MOODY'S
INVESTORS SERVICE

CREDIT ANALYSIS

Faroe Islands, Government of

Denmark

Table of Contents:

Analyst Contacts:

LONDON +44.20.7772.5454

Amir Girgis +44.20.7772.5302
Associate Analyst
amir.girgis@moodys.com

David Rubinoff +44.20.7772.1398
Managing Director – Sub Sovereigns
david.rubinoff@moodys.com

Ratings

Faroe Islands, Government of

Category	Moody's Rating
Outlook	Negative
Long-Term Issuer Rating (Foreign Currency)	Aa3

Moody's sovereign rating list

Summary Rating Rationale

The Aa3 issuer rating of the Faroe Islands (the Faroes) reflects:

» The government's historical and currently stable relationship with Denmark (Aaa, stable), as well as the course of further autonomy and potential independence.

» The government's broad powers to manage the Faroes' economy, adjust spending and raise revenues through taxation;

» The government's commitment to maintaining ample reserves in order to offset the impact of economic volatility and deficit spending, which is anticipated until 2015;

» Broad political consensus on deficit-reduction plans over the medium and long term;

» Challenges posed by a volatile fishing industry on the island's budget

This Credit Analysis provides an in-depth discussion of credit rating(s) for Faroe Islands, Government of and should be read in conjunction with Moody's most recent Credit Opinion and rating information

Rating Outlook

The negative outlook assigned to the rating reflects current budgetary pressures and the volatility of the fishing sector, which is the economy's major driver.

What Could Change the Rating - Up

Given the Faroes' current economic and financial position, a rating upgrade is unlikely until a balanced budget is realised together with clear plans to stabilise revenue flows from the fishing industry.

What Could Change the Rating - Down

The rating could come under pressure if the Faroese government fails to rebalance its budget in the medium term, which would ultimately worsen its debt profile. A deeper recession, with little progress in resolving difficulties in the fishing industry, could also exert negative pressure on the rating. Although deemed unlikely, a deterioration in the relationship between the Faroe Islands and the Kingdom of Denmark could have a significant impact on the resources of the Faroese government.

Key Rating Considerations

Financial Position and Performance

Its gross operating balance was –DKK118 million or -2.0% of operating revenue in 2011, which is a significant improvement from previous years, where in 2008 and 2009 these reached -8.79% and -7.22% respectively. We anticipate that the Faroe Island will continue to improve on this trend in the years to come.

Volatile revenue sources

The Faroe Islands' revenue is inherently volatile due to the predominance of fishing-related industries, financial services and house building in the local economy, all of which have experienced downturns since the onset of the global financial crisis. In 2011, operating revenue increased 6.4% to DKK5.806 billion, significantly outpacing expectations. The increase was mainly due to a rise in direct taxes, supported by the better-than-expected performance of the fishing industry. The government's budget for 2012 projects a modest 0.4% increase in operating revenue.

Annual transfers from Denmark remain a crucial source of funding for the Faroe Islands at DKK658 million in 2011, which was in line with budgeted figure for the year. Denmark spends an additional DKK324 million in areas that remain under Danish control under its current autonomy agreement with the Faroe Islands, such as public order and judicial administration (see appendix 2).

FIGURE 1
2011 Operating revenue

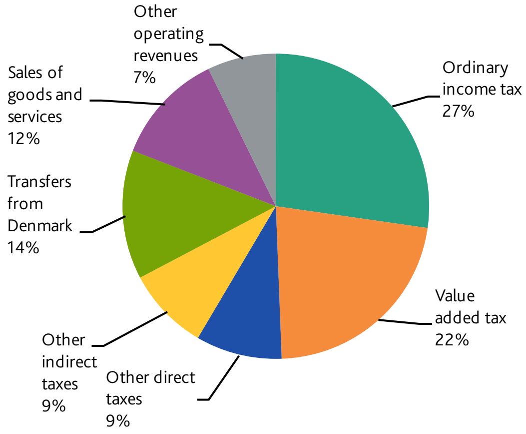
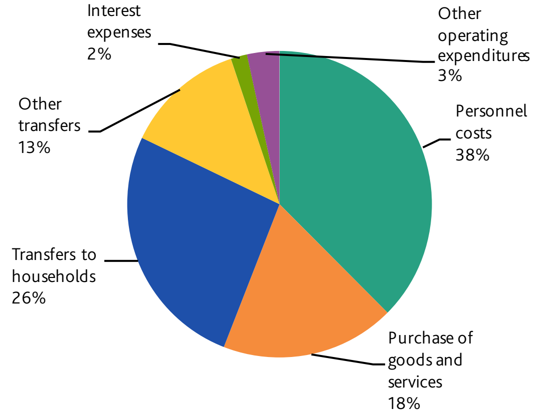


FIGURE 2
2011 Operating Expenses



Operating expenses expected to remain stable; predictability improving

The government's stimulus programme led to a dramatic rise in operating expenses between 2007 and 2010 (average annual growth of 4.7%), with growth particularly high in 2008 at 9.3% year-on-year. Operating expenses were DKK5.925 billion in 2011 growing only 1.3% since 2010, and deviating only 1% from the budget, which illustrates both the improving predictability of the government's spending and the modest year-on-year increase. Future forecasts suggest flat expenditure levels over the next four years, supporting the government's commitment to a balanced budget.

As shown in Figures 2, more than 82% of spending is in personnel, the purchase of goods and services and transfer payments, which, whilst somewhat politically sensitive, remain wholly under the control of the Faroese government.

Deficits downward trending but forecasted until 2015

Current operating deficit levels for 2011 are recorded at DKK-118 million, dropping significantly from previous year results. Preliminary 2012 results indicate deficit results in line with 2011 results. Parliament approved a deficit-reduction plan that extends until 2015, during which the economy is expected to remain exposed to potentially renewed global economic weakness or unsuccessful management of fishing stocks. This commitment to a long-term balanced budget is credit positive, although we note the difficulty in projecting revenue due to the volatility of the fishing sector.

Investment ceiling introduced at DKK300 million

The Faroe Islands' main capital investments are in communication and transport in order to improve its economic efficiency and market access, as well as to encourage tighter social and political integration. Direct government investment increased from DKK155 million in 2010 (2.6% of total expenditure) to DKK244 million in 2011 (4.0% of total expenditure). Future capital expenditure levels are capped at DKK300 million, which was introduced to increase expenditure predictability. The islands' largest investments are in a new education centre, investment in the hospital sector and repairs made to other public buildings. These increased investment levels aim to stimulate the building and construction industry, which has experienced a slowdown since the onset of the financial crisis.

Debt Profile

Debt burden manageable, but increasing to fund fiscal deficits

Debt levels have grown since 2007 in order to fund deficits, but remain significantly below those recorded in the early 1990s, when debt as a proportion of total revenues rose to 263% following the nationalisation of two of the largest banks and the funding of reserves.[1]

Net direct and indirect debt grew from 109.7% of total revenues in 2010, to 120.8% in 2011, and is expected to peak at approximately 130% by 2015. These calculations include DKK834 million in municipal debt equivalent to 12% of total debt. The Ministry of Finance is responsible for the supervision of the municipalities, and the Faroese Islands ultimately guarantees all outstanding debt issued by the municipalities.

Additionally, Moody's includes all unfunded liabilities under the life insurance company, Foroya Livstrygging (LIV), in the calculation of the government's debt. This pension scheme was full self-funded until 2008 and until then had not generated any liabilities to taxpayers. However, since the onset of the financial crisis, LIV's funding ratio has fallen below 100%. Moody's will continue to monitor the progress of the scheme closely, as it increases the government's indirect debt burden.

Bond issuance planned to reduce refinancing risk

The Faroese government issued a DKK1.12 billion bond in June 2012 with a three-year fixed-rate maturity profile, benefitting from a flight to quality as the euro area sovereign debt crisis intensified. The effective interest rate was fixed at rates significantly lower[2] than historical levels. This successful and oversubscribed bond issuance allowed the Faroese government to reduce some of its refinancing risk and spread payment pressures relating to the outstanding DKK4.4 billion more equally over upcoming years. The duration of outstanding debt is approximately two years, and future borrowings are planned with longer maturities in order to minimise the refinancing risk.

Ample liquidity reflects strength of debt management

To ensure the flexibility essential to managing an economy dependent on relatively volatile businesses, the Faroe Islands maintains a large reserve fund (approximately DKK1.9 billion) of 32% of total revenues. The majority of the fund (72%) is managed by external fund managers, whilst the remaining 28% of the fund is managed domestically by Landsbanki Føroya. The portfolio consists of highly rated securities and aims to maximise the return within clearly defined risk limits (the return of the total investment liquidity was 3.4%). The liquidity reserve should always exceed necessary borrowing in a single year. Current debt-management policies seek to limit annual debt maturities at less than 70% of the DKK1.9 billion liquidity fund.

Off-balance sheet pressures mounting

Like other developed nations, the Faroe Islands faces a substantial increase in its ageing population. As of 1 January 2012, the unfunded liability related to public servants (after removing the estimated share of liabilities covered by Denmark) was DKK2.59 billion or 19% of GDP.

Any required amounts after earnings are paid from the annual budget. Pension payments to civil servants have increased 42% since 2007 to DKK80 million in 2011 and are budgeted to reach DKK110 million by 2017.

1 Source: Føroya Banki and Sjóvinnubankin.

2 Reoffer Price: 100.204, Reoffer yield: 1.43%, Re-offer spread: 3 year DKK mid-swap + 60bps

The government and opposition parties have agreed in principle to reform the pension system, including an increase in the retirement age (potentially to 69, making the Faroese the longest-working population in the world), a new indexation of pension growth (capped at the increase in public wages), and a higher compulsory contribution rate. Moody's expects the government will implement these measures despite benefits only being captured in the long term.

Governance and Management Factors

Historically prudent use of powers

As agreed with Denmark in the resolution of its crisis in the early 1990s, the Faroese government must finance any budget deficit from its own resources. Over the long term, the government, like other Nordic countries, has achieved consensus on economic and budgetary policies (sometimes with dramatic reforms) in order to stabilise its finances. Moody's expects that this historical trend will be sustained if required.

Prudent debt and liquidity management

Landsbanki Føroya is responsible for administering the Treasury's loans and borrowings, handling all liquidity investments, and presenting economic and fiscal analysis to the government and Parliament. Since 1994, government debt has been raised in short-tenor Danish kroner bonds. Its current policy is to balance debt against sizeable reserves, to stagger maturities and to refinance three-to-six months in advance, giving time for reserves to be utilised if necessary.

Transparency is strong, but long-term budgeting not very detailed

The government presents its budget annually (subject to amendments within the financial year) and financial reports are published monthly. The finances of the government and of key industries are also monitored by the Danish National Bank. The national government has recently updated its online accounting systems to include the consolidation of municipal accounts into national figures. Economic accounting and forecasting has been substantially enhanced in terms of detail over the past few years.

The National Accounting Office ensures that spending remains within budget directives. Separately, the Auditor General may review the accounts of the government, entities owned by the government and those entities receiving financial support from the government.

Whilst controls over government finances have generally been robust and 2011 results are approximately DKK191 million ahead of projections, the five-year deficit reduction plan only includes aggregated totals of revenue and expenditure, not specific projections. These aggregated forecasted totals are set only within the annual budget process, which exposes revenue and expense decisions to negotiation between shifting political coalitions.

Political divide on how to best obtain a balanced budget

The coalition government, which has been in power since December 2011, consists of four political parties and holds 19 of 33 parliamentary seats. The opposition party consists of three parties and holds the remaining 14 seats. Although Moody's is confident of broad political support to reduce the deficit, the parties are divided on how to optimally and fairly reach budget surpluses by 2016. The main areas of disagreement relate to the management of the fishery industry and, in particular, whether fishing rights should be allocated using a market-based approach and if such an allocation process would invite international competition and potentially push out local fisherman.

Economic Fundamentals

GDP per capita[3] for 2011 was US$29,724, which was approximately 79% of the level for Denmark. Total GDP is estimated at DKK13.85 billion for 2011. Current projections of real GDP growth in 2012 are 2% in line with global projections for 2013. Nominal GDP growth in 2010 was 7.0% and surpassed expectations due to the buoyant results from the fishing industry.

The government has established a separate trade agreement with the EU and negotiated agreements with other countries for trade and fishing rights. The currency of the Faroe Islands is the Faroese króna, a version of the Danish krona issued by the Danish National Bank.[4]

Core fishing and related industries are high value, but volatile

The fishing industry remains the key sector for the Faroese economy. Fishing and its related industries account for around 20% of GDP and 15% of the labour force, and implicitly have strong multipliers to other sectors, such as services and housing. Volatility has been largely driven by the variability of fish prices and for inputs such as petroleum, as well as the risks of over exploitation of stocks. Since 1986, growth in GDP[5] has had a standard deviation of 6.7%, compared with 1.9% for Denmark.[6]

Some diversification within the industry limits this volatility

Since the 1990s, the Faroes' fishing industry has diversified to species other than cod and haddock (see Appendix 1). Although prices remain volatile and volumes are now effectively capped by maximum sustainable levels in Faroese waters and worldwide for more traditional fishing stocks, pelagic species (i.e., mackerel, herring, etc) as well as farmed salmon are helping to diversify revenue streams. Fish farming has recovered strongly from its own crash in 2005 and 2006, and now contributes strongly to the Faroes' exports, although it appears to be at a peak.

Parliament continues to grapple with difficult decisions regarding the fishing industry, including (i) annual catch levels by species; (ii) weighing complicated scientific evidence of stock overexploitation against the demands of current business; and (iii) employment levels. This diversification in fishing products is helping to significantly reducing the risks of a single-stock depletion that could impair the fishing fleet and the economy at large.

Fishing drives the balance of trade

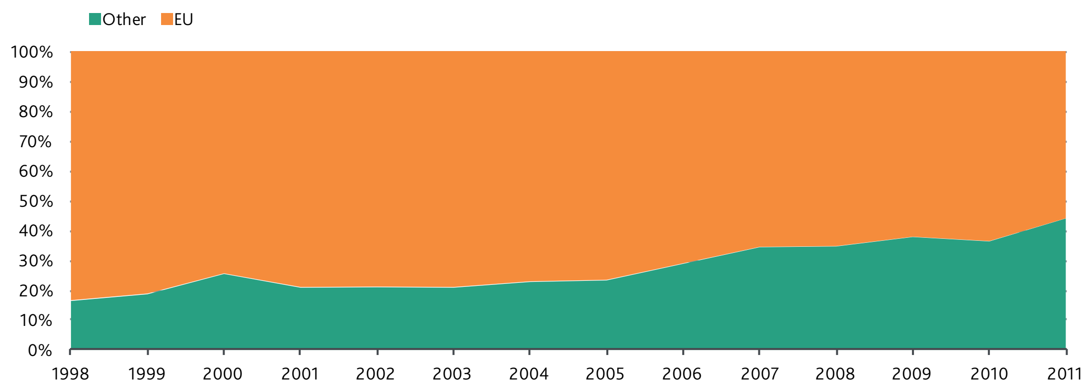
The economy's dependence on fishing and fish farming is most visible in exports, with fish and fish products representing 85% of total export value in 2011.[7] As a result, a substantial decline in the value of fishing-related exports would likely have a significant impact on the economy. Further volatility is added by the importance of fuel as an input cost to the industry, and as the main energy source on the Islands, although its effect has been counter cyclical recently.

The trade balance may swing dramatically from year to year, and can be influenced by single investments, such as the purchase of individual, high-capacity trawlers. We note that the Faroes recorded its first surpluses on the balance of external trade since 2002 in 2010 and 2011. Trading partners are all wealthy by international standards, and concentrated in the North East Atlantic, with 56% in the EU and 44% outside of the EU. The long-term diversification of export markets mitigates

3 On an estimated purchasing power parity (PPP) basis.
4 Faroese króna is issued in notes. Coins in circulation are Danish krona.
5 Measured on a PPP basis, estimated by Landsbanki Føroya.
6 Source: Landsbanki Føroya.
7 In comparison, Iceland's fishing industry accounted for 42% of its export value in 2009.

the risk of a collapse in a particular country. The ongoing dispute on mackerel quotas with the EU and Norway – which resulted in the Faroe Islands and Iceland unilaterally setting their annual mackerel quotas – might affect the Faroe Islands' international relationships and ultimately limit its access to key trading partners.

FIGURE 3
Exports by final destination and year



Unemployment levels regain ground

At the end of 2010, Faroe Seafood – the Islands' largest fish-processing company – filed for bankruptcy. As a result, the unemployment rate peaked at 8.0% in February 2011, levels not recorded since the early 1990s. However, production at some other factories restarted soon after, and the unemployment rate has since declined to 5.5% at May 2012. In order to avoid the level of emigration that characterised previous economic downturns, the government has actively enhanced unemployment insurance within the stimulus budget.

Operating Environment

Moody's uses the evaluation of Denmark in the World Bank Government Effectiveness Index as a proxy for the Faroes, due to the Islands' strong cultural, constitutional and economic ties to the kingdom. Most civil servants are educated in Denmark and there are, inevitably, intense commercial, cultural and political ties within the Kingdom.

Institutional Framework

Relationship with Denmark is stable, with powers and funding clearly defined

In 1948, the Faroes was granted Home Rule, and in 2005[8] it gained authority over all matters except those related to full independence.[9] The current division of responsibilities between the Faroe Islands and the Kingdom of Denmark is stable (see Appendix 2 for more details) is unlikely to change in the short term.

8 Act No. 91/2004 and reflected by the Faroese parliament under *Acts of Assumption of Fields of Responsibility, Act 79 12 May 2005.*

9 The following Joint Matters are inalienable to the Kingdom of Denmark and are excluded from the process of increasing autonomy and potential independence: the Danish Constitution, Danish internal affairs, the Danish Supreme Court, foreign affairs, security and defence policies, currency and monetary policy. The division of responsibilities under this 2005 agreement is discussed further under *Institutional Framework* and in Appendix 2, *Division of Responsibilities between the Faroe Islands and Denmark*.

The Faroe Islands has two seats in the Danish Parliament and has historically had some influence in Danish politics, particularly in parliaments characterised by tight majorities.

Funding and spending powers demonstrated

Home Rule gives the Faroes broad latitude in setting revenues and spending. It determines levels of personal income taxes, VAT, custom and excise duties, corporate tax rates and other charges, which collectively total 86% of governmental revenues. The Faroe Islands may set fees for services at-or-below costs. The annual subsidies from Denmark for "Joint Matters" (see Appendix 2) that have not been transferred to the Islands (13.0%) are the sole area in which funding is fixed.

The Faroe Islands' constitutional powers to set costs and to negotiate wages were demonstrated in the early 1990s, when the government cut spending by 5% (in 1992) and 10% (in 1993). Reform of the municipal sector (i.e., the merger into 10 large municipalities) is currently under active discussion, with legislation likely to be proposed during 2012.

Independent borrowing, but support from Denmark required in times of severe distress

In the 1990s, the Faroese government borrowed in the form of loans – largely from Denmark, given the scale of the crisis – in order to fund the nationalisation of Føroya Banki and Sjovinnubankin and to bridge the deficits of its recovery plan. As political reforms were established, the Faroese began standalone borrowing in order to repay Denmark. The government's relationship with Denmark remains an important source of liquidity support were independent financing again to be limited.

Steps to independence illustrated in constitutional proposal

Since 1947, independence has been an important political issue between Denmark and the Faroes. The 2005 agreement allows the Faroes to choose secession from Denmark by referendum. Although a recently drafted constitutional proposal has reignited public and political debate on the subject, the government has suggested that independence, if it were to occur, would take about 15 years, over which time the Islands would gradually assume all remaining responsibilities and financial burdens. Against the background of the budgetary challenges, the debate over independence has, unsurprisingly, received less attention and political support.

Application of Joint-Default Analysis

As a reflection of the application of Moody's joint-default analysis methodology for regional and local governments, the Faroe Islands' Aa3 rating with a negative outlook, is composed of three principal inputs: (i) a baseline credit assessment (BCA) of 6 (on a scale of 1 to 21, in which 1 represents the lowest credit risk); (ii) a high likelihood that the Government of Denmark (rated Aaa, stable outlook) would act to prevent a default by the Government of the Faroe Islands; and (iii) a low level of default dependence between the Government of Denmark and the Faroe Islands.

The high likelihood of support reflects (i) Moody's assessment that the current relationship with the Kingdom of Denmark is unlikely to change in the medium term; and (ii) the precedents set by the intensive extraordinary support in response to the financial crisis of the 1990s and, more recently, to EiK Banki.

Appendix 1

FIGURE 1

Faroese wet fish catches in DKK million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Demersal,* of which:	**1,144**	**1,008**	**818**	**902**	**941**	**892**	**690**	**567**	**683**	**603**
Cod	536	563	390	340	263	291	238	139	193	185
Haddock	265	190	177	199	201	178	84	48	55	42
Saithe	247	159	140	248	314	290	259	296	294	253
Pelagic, of which:**	**146**	**141**	**167**	**192**	**201**	**176**	**112**	**106**	**111**	**123**
Halibut	55	53	60	47	40	46	48	51	43	54
Monk Fish	57	58	78	121	136	108	52	48	59	61
Other fisheries	**78**	**59**	**59**	**53**	**90**	**95**	**99**	**99**	**109**	**102**
Total catches	**1,368**	**1,208**	**1,044**	**1,146**	**1,232**	**1,164**	**902**	**772**	**903**	**828**

* Demersal: deep-water fishing

** Pelagic: shallow and mid-water fishing

FIGURE 2

Balance of trade in DKK million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	4,234	3,912	3,689	3,587	3,868	4.057	4,346	4,105	4,697	5,401
Import	3,934	4,866	3,762	4,490	4,692	5,522	5,021	4,211	4,370	5,273
Trade Balance	**300**	**-953**	**-73**	**-903**	**-824**	**-1,465**	**-675**	**-106**	**327**	**128**

Soource: Faroese Statistical Office

FIGURE 3

2011 Imports by region/country of origin

2011

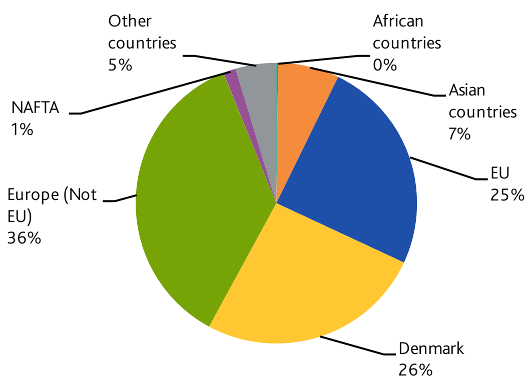
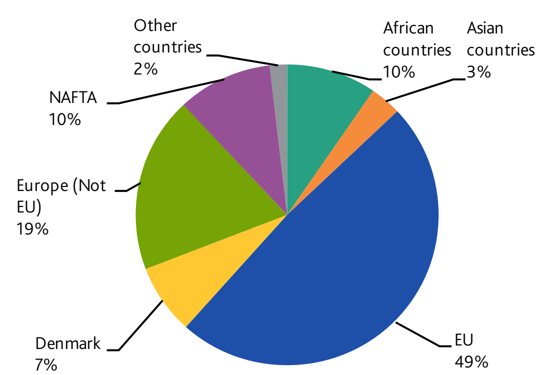


FIGURE 4

2011 Exports by region of final destination

2011



Source: Hagstova Føroya

Appendix 2

Division of responsibilities between the Faroe Islands and Denmark

The Faroese control "Special Matters" covering the economy, finances, industry, foreign trade, mineral rights, and the educational system. "Joint Matters" are administered by the Danish Government according to the laws of the Kingdom of Denmark, although some may be wholly or partly assigned to the Faroe Islands, or undertaken by Danish and Faroese authorities jointly. For example, social welfare and health services are administered by the Faroes, while the legislative authority for these matters remains with the Danish Government.

FIGURE 5

Faroe Islands, Government of, division of responsibilities

	Faroese Municipalities	Central Government Of Faroe Islands	Danish Government
Childcare	X		
Water & Sewage	X		
Waste management	X		
Planning and zoning	X		
School buildings (maintenance)	X		
Road Maintenance	X	X	
Healthcare		X	
Public Transport		X	
Education		X	
Elderly Care		X	
Social Security		X	
Police Force			X
Judicial system			X
Banking supervision			X

Source: Landsbanki Føroya

Annual Statistics

Faroe Islands, Government of

Debt Statement (31/12; Dkk Million)	2011	2010	2009	2008	2007	2006	2005
Long-Term Borrowing	4,877	4,288	3,208	2,619	2,660	2,725	3,625
Short-Term Borrowing	758	741	695	971	719	592	584
Total Direct Debt	**5,635**	**5,029**	**3,903**	**3,590**	**3,379**	**3,317**	**4,209**
Unfunded Pension Debt (Lív Ldt Scheme)	544	127	116	107	-	-	-
Municipal Debt	834	828	738	524	225	133	289
Total Indirect Debt	**1,378**	**955**	**854**	**631**	**225**	**133**	**289**
Total Direct And Indirect Debt	**7,013**	**5,984**	**4,757**	**4,221**	**3,604**	**3,449**	**4,498**
Net Direct And Indirect Debt	**7,013**	**5,984**	**4,757**	**4,221**	**3,630**	**3,508**	**4,579**
Debt Indicators (31/12)							
Total Direct Debt (DKK Million)	**5,635**	**5,029**	**3,903**	**3,590**	**3,379**	**3,317**	**4,209**
Per Capita (DKK)	116,014	103,339	80,224	73,714	69,868	68,627	87,378
% Of Gdp	40.7%	38.9%	32.3%	29.2%	27.2%	28.3%	40.5%
% Of Operating Revenues	97.1%	92.2%	74.0%	65.0%	61.7%	64.9%	91.2%
% Of Total Revenues	96.2%	92.0%	72.4%	62.8%	49.2%	58.0%	89.9%
Net Direct And Indirect Debt (DKK Million)	**7,013**	**5,984**	**4,757**	**4,221**	**3,630**	**3,508**	**4,579**
Per Capita (DKK)	144,383	122,961	97,779	86,663	75,065	72,593	95,051
% Of Gdp	50.6%	46.2%	39.3%	34.3%	29.3%	29.9%	44.1%
% Of Operating Revenues	120.8%	109.7%	90.2%	76.4%	66.3%	68.6%	99.2%
% Of Total Revenues	119.8%	109.5%	88.3%	73.9%	52.9%	61.4%	97.7%
Economic Indicators							
FI Population ('000s)	**48.57**	**48.67**	**48.65**	**48.70**	**48.36**	**48.33**	**48.17**
% Of Danish Population	0.87%	0.88%	0.88%	0.89%	0.89%	0.89%	0.89%
Denmark Population ('000s)	**5,561**	**5,535**	**5,511**	**5,476**	**5,447**	**5,427**	**5,411**
Fi Nominal Gdp (Dkk Billion)	**13.85**	**12.94**	**12.10**	**12.30**	**12.40**	**11.72**	**10.38**
% Of Danish GDP	0.75%	0.74%	0.73%	0.71%	0.73%	0.72%	0.67%
Denmark Nominal Gdp (Dkk Billion)	**1,841**	**1,743**	**1,656**	**1,741**	**1,695**	**1,632**	**1,545**
FI Per Capita GDP (DKK Thousands)	**285.09**	**265.94**	**248.72**	**252.62**	**256.45**	**242.43**	**215.49**
% Of Danish Per Capita GDP	78.8%	84.4%	86.0%	76.7%	88.4%	84.7%	71.6%
Denmark Per Capita GDP (DKK Thousands)	**331.09**	**314.85**	**300.51**	**317.90**	**311.23**	**300.66**	**285.58**
Real GDP Growth Rate	7.0%	7.0%	-1.7%	-0.8%	5.9%	12.9%	2.9%

Financial Indicators (Dkk Million)	2011	2010	2009	2008	2007	2006	2005
Operating Revenues	**5,806**	**5,456**	**5,273**	**5,526**	**5,475**	**5,114**	**4,614**
Direct Taxes	2,118	1,922	1,750	1,826	1,786	1,676	1,503
Indirect Taxes	1,792	1,810	1,726	1,934	2,014	1,807	1,544
Transfers From Denmark	658	655	653	673	668	658	661
Transfers From The Municipalities	130	139	143	164	145	123	132
Sales Of Goods And Services	686	664	635	652	651	605	579
Revenues From Fees	176	84	77	73	60	57	49
Interest Income	155	153	215	168	119	156	116
Other Operating Revenues	91	29	76	37	32	32	29
Capital Revenues	**50**	**9**	**115**	**188**	**1,394**	**603**	**70**
Total Revenues	**5,856**	**5,465**	**5,388**	**5,714**	**6,869**	**5,717**	**4,684**
Operating Expenditures	**5,925**	**5,850**	**5,737**	**5,574**	**5,100**	**4,704**	**4,635**
Personnel Cost	2,196	2,189	2,120	2,036	1,893	1,775	1,743
Transfers	2,019	2,254	2,176	2,113	1,935	1,798	1,760
Purchase Of Goods And Services	1,275	1,040	1,024	1,071	974	876	836
Interest Expenses	176	164	219	131	81	51	138
Other Expenses	259	203	198	224	216	203	159
Capital Expenditures	**244**	**155**	**338**	**770**	**326**	**339**	**259**
Total Expenditures	**6,168**	**6,006**	**6,076**	**6,344**	**5,426**	**5,042**	**4,894**
Gross Operating Balance	**- 118**	**- 394**	**- 464**	**- 48**	**375**	**410**	**- 22**
Financing Surplus (Deficit)	**- 312**	**- 541**	**- 688**	**- 630**	**1,443**	**675**	**- 210**
Balance Sheet (Dkk Million)							
Total Assets	**7,020**	**6,019**	**5,429**	**5,862**	**5,705**	**4,497**	**4,358**
Cash Holdings At Landsbanki And Banks	2,789	2,510	2,037	2,508	2,765	1,485	1,697
Public Companies And Loan Portfolio	2,561	2,385	2,359	2,282	1,767	2,053	1,995
Debtors And Stocks	615	576	494	491	663	427	426
Tangible Capital Assets	1,054	548	540	581	510	533	240
Total Equity And Liabilities	**7,020**	**6,019**	**5,429**	**5,862**	**5,705**	**4,497**	**4,358**
Short Term Debt	758	741	695	971	719	592	584
Long Term Debt	4,877	4,288	3,208	2,619	2,660	2,725	3,625
Other Liabilities And Accumulated Surplus	1,385	990	1,526	2,272	2,326	1,181	149

Key Ratios And Indicators							
	2011	2010	2009	2008	2007	2006	2005
Total Accounts							
Total revenues growth rate (%)	7.2%	1.4%	-5.7%	-16.8%	20.1%	22.1%	0.1%
Total expenses growth rate (%)	2.7%	-1.2%	-4.2%	16.9%	7.6%	3.0%	1.3%
Total revenues per capita	120.57	112.29	110.75	117.33	142.03	118.31	97.24
Total expenses per capita	126.99	123.41	124.88	130.26	112.20	104.34	101.60
Total tax revenues/ total revenues (%)	66.8%	68.3%	64.5%	65.8%	55.3%	60.9%	65.1%
Total intergovernmental revenues/total revenues (%)	15.1%	14.5%	16.6%	15.8%	11.8%	13.7%	16.9%
Total transfers/total expenses (%)	32.7%	37.5%	35.8%	33.3%	35.7%	35.7%	36.0%
Financing deficit/surplus as % of total revenues (%)	-5.3%	-9.9%	-12.8%	-11.0%	21.0%	11.8%	-4.5%
Operating Accounts							
Operating revenues/total revenues (%)	99.1%	99.8%	97.9%	96.7%	79.7%	89.4%	98.5%
Operating expenses/total expenses (%)	96.0%	97.4%	94.4%	87.9%	94.0%	93.3%	94.7%
Tax revenues/operating revenues (%)	67.4%	68.4%	65.9%	68.0%	69.4%	68.1%	66.0%
Intergovernmental revenues (operations related) /operating revenues (%)	13.6%	14.6%	15.1%	15.1%	14.9%	15.3%	17.2%
Fees/operating revenues (%)	3.0%	1.5%	1.5%	1.3%	1.1%	1.1%	1.1%
Transfers (op. related)/operating expenses (%)	34.1%	38.5%	37.9%	37.9%	37.9%	38.2%	38.0%
Primary operating balance/operating revenues (%)	-1.7%	-7.0%	-8.7%	-1.5%	6.2%	6.0%	0.0%
Gross operating balance/operating revenues (%)	-2.0%	-7.2%	-8.8%	-0.9%	6.9%	8.0%	-0.5%
Net operating balance/operating revenues (%)	-14.9%	-19.6%	-35.9%	-19.2%	5.5%	-9.6%	-42.8%
Financing (deficit/surplus)/operating revenues (%)	-5.4%	-9.9%	-13.0%	-11.4%	26.4%	13.2%	-4.6%
Tax revenues/operating expenses (%)	66.0%	63.8%	60.6%	67.4%	74.5%	74.0%	65.7%
Capital Accounts							
Capital revenues/total revenues (%)	0.9%	0.2%	2.1%	3.3%	20.3%	10.6%	1.5%
Capital expenses/total expenses (%)	4.0%	2.6%	5.6%	12.1%	6.0%	6.7%	5.3%
Debt							
Total direct and indirect debt growth rate (%)	12.1%	28.9%	8.7%	6.3%	1.9%	-21.2%	1.8%
Total direct and indirect debt per capita (DKK thousands)	116.01	103.34	80.22	73.71	69.87	68.63	87.38
Total direct and indirect debt /GDP (%)	50.6%	38.9%	32.3%	29.2%	27.2%	28.3%	40.5%
Total direct and indirect debt /total revenues (%)	96.2%	92.0%	72.4%	62.8%	49.2%	58.0%	89.9%
Total direct and indirect debt /operating revenues (%)	97.1%	92.2%	74.0%	65.0%	61.7%	64.9%	91.2%
Total direct and indirect debt /tax revenues (%)	144.1%	134.7%	112.3%	95.5%	88.9%	95.2%	138.1%
Net direct and indirect debt growth rate (%)	17.2%	25.8%	12.7%	16.3%	3.5%	-23.4%	0.2%
Net direct and indirect debt per capita (DKK thousands)	144.38	122.96	97.78	86.66	75.06	72.59	95.05
Net direct and indirect debt /GDP (%)	50.6%	46.2%	39.3%	34.3%	29.3%	29.9%	44.1%
Net direct and indirect debt /total revenues (%)	119.8%	109.5%	88.3%	73.9%	52.9%	61.4%	97.7%
Net direct and indirect debt /operating revenues (%)	120.8%	109.7%	90.2%	76.4%	66.3%	68.6%	99.2%
Net direct and indirect debt /tax revenues (%)	179.3%	160.3%	136.9%	112.3%	95.5%	100.7%	150.3%
Debt growth rate (%)	17.2%	25.8%	12.7%	17.1%	4.5%	-23.3%	0.6%
Debt per capita (DKK thousands)	144.38	122.96	97.78	86.66	74.53	71.38	93.38

	2011	2010	2009	2008	2007	2006	2005
Debt/total revenues (%)	119.8%	109.5%	88.3%	73.9%	52.5%	60.3%	96.0%
Debt/GDP (%)	50.6%	46.2%	39.3%	34.3%	29.1%	29.4%	43.3%
Debt/operating revenues (%)	120.8%	109.7%	90.2%	76.4%	65.8%	67.5%	97.5%
Debt/tax revenues (%)	179.3%	160.3%	136.9%	112.3%	94.9%	99.0%	147.6%
Short-term debt/debt (%)	10.8%	12.4%	14.6%	23.0%	19.9%	17.2%	13.0%
Indirect debt growth rate (%)	0.7%	12.2%	40.9%	132.4%	69.6%	-54.0%	-14.2%
Indirect debt per capita (DKK thousands)	17.17	17.01	15.17	10.76	4.66	2.75	6.00
Indirect debt/total debt (%)	14.8%	16.5%	18.9%	14.6%	6.7%	4.0%	6.9%
Indirect debt/debt (%)	11.9%	13.8%	15.5%	12.4%	6.3%	3.9%	6.4%
Interest expense growth rate (%)	7.3%	-25.3%	67.6%	60.9%	58.0%	-62.7%	-8.8%
Interest expenses/total revenues (%)	3.0%	3.0%	4.1%	2.3%	1.2%	0.9%	2.9%
Interest expenses/operating revenues (%)	3.0%	3.0%	4.2%	2.4%	1.5%	1.0%	3.0%
Interest expenses/tax revenues (%)	4.5%	4.4%	6.3%	3.5%	2.1%	1.5%	4.5%
Interest expenses/primary operating balance (%)	-179.9%	-42.7%	-47.7%	-154.9%	24.1%	16.8%	n.m
Debt service growth rate (%)	9.6%	-49.0%	43.7%	630.2%	-83.5%	-54.5%	98.9%
Debt service/total revenues (%)	15.7%	15.4%	30.6%	20.1%	2.3%	16.6%	44.6%
Debt service/operating revenues (%)	15.9%	15.4%	31.2%	20.7%	2.9%	18.6%	45.3%
Debt service/tax revenues (%)	23.5%	22.5%	47.4%	30.5%	4.1%	27.3%	68.6%

Moody's Related Research

Credit Opinions:

» Faroe Islands, Government of

» Denmark, Government of

Special Comment:

» Sub-Sovereign Outlook 2010: Challenges Persist and Downward Rating Actions Expected, January 2010 (121563)

Statistical Handbook:

» Non-U.S. Regional and Local Governments, December 2010 (129516)

Rating Methodologies:

» The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)

» Regional and Local Governments Outside the US, May 2008 (107844)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Report Number: 143824

Authors
Amir Girgis
Sofia Almeida

Production Associate
Amanda Kissoon

MOODY'S
INVESTORS SERVICE