No. 75 5 November

PARLIAMENTARY ACT

on

Føroya Realkreditstovnur (The Faroese Mortgage Credit Society) (as amended by Parliamentary Act No. 53 from 16 May 2006)

According to a decision by the Faroese Parliament, the Faroese prime Minister hereby confirms and publishes the following Parliamentary Act:

Chapter I
Objects of the Institution

§ 1. The Faroese Mortgage Credit Society, which was founded according to Act No. 60 from 12 March 1955, shall continue as a self-governing institution with the name Føroya Realkreditstovnur (Realurin). The object of the institution is to provide loans with security in fishing vessels, floating installations and vessels in the offshore industry and fish farming with domicile in the Faroe Islands.

(2) The lending activities can be expanded to other industries in the Faroe Islands according to a decision by the Minister. Industries in the Faroe Islands also comprise activities, which a person, who is covered by the Hoyvík Convention ("Hoyvíkssáttmálin") and has domicile within the territory of the convention, conducts with domicile in the Faroe Islands within the relevant industry.

(3) The institution shall continue with the rights and obligations, net capital and provisions included, which have been accrued and established by the Faroese Mortgage Credit Society based on its activities according to Act No. 60 from 12 March 1955, including founding capital.

(4) The provision on domicile in the Faroe Islands, which is contained in § 1 (1) (2) does not apply to:

1) Fishing vessels, floating installations, vessels in the offshore industry or fish farming with domicile within the territory of the Hoyvík Convention, if the vessel etc. has its domicile in the Faroe Islands, and

2) the owner of the vessel etc. is covered by the Hoyvík Convention and has his domicile within the territory of the convention.

(5) The Hoyvík Convention, which it is referred to in § 1 (2) and (4), is the convention from 31 August 2005 between on the one side the government of Iceland and on the other side the governments of Denmark and the Faroe Islands.

Chapter II
Management of the Institution

§ 2. The institution is governed by a management with three members, nominated by the Minister. The members of the management are nominated for 5 year terms. More specific rules shall be stipulated in the articles of association. The management is responsible towards the Minister for the management of the institution.

(2) The management appoints employees, including a possible assistant manager and surveyors. The Minister shall be informed on appointments of assistant manager and surveyors.

§ 3. The advisory board has 8 members, 2 nominated by the Minister, 2 by the institution's debtors, 2 by the Faroese Association of Ship Owners, while the Faroese Association of Fishermen, the Faroese Association of Captains and Navigators and the Faroese Association of Engineers jointly nominate 2 members, see however § 18 (3).

(2) The nominations are for terms of 4 years. The management shall call a meeting of the advisory board at least once a year.

§ 4. The Minister shall prepare articles of association for the institution, based on a recommendation from the management.

§ 5. Managers, assistant managers and surveyors may not participate in the handling of their own loan applications or surveys of their own property or of their spouses or persons, which they are related to in direct line or first or second collateral branch or which are particularly close to them in any way. Also they may not participate in the handling of matters regarding loans with regard to property, which is mortgaged in their favour, or to which they have purchasing rights, or with regard to whom they within the last two years have assisted with regard to purchasing or rebuilding, or with regard to whom they as financial managers or assistants are participating or with regard to whom they within the same period have participated in connection with mortgaging or sale.
(2) In matters where the management does not form a quorum based on the above mentioned rule, the Minister shall make decisions with regard to the provision of loans.
(3) The persons, which are mentioned in (1), and the employees of the institution may not for their own account conduct or participate in transactions of a speculative nature.
(4) Neither any member of the board nor any accountant of the institution may obtain loan from the institution, unless the Minister gives his consent in each particular incidents.

Chapter III
Possessions and Loans

§ 6. The property of the institution are the base capital mentioned in § 1 (3) and a contingency fund, whose capital shall be obtained according to the rules in § 8 (9) and (10) and § 10 (1).
(2) The contingency fund shall correspond to at least 10 per cent of the aggregated loans of the institution and 20 per cent of the debt of the institution.
(3) The capital in the contingency fund may not be lent, but shall be locked-up according to the rules in force for money owned by minors.
(4) If the contingency fund exceeds the limits in (2) at the end of a financial year, the exceeding amount may, however, be transferred to the base capital of the institution according to a decision by the management.

§ 7. Apart from the base capital, the institution may obtain loan capital by issuing bonds or bearer bonds issued in the name of the institution according to the rules of the articles of association for the institution.
(2) For a decision according to (1) to be valid, it shall be signed by all members of the management.
(3) The aggregated amount of the bonds and other debt instruments issued at any time may not exceed an amount corresponding to 5 times the base capital at the closing of the last financial year.
(4) If special conditions so indicate, the Minister can upon recommendation from the management allow that the nominal value of the bonds and other debt instruments may correspond to seven times the base capital.
(5) More specific rules regarding the calculation of the proportion between base capital and loans acquired shall be stipulated in the articles of association.

Chapter IV
Loans of the Institution

§ 8. Loans, interest, time of repayment and other conditions shall be specified by the management according to the rules laid down in the articles of association.

(2) The institution may provide loans with either 1st or 2nd mortgage. Loans with 1st mortgage shall not exceed 60 per cent of the estimated value, when loans with 2nd mortgage are not provided. If a loan is provided with 2nd mortgage, the limit for a loan with 1st mortgage is 50 per cent.
(3) Loans with 2nd mortgage may be provided within a capital limit corresponding to 30 per cent of the own capital, calculated as base capital and contingency fund. They may only be provided together with loans with 1st mortgage and may not exceed 70 per cent of the estimated value. Loans may, however, be provided up to 80 per cent of the estimated value, if the loan is provided with a similar mortgage from other financing.
(4) The time of repayment of the loans may not exceed 15 years. The management may, however, in the repayment period, if special conditions so indicate, allow that instalments are lowered or that a respite is given, so that the repayment period is prolonged to a maximum of 20 years.
(5) The loan limits in (2) and (3) may be exceeded if mortgaged property, which has been taken over in connection with a compulsory sale or under similar conditions, is resold if this may provide for a possibility to avoid unnecessary loss.
(6) The institution may not provide loan to a borrower or a group of connected borrowers, which exceed 25 per cent of the property of the institution (base capital and contingency fund).
(7) In order to provide a loan, the signature of at least two members of the management are required, see however § 5 (2).
(8) The loans are paid out in cash at a rate and with an interest stipulated by the management.
(9) Each time a loan is taken, a deposit shall be made to the contingency fund as more specifically provided for in the articles of association. The deposit shall be repaid, when the loan has been fully repaid.
(10) More specific rules shall be stipulated in the articles of association with regard to payment of deposit, payment to the contingency fund in the repayment period and limitations in the right to repayments of a deposit, when the loan has been fully repaid.

§ 9. Loans shall only be provided with mortgage in the property mentioned in § 1. The mortgage comprises the property with accessories according to the Act on the Registration of Ships and the Act on Land Registry and also the insurance sum for the mortgaged property.
(2) More specific conditions with regard to mortgaging shall be provided for by the management and indicated in the mortgage deeds.

§ 10. The borrowers shall be jointly and severally responsible for the obligations of the institution, each with an amount corresponding to their principal debt. In order to meet this responsibility, the management may decide that a additional payment shall be made to the contingency fund.
(2) More specific rules shall be stipulated in the articles of association with regard to limitation in and cessation of the joint and several responsibility.

§ 11. Members shall be obligated according to the articles of association in force from time to time.

§ 12. Documents, which are sent from the institution or to the institution in connection with its activities shall be registered without payment.
(2) Confirmations and excerpts from public authorities to be used in connection with registration of documents, mentioned in (1), shall be provided without costs.

Chapter V
Control, Annual Accounts and Auditing

§ 13. The Minister supervises the institution. In order to conduct the external supervision, the Minister appoints an auditor. When so required, the institution shall provide the accountant with any and all information regarding the affairs of the institution. The Minister lays down more specific rules for the external supervision.

§ 14. The institution shall for each financial year prepare annual accounts indicating the result, the balance, notes and the annual report. The annual accounts shall give a true and fair view of the institution's property and debt, financial position and the result. The annual accounts shall be prepared according to good practice.
(2) More specific rules regarding the annual accounts shall be stipulated in the articles of association.

§ 15. The annual accounts shall be audited by a chartered accountant, appointed by the management. An auditors report shall be kept for the work of the accountant.
(2) More specific rules regarding the auditing shall be stipulated in the articles of association.

§ 16. The audited annual accounts with signatures and the approval of the management shall be presented to the advisory board for review and then not later than 4 months after the end of the financial year sent to the Minister together with the remarks from the accountant.
(2) Not later than one month after each quarter, the management shall send an excerpt of the accounts of the institution to the Minister.

Chapter VI
Liquidation of the Institution

§ 17. If the institution is liquidated, the property of the institution shall be disbursed according to a decision made in a parliamentary act.

Chapter VII
Transitional and Commencement Provisions

§ 18. This Act shall take effect the day after it has been published.
(2) The present management shall sit for its nominating period.
(3) The Danish Parliament shall continue to nominate two members to the advisory board until the expiry of the state guarantee for bonds issued.