In an attempt to move activity abroad, Føroya Banki has established Føroya Banki Ltd. in Denmark, but operations in this new market have so far been limited. The Faroese Government sold 2/3 of its' shares in Føroya Banki, when the bank was listed in 2007, but the Faroese Government still holds 1/3 of the shares. See [www.foroya.fo](http://www.foroya.fo) for more information.

Føroya Banki was rated by Moody's Investor Service on 7 April 2009. Moody's Investors Service assigned a C- Bank Financial Strength Rating ("BFSR") to the Faroese bank P/F Føroya Banki as well as A3 long-term and Prime-2 short-term local and foreign currency deposit ratings. The outlooks on all ratings are stable.

Both Eik Banki and Føroya Banki were listed on the NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S in 2007.

Two small banks, Norðoya Sparikassi and Suðuroyar Sparikassi complete the Faroese banking sector. With DKK 31 million in pre-tax profits in 2006 and DKK 30 million in 2007, Norðoya Sparikassi suffered a loss of DKK -64 million in 2008, which to a large degree stems from losses in the local fishing industry, situated in and around Klaksvík, the second largest city in the Faroe Islands.

The smallest bank, Suðuroyar Sparikassi with DKK 2 million pre-tax profits in 2006 and DKK 4 million in 2007, just about broke even in 2008. See their respective home pages: [www.ns.fo](http://www.ns.fo) and [www.sparsu.fo](http://www.sparsu.fo).

According to the 2008 report on the Faroe Islands by the High Commissioner of The Faroe Islands (page 75), the total profit in the Faroese bank sector was DKK 507 in 2006 and DKK 652 million in 2007 which was the best result ever. However things changed drastically in 2008 where the sector displays red numbers, caused by heavy losses in Eik Banki and Norðoya Sparikassi. The 2008 report (in Danish only) can be found on the homepage of the High Commissioner of The Faroe Islands: [www.rigsombudsmanden.fo](http://www.rigsombudsmanden.fo)

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

In June 2008 a new insurance industry law passed by the Faroese Parliament came into force. In conformity with the insurance industry law from 1997, the monopoly was abolished and a Faroese Insurance Supervisory Body was appointed. This allowed any Faroese company complying with statutory requirements to enter the insurance business on the condition that they obtain permission from the Faroese Government 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 years, competition has increased in the life insurance market. The public owned company Føroya Lívstrygging (also a pension and life insurance company established in 1967) became a limited company in 2000. The Tryggingarfelagið Føroyar company TF Holding established in February 2007 a new pension and life insurance company Betri Pensjón Ltd.

In October 2008, the Danish government and the Danish banking sector took measures to ensure financial stability. The Danish government and the Danish banking sector through the Private Contingency Association agreed on a bailout fund to cope with further liquidity and funding problems in the Danish banking sector. The bailout fund will, for a two-year period, guarantee all (except claims covered by other means, see next paragraph) senior unsecured claims i.e. deposits, senior unsecured bonds, inter-bank deposits for the banks participating. The two-year period may be extended if necessary.

Claims covered by other means – e.g. deposits in the deposit protection scheme and covered bonds – are not included but will continue to be covered by existing arrangements. Subordinated debt (i.e. subordinated capital and hybrid capital) and equity will not be covered by the fund. Only banks participating in the Private Contingency Association are included in the bailout fund. Virtually all banks in Denmark and on the Faroe Islands, including foreign owned daughter banks, contribute to the association. On a mutual basis, the Danish banking sector will finance up to DKK 35bn where after the government will provide additional unlimited guarantee if needed. The banks participating will not be allowed to pay cash dividends or make share buybacks during the two-year period.

Eik Banki, Føroya Banki, Norðoya Sparikassi, and Suðuroyar Sparikassi all participates in the Private Contingency Association and are included in the bailout fund, which is commonly referred to as “Bankpakke1”.

More information about the Private Contingency Association and the bailout fund can be found on the Danish Bankers Association’s homepage [www.finansraadet.dk](http://www.finansraadet.dk) (see under “About the Danish Bankers Association”).

During the latter part of 2008, it became clear that “Bankpakke 1” was not enough to ensure the stability of the Danish banking sector and as a result, “Bankpakke 2” was passed through parliament. This package makes available cash injections in the form of hybrid capital to all banks within the Danish Kingdom, including the Faroese banks, and is designed to bolster the balance sheet of troubled banks, thereby making it easier for them to meet capital requirements. The intention is to get the financial sector normalized and ensure ample supply of credit to households and institutions.

On the Faroe Islands, only Eik Banki has so far decided to apply for funds (DKK 550 million) from "Bankpakke2".

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

The Faroese Securities Market, the limited company VMF (P/F Virðisbrævamarknaður Føroya) that was founded in 2000 in cooperation with the Iceland Stock Exchange, now the NASDAQ OMX Iceland hf., had its first three bond-listings in 2003. The Faroese Government bonds expiring in 2008, 2010 and 2018 were listed on the market with varying durations, when the Faroese Government decided to re-finance the DKK 3,074 million debt with the Danish State. The Government listed a new one year bond series of 974 Million DKK in November 2008. The proceeds were used to refinance an expiring bond series.

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

Four companies are now listed on the Faroese Securities Market on NASDAQ OMX Iceland hf.: Eik Banki, Føroya Banki, Atlantic Petroleum, and Atlantic Airways. All four companies are also double listed on NASDAQ OMX Copenhagen A/S.

### ***Currency***

The currency of the Faroe Islands is the Faroese króna, and is issued by the Danish National Bank. The Danish National 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 National Bank. Although the bank notes used in the Faroe Islands are Faroese, the coins are the same as those in circulation in the remainder of the Danish Kingdom. Faroese and Danish bank notes are fungible in the Faroe Islands. The Danish National Bank is the lender of last resort and all local Faroese accounts are denominated in Danish kroner.

If Denmark decides to shift the currency to the euro, the Faroe Islands can be expected to follow.

## **3.5 Gross Domestic Product**

### **National income, expenditure and saving**

**Table 3**

<i>Million DKK</i>	2006	Estimation 2007	Estimation 2008
<b>Gross Domestic Product</b>	<b>11,878</b>	<b>13,000</b>	<b>13,600</b>
+ Wages and salaries from abroad	362		
- Wages and salaries to abroad	139		
+ Property income from abroad	675		
- Property income to abroad	449		
<b>National Income, Gross</b>	<b>12,326</b>		
+ Current transfers from abroad	977		
- Current transfers to abroad	128		
<b>National Disposable Income, Gross</b>	<b>13,174</b>		
- Final consumption expenditure	10,286		
<b>Savings, Gross</b>	<b>2,889</b>		
- Gross capital formation	2,746		
<b>Net Lending (+) / Net borrowing (-)</b>	<b>142</b>		

**Source:** Numbers for 2006 are based on Statistics Faroe Islands. The numbers for 2007 and 2008 are preliminary estimates by the Governmental Bank. The foreign account and investment figures for 2007 and 2008 are not available yet

### 3.6 Description of the Issuer's political system and government

The Faroe Islands is 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 Home Rule Act of 1948. 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 Faroe Islands are part of the Kingdom of Denmark. Examples are foreign policy and defence policy.

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

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

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

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

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

#### ***Present Government***

The Faroese Government (Landsstýri) consists of at least two Cabinet ministers led by the Prime Minister. The present cabinet is comprised of 9 ministers, including the Prime Minister. The Faroese Government coalition is currently made up of representatives from the Unionist Party, the People's Party and the Social Democrats.

## 4. Public Finance and Trade

### 4.1 The Tax and Budgetary Systems

#### Income Taxes

Income tax levied by the Customs and Tax Administration is calculated on a sliding scale, with various allowances having the highest marginal rate of 33% in 2009. However, municipal taxes are calculated on a fixed rate.

A gross tax system was introduced in 1997. This means that instead of providing for tax deductions, specific subsidies are allowed to compensate for certain expenses. Basic personal allowance is DKK 30,000, which can be transferred between husband and wife. For each child under 18 years the annual income is deduced by DKK 5,500.

Municipal taxes are assessed using the same calculation of income as that of the Customs and Tax Administration, except that a flat tax rate is used. The economic situations of the municipalities differ greatly. In 2008, municipal taxes ranged from 16% to 23.5%. On average, the tax is 20.78%. For each child under 18 years the annual income is deduced with between DKK 3,000 and DKK 6,500 depending upon in which municipality one resides.

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

## Corporate Taxes

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

Corporate taxes before 1999 were 27%, but have since been lowered to 18%. Of the tax amounts, 62% is paid to the Faroese Treasury, and the remaining 38% to the local municipal authorities.

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

Corporations that are not liable to collect VAT pay a special tax based on total paid wages and salaries – financial services pay 5% and private sector health services pay 2.5%.

Shipping firms with ships registered in the Faroese International Shipregister (FAS), will get back 30% of wages and other payment paid to persons liable to pay taxes in the Faroe Islands.

## 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 invoice value) and excise duties on some consumption items.

## The budgetary system

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

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

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

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

Investments in 2008 were DKK 228 million. Most of the investments went to education and culture (DKK 107 million), health and social security (DKK 64 million) and transport and communication (DKK 54 million).

The largest, single-item expenditure on the public account was Social Security and Pensions DKK 1.5 billion. Of this, DKK 288 million went to social security, DKK 480 million to home-based care, care of elderly and handicapped, DKK 393 million to the National Pension Scheme and DKK 238 million to National Supplementary Disability Pensions.

The public income in 2008 was about DKK 4.5 billion. Of this DKK 3.8 billion comes from income and corporate taxes (DKK 1.8 billion) and VAT and duties (DKK 1.9 billion), DKK 633 million was block grant from Denmark and income from share returns and interests was about DKK 50 million.

The Public Account surplus was about DKK -330 million in 2008.

## 4.2 Gross Public Debt

### Assets and liabilities

Table 4

<i>Million DKK</i>	2007	2008
<b>ASSETS</b>		
Deposits in Faroese Gov. Bank	2,465	2,318
Others in circulation	949	949
Financial assets	1,339	1,217
<b>Total assets</b>	<b>4,753</b>	<b>4,484</b>
<b>LIABILITIES</b>		
Kingdom of Denmark	500	500
Bond Loan	2,149	2,109
Other Debt	718	719
<b>Total debt</b>	<b>3,367</b>	<b>3,328</b>
<b>Net assets</b>	<b>1,386</b>	<b>1,156</b>

Source: The Governmental Bank

### Outstanding bonds

Table 5

	Annual Coupon	Maturity date	Present Structure (DKKm)	Structure after 10 June 2009 (DKKm)
FO-LB 091124 Bit	5.25%	24-nov-09	974	
FO-LB 120611	2%	11-jun-12		2,200*
FO-LB 100601 Bit	3.5%	01-jun-10	550	550
FO-LB 180610 Ann	3.5%	10-jun-18	607	0*
<b>Outstanding Bonds</b>			<b>2,131</b>	<b>2,750*</b>

\* Depending on the total nominal amount of the issue of FO-LB 120611 Bit. DKK 2,200,000,000 being the max. total nominal amount

Source: The Governmental Bank

The Faroese Government has always repaid debt, and has never been in default.

## 4.3 Foreign Trade and Balance of Payments

### Balance of Payments

Table 6

<i>Million DKK</i>	2005	2006	2007	2008
Goods	-722	-600	-1,277	-690
Services	-548	-555		
<b>Goods and Services</b>	<b>-1,271</b>	<b>1,155</b>		
Wages	203	222		
Rents	290	226		
<b>Income Transfers</b>	<b>492</b>	<b>448</b>		
Government Sector	747	736		
Other sectors	50	113		
Bond Loan	2,225	2,149		
<b>Other Transfers</b>	<b>797</b>	<b>849</b>		
<b>Balance of Payments</b>	<b>19</b>	<b>142</b>		

Source: Statistics Faroe Islands

## 4.4 Foreign Exchange Reserves

Landsbanki Føroya does not hold specific foreign exchange reserves, as the Faroe Islands is a part of the Danish currency area. However, a part of Landsbanki Føroya's financial assets are placed in assets held outside the Faroe Islands, as specified in the table below. The assets outside the Faroes are mainly placed in government bonds and Danish mortgage bonds - which can be used as collateral within limits in an overdraft facility or as collateral in repo-agreements - and as deposits in banks with good rating.

### Financial Assets

**Table 7**

<i>Million DKK</i>	2007	2008
Total financial assets	2,910	2,764
- of which abroad	1,941	1,671

Source: The Governmental Bank

## 4.5 Income and Expenses

### Public Account

**Table 8**

<i>Million DKK</i>	Realized 2006	Realized 2007	Realized 2008	Budget 2009
Total revenues	5,750	6,870	5,987	5,369
Total expenses	5,075	5,428	6,337	6,171
<b>Operating Revenues</b>				
Taxes	3,482	3,799	3,759	3,612
<i>Direct tax</i>	1,676	1,786	1,826	1,805
<i>Indirect tax</i>	1,806	2,013	1,934	1,807
Intergovernmental rev.	781	814	816	789
<i>From the state (gen. grants)</i>	658	668	652	672
<i>From municipalities and gov. inst.</i>	123	145	164	117
Other	850	862	908	841
<b>Total operating revenues</b>	<b>5,113</b>	<b>5,475</b>	<b>5,483</b>	<b>5,241</b>
<b>Operating expenses</b>				
Adm. & personnel costs	1,775	1,893	2,036	2,170
General expenses	2,878	3,125	3,407	3,220
Interest expenses	51	81	109	118
<b>Total operating expenses</b>	<b>4,704</b>	<b>5,100</b>	<b>5,551</b>	<b>5,508</b>
<b>Gross Operating Balance</b>	<b>409</b>	<b>375</b>	<b>-68</b>	<b>-267</b>
<b>CAPITAL REVENUES</b>				
Asset sales and repayments	636	1395	503	128
<b>Total capital revenues</b>	<b>636</b>	<b>1395</b>	<b>503</b>	<b>128</b>
<b>CAPITAL EXPENSES</b>				
Investments	227	270	217	198
Asset purchases and lending	144	58	569	465
<b>Total capital expenses</b>	<b>372</b>	<b>328</b>	<b>786</b>	<b>663</b>
<b>Gross Capital Balance</b>	<b>265</b>	<b>1,068</b>	<b>-282</b>	<b>-535</b>
<b>Financing Surplus/Deficit (-)</b>	<b>674</b>	<b>1,443</b>	<b>-350</b>	<b>-802</b>

Source: The Faroese Department of Accounting



## 4.6 Auditing Procedures

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

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

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

## 5. Significant Changes

In the opinion of the Issuer there have been no significant changes to the information in the Registration Document, Section 4 above, since the end of the last fiscal year 2008, other than already described in Section 4.

## 6. Legal and Arbitration proceedings

The Faroese Government 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 significant effect on the Issuers financial position.

The Faroese Government has no immunity from legal proceeding in relation to the notes.

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

The Faroe Islands holds a credit rating with Moody’s Investors Service, who on 7 May 2009 affirmed an Aa2 long-term foreign currency rating to the Faroe Islands.

Ratings Category	Moody's Rating
Outlook	Stable
Government Bonds - Foreign Currency	Aa2
Government Bonds - Domestic Currency	NR

In the summary of the Credit Opinion Moody’s Investor Services states that the Aa2 foreign currency rating with stable outlook for the Faroe Islands reflects a Baseline Credit Assessment (BCA) of 5 (on a scale of 1 to 21, where 1 represents the lowest credit risk) and a high likelihood that the Kingdom of Denmark (Aaa, stable) would act to prevent a default by the islands.

The Faroe Islands' BCA of 5 reflects a number of factors, including their economic strength and increasing diversification. The BCA also reflects the government's powers to raise revenues through taxation and fees and to control spending as well as the strong financial results achieved since 1995. The Faroese government maintains ample reserves, while the debt level is moderate and decreasing and the interest burden falling. The BCA takes into account the islands' relationship within the Kingdom of Denmark and the subsidies it receives for joint matters, which it administers in conjunction with the Kingdom of Denmark. The support (see below) also take into account the establishment of the settled relationship the Faroese have with Denmark in the consideration of further autonomy and potential independence.

## 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 homepages as further specified below:

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

- Economic Assessment (published annually)
  - Economic Outlook 2009 and 2010 (published 14 April 2009)
- Information Memorandum, (published annually)
- Moody's Investors Service's latest rating documents concerning the Faroese Government

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

Homepage: [www.landsbankin.fo](http://www.landsbankin.fo) (see under Publications).

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

Comprehensive statistical database covering Demographic, Business and Economic Statistics etc. Additional information in the booklet: Faroe Islands in figures 2008

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

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

The public budget and account (in Faroese only)

Homepage: [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)

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

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

Information about political matters in the Faroe Islands

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

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

Annual report on the Faroe Islands (in Danish only)

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

## III. SECURITIES NOTE

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## 1. Risk Factors

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

### 1.1 Market Risk

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

### 1.2 Liquidity Risk

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

### 1.3 Legal Risk

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

The investment activities of certain investors are subject to legal investments law and regulations. The investor should consult legal advisers to determine whether and to what extent the notes are legal investment to the investor or if any restrictions apply to the purchase of the notes by the investor.

### 1.4 Credit Risk

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

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



## 2. Persons Responsible

### 2.1 Statement from the Issuer

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

Jóannes Eidesgaard  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 29 May 2009

Petur Alberg Lamhauge  
Director  
Føroya Landsstýri  
Fíggjarmálaráðið  
Tórshavn, 29 May 2009

### 2.2 Statements from the Arrangers

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

Sigurd Poulsen  
Managing Director  
Landsbanki Føroya  
Tórshavn, 29 May 2009

Jens Erik Magnussen  
Deputy Director  
Landsbanki Føroya  
Tórshavn, 29 May 2009

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

Ove Valentin Christensen  
Executive Director  
Nordea Bank Danmark A/S  
Copenhagen, 29 May 2009

Peter Brink Jensen  
Senior Analyst  
Nordea Bank Danmark A/S  
Copenhagen, 29 May 2009

### 3. Key Information

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

##### Issuer:

The Føroya Landsstýri (the "The Faroese Government"), which is the executive within the framework of the Home Rule Act, see Act no 137 of 23 March 1948.

The Faroese Government is represented by the Ministry of Finance:

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

##### Arranger:

The Governmental Bank of the Faroe Islands (Landsbanki Føroya):

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

##### Arranger and Account Holding Institute:

Nordea Bank Danmark A/S:

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

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

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

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

The proceeds from the issue of the notes will be used for refinancing an existing issue of notes of nominal DKK 974,000,000, which falls due for repayment on 24 November 2009 and financing of deficit of DKK 500,000,000 in the budget for 2009, which is a total amount of approximately DKK 1,525,000,000. Any proceeds from the issue of the notes

in excess of DKK 1,525,000,000 will be used for refinancing the repurchase of notes from the issue of Føroya Landsstýri 3.75 per cent Fixed Rate Notes due 10 June 2018 (LB-FO 180610 ANN.) with ISIN DK0030016449.

The total nominal amount of the notes to be issued will be published prior to Issue Date on 10 June 2009.

The net proceed amount of the notes will be depend on the issue price of the notes, which will be published prior to Issue Date on NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S.

The Issuer will bear the costs directly related to the issuance of the notes. The total costs are expected to amount to approximately DKK 4,771,520, including placing commission and arranging fees.

Cost incurred at NASDAQ OMX Iceland hf. in relation to the admission for trading and official listing on the main market (Faroese Securities Market) of the NASDAQ OMX Iceland hf. will be paid by the Issuer. The costs related to the admission for trading and official listing are ISK 450,000 corresponding to approximately DKK 16,000. Annual expenses for the admission to trading and official listing will be a fixed fee of ISK 165,000 corresponding to approximately DKK 6,000 plus a variable fee of 0,001 per cent of the market value of the notes.

Cost incurred at NASDAQ OMX Copenhagen A/S in relation to the admission for trading and official listing on the main market of the NASDAQ OMX Copenhagen A/S will be paid by the Issuer. The cost related to the admission for trading and official listing is DKK 20,000. Annual expenses for the admission to trading and listing will be approximately DKK 21,350.

Cost 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 costs related to registration of the notes and annual fees to VP SECURITIES A/S are approximately DKK 172,470.

## 4. Information concerning the notes

### 4.1 Description of the notes

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Title of the notes:	Føroya Landsstýri DKK Denominated 2 per cent Fixed Rate Notes 10 June 2009 / 11 June 2012
Issue Date:	10 June 2009
Maturity Date:	11 June 2012
Currency:	Danish kroner ("DKK")
Denomination:	DKK 1,000
Total nominal amount:	Up to DKK 2,200,000,000
Interest:	2 per cent fixed rate interest is payable on the notes, calculated from and including 10 June 2009.
Class:	The issue of the notes consist of only one class
ISIN:	DK0030172812
Saxess code:	FO-LB 120611 (NASDAQ OMX Iceland hf.) FO-LB JUN12 (NASDAQ OMX Copenhagen A/S)

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### 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, Helgeshøj Allé 61, DK-2630 Taastrup, Denmark on Issue Date the 10 June 2009. The notes cannot be registered in the name of the holder.

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

The notes will be controlled by Nordea Bank Danmark A/S as Account Holding Institute for and on behalf of VP SECURITIES A/S and the noteholders in accordance with the provisions of the Danish Securities Trading Act No. 360 of 6 May 2009 and Government Regulation No. 369 of 14 May 2009 on the registration of funds 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 Faroese Government and constitute unsubordinated loan indebtedness ranking pari passu with all other loan

indebtedness of the Faroese Government. The notes of each series will rank equally with each other, without any preference among themselves.

#### 4.6 Rights etc.

##### Redemption by the Issuer

The notes are not redeemable by the Issuer prior to the Maturity Day.

##### Redemption by the noteholder

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 Day.

##### 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.

##### Buy-back

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

##### Notices

All notices to noteholders concerning the notes will be submitted to NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S and/or 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, Kviggjartún 1, P.O.Box 2039, FO-165 Argir, Faroe Islands or such other address as has been notified to the noteholders registered in compliance with the first sentence of this term.

##### Force majeure

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

## Charging

As long as any of the notes are outstanding, the Faroese Government 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

A fixed rate interest of 2 per cent is payable on the notes. The notes bear interest from and including 10 June 2009. Interest payment will be made annually in arrear on 11 June in each year beginning on 11 June 2010 and ending on 11 June 2012 (each an "Interest Payment Date").

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

If an Interest Payment Date would otherwise fall on a day where banks are not open for business in Denmark, it shall be postponed to the next business day. The investors shall not be entitled to further interest or other payment in respect of such delay (unadjusted).

Where the interest amount is to be calculated for a period including an incomplete month, such interest amount shall be calculated applying the rate of interest to the outstanding principal amount of the notes on the basis of the actual number of days elapsed in the relevant interest period and a year consisting of 12 months of the actual number of days each (actual/actual).

## 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 2012, 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 and interest to the noteholders will be made through the Account Holding Institute by credit to the accounts with banks or stockbrokers designated to VP SECURITIES A/S.

#### 4.9 Yield

The yield of the notes depends of the coupon rate, time to maturity, and purchase and selling price of the notes. The yield of the notes will be published prior to Issue Date on NASDAQ OMX Iceland hf. and NASDAQ OMX Copenhagen A/S.

#### 4.10 Representation of noteholders

There is no representation the noteholders.

#### 4.11 Authorisation

The notes are issued in accordance with authorisation given by the Faroese Ministry of Finance on 29 May 2009.

#### 4.12 Issue Date

The notes will be issued on 10 June 2009 ("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 bearer form.

#### 4.14 Taxation

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

##### Investors located in the Faroe Islands

Resident individuals in the Faroe Islands are subject to 35 per cent tax on capital gains interest payments.

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

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 Faroese Government will withhold such tax before paying interest to the noteholders registered. In such case, the Issuer will not compensate the noteholders. Any interest due for payment as well as possession, repayment and transfer of the notes will be reported by the relevant custodian bank to the Danish tax authorities in accordance with the applicable tax rules.

##### Investors located in Denmark and Iceland

Subject to tax treaties entered into by the Faroe Islands with Iceland and Denmark respectively, all payments of interest on the notes will be made without withholding or deduction tax (coupon tax) on the Faeroe Islands. In the event that withholding or deduction tax is required by law on the Faeroe Islands, the Faroese Government will



withhold such tax before paying interest to the noteholders registered. In such case, the Issuer will not compensate the noteholders.

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

## 5. Terms and conditions of the offer

### 5.1 Nominal Amount

The total nominal amount of the notes to be issued is expected to be published on 8 June 2009 on NASDAQ OMX Iceland hf.

The note is open for further issues without a fixed maximum amount. Future issues will be made at market price free of charge to investors. The note will be closed for further issues on the 11 March 2012.

### 5.2 Placing and underwriting

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

The issue of the notes has not been underwritten with a firm commitment. Nordea Bank Danmark A/S has agreed, on a "best efforts" basis, to arrange for the placing of the notes.

### 5.3 Issue Price

The issue price of the notes is expected to be published the 8 June 2009 on NASDAQ OMX Iceland hf. The issue price will depend on the applicable market conditions.

### 5.4 Payment and Settlement

Payment and settlement of the notes will be effected three business days after the trading day against registration with VP SECURITIES A/S. However, the first issue will be settled for value on 10 June 2009. The settlement will be effected against payment and registration with VP SECURITIES A/S.

### 5.5 Account Holding Institute

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

## 6. Admission to trading and official listing

### 6.1 Admission to trading and official listing

Application have been filed with the NASDAQ OMX Iceland hf. acting on behalf of the Financial Supervisory Authority - Iceland (FME) as the competent authority in Iceland for the purpose of the Directive 2003/71/EC (the Prospectus Directive) and the relevant laws and regulation for approval of the Prospectus. NASDAQ OMX Iceland hf. has scrutinized and approved this Prospectus, which is only published in English. Application has been filed with the NASDAQ OMX Iceland hf. for the trading and official listing on the main market (Faroese Securities Market) of the NASDAQ OMX Iceland hf. The notes have been approved on the 29 May 2009 by the NASDAQ OMX Iceland hf. for the trading and official listing on the main market (Faroese Securities Market) of the NASDAQ OMX Iceland hf., with effect from 10 June 2009.

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

The Prospectus will be passported to the Kingdom of Denmark. Subject to approval by the Danish Financial Supervisory Authority, application will subsequently be filed with the NASDAQ OMX Copenhagen A/S for the trading and official listing on the main market of the NASDAQ OMX Copenhagen A/S. Approval of the notes for the trading and official listing on the main market of the NASDAQ OMX Copenhagen A/S in expected to have effect from the 10 June 2009.

## 7. Additional information

### 7.1 Audit of Information

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

### 7.2 Rating

The notes have not been rated by a rating agency. The Issuer holds a credit rating of Aa2 assigned by Moody's Investor Service on 7 May 2009.

More information about the credit rating can be obtained on the website of Landsbanki Føroya ([www.landsbankin.fo](http://www.landsbankin.fo)).