

PROSPECTUS



# FØROYA LANDSSTÝRI

THE GOVERNMENT OF THE FAROE ISLANDS

FØROYA LANDSSTÝRI DKK 900,000,000 3.625 PER CENT

FIXED RATE NOTES

19 JUNE 2023 / 19 JUNE 2026

ISIN DK0030525837

## **IMPORTANT INFORMATION**

This Prospectus is published on 16 June 2023.

The Føroya Landsstýri (the "Issuer" or the "Government of the Faroe Islands") will issue DKK 900,000,000 3.625 per cent Fixed Rate Notes due 19 June 2026 (the "Notes"). The Notes will constitute direct, general and unconditional obligations of the Issuer.

Application has been filed with Nasdaq Iceland hf. for the trading and official listing of the Notes on the main market of Nasdaq Iceland hf. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Iceland hf. is expected to have effect from 19 June 2023.

The Prospectus is expected to be passported to the Kingdom of Denmark on or about 16 June 2023. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with Nasdaq Copenhagen A/S for the trading and official listing on the main market of Nasdaq Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Copenhagen A/S is expected to have effect from 20 June 2023.

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

The Prospectus has been reviewed and approved by the Financial Supervisory Authority of the Central Bank of Iceland ("FSA") as competent authority under Regulation EU 2017/1129 (the "Prospectus Regulation") which has been implemented into Icelandic law with Act No. 14/2020 (the "Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market"). The FSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the FSA should not be considered as an endorsement of the Issuer or of the quality of the Notes that is the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

This Prospectus has been prepared in English only. The Prospectus consists of three documents: Summary, Registration Document and Securities Note.

Investing in the Notes involves significant risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are described under (i) Clause 1 of the Registration Document, entitled "Risk Factors"; and (ii) Clause 1 of the Securities Notes, entitled "Risk Factors".

The Notes may not be suitable for all investors. Each potential investor in the Notes must determine the suitability of the Notes as an appropriate investment in light of its own circumstances, experience and financial condition. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Unless otherwise explicitly stated, no information contained in this Prospectus has been audited or reviewed by the Issuer's auditors.

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

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

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

*This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Regulation, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or the Arranger to publish a prospectus pursuant to Article 1 (4) of the Prospectus regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor the Arranger have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Arranger to publish or supplement a prospectus for such offer.*

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

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

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

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

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for

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

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

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

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

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FIXED RATE NOTES

19 JUNE 2023 / 19 JUNE 2026

ISIN DK0030525837

**SUMMARY**

## Introduction and warnings

*This summary contains all the sections required by the Prospectus Regulation to be included in a summary for this type of securities and issuer. This summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor.*

*An investor investing in the securities could lose all or part of the invested capital. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under applicable law, have to bear the costs of translating the Prospectus before legal proceedings are initiated. The Issuer assumes civil liability in respect of this summary including translation thereof only if it is misleading, inaccurate or inconsistent, when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the securities.*

The contact details of the Issuer are as follows:

Issuer: The Government of the Faroe Islands  
(Føroya Landsstýri)

Address: Ministry of Finance  
Fíggjarmálaráðið  
Tinganes  
PO Box 2039  
FO-110-Tórshavn  
Faroe Islands

Telephone: +298 352020

E-mail address: fmr@fmr.fo

Legal entity identifier (LEI): 213800P8SSDDDNK9Z83

The details of the Notes are as follows:

ISIN code: DK0030525837

Name: DKK 900,000,000 3.625 per cent Fixed Rate Notes due 19  
June 2026

This Prospectus has been approved by The Financial Supervisory Authority of the Central Bank of Iceland ("FSA") as the competent authority under the Prospectus Regulation on 16 June 2023. The identity and contact details of the competent authority, the FSA, approving the Prospectus are as follows:

Authority: The Financial Supervisory Authority of the Central Bank of  
Iceland

Address: Kalkofnsvegur 1  
101 Reykjavik  
Iceland

Telephone: +354 569 9600

E-mail address: financial.supervision@cb.is

## Key Information on the Issuer

### **Who is the Issuer of the securities?**

#### *General*

The name of the Issuer is the Government of the Faroe Islands and it is domiciled in the Faroe Islands. The Issuer is operating under Faroese law. The Issuer's Legal entity identifier (LEI) is 213800P8SSDDDNK9Z83.

#### *Principal activities*

The Faroe Islands are a self-governing country within the Kingdom of Denmark which also comprises Greenland. The Faroe Islands are not a member of the European Union.

The Faroe Islands hold a foreign currency rating of Aa2 with stable outlook assigned by Moody's Investors Service.

### **What is the key financial information regarding the Issuer?**

The strong economic growth over the last decade has caused a strong growth in employment. The employment has increased from 25,571 in March 2018 to 28,051 in March 2023, which is an increase of 9.7%. The unemployment rate was 0.8% in March 2023.

Economic growth was 8.0% in nominal terms in 2021, whereas real growth (growth excl. inflation) was 5.6%. The Statistics Faroe Island and the Economic Council have estimated a growth in nominal GDP of 10.8% in 2022, while the average increase in the consumer price index was 7.7% from 2021 to 2022. The Statistics Faroe Islands and the Economic Council estimate an increase in nominal GDP of 2.7% in 2023 and 1.3% in 2024.

The central government accounts show a surplus of DKK 278 million in 2022, whereas the Budget Act for 2023 states a surplus of DKK 145 million. In the appropriation framework presented to the Faroese Parliament on 31 March 2023, the government expects the budget result to show a deficit of DKK 153 million in 2024. The government aims at limiting the expected deficits in its planned appropriations for the years ahead by presenting a legislative proposal of increasing the fees for fishing licences by DKK 75 million annually, and by increasing the fees for fish farming licences by DKK 90 million annually. Additionally, the government plans to implement a maximum increase in its operating expenses of 4.5% annually. The government also plans to implement changes in revenues and expenses of 0.5% annually, which amount to an annual reduction of expenses of DKK 30 million. These actions are, if fully implemented, expected to result in budget surpluses during the next five years. For 2024 a surplus of DKK 60 million is expected.

#### *Selected public finance and trade information*

| <b>Outstanding Bonds (DKKm)</b> | <b>Annual Coupon</b> | <b>Maturity</b> | <b>Issued amount</b> | <b>Outstanding amount End of 2022</b> | <b>Outstanding amount End of 2023</b> |
|---------------------------------|----------------------|-----------------|----------------------|---------------------------------------|---------------------------------------|
| FO-LB 230627                    | 0.625%               | 27-Jun-23       | 550                  | 550                                   | 0                                     |
| FO-LB 240602                    | 1.250%               | 2-Jun-24        | 1,100                | 1,100                                 | 1,100                                 |
| FO-LB 250602                    | 0.125%               | 2-Jun-25        | 1,645                | 1,645                                 | 1,645                                 |
| FO-LB 260619                    | 3.625%               | 19- Jun-26      | 900                  | 0                                     | 900                                   |
| NOK Blt *)                      | 1.810%               | 3-May-32        | 448                  | 448                                   | 448                                   |
| <b>Total Outstanding Bonds</b>  |                      |                 |                      | <b>3,743</b>                          | <b>4,093</b>                          |

\*) NOK 550 million Bond Issue (Coupon 2.70%) swapped to DKK.



| <b>Central Government Accounts (DKKm)</b>         | <b>Realized 2019</b> | <b>Realized 2020</b> | <b>Realized 2021</b> | <b>Realized 2022</b> | <b>Budget<sup>1)</sup> 2023</b> |
|---|----------------------|----------------------|----------------------|----------------------|---------------------------------|
| Taxes, direct                                     | 2,971                | 2,981                | 3,058                | 3,376                | 3,574                           |
| Taxes, indirect                                   | 2,608                | 2,753                | 2,939                | 2,998                | 2,981                           |
| Transfers from Denmark                            | 698                  | 693                  | 700                  | 705                  | 685                             |
| Sales of goods and services                       | 778                  | 865                  | 950                  | 979                  | 833                             |
| Revenue from fees                                 | 642                  | 510                  | 675                  | 806                  | 809                             |
| Other   | 46                   | 36                   | 41                   | 48                   | 45                              |
| <b>Operating revenues, ex. Interest</b>           | <b>7.743</b>         | <b>7,838</b>         | <b>8,363</b>         | <b>8,912</b>         | <b>8,927</b>                    |
| Personel cost                                     | -2,518               | -2,603               | -2,790               | -2,917               | -3,205                          |
| Transfers to individuals                          | -1,880               | -2,107               | -2,143               | -2,244               | -2,325                          |
| Other transfers                                   | -516                 | -694                 | -585                 | -644                 | -607                            |
| Purchase of goods and services                    | -1,533               | -1,728               | -1,903               | -1,959               | -1,822                          |
| Other expenses                                    | -515                 | -577                 | -587                 | -521                 | -577                            |
| <b>Operating expenses, ex. Interest</b>           | <b>-6.962</b>        | <b>-7,709</b>        | <b>-8,008</b>        | <b>-8,285</b>        | <b>-8,516</b>                   |
| <b>Primary Operating Balance</b>                  | <b>781</b>           | <b>129</b>           | <b>355</b>           | <b>627</b>           | <b>411</b>                      |
| Interest income and dividends                     | 274                  | 122                  | 408                  | -129                 | 220                             |
| Interest expenses                                 | -55                  | -44                  | 9                    | 279                  | -47                             |
| <b>Operating Balance</b>                          | <b>1,000</b>         | <b>180</b>           | <b>771</b>           | <b>777</b>           | <b>584</b>                      |
| Sale of fixed assets                              | 14                   | 11                   | 23                   |                      | 58                              |
| Sales of shares                                   |                      |                      |                      | 38                   | 95                              |
| Repayments of loans, domestic                     | 16                   | 214                  | 18                   | 14                   | 15                              |
| Capital revenues from Denmark                     |                      |                      |                      |                      |                                 |
| <b>Total capital revenues</b>                     | <b>30</b>            | <b>225</b>           | <b>41</b>            | <b>52</b>            | <b>168</b>                      |
| Construction of fixed capital 2)                  | -437                 | -503                 | -437                 | -471                 | -484                            |
| Acquisition of fixed capital                      | -18                  | -15                  | -14                  | -20                  | -65                             |
| Injection of cap. into publ. Ltd.'s               | -35                  | -165                 | -50                  | -54                  | -50                             |
| Net lending, domestic                             | -8                   | -7                   | -6                   | -6                   | -8                              |
| <b>Total capital expenses</b>                     | <b>-498</b>          | <b>-690</b>          | <b>-507</b>          | <b>-551</b>          | <b>-607</b>                     |
| <b>Budget surplus/deficit</b>                     | <b>532</b>           | <b>-257</b>          | <b>303</b>           | <b>278</b>           | <b>145</b>                      |
| Debt repayment                                    | -800                 | -1,345               | -1,344               | -1,300               | -550                            |
| <b>Gross financing surplus/deficit</b>            | <b>-268</b>          | <b>-1,603</b>        | <b>-1,041</b>        | <b>-1,022</b>        | <b>-405</b>                     |
| New borrowing <sup>3)</sup>                       | 0                    | 2,945                | 2,946                | 1,100                | 900                             |
| <b>Net financing surplus/deficit<sup>3)</sup></b> | <b>-268</b>          | <b>1,342</b>         | <b>1,905</b>         | <b>78</b>            | <b>495</b>                      |

1) Government Budget Act as approved by the Faroes Parliament in March 2023.

2) At the beginning of the fiscal year 2023, appropriations transferred from previous years are estimated to DKK 300 million.

3) Net government borrowing in 2023 is DKK 350 million.

| <b>Central Government financial assets and liabilities (DKKm)</b> | <b>2019</b>  | <b>2020</b>  | <b>2021</b>  | <b>2022</b>  |
|---|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>   |              |              |              |              |
| Securities and deposits <sup>1)</sup>                             | 3,478        | 4,729        | 3,843        | 3,874        |
| Others in circulation   | 625          | 716          | 753          | 697          |
| Financial assets  | 2,126        | 2,284        | 2,392        | 2,488        |
| <b>Total assets</b>   | <b>6,229</b> | <b>7,729</b> | <b>6,988</b> | <b>7,059</b> |
| <b>LIABILITIES</b>  |              |              |              |              |
| Bond loans  | 3,817        | 5,419        | 4,039        | 3,541        |
| Other debt  | 1,049        | 1,061        | 1,279        | 1,558        |
| <b>Total debt</b>   | <b>4,866</b> | <b>6,480</b> | <b>5,318</b> | <b>5,099</b> |
| <b>Net assets</b>   | <b>1,363</b> | <b>1,249</b> | <b>1,670</b> | <b>1,960</b> |

Source: Føroya Gjaldstova

1) Including liquidity for appropriations transferred from previous years.

### **What are the key risks that are specific to the Issuer?**

The Issuer's ability to fulfil its obligations under the Notes is highly dependent on the condition of the Faroese economy. The Issuer is exposed to a number of risks in respect of the conditions of the Faroese economy, including with regards to:

- *Production* – Fishery, fish farming and related industries are of such importance that their influence determines the overall performance of the Faroese economy. Demersal and pelagic fisheries are dependent on the stocks of various species. Access to fishery outside Faroese waters may have a material adverse impact on the fishery and related industries. Profitability in fish farming depends to a large degree on export prices and the industry's ability to avoid the fish disease plague. The export of the fish farming industry currently constitutes approximately half of total fish exports in 2022. The *export to Russia* accounted for 23% of the Faroese export products in 2021, but have decreased to 8% in 2022. The geopolitical conflict related to the war in Ukraine has not affected the Faroese economy. The exports of salmon and pelagic fish species have been diverted away from Russia to other countries, but Faroe Islands still export some mackerel and herring to Russia.
- As food products are exempted from the sanctions against Russia, the impact on export of fish products is considered a smaller risk than previously expected.
- The Faroe Islands also *trade fishing rights with Russia*. The Faroese fishing fleet trade pelagic species quota in Faroese water with cod quota in the Russian parts of the Barents Sea. However, if the trade agreement is terminated due to sanctions, the Faroe Islands is estimated to have about the same value in fishing quotas of pelagic species in Faroese waters. A termination of the trade agreement with Russia may on a short-term basis have negative economic impact on the shipowners with quotas in the Barents Sea.
- *Unemployment* – The unemployment rate has been decreasing since 2011, from 6.8% in March 2011, to 0.8% in March 2023. Due to the low unemployment rate and increasing retirements, there is a risk that the Faroe Islands may not be able to increase its workforce, which could have a negative impact on the growth of the Faroese economy.
- *The governmental sector* – The central government accounts show a surplus of DKK 278 million in 2022. In the appropriation framework presented to the Faroese Parliament on 31 March 2023, the government expects the budget result to show a deficit in 2024. The government aims at limiting the upcoming deficits in its planned appropriations for the years ahead by improving the budget result by presenting a legislative proposal of increasing the annual fees for fishing licenses by DKK 75 million and by increasing the annual fees for fish farming licenses by DKK 90 million. The government plans also to implement a maximum increase in operating expenses of 4.5 percent annually. The government further plans to take actions of implementing changes in revenues and expense of DKK 30 million annually. These actions will, if implemented fully, result in budget surpluses the next five years.
- *The political environment* - Any changes in the political environment of the Faroe Islands or in the relationship between the Faroe Islands and Denmark may affect the Faroese economy. Precipitous political actions taken either by the Faroe Islands or the Kingdom of Denmark could have significant impact on the Faroese economy.

- *Macroeconomy* – The Faroe Islands are sensitive to macroeconomic and geopolitical conditions which can have an adverse effect on the Faroese economy.

## Key Information on the Securities

### **What are the main features of the securities?**

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

The currency of the Notes is Danish kroner ("DKK") and each note will be issued with the denomination of DKK 1,000. The total principal amount of the Notes to be issued on the Issue Date, 19 June 2023 is DKK 900,000,000.

The Notes will be issued and registered as dematerialised securities, in book-entry form with the Danish central securities depository, Euronext Securities (VP SECURITIES A/S) ("Euronext Securities"), on the Issue Date. The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price. The Notes will be closed for further issues from 19 May 2026.

Nordea Danmark, Filial af Nordea Bank Abp, Finland, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark, will act as Account Holding Institute (in Danish: Kontoførende Institut) in relation to Euronext Securities.

The Notes are issued as negotiable securities and are freely transferable after having been registered into the respective book-entry account.

The Notes have been issued at a price of 99.927 per cent., and will bear interest from and including 19 June 2023 to but excluding 19 June 2026. The Notes will pay a fixed rate interest of 3.625 per cent. per annum payable annually in arrears on 19 June in each year commencing on 19 June 2024 and ending on 19 June 2026. The Notes will be redeemed at their Principal Amount (par) on 19 June 2026 (Maturity Date). The Notes are not redeemable by the Issuer prior to the Maturity Date, and only with the exception of an event of default, the noteholders may not demand redemption of the Notes prior to the Maturity Date.

The International Securities Identification Number (ISIN) for the Notes is DK0030525837.

The INET code for the Notes is FO-LB 260619.

Nasdaq Copenhagen A/S short name for the Notes is FOROYA LAN JUN26.

### **Where will the securities be traded?**

Application has been filed with Nasdaq Iceland hf and Nasdaq Copenhagen A/S. for the trading and official listing of the Notes on the main markets of Nasdaq Iceland hf and Nasdaq Copenhagen A/S.

### **What are the key risks that are specific to the securities?**

- The Issuer's liability to make payments according to the terms and conditions in this Prospectus constitutes direct and unsecured obligations of the Government of the

Faroe Islands and constitutes unsubordinated loan indebtedness ranking *pari passu* with all other loan indebtedness of the Government of the Faroe Islands.

- The conditions of the Notes do not include a limitation on the Issuer for issuing additional debt or granting of security, and do not limit the Issuer's ability to effect significant transactions that may have a material adverse effect on the Notes and the Noteholders.
- The Notes are not redeemable by the Issuer prior to the Maturity Date, and only with the exception of an event of default, the noteholders may not demand redemption of the Notes prior to the Maturity Date.
- The market of the Notes issued by the Issuer is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates.
- The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.
- Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement to this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e. DKK, is different from the currency in which such potential investor's financial activities are principally denominated; (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

- There can be no assurance that an active trading market for the Notes will be developed and maintained, which may affect the trading price and the liquidity of the Notes. The Issuer has not made any arrangement with any persons or companies to ensure the liquidity of the Notes.
- The Issuer shall not be liable for any loss incurred by the noteholders as a consequence of statutory provisions, measures adopted by any governmental or other authority actual or imminent war, insurrections, civil commotion, terrorism, sabotage or Acts of God. Nor shall the Issuer be liable for any loss caused by strikes, lockouts, boycotts or blockades, whether or not the Issuer itself is a party to the dispute, and notwithstanding that the dispute may affect only part of the functions of the Issuer. Nor shall the Issuer be liable for any loss arising from any overdue payment caused by the above events.

# Key Information on the Offer of Securities to the Public and Admission to Trading on a Regulated Market

## ***Under which conditions and timetable can I invest in this security?***

Nordea Danmark, Filial af Nordea Bank Abp, Finland has arranged for the Notes to be purchased by a group of institutional investors. The issue of the Notes has not been underwritten with a firm commitment.

Application has been filed with Nasdaq Iceland hf. for the trading and official listing of the Notes on the main market of Nasdaq Iceland hf. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Iceland hf. is expected to have effect from 19 June 2023. The Prospectus is expected to be passported to the Kingdom of Denmark on or about 16 June 2023. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with Nasdaq Copenhagen A/S for the trading and official listing on the main market of Nasdaq Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Copenhagen A/S is expected to have effect from 20 June 2023.

In connection with the listing, the Issuer expects to pay approximately a total of DKK 117,900 in listing fees and expenses. No fees or other payments will be charged to the investor by the Issuer. Account operators may charge fees in accordance with their price lists for the subscription and opening and maintaining of the book-entry account or other custody system and for custody of the Notes.

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

## ***Why is this Prospectus being produced?***

The proceeds from the issue of the Notes will be used for the financing of the redemption of Føroya Landsstýri DKK 550,000,000 0.625% due 27 June 2023 with ISIN code DK0030400700 and for necessary available funds in order to comply with liquidity requirements.

### *Material interests*

Save for any fees payable to the Arranger, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

The Arranger and other entities within the same group and/or their affiliates may have performed and may in the future perform investment or other banking services for the Issuer in the ordinary course of business for which they may have received and may continue to receive customary fees and commissions. The Arranger and their respective affiliates may hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of their customers, in debt securities of the Issuer.

FØROYA LANDSSTÝRI



THE GOVERNMENT OF THE FAROE  
ISLANDS

FØROYA LANDSSTÝRI DKK 900,000,000 3.625 PER CENT

FIXED RATE NOTES

19 JUNE 2023 / 19 JUNE 2026

ISIN DK0030525837

REGISTRATION DOCUMENT

# II. REGISTRATION DOCUMENT

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# 1. Risk factors

Prospective investors should read this Prospectus carefully. The Prospectus consists of three documents: Summary, Registration Document and the Securities Note all of which have been dated 16 June 2023. Investing in the Notes involves risks factors that may affect the Issuer's ability to fulfil its obligations under the Notes to the investors, and which the potential investor should take into consideration prior to deciding to make an investment in the Notes.

This Registration Document which forms part of the Prospectus has been reviewed and approved by the Financial Supervisory Authority of the Central Bank of Iceland ("FSA") as competent authority under Regulation EU 2017/1129 (the "Prospectus Regulation") which has been implemented into Icelandic law with Act No. 14/2020 (the "Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market"). The FSA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the FSA should not be considered as an endorsement of the Issuer or of the quality of the Notes that is the subject of the Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

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

Taking into account the negative impact on the Issuer and the probability of their occurrence, the risk factors as set out below have been, in the assessment of the Issuer, been ordered so that the most material risks are set out first.

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

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

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

## 1.1 The Faroese economy

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

### 1.1.1 Production

The Statistics Faroe Islands together with the Economic Council has estimated GDP in current prices to increase by 10.8% in 2022<sup>1</sup>, and it is therefore likely that the real economic growth was approx. 2.9% in 2022, as the average increase in the consumer price index was 7.7% for the same period.

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<sup>1</sup> Source: Statistics Faroe Islands and the Economic Council



Wage expenditures have increased 48% from 2014 to 2022. The wage expenditures increased by 2% in 2020 because of Covid-19, but have increased by 9% from 2020 to 2022. Imports of consumption products have increased steadily throughout the years 2014 to 2022, from DKK 1,287 million in 2014 to 1,990 million in 2022 (54,6%).

Fishery, fish farming and related industries are of such importance that their influence determines the overall performance of the Faroese economy. The dependence on resource-based industries is evident in the export figures, of which fish products account for more than 90% of the export value of goods. The Faroese fishing fleet is very oil dependent, hence major increases in oil prices also constitute a risk factor for the Faroese economy.

### 1.1.2 Employment

The Faroe Islands' nominal GDP has increased 29% from 2017 to 2022. This has led to a substantial increase in the employment. The number of employees has increased from 25,571 persons in March 2018 to 28,051 in March 2023, which is an increase of approx. 10%. The unemployment rate has been steadily declining during the past many years and was 0.8% in March 2023.

In the 10 years period from 2004-2013 there was an average net emigration of 260 persons per year, mainly caused by the Faroese labour market not being able to absorb all jobseekers, but also caused by people having left the Faroe Islands for educational purposes. However, from 2014 to 2022, there has been a net immigration to the Faroe Islands of approximately 450 persons per year. With a natural increase of 250 persons per year, the number of inhabitants increased by around 700 persons annually in the years 2014 to 2022. The population has increased from 48,031 in March 2013 to 54,303 in March 2023, which is an increase of approx. 13% over the past 10 years.

Two important factors have led to the increase of the population. The first is the improvement in the employment possibilities as private companies as well as the public sector have been hiring more employees. The other factor is the increasing number of people reaching the retirement age and thereby providing an opening for younger people to enter the labour market.

Despite the increase of the population during the past decade, there is currently a lack of employees on the Faroe Islands, and the Government estimates that there is a need for approximately 1,500 new employees by 2030. Due to the low unemployment rate and increasing retirements, there is a risk that the Faroe Islands may not be able to increase its workforce, which could have a negative impact on the growth of the Faroese economy.

### 1.1.3 Fishery, fish farming and fishing industry

Mainly five industries contribute to the Faroese exports: (a) the demersal fisheries in Faroese waters; (b) the pelagic fisheries in Faroese waters and in fishery zones of other countries; (c) factory trawlers fishing cod in the Barents Sea; (d) other fisheries and (e) the fish farming industry.

Demersal fisheries in Faroese waters have been experiencing considerable difficulties for the last 15 years. The cod and haddock stocks have been historically low. Catches during the years 2004-2022 have therefore been considerably lower than the long-term average catches. Demersal stocks are fragile as a large proportion of the stocks is harvested every year. Cod catches in Faroese waters in 2022 were 4,500 tonnes. Long term

average catches of cod have been 28-30,000 tonnes before the year of 2004. Haddock catches were 7,000 tonnes in 2022, whereas long term average catches have been 15-20,000 tonnes. Saithe catches were 14,000 tonnes in 2022, whereas average catches have been 40-45,000 tonnes.

All three main demersal fish stocks are currently small. Fishing cod and haddock has already been unprofitable for many years, and the number of vessels has been dwindling. The fleet fishing for saithe has now also got into very low profitability.

As catches of demersal species have been small since 2006, production in the fish processing industry has been at a very low level. Some fish factories import fish from Norway, Iceland and Greenland to keep employment steady. Due to the continuing small stock of demersal fishes, there is a risk that the future catches and quotas for demersal fishes may be lower. ICES currently recommends smaller quotas for cod and saithe, which would lead to a further reduction of the profits for the fishing industry and negatively impact investments.

Cod fisheries in the Russian part of the Barents Sea have increased from 12,000 tonnes in 2012 to around 24,000 tonnes in 2022. These fishing rights are granted in exchange for Russian ships being allowed to fish pelagic fish in Faroese waters. If the trade agreement with Russia is terminated due to sanctions imposed by the Faroe Islands against Russia, it may on a short-term basis have negative economic impact for the shipowners with quotas in the Barents Sea. If the shipowners with demersal quotas in the Barents Sea are given pelagic quotas of comparable value in Faroese waters instead, then the shipowners may need to use other types of vessels to fish pelagic species in Faroese waters instead of fishing demersal species in the Barents Sea.

The value of the Russian pelagic quotas in Faroese waters is of comparable value to the Faroese demersal quotas in the Barents Sea. It is therefore not likely that a termination of the fishery agreement with Russia will have significant long term negative economic consequences.

On 12 March 2014, the Faroe Islands came to an agreement with the EU and Norway on fishing rights for catching mackerel which lasted for five years and was extended by two more years in 2019. Since 2021 there has not been any agreement between the coastal countries (Norway, UK, EU, Iceland, Greenland and the Faroe Islands) on fishing mackerel. Therefore, in both 2021 and 2022 the Coastal States have set their own mackerel quota. Due to the lack of an agreement, the quotas set by individual countries have been higher than recommended by the marine biologists at the International Council for the Exploration of the Sea (ICES)<sup>2</sup>. Total fishery of mackerel by the coastal countries is estimated to be 40% higher than recommended by ICES. There is a risk that potential quotas for mackerel may be lowered, if the coastal countries enter into a new agreement on mackerel fishing. Such new agreement, may likely follow the recommendation made by ICES, and lead to a 40% reduction of the quotas. If no new agreement is signed, there is a risk that the continued fishery will cause overfishing and cause lower actual catches. In both scenarios, there is a risk for lower profits for the fishing industry and negatively impact current and future investments.

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<sup>2</sup> International Council for the Exploration of the Sea (ICES), [www.ices.dk](http://www.ices.dk)

Pelagic fisheries have had very good years during 2010-2022, and the export value of the pelagic fleet has quadrupled in these years. The increased catches are mainly due to higher quotas but also due to more flexibility because of increased fishing rights agreed with EU and Norway. Total export of pelagic species was DKK 400 million in 2009 and has increased to DKK 1,900 million in 2022.

The prices for cod, herring and mackerel have increased in recent years. The price for cod was quite stable around DKK 40 per kg. during 2019-2021, but have since increased to an average of DKK 54 in 2022. The price of herring was about DKK 8.70 per kg. in the first quarter of 2022, an increase from about DKK 6 per kg. during 2019-2021. The mackerel price fell from DKK 11.50 per kg. in 2019 to DKK 10.50 per kg. in 2020, but has since increased to DKK 12 per kg. in 2022. Also salmon prices decreased during 2019-2021. The price for fresh salmon for Faroese salmon exporters decreased from DKK 53 per kg. in 2019 to DKK 46 in 2020, but has since recovered to DKK 66 per kg. in 2022. In general fish prices are on a historically high level, especially the prices for salmon, and there is a risk that the prices will fall to a lower level, which would lead to lower profits for the fishing industry and negatively impact current and future investments.

Fish farming has made a large contribution to economic growth in the recent years and the export value has increased from DKK 3.0 billion in 2014 to DKK 5.6 billion in 2022.

Other factors that affect the resource industries are fish prices and oil prices. The Faroese fishing fleet is very oil dependent, hence significant increases of oil prices also constitutes a risk factor for the Faroese economy.

#### 1.1.4 The financial markets

At the end of 2022, the total lending from Faroese financial institutions was DKK 17.3 billion. One of the reasons that lending has not grown as fast as the economy these past 10 years, is that several of the large companies in the fishing industry and fish farming have had large profits, and thus being less dependent on banks for undertaking investments. Also, as a consequence of the financial crises in 2008 the Faroese financial institutions have increased their capital in order to meet the capital requirements.

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

#### 1.1.5 The governmental sector

The central government accounts show a surplus of DKK 303 million in 2021 and DKK 278 million in 2022.

The budget proposal for 2023 shows a surplus of DKK 208 million, where both revenues and expenditure are expected to increase in 2023.

The government aims at improving the budget balance by presenting a legislative proposal of increasing the annual fees for fishing licenses by DKK 75 million and by increasing the annual fees for fish farming by DKK 90 million.

The government plans to implement a maximum increase in its operation expenses of 4.5% annually. The government also plans to implement changes in revenues and expenses of 0.5 % annually, which amounts to an annual reduction of DKK 30 million. If fully implemented, the actions are expected to result in budget surpluses during the next five years.

### 1.1.6 The political environment

#### *Relationship with Denmark*

Any changes in the political environment of the Faroe Islands or in the relationship between the Faroe Islands and Denmark may also affect the Faroese economy. Precipitous political actions taken either by the Faroe Islands or the Kingdom of Denmark could have significant impact on the Faroese economy and the Issuer's ability to pay interest, principal or other amounts payable by the Issuer in relation with the Notes may occur for other reasons.

#### *Sanctions against Russia*

The Faroe Islands Government has announced, that the Faroe Islands will implement the same restrictive measures as the Western world will implement against Russia as a consequence of the invasion of Ukraine. As the Faroe Islands did not implement any sanctions against Russia in 2014 in relation to the Russian invasion of the Crimea, it was necessary that parliament provided the legal basis, so the Minister of Foreign Affairs could issue an executive order of what sanctions should be implemented against Russia. Accordingly, the Law on Restrictive Measures was adopted on 5 May 2022. The minister of Foreign Affairs implemented the sanctions later in May 2022.

Fishery and food transport are the main areas of cooperation between Faroe Islands and Russia. The Faroe Islands have decided to follow Norway, which uses the same list of sanctions as EU, but exempts fishery agreements. There is a potential reputational risk for the Faroe Islands for maintaining the fishery agreement and continued export of fish to Russia. This could impact the Faroe Islands relationship with other countries and the Faroese companies' export.

## 2. Persons responsible

### 2.1 Statement from the Issuer

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



Ruth Vang  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið

Tórshavn, 16 June 2023



Bjarni Askham Bjarnason  
Permanent Secretary  
Føroya Landsstýri  
Fíggjarmálaráðið

Tórshavn, 16 June 2023

### 3. Information about the Issuer

#### 3.1 Name of Issuer

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

#### 3.2 Addresses, etc.

The Government of the Faroe Islands (Føroya Landsstýri):

Ministry of Finance  
Fíggjarmálaráðið  
Tinganes  
PO Box 2039  
FO-110-Tórshavn  
Faroe Islands  
Tel: +298 352020  
Fax: +298 352025  
E-mail: [fmr@fmr.fo](mailto:fmr@fmr.fo)

The Faroese Parliament (Føroya Løgting):

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

Landsbanki Føroya:

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

E-mail: [landsbankin@landsbankin.fo](mailto:landsbankin@landsbankin.fo)

The website of the Issuer is: [www.fmr.fo](http://www.fmr.fo)

Information on the websites of the Issuer does not form part of the Prospectus unless that information is incorporated by reference into the Prospectus.

#### 3.3 Recent developments

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

### 3.4 Economy

The Faroe Islands is a modern, developed society with a standard of living comparable to other Nordic countries, with a GDP per capita that is on level with that in Denmark. The disposable national income per capita, which also includes the Danish state grant and salaries from Faroese employees working abroad, has for the last few years been on a level just above the level in Denmark.<sup>3</sup> It should be taken into consideration that the economy is not as diversified as in other highly developed countries, which causes the level of GDP per capita in the Faroe Islands to fluctuate more than in more diversified economies.

According to preliminary national accounts from Statistics Faroe Islands and the Economic Council, the nominal GDP increased by 10.8% in 2022<sup>4</sup>. The average increase in the consumer price index was 7.7% in 2022. Imports of consumption items have increased by 54,6% from 2014 to 2022, which indicates an increase in consumption in general.

In 2020 GDP fell by 2.7% in current prices due to the outbreak of Covid-19 which among other things yielded temporary price falls hitting fisheries and aquaculture companies resulting in lower export values in general in 2020. Furthermore, the pandemic caused the budget result turn into a deficit due to lower than usual personal income taxes and company taxes along with increased expenses in the health care sector and expenses to help packages. However, the domestic demand did not decrease as much as previously expected as the Faroese households spent more money in the Faroes than usual due to a strong consumer confidence and to the fact that travelling was limited which resulted in higher-than-expected VAT incomes in 2020 and stimulated the domestic trade- and service sector. Hence, along with export prices strengthening as the pandemic weakened, the economy experienced a fast recovery in 2021, which continued during 2022.

| <b>Economic Growth</b> | <b>Table 1</b> |             |             |             |              |
|------------------------|----------------|-------------|-------------|-------------|--------------|
|                        | <b>2018</b>    | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022*</b> |
| Nominal GDP (DKKm)     | 20,135         | 21,847      | 21,253      | 22,947      | 25,435       |
| Nominal growth (%)     | 2.3%           | 8.5%        | -2.7%       | 8.0%        | 10.8%        |

Source: Statistics Faroe Islands

\* estimated

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

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

<sup>4</sup> Source: Statistics Faroe Islands and the Economic Council

**Contribution of Gross Value Added (GVA)\* by sectors 2019-2021****Table 2**

| <b>Million DKK</b>  | <b>2019</b>   | <b>%</b>   | <b>2020</b>   | <b>%</b>   | <b>2021</b>   | <b>%</b>   |
|---|---------------|------------|---------------|------------|---------------|------------|
| Fishing   | 2,210         | 11         | 2,024         | 11         | 2,016         | 10         |
| Aquaculture   | 1,499         | 8          | 868           | 5          | 1,233         | 6          |
| Agriculture, mining and quarrying                             | 34            | 0          | 38            | 0          | 43            | 0          |
| Manufacture of food products and beverages                    | 1,458         | 7          | 1,468         | 8          | 1,641         | 8          |
| Other industry, excl. Energy                                  | 801           | 4          | 814           | 4          | 803           | 4          |
| Electricity, gas and water supply                             | 423           | 2          | 448           | 2          | 478           | 2          |
| Construction  | 1,488         | 8          | 1,619         | 9          | 1,517         | 7          |
| Wholesale and retail trade, hotels restaurants                | 1,994         | 10         | 1,871         | 10         | 2,280         | 11         |
| Transport and storage   | 1,534         | 8          | 1,291         | 7          | 1,419         | 7          |
| Information and communication                                 | 483           | 2          | 532           | 3          | 578           | 3          |
| Financial intermediation, incl. Insurance and pension funding | 724           | 4          | 687           | 4          | 701           | 3          |
| Real estate and renting                                       | 1,809         | 9          | 1,831         | 10         | 1,891         | 9          |
| Public administration   | 887           | 5          | 909           | 5          | 955           | 5          |
| Education   | 978           | 5          | 1,021         | 5          | 1,073         | 5          |
| Health and social work  | 2,041         | 10         | 2,188         | 12         | 2,337         | 12         |
| Other service activities                                      | 1,085         | 6          | 1,114         | 6          | 1,275         | 6          |
| <b>Total</b>  | <b>19,448</b> | <b>100</b> | <b>18,724</b> | <b>100</b> | <b>20,239</b> | <b>100</b> |

\* GVA (basic prices) equals GDP (market prices) minus taxes on products plus subsidies on products.

Source: Statistics Faroe Islands. The numbers for 2021 were not available at the date of this Registration Documents.

As specified in table 2 above, the aggregated contribution from fishing and fish farming is 16%, which is a high proportion compared with primary sector in industrialised countries. As can be seen the contribution from aquaculture decreased from DKK 1,5 billion in 2019 to DKK 900 million during the Covid-19 pandemics. The aquaculture industry has now fully recovered.

**Export of goods****Table 3**

| <b>Million DKK</b>              | <b>2018</b>  | <b>2019</b>  | <b>2020</b>  | <b>2021</b>   | <b>2022</b>   |
|---------------------------------|--------------|--------------|--------------|---------------|---------------|
| Cod                             | 875          | 1,163        | 843          | 882           | 1,129         |
| Haddock                         | 156          | 185          | 159          | 178           | 263           |
| Saithe                          | 276          | 273          | 258          | 249           | 321           |
| <b>Main demersal species</b>    | <b>1,307</b> | <b>1,621</b> | <b>1,260</b> | <b>1,309</b>  | <b>1,713</b>  |
| <b>Salmon</b>                   | <b>3,342</b> | <b>4,042</b> | <b>3,313</b> | <b>4,492</b>  | <b>5,552</b>  |
| Blue Whiting                    | 156          | 161          | 140          | 137           | 149           |
| Herring                         | 485          | 735          | 619          | 707           | 595           |
| Atlantic Mackerel               | 682          | 963          | 984          | 1,021         | 1,154         |
| <b>Main pelagic species</b>     | <b>1,323</b> | <b>1,859</b> | <b>1,743</b> | <b>1,865</b>  | <b>1,898</b>  |
| Prawns                          | 77           | 81           | 67           | 70            | 50            |
| Other species                   | 1,436        | 1,328        | 1,336        | 1,522         | 2,503         |
| <b>Prawn and other species</b>  | <b>1,513</b> | <b>1,409</b> | <b>1,403</b> | <b>1,592</b>  | <b>2,553</b>  |
| <b>Total fish products</b>      | <b>7,485</b> | <b>8,931</b> | <b>7,719</b> | <b>9,258</b>  | <b>11,716</b> |
| Other products                  | 447          | 509          | 457          | 571           | 768           |
| Ships and aeroplanes            | 90           | 94           | 225          | 197           | 221           |
| <b>Total export of products</b> | <b>8,022</b> | <b>9,534</b> | <b>8,401</b> | <b>10,026</b> | <b>12,705</b> |



An economy with high dependence on fish products and exports is bound to be vulnerable to the changes in catches, fish stocks, 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.

It should also be taken into account that the fishing fleet consists of three main segments and several smaller segments that have business cycles that are only partly correlated, which reduces the volatility of the Faroese economy.

The Faroese fishing fleet is very oil dependent, hence significant increases of oil prices also constitutes a risk factor for the Faroese economy.

The fish farming industry has a different business cycle than the fisheries, as salmon prices do not always fluctuate with prices of fish caught at sea. Salmon prices have increased significantly over the last 10 years, and the exports have increased to a level that has made the Faroese economy less dependent on fishery as its' sole export industry.

The total fish exports have increased from DKK 3.7 billion in 2009 up to DKK 11.7 billion in 2022, an increase of approx. 200%. Total exports of products were DKK 12.5 billion in 2022. The large increase in exports has led to a large economic growth throughout the last decade.

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

The geopolitical conflict related to the war between Russia and Ukraine will subject to sanctions etc. affect the export to Russia, which counted for 23% (DKK 2.3 billion) of the export of products in 2021. Accordingly the export decreased to 8% (DKK 1.0 billion) in 2022. The Faroese salmon exporting companies have stopped all salmon export to Russia, but since demand has been high and prices are good, there have been no negative effects of diverting exports to new markets. The export to Russia in 2022 is export of pelagic species, i.e. mackerel and herring

The Faroese wet fish fleet is mainly fishing demersal species as cod, haddock and saithe in the Faroese fisheries zone, while a different part of the fleet consisting of factory trawlers are fishing cod in the Barents Sea. The traditional cod, haddock and saithe fisheries in Faroese and foreign waters were around DKK 1.1 billion in export value for several years until 2016, but increased to DKK 1.7 billion in 2022, mainly because of increases in prices.

The export value of catches by the pelagic fleet (fishing herring, mackerel and blue whiting) has increased from around DKK 400 million in 2009 to DKK 1.9 billion in 2022.

Another significant change is that the fish farming industry has expanded, and that the export value of salmon consequently has increased from DKK 1.2 billion in 2009 to DKK 5.6 billion in 2022.

The strong economic growth over the latest decade is also evident in the wage expenditures. The wage expenditure has increased from DKK 7.5 billion in 2014 to DKK 11.2 billion in 2022, i.e. 48%.

The catches of the demersal fleet in Faroese waters have been on a low level for about 15 years. The numbers of employees in the fishing industry in total (both demersal and pelagic fleet) has decreased from around 3,000 in the 80'ies and 90'ies to around 1,300 today, and in the fish processing industry, the number of employees has likewise decreased from around 3,000 in the 80'ies to around 1,300 in 2022.

The pelagic fisheries have increased more than the decrease in the catches of demersal species, but as pelagic fisheries are very capital intensive, there has been a significant decrease of employment in fisheries. Although employment in fisheries has decreased, the salaries in the fisheries have increased from DKK 800 million in 2014 to DKK 1.1 billion in 2022, mainly due to the new jobs in the pelagic fisheries, which are relatively well paid.

A considerable number of Faroese sailors have been working in the Danish merchant fleet and in fishing vessels in Greenland since the 1960's. A significant number of Faroese workers are working in the supply service sector in the Norwegian oil industry, and there are also many electricians working in the land-based oil industry mainly in construction of new plants.

Wages and salaries earned by Faroese employees working abroad was DKK 1,070 million in 2016 but has slowly decreased to DKK 950 million in 2021.

As a consequence of the strong growth in the Faroese economy, the total employment has increased significantly over the last years. In 2014 the total number of employees was 23,149 but in 2022 it has increased to 28,073; an increase of 21%.

The unemployment rate is 0.8% in March 2023. Table 4 below (page 13) shows the development of employees in the various business sectors for the years 2017-2022.

**Employees by business sector 2018-2023<sup>(1)</sup>**

**Table 4**

|   | <b>Mar. 2018</b> | <b>Mar. 2019</b> | <b>Mar. 2020</b> | <b>Mar.2021</b> | <b>Mar. 2022</b> | <b>Mar. 2023</b> |
|---|------------------|------------------|------------------|-----------------|------------------|------------------|
| Agriculture                               | 67               | 89               | 76               | 81              | 80               | 84               |
| Fishing                                   | 1,445            | 1,406            | 1,417            | 1,381           | 1,292            | 1,283            |
| Aquaculture                               | 942              | 1,075            | 1,116            | 1,264           | 1,357            | 1,338            |
| Extraction of raw materials               | 92               | 91               | 83               | 100             | 95               | 98               |
| Fish processing                           | 1,284            | 1,199            | 1,293            | 1,251           | 1,186            | 1,160            |
| Shipyards/machine shops                   | 746              | 817              | 861              | 838             | 820              | 879              |
| Other manufacturing                       | 859              | 887              | 856              | 876             | 842              | 883              |
| Construction                              | 2,154            | 2,383            | 2,539            | 2,518           | 2,488            | 2,487            |
| Energy                                    | 164              | 168              | 175              | 176             | 186              | 198              |
| Trade and repair                          | 3,082            | 3,104            | 3,075            | 3,282           | 3,333            | 3,235            |
| Hotels and restaurants                    | 738              | 782              | 745              | 785             | 888              | 848              |
| Sea transport                             | 907              | 878              | 859              | 808             | 804              | 818              |
| Other transport                           | 739              | 781              | 836              | 739             | 773              | 827              |
| Communication                             | 358              | 356              | 332              | 324             | 306              | 322              |
| Finance and insurance                     | 744              | 763              | 769              | 752             | 748              | 739              |
| Business services                         | 858              | 923              | 940              | 964             | 1,053            | 1,063            |
| Household services                        | 371              | 378              | 377              | 382             | 385              | 412              |
| Public administration and services, total | 9,282            | 9,558            | 9,809            | 10,108          | 10,355           | 10,524           |
| - Central administration                  | 631              | 632              | 628              | 642             | 664              | 668              |
| - Municipalities etc.                     | 3,564            | 3,678            | 3,764            | 3,868           | 3,902            | 4,070            |
| - Education                               | 1,665            | 1,758            | 1,790            | 1,846           | 1,912            | 1,926            |
| - Health & social work                    | 3,422            | 3,490            | 3,627            | 3,752           | 3,877            | 3,860            |
| Culture, organizations etc                | 660              | 618              | 639              | 736             | 716              | 720              |
| Activities n.e.i.                         | 79               | 78               | 70               | 53              | 67               | 133              |
| <b>Total</b>                              | <b>25,571</b>    | <b>26,334</b>    | <b>26,867</b>    | <b>27,418</b>   | <b>27,774</b>    | <b>28,051</b>    |

(1) These statistics reflect the number of persons employed in each business sector, and not the number of full-time workers in each sector.  
Source: Statistics Faroe Islands

### 3.4.1 INDUSTRIES

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

The fishing fleet consists of three main segments and some smaller segments, who all have their own business cycle. Firstly, there is the wetfish fleet which is mainly fishing in Faroese waters. Secondly, there is a pelagic fleet which is fishing in Faroese waters as well as in fishery zones of other countries mainly in Norwegian, UK and EU fishery zones. Thirdly, there is a fleet of big factory trawlers fishing cod in the Barents Sea. Among the smaller fleets there are some prawn trawlers that are fishing in international waters off the Canadian coast as well as in Svalbard and in the Barents Sea and a small fleet of small trawlers fishing flatfish and monk (anglerfish) near the coast of the Faroe Islands.

Since the 1950s, the total yearly Faroese wet fish catch has been around 100,000 tonnes, and since the mid-1970s, most years the catch has been more than 100,000 tonnes (mean value 112,000 tonnes, standard deviation 20,000 tonnes). The most

important wet fish species in recent years have been saithe, cod, haddock and greater silver smelt. The catch of these species is done mainly by smaller fishing boats, long-line vessels and pair trawlers.

The catches in Faroese waters of demersal fish were around 88,000 tonnes around year 2000 but has since decreased to 46,000 tonnes in 2022.

The pelagic fishery arose in the mid-1960s and has increased since then. Since 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.

Faroese ships also fish cod in foreign waters, of which the Barents Sea is the most important as Faroese ships fish around 24,000 tonnes there. Most of the cod fished in foreign waters is caught by big filleting trawlers. If the trade agreement with Russia is terminated due to sanctions imposed by the Faroe Islands against Russia, it may on a short-term basis have negative economic impact on the shipowners with quotas in the Barents Sea. If the shipowners with demersal quotas in the Barents Sea are given pelagic quotas of comparable value in Faroese waters instead, then the shipowners will need to use other types of vessels to fish pelagic species in Faroese waters instead of fishing demersal species in the Barents Sea.

The value of the Russian pelagic quotas in Faroese waters is of comparable value as the Faroese demersal quotas in the Barents Sea. It is therefore not likely that a termination of the fishery agreement with Russia will have significant long term negative economic consequences.

On 12 March 2014, the Faroe Islands came to an agreement with the EU and Norway on fishing rights for catching mackerel. In 2009 the Faroese catch of mackerel was around 15,000 tonnes and in 2014 it was ten folded to around 150,000 tonnes which approximately was the size of the Faroese quota of mackerel in 2022 as well. The 2014 agreement with EU and Norway lasted for five years and was extended by two more years in 2019. Since 2021 there has not been any agreement between the coastal countries (Norway, UK, EU, Iceland, Greenland and the Faroe Islands) on fishing mackerel. Hence in both 2021 and 2022 the coastal countries have set their own mackerel quota. Due to the lack of an agreement, all coastal countries have set their own mackerel quota higher than recommended by ICES. Total fishery of mackerel by the coastal countries is therefore approximately 40% higher than recommended by the ICES. There is also yet no agreement between the coastal countries for the other two pelagic species (herring and blue whiting).

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

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

The number of employees in the industry has decreased steadily for many years. As the resource base for production has been low in the last many years, the employment in fish factories on land has stagnated on a level of 1,200 since 2011.

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

### ***Aquaculture***

Farming of salmon started in the early 1980s and has ever since emerged to become the largest export industry of the Faroese economy.

Approximately 88,000 tonnes were harvested in 2020, 116,000 tonnes in 2021 and 109,000 tonnes in 2022<sup>5</sup>. The export value of Faroese farmed fish was approximately DKK 5.6 billion in 2022. DKK 5.6 billion corresponds to 48% of the total Faroese fishery exports in 2022. The average export prices of Norwegian farmed salmon have increased since 2012 when the price was NOK 28 per kg. The average price for 2022 was NOK 83 per kg. The forward prices for the rest of the first half of 2023 are above NOK 100 per kg but are expected to decrease to approx. NOK 83 per kg for the second half of 2023<sup>6</sup>.

The number of employees in the fish farming industry has increased from 863 in January 2014 to 1,380 in February 2023.

### ***Construction***

Construction activities have increased steadily over the last years. Employment in the construction sector has consequently increased from 1,388 in 2014 to 2,422 employees in February 2023. Several large public construction projects are currently ongoing, e.g. the sub-sea tunnel to Sandoy, which has an estimated cost around DKK 1.1 billion which according to the plan will open for traffic late 2023. Construction has started on another two tunnels in Borðoy with an estimated cost around DKK 520 million. Drilling started in 2021 and expected completion is in 2024. Because of the relatively high construction activity in the Faroes a substantial number of foreign construction workers are now employed by Faroese companies. In February 2023, approx. 17% of the workers in the construction sector were foreigners.

### ***Transportation***

#### *Internal*

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

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

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<sup>5</sup> Source: Economic Council of the Faroe Islands: Report Autumn 2022, website: lansbankin.fo

<sup>6</sup> Source: FishPool - The Norwegian marketplace for financial salmon contracts, website: fishpool.eu

A third sub-sea tunnel from Eysturoy to Streymoy opened in December 2020. The tunnel shortens the traveling distance between Torshavn and most parts of Eysturoy by 30 to 50 km.

The fourth sub-sea tunnel Sandoyartunnilin is expected to open for traffic in late 2023. Approx. 1,300 inhabitants (additional 3% of the total population) will be connected to the other islands by constructing this sub-sea tunnel.

Ferries and helicopter services are available to the islands that are not directly linked to the road system, and bus service is the most common form of transport for all other areas. As of 1 January 2023, there were 27,722 registered private cars, equivalent to 511 cars per 1,000 inhabitants.

### *External*

Atlantic Airways, the national airline carrier of the Faroe Islands, SAS and Widerø are currently the operators offering routes to and from the Faroe Islands. Depending on the season, there are five to eight daily flights to Denmark (Copenhagen, Aalborg and Billund). There are also flights each week to Iceland, Norway and the UK depending on the season. During the summer season there are flights to destinations around the Mediterranean Sea and to the Canary Islands. In 2019, 419,021 passengers travelled through Vágur airport, whereas the number of passengers was 176,493 in 2020 (a reduction of 57.6%) due to the Covid-19 pandemic. The number of passengers increased to 239,000 in 2021 and 406,000 in 2022.

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. 53,856 passengers travelled to the Faroe Islands by sea in 2019, whereas the number of passengers decreased to 25,787 in 2020 because of the Covid-19 pandemic. The number of passengers has increased to 39,228 in 2021 and 55,968 in 2022.

Icelandic and Faroese freight companies provide cargo carriage to and from the Faroe Islands. The most important routes are to Denmark, United Kingdom, Norway and Sweden.

### **Tourism**

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

The outbreak of Covid-19 highly affected the tourist industry in the Faroes in 2020. During 2020 two new hotels were built and a third hotel was renovated meaning that the total capacity of hotels has increased.

The outbreak of Covid-19 highly affected the tourist industry in 2020. Overnight stays in hotels were 166,000 in 2019 but decreased to 95,000 in 2020. In 2022 the number of overnight stays has increased to 229,000.

### **Oil**

On 22 December 1992, the Danish Government agreed to transfer the rights to mineral resources in the subsoil of the Faroe Islands to the Government of the Faroe Islands. The

initial oil exploration phase started in 1994 and since then, a number of firms have been exploring the subsoil.

So far, the explorations have discovered no commercial findings, but they have showed the presence of an active hydrocarbon system in Faroese subsurface.

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

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

Four banks – Betri Banki P/F, P/F BankNordik, Norðoya Sparikassi and Suðuroyar Sparikassi – serve the financial market in the Faroe Islands.

Lending from Faroese financial institutions was at the end of 2022 DKK 17.3 billion, which is 68% of GDP for 2022. The main reason that lending has been stagnating the past 10 years, is that several of the large companies in the fishing industry and fish farming have had large profits, and therefore have been less dependent on banks for undertaking investments. Also, as a consequence of the financial crises in 2008, the Faroese financial institutions have increased their capital in order to meet the stronger capital requirements to financial institutions.

The law affords the same conditions for Faroese financial institutions as for Danish financial institutions relative to the Danish Central Bank. This legislation thus enables the Faroese banks to participate in international capital markets.

Betri Banki P/F had a pre-tax profit of DKK 88 million in 2022. The bank's solvency ratio was by end of 2022, 32%.

P/F BankNordik had a pre-tax profit of DKK 203 million in 2022. The bank's total capital ratio was 25.1% the by the end of 2022.

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

Norðoya Sparikassi had a pre-tax profit of DKK 14.8 million in 2022, and a solvency ratio of 27.1% at the end of 2022.

The smallest bank, Suðuroyar Sparikassi had a pre-tax profit of approx. DKK 2.5 million in 2022, and a solvency ratio of 22.3% at the end of 2022.

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

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

The companies, Trygd Ltd., and the old monopoly incumbent, Tryggingarfelagið Føroyar Ltd now Betri Trygging, (established in 1940), are currently the only non-life insurance companies active in the Faroese market. In the last few years, competition has increased in the life insurance market. The publicly owned company Føroya Lívstrygging (also a pension and life insurance company established in 1967) became a limited company in 2000. The part of the company, with the insurance policies signed before 1st January 2000, was privatised in 2016, and bought by trade unions and a company representing individual insurance customers. In February 2007 the Betri P/F owned company, Betri Trygging P/F, established a new pension and life insurance company named Betri Pensjón Ltd.

#### *Deposit Guarantee Fund*

As of 1 October 2010, the Deposit Guarantee Fund guarantees for ordinary deposits registered in the name of a depositor with an amount corresponding to a net value of up to EUR 100,000.

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

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

In February 2014, the Faroese Government and the Danish Government agreed that three Faroese banks, Bank Nordik, Betri Banki and Norðoya Sparikassi should be considered as SIFI banks. However, from 1 January 2021 an extra criterium in addition to the existing ones was implemented, stating that the balance of a bank must exceed DKK 3 billion in order to be appointed as a SIFI bank in the Faroe Islands. Thus, from June 2021 Norðoya Sparikassi was no longer a SIFI bank.

#### **Currency**

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

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

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



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

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

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

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

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

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

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

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

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

The Prime Minister since 22 December 2022 is Aksel Vilhelmsson Johannesen (The Social Democratic Party).

### ***Present government***

The Government of the Faroe Islands (Føroya Landsstýri) consists of at least two Cabinet Ministers led by the Prime Minister. After the election on 8 December 2022 the Government of the Faroe Islands was formed on the basis of a coalition of three parties the 22 December 2022. The coalition is made up of representatives from the the Social Democratic Party (Javnaðarflokkurin), the Republican Party (Tjóðveldi) and the Progressive Party (Framsókn). The government consists of 9 cabinet members.

## 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.

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

Municipal taxes are assessed using the same calculation of income as that of the Customs and Tax Administration, except that a flat tax rate is applied. There is no municipal income tax on incomes under DKK 30,000. Income over DKK 30,000 is taxed by a flat rate. All except three small municipalities have tax rates between 18.0% and 22.0%, and the average municipal tax rate is 20.1%.

Members of the National Church also pay church tax, which is between 0.6 and 0.9 in all municipalities.

Labour market contributions are 3.0% to the Labour Market Pension Fund (LMPF). A larger part of pension expenditures is now paid by the LMPF, and a smaller part of pension expenditures is paid over the governmental budget. The allocation is 1% to the unemployment fund and 0.86% to the maternity leave fund. The municipal tax and church tax together with the labour market contributions total approximately 25%. The marginal tax rate is therefore approx. 40% for lower incomes from DKK 65,000 to DKK 235,000 gradually increasing up to approx. 55% for incomes above DKK 800,000.

#### Corporate taxes

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

Corporate taxes are 18%. Of the tax amounts, 70% is paid to the Faroese Treasury, and the remaining 30% to the local municipal authorities.

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

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

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

## Payment for fishing licences and fish farming licences

Since 2011 the fishing fleet has paid for fishing rights for mackerel, and since 2016 the Faroese Parliament has imposed a payment per kg of mackerel, herring and blue whiting being caught. The payments provided the Faroese Treasury a revenue of DKK 318 million in 2022. Since 2017 part of the mackerel, herring, blue whiting and the Barents Sea cod quotas have been sold on auctions. No new auction has been held since 2019, but the government still receives income from auctions in 2019 and previous years. The government received DKK 63 million in revenues in 2022 from the auctions, so the total income for fishery licenses was DKK 380 million in 2022.

The government has presented a legislative proposal to increase payment for fishing licenses. The revenue is expected to be DKK 400 million in 2023.

From 2016 the fish farming industry pays one industry specific tax. The tax is calculated on basis of a sliding scale 0.5% per kilo when the price is below DKK 39, 2.5% per kilo when the price of salmon is between DKK 32 and 36, and 5% per kilo, when the price exceeds DKK 36. The revenues from the tax were DKK 284 million in 2022.

The government has presented a legislative proposal to increase payment for fish farming licences. The revenue is estimated to be about DKK 490 million in 2023.

## Capital gains tax

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

## Customs and VAT

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

## 4.2 Gross public debt

**Table 5**

| <i>Million DKK</i>                    | <b>2018</b>  | <b>2019</b>  | <b>2020</b>  | <b>2021</b>  | <b>2022</b>  |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>                         |              |              |              |              |              |
| Securities and deposits <sup>1)</sup> | 3,666        | 3,478        | 4,729        | 3,843        | 3,874        |
| Others in circulation                 | 647          | 625          | 716          | 753          | 697          |
| Financial assets                      | 2,089        | 2,126        | 2,284        | 2,392        | 2,488        |
| <b>Total assets</b>                   | <b>6,402</b> | <b>6,229</b> | <b>7,729</b> | <b>6,988</b> | <b>7,059</b> |
| <b>LIABILITIES</b>                    |              |              |              |              |              |
| Bond loans                            | 4,608        | 3,817        | 5,419        | 4,039        | 3,541        |
| Other debt                            | 1,027        | 1,049        | 1,061        | 1,279        | 1,558        |
| <b>Total debt<sup>2)</sup></b>        | <b>5,635</b> | <b>4,866</b> | <b>6,480</b> | <b>5,318</b> | <b>5,099</b> |
| <b>Net assets</b>                     | <b>767</b>   | <b>1,363</b> | <b>1,249</b> | <b>1,670</b> | <b>1,960</b> |

### Outstanding bonds

**Table 6**

| <b>Outstanding Bonds (DKKm)</b> | <b>Annual Coupon</b> | <b>Maturity</b> | <b>Issued amount</b> | <b>Outstanding amount End of 2022</b> | <b>Outstanding amount End of 2023</b> |
|---------------------------------|----------------------|-----------------|----------------------|---------------------------------------|---------------------------------------|
| FO-LB 230627                    | 0.625%               | 27-Jun-23       | 550                  | 550                                   | 0                                     |
| FO-LB 240602                    | 1,25%                | 02-Jun-24       | 1,100                | 1,100                                 | 1,100                                 |
| FO-LB 250602                    | 0.125%               | 2-Jun-25        | 1,645                | 1,645                                 | 1,645                                 |
| FO-LB 260619                    | 3.625%               | 19-Jun-26       | 900                  | 0                                     | 900                                   |
| NOK Blt *)                      | 1.810%               | 3-May-32        | 448                  | 448                                   | 448                                   |
| <b>Total Outstanding Bonds</b>  |                      |                 |                      | <b>3,743</b>                          | <b>4,093</b>                          |

\*) NOK 550 million Bond Issue (Coupon 2,70%) swapped to DKK.

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

## 4.3 Foreign trade and balance of payments

The main explanation for the improvement of the balance of payments current accounts is that the export has increased from DKK 6.2 billion in 2013 to DKK 12,7 billion in 2022 (108%), whereas the growth in import has been slower, from DKK 6.3 billion in 2013 to DKK 12.1 billion in 2022 (92%).

### Balance of payments

**Table 7**

| <i>Million DKK</i>        | <b>2017</b>  | <b>2018</b>  | <b>2019</b>  | <b>2020</b>  | <b>2021</b>  |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Goods                     | 1,582        | 389          | 1,491        | 466          | 968          |
| Services                  | -501         | -638         | -855         | -759         | -858         |
| <b>Goods and services</b> | <b>1,081</b> | <b>-249</b>  | <b>636</b>   | <b>-293</b>  | <b>110</b>   |
| Wages                     | 707          | 727          | 642          | 559          | 559          |
| Rents                     | -46          | -152         | -18          | 54           | 18           |
| <b>Income transfers</b>   | <b>661</b>   | <b>575</b>   | <b>624</b>   | <b>613</b>   | <b>577</b>   |
| Current transfers         | <b>1,171</b> | <b>881</b>   | <b>949</b>   | <b>1,070</b> | <b>725</b>   |
| Current account           | <b>2,913</b> | <b>1,207</b> | <b>2,209</b> | <b>1,390</b> | <b>1,412</b> |

Source: Statistics Faroe Islands.

## 4.4 Foreign exchange reserves

The Issuer does not hold specific foreign exchange reserves, as the Faroe Islands are part of the Danish currency area. However, according to Faroese Parliament act, the Faroese Government holds a minimum reserve liquidity of 15% of GDP. The minimum reserve liquidity is DKK 3.4 billion in 2023. Parts of the Faroese Government's financial assets are invested in assets held outside the Faroe Islands, as specified in the table below. The assets held outside the Faroe Islands are mainly invested in government bonds and Danish mortgage bonds, but also in shares. The government bonds and Danish mortgage bonds may be used as collateral within limits in an overdraft facility or as collateral in repo agreements. In general, the assets are liquid as securities are used as collateral in credit facility agreements.

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

### Securities and deposits

**Table 8**

| <i>Million DKK</i>     | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Total financial assets | 3,706       | 3,505       | 4,705       | 3,802       | 3,430       |
| - of which abroad      | 3,352       | 3,214       | 4,507       | 3,733       | 3,295       |

Source: Landsbanki Føroya

1) Excluding governmental institutions' operating liquidity

## 4.5 Income and expenses

The distribution of government expenditure for different items 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.

In a few cases 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, and the sub-sea tunnels between Vágur and Streymoy, Eysturoy and Borðoy, and Streymoy and Sandoy, respectively.

Capital expenses in 2022 were DKK 551 million of which construction of fixed capital were DKK 471 million. The majority of the investments were allocated to transport, education, health, and communication.

Operating expenses in 2022 were DKK 8,285 million, of which compensation of employees was DKK 2,917million. Transfers and other expenses were DKK 3,409 million and purchases of goods and services were DKK 1,959 million. The governments operating revenues in 2022 were DKK 8,912 million. Income and corporate taxes were DKK 3,376 million, VAT and other indirect taxes were DKK 2,998 million. Transfers from the Danish state were DKK 705 million, revenues from fees and other domestic transfers were DKK 854 million, and Sales of goods and services were DKK 979 million. The government accounts show a surplus of DKK 278 million in 2022. See table 9 below.

## Central Government Accounts

Table 9

| Central Government Accounts (DKKm)                | Realized<br>2019 | Realized<br>2020 | Realized<br>2021 | Realized<br>2022 | Budget <sup>1)</sup><br>2023 |
|---|------------------|------------------|------------------|------------------|------------------------------|
| Taxes, direct                                     | 2,971            | 2,981            | 3,058            | 3,376            | 3,574                        |
| Taxes, indirect                                   | 2,608            | 2,753            | 2,939            | 2,998            | 2,981                        |
| Transfers from Denmark                            | 698              | 693              | 700              | 705              | 685                          |
| Sales of goods and services                       | 778              | 865              | 950              | 979              | 833                          |
| Revenue from fees                                 | 642              | 510              | 675              | 806              | 809                          |
| Other   | 46               | 36               | 41               | 48               | 45                           |
| <b>Operating revenues, ex. interest</b>           | <b>7.743</b>     | <b>7,838</b>     | <b>8,363</b>     | <b>8,912</b>     | <b>8,927</b>                 |
| Personel cost                                     | -2,518           | -2,603           | -2,790           | -2,917           | -3,205                       |
| Transfers to individuals                          | -1,880           | -2,107           | -2,143           | -2,244           | -2,325                       |
| Other transfers                                   | -516             | -694             | -585             | -644             | -607                         |
| Purchase of goods and services                    | -1,533           | -1,728           | -1,903           | -1,959           | -1,822                       |
| Other expenses                                    | -515             | -577             | -587             | -521             | -577                         |
| <b>Operating expenses, ex. interest</b>           | <b>-6.962</b>    | <b>-7,709</b>    | <b>-8,008</b>    | <b>-8,285</b>    | <b>-8,516</b>                |
| <b>Primary Operating Balance</b>                  | <b>781</b>       | <b>129</b>       | <b>355</b>       | <b>627</b>       | <b>411</b>                   |
| Interest income and dividends                     | 274              | 122              | 408              | -129             | 220                          |
| Interest expenses                                 | -55              | -44              | 9                | 279              | -47                          |
| <b>Operating Balance</b>                          | <b>1,000</b>     | <b>180</b>       | <b>771</b>       | <b>777</b>       | <b>584</b>                   |
| Sale of fixed assets                              | 14               | 11               | 23               | -                | 58                           |
| Sales of shares                                   | -                | -                | -                | 38               | 95                           |
| Repayments of loans, domestic                     | 16               | 214              | 18               | 14               | 15                           |
| Capital revenues from Denmark                     | -                | -                | -                | -                | -                            |
| <b>Total capital revenues</b>                     | <b>30</b>        | <b>225</b>       | <b>41</b>        | <b>52</b>        | <b>168</b>                   |
| Construction of fixed capital 2)                  | -437             | -503             | -437             | -471             | -484                         |
| Acquisition of fixed capital                      | -18              | -15              | -14              | -20              | -65                          |
| Injection of cap. into publ. Ltd.'s               | -35              | -165             | -50              | -54              | -50                          |
| Net lending, domestic                             | -8               | -7               | -6               | -6               | -8                           |
| <b>Total capital expenses</b>                     | <b>-498</b>      | <b>-690</b>      | <b>-507</b>      | <b>-551</b>      | <b>-607</b>                  |
| <b>Budget surplus/deficit</b>                     | <b>532</b>       | <b>-257</b>      | <b>303</b>       | <b>278</b>       | <b>145</b>                   |
| Debt repayment                                    | -800             | -1,345           | -1,344           | -1,300           | -550                         |
| <b>Gross financing surplus/deficit</b>            | <b>-</b>         | <b>-1,603</b>    | <b>-1,041</b>    | <b>-1,022</b>    | <b>-405</b>                  |
| New borrowing <sup>3)</sup>                       | 0                | 2,945            | 2,946            | 1,100            | 900                          |
| <b>Net financing surplus/deficit<sup>3)</sup></b> | <b>-268</b>      | <b>1,342</b>     | <b>1,905</b>     | <b>78</b>        | <b>495</b>                   |

1) Government Budget Act as approved by the Faroes Parliament in March 2023.

2) At the beginning of the fiscal year 2023, appropriations transferred from previous years are estimated to DKK 300 million.

3) Net government borrowing in 2023 is DKK 350 million.

## 4.6 Auditing procedures

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

All government investments and other expenditures must 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 2022, ending 31 December 2022.

The decrease in GDP in 2020 2.8% in current prices was due to the outbreak of Covid-19. The Economic Council estimates a growth in nominal GDP of 10.8% in 2022, 2.7% in 2023 and 1.3% in 2024. The estimates are somewhat uncertain due to the current geopolitical conflict, and the uncertainty on the financial markets.

The geopolitical conflict related to the war in Ukraine has resulted in lower export to Russia, a decrease from DKK 2.3 billion to DKK 1.0 billion. Faroe Islands have diverted the export of salmon and mackerel to other markets, so that almost all export to Russia is now herring.

However, the Faroese Government is considering the consequences of terminating the bilateral fishing agreement, and might decide to terminate the bilateral fishing agreement with Russia from the beginning of 2024. At present the Faroe Islands are fishing demersal species, primarily cod, in Russian waters and in return lets Russia fish pelagic species in Faroese waters. If the Faroese Government terminates the bilateral fishing agreement, it will probably compensate the shipowners who fish in Russian waters, by giving them fishing rights in Faroese waters instead. The trade of fishing rights is valued to be of equal value for both parties, so on the long-term it will not affect the Faroese economy. On the short-term there might be some difficulties, as the Faroese shipowners might need to acquire vessels to fish pelagic fish instead of demersal fish species.



## 6. Legal and arbitration proceedings

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

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

# 7. Statements by experts and declaration of any interest

The Faroe Islands hold a foreign currency rating of Aa2 assigned by Moody’s Investors Service.

| <b>Ratings Category</b>              | <b>Moody's Rating</b> |
|--------------------------------------|-----------------------|
| Outlook                              | Stable                |
| Government Bonds - Foreign Currency  | Aa2                   |
| Government Bonds - Domestic Currency | Not rated             |

On 12<sup>th</sup> October 2022, Moody’s affirmed the long-term issuer rating of the Government of the Faroe Islands to Aa2 with stable outlook.

The Aa2 foreign currency rating with stable outlook for the Faroe Islands reflects a number of factors including its fiscal autonomy and revenue and expense flexibility with a track record of prudent budgeting, stable relationship with Denmark (Aaa, Stable) and a strong liquidity buffer, which mitigate the refinancing risk associated with the reliance on short term borrowing. The rating also takes into account the Faroese economy’s dependence on the fishing sector, which is somewhat offset by regular fish stock control and a push to diversify the trade partners.

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

## 8. Documents on display

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

### ***Landsbankin Føroya:***

Moody's Investors Service's latest rating documents concerning the Government of the Faroe Islands are available at Landsbankin's website.

Website: [www.landsbankin.fo/en-gb/liquidity-and-debt/debt/rating-reports](http://www.landsbankin.fo/en-gb/liquidity-and-debt/debt/rating-reports)

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

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

Spring Report 2022 March 2022 (with executive summary in English).

Autumn report 2021 September 2021 (with executive summary in English).

Website: [https://www.landsbankin.fo/fo-](https://www.landsbankin.fo/fo-fo/buskarparra%C3%B0i%C3%B0/fragrei%C3%B0ingar)

[fo/buskarparra%C3%B0i%C3%B0/fragrei%C3%B0ingar](https://www.landsbankin.fo/fo-fo/buskarparra%C3%B0i%C3%B0/fragrei%C3%B0ingar) ***Hagstova Føroya, Statistics Faroe Islands:***

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

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

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

The governmental budgets for 2022 and the previous years will be available on the Ministry of Finance's website (in Faroese only).

Website: <https://www.fmr.fo/fo/logir-og-reglur/figgjarlog/figgjarlog-2004-2023/>

### ***Gjaldstovan, The Public Accounts & Payroll Office:***

The public accounts (*landsroknskapir*) for the Faroe Islands for 2021 and previous years are available on the the Public Accounts & Payroll Office's website (in Faroese only). The public accounts for 2022 are not available as of the date of this Registration Document.

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

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

Audit Reports submitted by the Faroese Parliament's Audit Committee

(Some of the information in Danish and English)

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

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

Information about political matters in the Faroe Islands

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

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

Annual report on the Faroe Islands (in Danish only)

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

FØROYA LANDSSTÝRI



THE GOVERNMENT OF THE FAROE  
ISLANDS

FØROYA LANDSSTÝRI DKK 900,000,000 3.625 PER CENT

FIXED RATE NOTES

19 JUNE 2023 / 19 JUNE 2026

ISIN DK0030525837

**SECURITIES NOTE**

# III. SECURITIES NOTE

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## 1. Risk factors

Prospective investors should read this Prospectus carefully. The Prospectus consists of three documents: Summary, Registration Document and this Securities Note all of which have been dated 16 June 2023. Investing in the Notes involves certain risks, which the prospective investors should take into consideration prior to deciding to make an investment in the Notes.

This Securities Note which forms part of the Prospectus has been reviewed and approved by the Financial Supervisory Authority of the Central Bank of Iceland ("FSA") as competent authority under Regulation EU 2017/1129 (the "Prospectus Regulation") which has been implemented into Icelandic law with Act No. 14/2020 (the "Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market"). The FSA only approves this Securities Note as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the FSA should not be considered as an endorsement of the Issuer or of the quality of the Notes that is the subject of the Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

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

Taking into account the negative impact on the Issuer and the probability of their occurrence, the risk factors as set out below have been, in the assessment of the Issuer, been ordered so that the most material risks are set out first.

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

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

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

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

### 1.1 Market risk

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



## 1.2 Secondary market risk

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

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement to this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e. DKK, is different from the currency in which such potential investor's financial activities are principally denominated;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

## 1.4 Liquidity risk

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

## 1.5 Legal risk

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

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

## 1.6 Limitations to the liability of the Issuer

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

## 1.7 Credit risk

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

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

## 1.8 Withholding tax

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

## 2. Persons responsible

### 2.1 Statement from the Issuer

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



Ruth Vang  
Minister of Finance  
Føroya Landsstýri  
Fíggjarmálaráðið



Bjarni Askham Bjarnason  
Permanent Secretary  
Føroya Landsstýri  
Fíggjarmálaráðið

Tórshavn, 16 June 2023

Tórshavn, 16 June 2023

### 3. Key information

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

Issuer:

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

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

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

Arranger :

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

Account Holding Institute:

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

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

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

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

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

The proceeds from the issue of the Notes will be used for the financing of the redemption of Føroya Landsstýri DKK 550,000,000 0.625% due 27 June 2023 with ISIN code DK0030400700 and for necessary available funds in order to comply with liquidity requirements.

The aggregate net proceeds to the Issuer from the issue of the Notes, after deduction of the fees and expenses payable by the Issuer, will be approximately DKK 897,295,000.

The Issuer will bear the costs directly related to the issuance of the Notes. The total costs are expected to amount to approx. DKK 2,048,000 including placing commission and arranging fees.

The costs incurred at Nasdaq Iceland hf. in relation to the admission for trading and official listing on the main market of Nasdaq Iceland hf. will be paid by the Issuer. The fee for admission to trading will be ISK 530,000 plus quarterly expenses for the admission to trading and official listing of the Notes which will be a fixed fee of ISK 15,800 per quarter plus a variable fee of 0.00028% of the market value of the Notes paid on a quarterly basis.

Costs incurred at Nasdaq Copenhagen A/S in relation to the admission for trading and official listing on the main market of Nasdaq Copenhagen A/S will be paid by the Issuer. The annual expenses for the admission to trading and listing of the Notes will be approx. DKK 17,200.

Costs incurred at Euronext Securities (as defined below in clause 4.3) and to the Account Holding Institute in relation to the registration of the Notes in the system of Euronext Securities will be paid by the Issuer. The total costs related to registration of the Notes and fees to Euronext Securities and the Account Holding Institute are approx. DKK 113,000.

Costs incurred at The Financial Supervisory Authority of the Central Bank of Iceland ("FSA") in relation to the vetting and approval of the Prospectus will be paid by the Issuer. The total costs to the FSA are ISK 340,000 corresponding to approx. DKK 17,000.

## 4. Information concerning the Notes

### 4.1 Description of the Notes

|                            |  |
|----------------------------|--|
| Issuer:                    | Føroya Landstýri, Government of the Faroe Islands  |
| Title of the Notes:        | Føroya Landstýri DKK 900,000,000 3.625 per cent Fixed Rate Notes 19 June 2023 / 19 June 2026   |
| Issue Date:                | 19 June 2023   |
| Maturity Date:             | 19 June 2026   |
| First trading date:        | 19 June 2023   |
| Currency:                  | Danish kroner ("DKK")  |
| Principal Amount per Note: | DKK 1,000  |
| Total Principal Amount:    | DKK 900,000,000  |
| Interest Rate:             | The Notes will pay an interest of 3.625 per cent per annum payable annually in arrears in each year commencing on 19 June 2024 and ending on 19 June 2026. |
| Issue Price:               | 99.927 per cent.   |
| Class:                     | The issue of the Notes consists of only one class  |
| ISIN:                      | DK0030525837   |
| INET code                  | FO-LB 260619 (Nasdaq Iceland hf.)  |
| Short name:                | FØROYA LAN JUN26 (Nasdaq Copenhagen A/S)   |

### 4.2 Legislation

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

### 4.3 Form of the Notes

The Notes will be issued in uncertificated and dematerialised book entry form and settled through Euronext Securities (VP Securities A/S), Nicolai Eigtveds Gade 8, DK-1402 Copenhagen K, Denmark ("Euronext Securities"), on the Issue Date. The Notes cannot be registered in the name of the holder.

Nordea Danmark, Filial af Nordea Bank Abp, Finland, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark, is acting as Account Holding Institute ("Kontoførende Institut") in relation to VP SECURITIES A/S.

The Notes will be controlled by Nordea Danmark, Filial af Nordea Bank Abp, Finland as Account Holding Institute for and on behalf of Euronext Securities and the noteholders in accordance with the provisions of the Danish Capital Markets Act (Consolidated Act No. 931 of 6 September 2019, as amended) and Consolidated Act no. 1175 of 31 October 2017 regarding registration of fund assets in a securities centre. For the avoidance of doubt, notes registered with Euronext Securities are negotiable instruments not subject

to any restrictions on the free negotiability within the Kingdom of Denmark, under Danish Law.

#### 4.4 Currency of the Notes

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

#### 4.5 Status of the Notes

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

#### 4.6 Rights etc.

##### 4.6.1 Redemption by the Issuer

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

##### 4.6.2 Redemption by noteholders

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

##### 4.6.3 Events of Default

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

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

Payment shall be effected via the accounts registered with Euronext Securities.

##### 4.6.4 Buyback

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

#### 4.6.5 Notices

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

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

#### 4.6.6 Force majeure

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

#### 4.6.7 Charging

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

### 4.7 Interest

The Notes bear interest from and including 19 June 2023 to but excluding the 19 June 2026.

The Notes will pay an interest of 3.625 per cent per annum payable annually in arrears in each year commencing on 19 June 2024 and ending on 19 June 2026. The first interest period shall be determined as the period from and including the Issue Date to (but excluding) the first Interest Payment Date; and with respect to the subsequent interest periods, the period commencing on an Interest Payment Date (included) to the next Interest Payment Date (excluded) (each an "Interest Period").

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



#### 4.7.1 Interest Amount

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

Where the Interest Amount per Note is to be calculated for a period shorter than a year, the Interest Amount per Note shall be calculated by multiplying the Interest Rate with the Principal Amount per Note, the product of which is multiplied with the actual number of days elapsed in the relevant Interest Period and divided by the actual number of days in the relevant year (ACT/ACT day count fraction).

#### 4.7.2 Interest Payments

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

#### 4.7.3 Accrued Interest

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

#### 4.7.4 Prescription

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

### 4.8 Maturity and repayment

The Notes mature on 19 June 2026 (the "Maturity Date") unless the Notes have been redeemed prior to that day due to Events of Default according to Section 4.6.

Repayment of the Notes will be made at the Principal Amount, in accordance with and subject to the rules and regulations governing Euronext Securities from time to time, to the noteholders through the Account Holding Institute by credit to the accounts with banks designated to Euronext Securities.

### 4.9 Yield

The yield on the Notes is 3.651 per cent. per annum. The yield is calculated as of the Issue Date on the basis of the Issue Price being 99.927 per cent. The yield is not an indication of future yield.

### 4.10 Representation of noteholders

There is no representation of the noteholders.

#### 4.11 Authorisation

The Notes will be issued on Issue Date in accordance with authorisation given by the Faroese Minister of Finance on 11 May 2023.

#### 4.12 Issue Date

The Notes will be issued on 19 June 2023 (the "Issue Date").

#### 4.13 Transferability

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

#### 4.14 Taxation

The tax legislation of the Faroe Islands and/or the jurisdiction where the investor is resident may have an impact on the income received from the Notes. All investors are advised to consider any potential taxation issues that may concern their purchase or sale of the Notes and to seek independent advice in this respect.

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

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

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

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

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

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

#### 4.14.2 Investors located in Denmark and Iceland

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

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

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

## 5. Terms and conditions of the offer

### 5.1 Nominal amount

Notes with a total principal amount of DKK 900,000,000 are being issued by the Issuer.

The Notes are open for further issues without a fixed maximum amount. Future issues will be made at market price free of charge to investors. The Notes will be closed for further issues on 19 May 2026.

### 5.2 Placing and underwriting

Nordea Danmark, Filial af Nordea Bank Abp, Finland, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark has arranged for the Notes to be purchased by a group of institutional investors.

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

### 5.3 Issue Price

The Notes have being issued at a price of 99.927 per cent.

### 5.4 Payment and settlement

Payment and settlement of the Notes will be effected two business days after the trading day against registration with Euronext Securities. However, the first issue will be settled for value on 19 June 2023. The settlement will be effected against payment and registration with Euronext Securities.

### 5.5 Account Holding Institute

The Issuer has appointed Nordea Danmark, Filial af Nordea Bank Abp, Finland, Grønjordsvej 10, DK-2300 Copenhagen S, Denmark as Account Holding Institute.

## 6. Admission to trading and official listing

### 6.1 Admission to trading and official listing

Application has been filed with Nasdaq Iceland hf. for the trading and official listing on the main market of Nasdaq Iceland hf. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Iceland hf. is expected to have effect from 19 June 2023.

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

The Prospectus is expected to be passported to the Kingdom of Denmark prior to on or about 16 June 2023. Following passporting of the Prospectus to the Kingdom of Denmark, application will be filed with Nasdaq Copenhagen A/S for the trading and official listing on the main market of Nasdaq Copenhagen A/S. Acceptance of the Notes for the trading and official listing on the main market of Nasdaq Copenhagen A/S is expected to have effect from 20 June 2023.

## 7. Additional information

### 7.1 Audit of information

The Issuer's auditors have not audited the information contained in this Prospectus, other than the figures for the central government accounts from 2019 to 2021 specified in the Registration Document, Table 9 (page 24), which have been audited by the National Audit Office and approved by The Faroese Parliament.

### 7.2 Rating

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

The Government of the Faroe Islands holds a foreign currency rating of Aa2 assigned by Moody's Investors Service,

| <b>Ratings Category</b>              | <b>Moody's Rating</b> |
|--------------------------------------|-----------------------|
| Outlook                              | Stable                |
| Government Bonds - Foreign Currency  | Aa2                   |
| Government Bonds - Domestic Currency | Not rated             |

On 12<sup>th</sup> of October 2022, Moody's affirmed the Aa2 long-term issuer rating of the Government of the Faroe Islands with a stable outlook.

The Aa2 foreign currency rating with stable outlook for the Faroe Islands reflects a number of factors including its fiscal autonomy and revenue and expense flexibility with a track record of prudent budgeting, stable relationship with Denmark (Aaa, Stable) and a strong liquidity buffer, which mitigate the refinancing risk associated with the reliance on short term borrowing. The rating also takes into account the Faroese economy's dependence on the fishing sector, which is somewhat offset by regular fish stock control and a push to diversify the trade partners.

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