

## OFFERING CIRCULAR

# ÅLANDSBANKEN ABP

(incorporated with limited liability in the Republic of Finland)

**EUR 2,000,000,000**

## **Euro Medium Term Note and Covered Bond Programme**

Under this EUR 2,000,000,000 Euro Medium Term Note and Covered Bond Programme (the **Programme**), Ålandsbanken Abp (Ålandsbanken or the **Issuer**) may from time to time issue medium term notes (**MTNs**) and covered bonds (the **Covered Bonds** and, together with MTNs, the **Notes**) under the Finnish Covered Bonds Act (*Laki kiinnitysluottopankkitoiminnasta 688/2010*) (the **CBA**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.**

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange’s regulated market.

References in this Offering Circular to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange’s regulated market and have been admitted to the Official List. The London Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a final terms document (the **Final Terms**) which will be delivered to the UK Listing Authority and the London Stock Exchange. Copies of Final Terms in relation to Notes will also be published on the website of the London Stock Exchange through a regulatory information service.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and are 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 (see “*Subscription and Sale*”).

The Issuer had been assigned a long-term credit rating of BBB by Standard & Poor's Credit Market Services Europe Limited (**S&P**). S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Notes issued under the Programme may be rated by S&P or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Arranger**

**Ålandsbanken Abp**

**Dealers**

**Ålandsbanken Abp**  
**Nordea**

**Danske Bank**  
**SEB**

**Swedbank**

The date of this Offering Circular is 3 June 2014.

**This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the Prospectus Directive).**

**The Issuer accepts responsibility for the information contained in this Offering Circular and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.**

**No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.**

**Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.**

**Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.**

**This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or**

published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Finland) and Japan, see “*Subscription and Sale*”.

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 may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has 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 Offering Circular or any applicable supplement;
- has 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;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor’s currency;
- understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### *Presentation of Financial Information*

Unless otherwise indicated, the financial information in this Offering Circular relating to the Issuer has been derived from (i) the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2012 (the *2012 Financial Statements*) and 31 December 2013 (the *2013 Financial Statements*) and (ii) the unaudited reviewed consolidated financial statements of the Issuer for the three month period ended 31 March 2014 (the *Interim Financial Statements* and, together with the *2012 Financial Statements* and the *2013 Financial Statements*, the *Financial Statements*).

The Issuer’s financial year ends on 31 December, and references in this Offering Circular to any specific year are to the 12-month period ended on 31 December of such year. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (*IFRS*) as adopted by the European Union.

Certain of the comparative data for the financial year ended 31 December 2012, which are included in the 2013 Financial Statements, have been restated to reflect the following:

- corrections related to the reporting of (i) deferred tax assets in connection with the transfer of business assets and liabilities to the Issuer's branch in Sweden, (ii) defined benefit pension plans of the Issuer's Swedish operations in compliance with International Accounting Standard (IAS) 19, (iii) intangible assets that arose from the Issuer's purchase of the asset management company Allcap Ab (the acquisition of which was completed in two stages in 2005 and 2007), (iv) market valuations of fixed interest loans and zero coupon bonds within the framework of a fair value option as well as fair value hedging and (v) revaluation of the Issuer's head office property when transitioning to IFRSs with regard to capital adequacy reporting; and
- the recognition of defined benefit pensions in compliance with the new rules on accounting for pensions (IAS 19) which took effect on 1 January 2013.

For further information regarding this restatement, see Note G 42 to the 2013 Financial Statements ("*Restatement of financial reports due to revised IAS 19 and corrections*").

Where historical financial information (and the accompanying audit reports) of the Issuer has been translated from Swedish to English for the purposes of the inclusion in this Offering Circular, the English translations included herein constitute direct and accurate translations of the Swedish originals.

#### *Certain Defined Terms and Conventions*

Capitalised terms which are used but not defined in any particular section of this Offering Circular will have the meaning attributed thereto in "*Terms and Conditions of the Notes*" or any other section of this Offering Circular.

Certain figures and percentages included in this Offering Circular have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

All references in this document to *euro*, EUR and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. All references in this document to Swedish kronor or SEK refer to the lawful currency of Sweden.

#### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Offering Circular may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of Ålandsbanken*" and other sections of this Offering Circular. The Issuer has based these forward looking statements on the current view of its management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Offering Circular, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this

**Offering Circular, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted.**

**Any forward looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.**

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### STABILISATION

**In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the “Stabilisation Manager(s)”) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager(s)) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## ISSUER'S COVER POOLS – OVERVIEW

Covered Bonds issued under the Programme will have the benefit of one of two separate pools of qualifying assets that have been established by the Issuer in accordance with the CBA, as follows:

- the Finnish cover pool (the **Finnish Cover Pool**), which was established in September 2012 and which comprises primarily of residential mortgages granted to debtors in Finland. Covered Bonds that are secured by the Finnish Cover Pool shall be specified as Category FIN Covered Bonds in the applicable Final Terms (the **Category FIN Covered Bonds**); and
- the Swedish cover pool (the **Swedish Cover Pool** and, together with the Finnish Cover Pool, the **Cover Pools**) that comprises primarily of residential mortgages granted to debtors in Sweden. Covered Bonds that are secured by the Swedish Cover Pool shall be specified as Category SWE Covered Bonds in the applicable Final Terms (the **Category SWE Covered Bonds** and, together with the Category FIN Covered Bonds, each a **Category of Covered Bonds**).

The Issuer will maintain a separate register for each of the Cover Pools in accordance with the CBA. Each Cover Pool shall be separate from the other and, accordingly, Category FIN Covered Bonds shall only be secured by the Finnish Cover Pool and Category SWE Covered Bonds shall only be secured by the Swedish Cover Pool.



## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. However, the Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are described below.*

*The risks described below could have a material adverse effect on the business, results of operations, financial condition or future prospects of the Issuer and its consolidated subsidiaries (the **Group**) or the value of the Notes.*

*Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme**

#### ***Credit risk***

*The Group is exposed to the risk of its borrowers and counterparties failing to meet their obligations towards the Group*

Credit risk is the risk that the Group will incur losses because of its counterparties' or borrowers' inability to meet their obligations to the Group as they fall due or the inadequacy of collateral or other security obtained by the Group from its counterparties and borrowers. Adverse changes in the creditworthiness of the Group's counterparties and borrowers or any reduction in the value of collateral or other security obtained by the Group may have an adverse impact on the Group's financial results and creditworthiness. The credit risk of the Group is comprised primarily of claims against private individuals. As at 31 December 2013, the Group's total lending was EUR 3,104 million, of which approximately 64 per cent. constituted loans to private individuals or households. The Group therefore has significant exposure to individuals and households. Individuals' and households' creditworthiness is affected by a variety of factors such as the state of the economy in general, adverse changes in the level of employment and real estate values. As at 31 December 2013, total lending in Sweden was EUR 797 million, or approximately 26 per cent. of the total lending of the Group, with the balance of lending being in Finland. The exposure of the Group is, therefore, also particularly concentrated in Finland and Sweden.

As at 31 December 2013, the Group's total lending to corporate and other institutional customers was EUR 1,105 million. The Group's exposure to corporate and other institutional customers is subject to adverse changes in their credit quality, whether as a result of the global financial crisis or the European sovereign debt crisis or for other reasons.

Credit losses vary over the business cycle and there is a risk of heightened credit losses in the current economic environment. As European markets remain challenging in the aftermath of the latest financial crisis, credit risk associated with certain borrowers and counterparties in these markets remains heightened.

The Group routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, funds and other institutional and corporate clients.

Many of these transactions expose the Group to the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity or credit derivative contract defaults on its obligations prior to maturity when the Group has an outstanding claim against that counterparty. Due to the increased volatility in foreign exchange and fixed income markets in recent years, this risk has increased. This credit risk may also be exacerbated when the collateral held by the Group cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure.

Any of the foregoing can lead to material credit losses and a material adverse effect on the Group's financial condition.

*The Group is exposed to the risk of increased credit provisioning*

The Group maintains allowances for loan losses to cover estimated probable incurred credit impairments inherent in its loan portfolio. The Group's calculation of the allowance for losses on loans is based on, among other things, its analysis of current and historical delinquency rates and loan management, its customers' likely repayment capacity and the valuation of the underlying assets, as well as numerous other management assumptions. These internal analyses and assumptions may give rise to inaccurate predictions of credit performance.

The Group's impairment loss on loans and other commitments was EUR 4.1 million in the year ended 31 December 2013 as compared to EUR 6.4 million in the year ended 31 December 2012 and EUR 1.8 million in the year ended 31 December 2011. Any material increase in impairment loss on loans and other commitments could have a material adverse effect on the Group's financial condition.

*The Group is exposed to declining property values on the collateral supporting residential real estate lending, which is by far the most important form of collateral in the Group's lending*

The Group's total lending at 31 December 2013 was EUR 3,104 million, of which home loans to private persons in Finland and Sweden amounted to 45 per cent., or EUR 1,383 million.

Any economic downturn in the Group's core markets of Finland and Sweden, with falls in house prices and increases in unemployment, could adversely affect the Group's home loans portfolio and generate increases in impairment losses. In addition, the effects of declining property values on the wider economy are likely to also contribute to higher default rates and impairment losses on the Group's loans.

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due or only able to meet its liquidity commitments at an increased cost.

A substantial part of the Group's liquidity and funding requirements are met through reliance on customer deposits, as well as ongoing access to wholesale lending markets, including issuance of long-term debt market instruments such as covered bonds. The volume of these funding sources, in particular long-term funding, may be constrained during periods of liquidity stress. Turbulence in the global financial markets and economy may adversely affect the Group's liquidity and the willingness of certain counterparties and customers to do business with the Group. More than half of the Group's funding requirements are met through customer deposits. As a result, the Group is particularly exposed to significant outflows of deposits, which may occur in times of turbulence in the financial markets and the economy.

Such events or a general decline in the Group's liquidity may adversely affect the availability and price of the Group's funding and, as a consequence, weaken the Group's financial condition.

### ***Market risk***

The Group's customer-driven trading operations (where positions, within certain defined limits, are taken) and its treasury operations (where the Issuer holds investment and liquidity portfolios for its own account) are the key contributors to market price risk for the Group.

To the extent volatile market conditions persist or recur, the fair value of the Group's assets could fall substantially and cause the Issuer or other members of the Group to record write-downs. In addition, because the Group's trading and investment income depends to a great extent on the performance of financial markets, volatile market conditions could result in a significant decline in the Group's trading and investment income, or result in a trading loss.

Like all banking groups, the Group earns interest from loans and other assets, and pays interest to its depositors and other creditors. The net effect of changes to the Group's net interest income depends on the relative levels of assets and liabilities that are affected by changes in interest rates. The Group is exposed to structural interest income risk when there is a mismatch between the interest rate re-pricing periods, volumes or reference rates of its assets, liabilities and derivatives. This mismatch in any given period in the event of changes in interest rates could lead to significant losses or protracted periods of low profitability or losses.

A substantial portion of the Group's assets are denominated in SEK. The Group is therefore exposed to adverse exchange rate movements between SEK and EUR. A significant movement in the SEK and EUR exchange rate could have a material adverse effect on the Group's balance sheet positions.

### ***Operational risk***

Operational risk refers to the risk of losses as a result of inappropriate or inadequate internal routines, human error, defective systems or external events.

Although the Group has implemented risk controls and taken other actions to mitigate exposures and/or losses, there can be no assurance that such procedures will be effective in controlling each of the operational risks faced by the Group, or that the Group's reputation will not be damaged by the occurrence of any operational risks.

As a part of its banking and asset management activities, the Group provides its clients investment advice and access to internally as well as externally managed funds. In the event of losses incurred by the Group's clients due to such investment advice, or an investment in such funds, the Group's clients may seek compensation from the Group, which may result in losses for the Group. Such compensation might be sought even if the Group has no direct exposure to such risks, or has not recommended such counterparties to its customers.

Notwithstanding anything in this risk factor, the risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

### ***General economic conditions and circumstances in the financial market***

The global capital and credit markets have been characterised by extreme volatility and disruption in recent years as a result of both the global financial crisis and the more recent European sovereign debt crisis and its effect on banks perceived to be at risk as a result. Reflecting this and possible future events that may have similar effects on the financial markets, the Group may experience reductions in business activity, increased funding costs, decreased liquidity, decreased asset values, additional credit impairment losses and lower profitability and revenues. Any of the foregoing factors could adversely affect the Issuer's ability to make payments due in respect of the Notes.

The recent and continuing turbulence in the financial markets may have an adverse impact on the Group's ability to attract new clients and investors for its banking and asset management businesses as well as to retain existing clients and investors.

The financial markets are also influenced by political events, such as terrorist acts, war and other hostilities as well as by market specific events, such as shifts in consumer confidence and consumer spending, the rate of unemployment, industrial output and labour or social unrest. These types of events and responses to these events may create economic and political uncertainties which could have a negative impact on Finnish, Swedish, European and international economic conditions generally and, more specifically, could interrupt the Group's business and result in substantial losses.

*Economic conditions in Finland and Sweden could have an adverse effect on holders of Covered Bonds*

The Finnish Cover Pool includes loans secured by residential properties located in Finland and may also include loans secured by commercial properties in Finland. The Swedish Cover Pool includes residential properties located in Sweden and may also include loans secured by commercial properties in Sweden. Accordingly, the credit quality of the Cover Pool could be adversely affected by, among other things, adverse developments in the economies, residential markets and commercial real estate markets of Finland or Sweden, as the case may be.

### ***Business risks***

*Competitive threats that could adversely affect the Issuer's results of operations and financial condition*

There is competition for the types of banking and other products and services that the Group provides and there can be no assurances that the Group can maintain its competitive position. For example, a key success factor in the Group's strategy to be a bank for investors is the provision of high service levels to its Premium and Private Banking clients. The Group faces competition in this market in both Sweden and Finland from several smaller specialised firms as well as large Nordic banks. If the Group is unable to provide competitive product and service offerings, it may fail to attract new customers and/or retain existing customers, experience decreases on its interest, fee and commission income, and/or lose market share. Also, the mortgage loan business in Finland and Sweden is competitive. Lenders advertise extensively and use targeted marketing and loyalty schemes in an effort to expand their presence in the market and compete for customers.

Competition may adversely impact the Group's position in the market for mortgage business and Premium and Private Banking services and there can be no assurance that the business strategy adopted by the Group will be successful. If the Group's strategy proves unsuccessful, it could lead to a decrease in market share, protracted periods of low profitability or losses and a deterioration of its financial condition.

*Regulatory changes may adversely affect the Group. The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks.*

The Group is subject to financial services laws, regulations, administrative actions and policies in Finland and Sweden. Following the global financial crisis and the increased loan losses and asset quality impairment financial institutions experienced as a result, governments in the markets in which the Group operates are likely to increase the minimum capital requirements and to introduce other regulatory changes affecting the Group's operations. Changes in supervision and regulation, particularly in Finland, could materially affect the Group's business, the products and services offered or the value of its assets. Such changes in regulation and supervision may, for example, expose the Group to additional costs and liabilities and require it to change how it conducts business. These changes may include:

- changes in regulatory requirements, such as prudential rules relating to the capital adequacy framework and the imposition of onerous compliance obligations;

- changes in laws and regulations or changes in regulatory regimes that may significantly influence investor decisions, in particular in the markets in which the Group operates, or may increase the costs of doing business in those markets; and
- changes in the monetary, interest rate, capital adequacy and other policies of central banks and regulatory authorities.

Although the Group works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Group.

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. As a result, the Group may become involved in various disputes and legal proceedings in Finland, Sweden and other jurisdictions, including litigation and regulatory investigations. These disputes and legal proceedings are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation. Adverse regulatory action or adverse judgments in litigation could result in fines or in restrictions or limitations on the Group's operations, any of which could result in a material adverse effect on its reputation or financial condition. In addition, any determination by local regulators that the Group has not acted in compliance with applicable local laws in a particular market, or any failure to develop effective working relationships with local regulators, could have a significant and negative effect not only on the Group's businesses in that market but also on its reputation generally. The Group's strategy is to be a bank for investors that builds and maintains customer relationships. Regulatory risks, along with their potential impact on the Group's reputation, can adversely impact the Group's ability to successfully implement its strategy. For example, adverse regulatory action or non-compliance with rules relating to the Group's custody of its client's assets, or procedures relating thereto, could have a material adverse effect on its reputation or financial condition.

#### *Increased capital requirements may adversely affect the Group*

The Capital Requirements Directive (2013/36/EU; the **CRD IV**) and the Capital Requirements Regulation (575/2013; the **CRR**) have replaced the European Capital Requirements Directive (comprising Directives 2006/48/EC and 2006/49/EC) (the **Previous CRD**). The Finnish Act on Credit Institutions (*Laki luottolaitostoiminnasta 121/2007*, as amended), as currently in effect, comprises implementations of the Previous CRD and Basel II requirements. The Previous CRD and Basel II requirements have also been implemented into Finnish legislation and regulation by, among others, regulations and guidelines of the Finnish Ministry of Finance and the Finnish Financial Supervisory Authority (the **FIN-FSA**).

The CRR came into force on 28 June 2013 and the CRD IV on 17 July 2013, both with substantial transition periods. The CRR has been directly applicable in the European Union as of 1 January 2014. The process of implementing the CRD IV into Finnish legislation has been initiated but an official government bill has not been published. The criteria for liquidity coverage ratio (**LCR**) set out in the CRR will enter into force on 1 January 2015.

The new regulations mean more stringent criteria for Tier 1 capital as well as a number of technical changes in calculations, which will have an adverse effect on the Group's Tier 1 capital base. For the Issuer, the principal changes relate to deductions from the Tier 1 capital base for (i) expected losses in the Issuer's credit portfolio as calculated in accordance with the internal ratings based (**IRB**) approach, (ii) unrealized gains from investments held in the "available-for-sale" portfolio measured at fair value no longer being recognized as Tier 1 capital and (iii) minority holdings of the Issuer.

The Issuer will also be subject to more stringent capital requirements on debt held in its liquidity portfolio as the "sovereign method" (under which national supervisory authorities had the possibility of basing risk weights on the public ratings of the counterparties' home countries instead of the counterparties' own external ratings) for institutions exposure class is abolished in the new regulations. Also, there will be an additional capital charge for OTC-instruments cleared outside central counterparty clearing.

These and other changes to capital adequacy and liquidity requirements imposed on the Issuer may require the Issuer to raise Additional Tier 1, Core Tier 1 and Tier 2 capital by way of further issuances of securities and could result in existing Tier 1 and Tier 2 securities ceasing to count towards the Issuer's regulatory capital, either at the same level as at present or at all. Any failure by the Issuer to maintain any increased regulatory capital requirements or to comply with any other requirements introduced by regulators could result in intervention by regulators or the imposition of sanctions, which may have a material adverse effect on the Issuer's financial condition and results of operations and may also have other effects on the Issuer's financial performance and on the pricing of the Notes, both with or without the intervention by regulators or the imposition of sanctions. Prospective investors in the Notes should consult their own advisers as to the consequences of the implementation of CRD IV in Finland.

*The Council of the European Union has adopted a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the directive or the taking of any action under it could materially affect the value of any Notes.*

On 6 May 2014, the Council of the European Union adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**). The BRRD will come into force following its publication in the Official Journal of the EU, which is expected to be in June 2014. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution - which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly winddown (this can be used together with another resolution tool only); and (iv) bail-in - which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims to equity (the **general bail-in tool**), which equity could also be subject to any future application of the general bail-in tool. Relevant claims for the purposes of the bail-in tool would include the claims of the holders in respect of any Notes issued under the Programme, although in the case of Covered Bonds, this would only be the case if and to the extent that the amounts payable in respect of the Covered Bonds exceeded the value of the cover pool collateral against which payment of those amounts is secured.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; its assets are, or are likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

The BRRD provides that it will be applied by Member States from 1 January 2015, except for the general bail-in tool which is to be applied from 1 January 2016.

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Once the BRRD is implemented, Noteholders may be subject to write-down or conversion into equity on any application of the general bail-in tool (subject, in the case of Covered Bonds, to the limitation outlined above), which may result in such holders losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

*The Group's guidelines and policies for risk management may prove inadequate for the risks faced by its businesses*

The management of business, market, regulatory and legal risks requires, among other things, guidelines and policies for the accurate identification and control of a large number of transactions and events. Such guidelines and policies may not always be adequate. Risk management measures taken by the Group include entering into hedging transactions to manage market risks, issuing credit risk limits for each counterparty to which the Group is exposed in its lending business, requiring sufficient security for credits provided, and undertaking customary due diligence to manage legal risks. Some of these and other methods used by the Group to manage, estimate and measure risk, such as value-at-risk analyses and certain statistical methods for determining credit risk, are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical data may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages under consideration, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the Group. Such information may not always be correct, updated or correctly evaluated.

*Financial services operations involve inherent reputational risk*

The Group's reputation is one of its most important assets. Reputational risk, including the risk to earnings and capital from negative public opinion, is inherent in the financial services business. Negative public opinion can result from any number of causes, including misconduct by employees, the activities of business partners over which the Group has limited or no control, severe or prolonged financial losses, or uncertainty about the Group's financial soundness or reliability. Negative public opinion may adversely affect the Group's ability to keep and attract customers, depositors and investors, as well as its relationships with regulators and the general public. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk. The Group's strategy is to be a bank for investors that builds and maintains customer relationships. Negative public opinion and reputational risks are likely to have a particularly adverse effect on the Group's ability to implement that strategy.

## **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

### ***Risks related to the structure of a particular issue of Notes***

The Notes may have features which contain particular risks for potential investors. Set out below are the risks relating to the most common of such features:

*An optional redemption feature of Notes is likely to limit their market value. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes, thus exposing the investor to the risk that it may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the redeemed Notes.*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.*

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

*Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

### ***Risks related to Covered Bonds***

*Each Cover Pool shall be separate from the other*

The Finnish Cover Pool only secures the Category FIN Covered Bonds and the Swedish Cover Pool only secures the Category SWE Covered Bonds. In the bankruptcy or liquidation of the Issuer, it is possible that both Categories of Covered Bonds may have incurred losses or that only one or neither Category of Covered Bonds has incurred losses. If the proceeds from the assets in the relevant Cover Pool are not sufficient to cover the amount owed in respect of the relevant Covered Bonds the holders of those Covered Bonds will have no priority to the assets of the other Cover Pool in respect of the shortfall.

### ***The CBA's recent enactment***

The CBA came into effect on 1 August 2010. It contains several amendments to the earlier legislation governing Finnish covered bonds and their preferential rights in an issuer's liquidation or bankruptcy. The protection afforded to the holders of Covered Bonds by means of a preference on the qualifying assets is based only on the CBA. Although the CBA regulates the operations of mortgage banks, there is only limited practical experience in relation to the operation of the CBA. For a summary of the CBA, see "*Summary of the Finnish Legislation regarding Covered Bonds*" below.



### *No events of default in Covered Bonds*

The terms and conditions of the Covered Bonds do not include any events of default relating to the Issuer and therefore the terms and conditions of the Covered Bonds do not entitle holders to accelerate the Covered Bonds. As such, it is envisaged that holders will only be paid the scheduled interest payments under the Covered Bonds as and when they fall due under the terms and conditions of the Covered Bonds.

*In the event of a failure of a Cover Pool to meet the matching requirements, holders of the relevant Category of Covered Bonds may receive payments according to a schedule that is different from that contemplated by the terms of the relevant Category of Covered Bonds*

The Issuer will be required under the CBA to comply with certain matching requirements as long as there is any Covered Bond outstanding. Under the CBA, if the assets in the Cover Pool do not fulfil the requirements provided for in the CBA, the FIN-FSA may set a time limit within which the Issuer shall place more collateral in compliance with the CBA and the Conditions of the relevant Category of Covered Bonds. If these requirements are not complied with, the Issuer's license for mortgage credit bank operations may be withdrawn. If the Issuer is placed in liquidation or declared bankrupt, and the requirements for the total amount of collateral of the Covered Bonds in sections 16 and 17 of the CBA are not fulfilled, a supervisor appointed by the FIN-FSA may demand that the Issuer's bankruptcy administrator declare the Covered Bonds due and payable and sell the assets in the relevant Cover Pool. This could result in the holders of Covered Bonds receiving payment according to a schedule that is different from that contemplated by the terms of the Covered Bonds (with accelerations as well as delays). See also "*Summary of the Finnish Legislation regarding Covered Bonds—Right of Priority in Bankruptcy or Liquidation of the Issuer*".

*If any relevant claims in respect of a Category of Covered Bonds are not met out of the Cover Pool, any remaining claims will subsequently rank pari passu with the Issuer's obligations under the MTNs and other unsecured and unsubordinated obligations of the Issuer*

In the event of liquidation or the bankruptcy of the Issuer, the holders of Covered Bonds (along with counterparties to related Derivative Transactions and providers of Bankruptcy Liquidity Loans (each as defined in Condition 3) registered in the relevant Cover Pool) have the benefit of priority in relation to the assets in the relevant Cover Pool. Under the CBA, this priority is limited to (i) 70 per cent. of the value at the relevant time of the assets securing residential mortgages in the relevant Cover Pool and (ii) 60 per cent. of the value at the relevant time of the assets securing commercial mortgages in the relevant Cover Pool. If the proceeds from the assets in the relevant Cover Pool are not sufficient to discharge the relevant Covered Bonds in full, the holders of the relevant Covered Bonds will be general creditors in the Issuer's bankruptcy or liquidation with no priority as to the shortfall. In such circumstances the holders of the relevant Covered Bonds may not be paid in full. See also "*Summary of the Finnish Legislation regarding Covered Bonds—Right of Priority in Bankruptcy or Liquidation of the Issuer*" below.

### *Transfer of Covered Bonds and Cover Pools in bankruptcy*

In bankruptcy, a bankruptcy administrator may, with the permission of the FIN-FSA, transfer the liability for a covered bond and the corresponding collateral to a mortgage credit bank, deposit bank or credit entity that has acquired a license to issue covered bonds or to a foreign mortgage credit bank which is subject to supervision corresponding to that of the CBA unless the terms of the covered bond provide otherwise. See also "*Summary of the Finnish Legislation regarding Covered Bonds—Right of Priority in Bankruptcy or Liquidation of the Issuer*".

### *No market for collateral in Finland after an insolvency of the Issuer*

There is no assurance that there will be a trading market for the collateral in either Cover Pool or an eligible transferee to take over the obligations relating to the Covered Bonds and the corresponding collateral after an insolvency of the Issuer.

### *Liquidity post Issuer bankruptcy*

It is believed that neither an insolvent issuer nor its bankruptcy estate would have the ability to issue Covered Bonds. Under the CBA, the bankruptcy administrator (upon the demand or the consent of a supervisor appointed by the FIN-FSA) may, however, raise liquidity through the sale of mortgage loans and other assets in a Cover Pool to fulfil the obligations relating to the relevant Covered Bonds. Further, the bankruptcy administrator (upon the demand or the consent of the supervisor appointed by the FIN-FSA) may take out liquidity loans and enter into other agreements for the purpose of securing liquidity of the relevant Cover Pool. Counterparties in such transactions will rank *pari passu* with holders of the relevant Covered Bonds and existing derivative counterparties with respect to assets in the relevant Cover Pool. However, there can be no assurance as to the actual ability of the bankruptcy estate to raise post-bankruptcy liquidity, which may result in a failure by the Issuer to make full and timely payments to holders of Covered Bonds and existing derivative counterparties registered in the relevant Cover Pool.

### *Collection of mortgage loans and default by borrowers*

The mortgage loans which secure the Covered Bonds will comprise loans secured on property. A borrower may default on its obligation under such mortgage loan. Defaults may occur for a variety of reasons, which may vary between Finland and Sweden. Defaults under mortgage loans are subject to credit, liquidity and interest rate risks and rental yield reduction (in the case of investment properties). Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climates, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors relating to borrowers' individual, personal or financial circumstances may affect the ability of the borrowers to repay the mortgage loans. Loss of earnings, illness, divorce, weakening of financial conditions or the results of business operations and other similar factors may lead to an increase in delinquencies by and bankruptcies of borrowers, and could ultimately have an adverse impact on the ability of borrowers to repay the mortgage loans. In addition, the ability of a borrower or the Issuer to sell a property given as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that mortgage loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time. The registered value of a property in the Cover Pool may be higher than the price for which such property can actually be sold on any given day.

### *Concentration of location of properties*

Mortgage loans contained in the Finnish Cover Pool will primarily be secured on property located or incorporated in Finland. Mortgage loans contained in the Swedish Cover Pool will primarily be secured on property located or incorporated in Sweden. In the event of a general downturn in the value of property in Finland or Sweden, as the case may be, the value of the assets in the relevant Cover Pool may decline sharply and rapidly. Any such downturn may also have an adverse effect on the Issuer's ability to make payment under the relevant Covered Bonds.

### *No due diligence has or will be undertaken in relation to the Cover Pools in respect of any Covered Bonds*

No investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pools has or will be performed by the Dealers. Instead, they will rely on the obligations of the Issuer under applicable Finnish law.

### *Limited information is available to holders of Covered Bonds*

Investors will not receive detailed statistics or information in relation to the mortgage loans, the location of the properties securing the mortgages or other assets included in the relevant Cover Pool and it is expected that the composition of each Cover Pool will change from time to time through the repayment of the

mortgage loans by borrowers or new mortgage loans and/or other assets being added to the relevant Cover Pool. The assets contained in each Cover Pool will change over time reflecting repayments and new credits granted and, therefore, there are no assurances that the regional diversification, risk profile or credit quality of the assets in the relevant Cover Pool will remain the same as at the date of this Offering Circular or on or after the issue date of any Covered Bonds.

#### *Reliance on Swap Providers*

To provide a hedge against possible variances in the rates of interest receivable on the mortgage loans and other assets from time to time held by the Issuer (which may, for instance, include variable rates of interest, discounted rates of interest, fixed rates of interest or rates of interest which track a base rate) and the interest rate(s) under the Covered Bonds, the Issuer may from time to time enter into Interest Rate Swap Agreements (see “*Derivatives Transactions*”).

If any swap counterparty defaults on its obligations to make payments under the relevant Interest Rate Swap Agreement, the Issuer will be exposed to changes in the relevant rates of interest. Unless one or more replacement Interest Rate Swap Agreements are entered into, the Issuer may not have sufficient funds to make payments under the Covered Bonds.

#### *Extendable obligations*

Covered Bonds may be issued on terms that, following the failure by the Issuer to pay the Final Redemption Amount of the bonds on their Maturity Date, payment of such amounts will be automatically deferred. This will occur if the Final Terms for a Series of Covered Bonds provides that such Covered Bonds are subject to an Extended Final Maturity Date.

If Covered Bonds are subject to an Extended Final Maturity Date, the payment of all unpaid amounts under the bonds will be deferred automatically until the applicable Extended Final Maturity Date. However, the Issuer may elect to pay any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date.

The Issuer is not required to notify the holders of such automatic deferral. The Extended Final Maturity Date will fall one year after the Maturity Date. Interest will continue to accrue on any unpaid amount and be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Final Maturity Date. In these circumstances, failure by the Issuer to make payment in respect of the Final Redemption Amount on the Maturity Date shall not constitute a default in payment by the Issuer.

However, failure by the Issuer to pay the Final Redemption Amount or the balance thereof on the Extended Final Maturity Date and/or interest on such amount on any Interest Payment Date falling after the Maturity Date up to (and including) the Extended Final Maturity Date shall constitute a default in payment by the Issuer.

Furthermore, if the Issuer has the right to convert the interest rate on the Covered Bonds from a fixed rate to a floating rate or vice versa in relation to all amounts constituting accrued interest due and payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Final Maturity Date, then the Issuer may pay such interest pursuant to the floating rate or fixed rate (as the case may be) set out in the applicable Final Terms (see “*If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned*”).

*The value of the Notes could be adversely affected by a change in Finnish law or administrative practice*

The provisions relating to coverage of the Covered Bonds pursuant to the CBA are based on Finnish law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to Finnish law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Covered Bonds affected by it.

### ***Risks related to Notes generally***

Set out below is a description of material risks relating to the Notes generally:

*The conditions of the Notes contain provisions which may permit their modification without the consent of all investors*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

*The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.*

### ***Withholding under the EU Savings Directive***

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer

is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### *U.S. Foreign Account Tax Compliance Withholding*

Whilst the Notes are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, société anonyme (together the **ICSDs**), in all but the most remote circumstances it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment received by the ICSDs (see “*Taxation - U.S. Foreign Account Tax Compliance Withholding*”). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer’s obligations under the Notes are discharged once it has paid the common depository or common safekeeper for the ICSDs (as bearer or registered holder of the Notes, as the case may be) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries.

*The value of the Notes could be adversely affected by a change in English law or administrative practice.*

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Notes affected by it.

*Investors who purchase bearer Notes in denominations that are not integral multiple of the Specified Denomination may be adversely affected if definitive Note in bearer form are subsequently required to be issued.*

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in bearer form in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes in bearer form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### *Reliance on Euroclear and Clearstream, Luxembourg procedures*

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depository for Euroclear and Clearstream, Luxembourg (each as defined under “*Form of the Notes*”). Except in the circumstances described in each Global Note, investors will not be

entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

### ***Risks related to the market generally***

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

*An active secondary market in respect of the Notes may never be established or the secondary market may be illiquid and this would adversely affect the value at which an investor could sell his Notes.*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very 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.

*If an investor holds Notes which are not denominated in the investor's home currency, it will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.*

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase, this will adversely affect the value of the Fixed Rate Notes.

*Credit ratings assigned to the Issuer, a Cover Pool or any Notes may not reflect all the risks associated with an investment in those Notes.*

One or more independent credit rating agencies may assign credit ratings to the Notes, the Issuer or a Cover Pool. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

*The assets comprising the Cover Pools do not form part of the general assets of the Issuer that would be available to Holders of MTNs in the case of bankruptcy or liquidation of the Issuer*

In the event of a liquidation or bankruptcy of the Issuer, the holders of Covered Bonds (along with counterparties to related Derivative Transactions and providers of Bankruptcy Liquidity Loans (each as defined in Condition 3)) have the benefit of priority to the assets in the relevant Cover Pool. Holders of MTNs do not have the same benefit. In the bankruptcy or liquidation of the Issuer, holders of MTNs will therefore be subordinated in right of payment to holders of Covered Bonds.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the Financial Conduct Authority shall be incorporated in, and form part of, this Offering Circular:

- (a) the auditors' report and audited consolidated annual financial statements for the financial year ended 31 December 2012 of the Issuer set out on pages 34 to 106 (inclusive) of the Issuer's Annual Report for the year ended 31 December 2012;
- (b) the auditors' report and audited consolidated annual financial statements for the financial year ended 31 December 2013 of the Issuer set out on pages 36 to 134 (inclusive) of the Issuer's Annual Report for the year ended 31 December 2013;
- (c) the unaudited consolidated financial statements for the three months ended 31 March 2014 of the Issuer set out on pages 6 to 30 (inclusive) of the Issuer's interim report for the three months ended 31 March 2014;
- (d) the Terms and Conditions of the Notes contained in the previous Offering Circular dated 29 December 2011, pages 45 to 71 (inclusive) prepared by the Issuer in connection with the Programme; and
- (e) the Terms and Conditions of the Notes contained in the previous Offering Circular dated 27 June 2013, pages 38 to 63 (inclusive) prepared by the Issuer in connection with the Programme (the **2013 Conditions**).

Following the publication of this Offering Circular a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London and can be viewed electronically free of charge at <http://www.alandsbanken.fi/info/opencms/England/en/about/result>.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Offering Circular.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.



## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.*

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this overview.

Issuer:	Ålandsbanken Abp
Risk Factors:	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include risks relating to general economic conditions and circumstances in the financial market and business, credit, liquidity, operational and market risks affecting the Issuer and its subsidiaries. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include certain risks relating to the structure of particular Series of Notes (including certain risks specific to Covered Bonds), certain market risks and risks relating to the illiquidity of the Notes.
Description:	Euro Medium Term Note and Covered Bond Programme
Arranger:	Ålandsbanken Abp
Dealers:	Ålandsbanken Abp Danske Bank A/S Nordea Bank Danmark A/S Skandinaviska Enskilda Banken AB (publ) Swedbank AB (publ)  and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.
Issuing and Principal Paying Agent:	Deutsche Bank AG, London Branch

Programme Size:	Up to EUR 2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed outside the United States to, or for the account or benefit of, persons other than U.S. Persons (as such terms are defined in Regulation S under the Securities Act 1933, as amended) by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Notes may, subject to any applicable legal or regulatory restrictions, be denominated in any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Extendible Obligation:	The applicable Final Terms in relation to any Series of Covered Bonds may also provide that the Issuer's obligations to pay the Final Redemption Amount of the applicable Series of Covered Bonds on their Maturity Date shall be deferred until the Extended Final Maturity Date (as set out in the applicable Final Terms (the <b>Extended Final Maturity Date</b> )), provided that any amount representing the amount due on the Maturity Date as set out in the applicable Final Terms (the <b>Final Redemption Amount</b> ) due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date and on any such payment by the Issuer each Note will be redeemed accordingly. Such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Maturity Date. Interest will continue to accrue on any unpaid amount and will be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Final Maturity Date.
Issue Price:	Notes may be issued at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in " <i>Form of the Notes</i> ". Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .

Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series).</p> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Other provisions in relation to Floating Rate Notes:	<p>Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Categories of Covered Bonds:	<p>Covered Bonds that are secured by the Finnish Cover Pool shall be specified as Category FIN Covered Bonds in the applicable Final Terms.</p> <p>Covered Bonds that are secured by the Swedish Cover Pool shall be specified as Category SWE Covered Bonds in the applicable Final Terms.</p>
Liquidity reserve:	<p>The terms of the Covered Bonds do not contain a liquidity reserve provision.</p> <p>However, certain covered bonds issued under the Programme prior to the date of this Offering Circular which have the benefit of the Finnish Cover Pool (including covered bonds issued subject to the 2013 Conditions (as defined in “<i>Documents Incorporated by Reference</i>”)) have been issued with terms that contain a liquidity reserve provision. Pursuant to this liquidity reserve provision, the Issuer is required to ensure that (i) the recorded value of all Public Sector Debt and Supplemental Assets in the Finnish Cover Pool does not</p>

fall below a certain level so long as such covered bonds are outstanding and (ii) in the event that there have been prepayments of principal in respect of the Mortgages in the Finnish Cover Pool which exceed a certain level that the Issuer shall add to the Finnish Cover Pool an amount of Public-Sector Debt and/or Supplemental Assets equal to the amount of such prepayments.

Accordingly, any Covered Bonds issued under this Programme following the date of this Offering Circular which have the benefit of the Finnish Cover Pool will benefit from the fact that the Finnish Cover Pool is required to be maintained in this way (for so long as the previous covered bonds are outstanding) notwithstanding that the liquidity reserve provisions do not apply to such Covered Bonds.

The Issuer has not previously issued covered bonds which have the benefit of the Swedish Cover Pool and, accordingly, Covered Bonds issued under this Programme which have the benefit of the Swedish Cover Pool will not benefit from the above.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The terms of any such redemption, including notice periods and the relevant redemption dates and prices will be indicated in the applicable Final Terms.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 7. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:	None.
Cross Default:	The terms of the MTNs (but not the Covered Bonds) will contain a cross default provision as further described in Condition 9.
Status of the MTNs:	The MTNs will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Status of the Covered Bonds:	Covered Bonds will be issued in accordance with the CBA. The Covered Bonds will be covered in accordance with the CBA and will therefore benefit from the Finnish Cover Pool (in the case of Category FIN Covered Bonds) or the Swedish Cover Pool (in the case of Category SWE Covered Bonds). To the extent that claims of holders in relation to Covered Bonds are not met out of the relevant Cover Pool, the residual claims of such holders will rank <i>pari passu</i> with the unsecured and unsubordinated obligations of the Issuer including but not limited to the obligations under the MTNs. The CBA seeks to protect holders of Covered Bonds by requiring the outstanding principal amount and net present value of the Covered Bonds to be covered at all times by a matching Cover Pool. This is achieved by Section 16 of the CBA which provides that (a) the total value of the relevant Cover Pool must always exceed the aggregate outstanding principal amount of the relevant Covered Bonds and (b) the net present value of the relevant Cover Pool must always be at least 2 per cent. above the net present value of the liabilities under the relevant Covered Bonds. See also “ <i>Summary of the Finnish Legislation regarding Covered Bonds</i> ”.
Rating:	If a series of Notes to be issued under the Programme is to be rated, the rating will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing:	Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock

Exchange's regulated market.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law, except for the provisions relating to coverage of the Covered Bonds pursuant to the CBA (and any non-contractual obligations arising out of or in connection with such provisions), which will be governed by, and construed in accordance with, Finnish law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Finland) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

United States Selling Restrictions:

Regulation S, Category 2. TEFRA C or D or TEFRA not applicable. All as specified in the applicable Final Terms.

## FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**).

### **Bearer Notes**

Each Tranche of Bearer Notes will initially be issued in the form of a temporary global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Bearer Global Note**) and, together with a Temporary Bearer Global Note, each a **Bearer Global Note**) which, in either case, will:

- (a) if the Bearer Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**); and
- (b) if the Bearer Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, Euroclear and Clearstream, Luxembourg will be notified as to whether or not such Bearer Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note if the Temporary Bearer Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note if the Permanent Bearer Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, interest coupons and talons attached upon either (a) not less than 60 days' written notice given at any time from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depositary or the common safekeeper for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

### **Registered Notes**

Each Tranche of Registered Notes will initially be represented by a global note in registered form (a **Registered Global Note**). Registered Global Notes will be deposited with a common depositary or, if the Registered Global Notes are to be held under the new safekeeping structure (the **NSS**), a common safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.



Where the Registered Global Notes issued in respect of any Tranche is intended to be held under the NSS, Euroclear and Clearstream, Luxembourg will be notified as to whether or not such Registered Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Registered Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The common safekeeper for a Registered Global Note held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.4) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

## **General**

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Principal Paying Agent.

Where any Note is represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on the day immediately following such day. At the same time holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg on and subject to the terms of a deed of covenant (such deed of covenant as modified and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated 29 December 2011 and executed by the Issuer.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes. The Issuer may also agree with any Dealer that Notes may be issued in a form not contemplated by the Conditions of the Notes herein, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

## APPLICABLE FINAL TERMS

[ ]

### ÅLANDSBANKEN ABP

Issue of [ ] [ ]  
under the EUR 2,000,000,000  
**Euro Medium Term Note and Covered Bond Programme**

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 3 June 2014 [and the supplement[s] to it dated [ ] [and [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Prospectus has been published on the website of the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. The Offering Circular is also available for viewing during normal business hours at the registered office of the Issuer at Nygatan 2, AX 22100 Mariehamn, Finland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [ ] which are incorporated by reference in the Offering Circular dated [ ]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated [ ] [and the supplement[s] to it dated [ ] [and [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Prospectus has been published on the website of the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. The Offering Circular is also available for viewing during normal business hours at the registered office of the Issuer at Nygatan 2, AX 22100 Mariehamn, Finland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

1. Issuer: Ålandsbanken Abp
2. Securities: [MTNs][Covered Bonds]
3. Category of Covered Bonds: [Category FIN Covered Bonds/Category SWE Covered Bonds][Not Applicable]
4. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
(c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [ ] on [the Issue Date/exchange of the Temporary Bearer Global Note for interests in the

- Permanent Bearer Global Note, as referred to in paragraph 24 below, which is expected to occur on or about [ ]][Not Applicable]
5. Specified Currency or Currencies: [ ]
  6. Aggregate Nominal Amount:
    - (a) Series: [ ]
    - (b) Tranche: [ ]
  7. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ]]
  8. (a) Specified Denominations: [ ]
    - (b) Calculation Amount: [ ]
  9. (a) Issue Date: [ ]
    - (b) Interest Commencement Date: [[ ]/Issue Date/Not Applicable]
  10. Maturity Date: [[ ]/  
Interest Payment Date falling in or nearest to [ ]]
  11. Extended Final Maturity Date: [Fixed rate – [ ]/Floating rate – Interest Payment Date falling in or nearest to [ ]; in each case falling one year after the Maturity Date]
  12. Interest Basis: [[ ] per cent. Fixed Rate]  
[[LIBOR/EURIBOR/STIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
(see paragraph [16]/[17]/[18] below)
  13. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.
  14. Change of Interest Basis or Redemption/Payment Basis: [ ] / [Not Applicable]
  15. Put/Call Options: [Investor Put]  
[Issuer Call]  
  
[see paragraph [20]/[21] below]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. Fixed Rate Note Provisions [Applicable/Not Applicable]

- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]
- (c) Fixed Coupon Amount(s): [ ] per Calculation Amount
- (d) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
- (e) Day Count Fraction: [30/360][Actual/Actual (ICMA)]
- (f) Determination Date(s): [[ ] in each year] [Not Applicable]
17. Floating Rate Note Provisions [Applicable/Not Applicable]
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ] [, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/][Not Applicable]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [ ]
- (f) Screen Rate Determination:
- Reference Rate: [ ] month [LIBOR/EURIBOR/ STIBOR]
  - Interest Determination Date(s): [ ]
  - Relevant Screen Page: [ ]
- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]

- Reset Date: [ ]
  - (h) Linear Interpolation: [Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
  - (i) Margin(s): [+/-] [ ] per cent. per annum
  - (j) Minimum Rate of Interest: [ ] per cent. per annum
  - (k) Maximum Rate of Interest: [ ] per cent. per annum
  - (l) Day Count Fraction: [[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond basis] 30E/360 (ISDA)]
18. Zero Coupon Note Provisions [Applicable/Not Applicable]
- (a) Accrual Yield: [ ] per cent. per annum
  - (b) Reference Price: [ ]
  - (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360] [Actual/360] [Actual/365]

**PROVISIONS RELATING TO REDEMPTION**

19. Notice periods for Condition 6.2: Minimum period: [ ] days  
Maximum period: [ ] days
20. Issuer Call: [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [ ]
  - (b) Optional Redemption Amount: [[ ] per Calculation Amount/]
  - (c) If redeemable in part:
    - (i) Minimum Redemption Amount: [ ]
    - (ii) Maximum Redemption Amount: [ ]
  - (d) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days
21. Investor Put: [Applicable/Not Applicable]

- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount]
- (c) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days
22. Final Redemption Amount: [ ] per Calculation Amount
23. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [ ] per Calculation Amount

### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:
- (a) Form: [Bearer Notes
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for definitive Notes in bearer form [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Bearer Global Note exchangeable for definitive Notes in bearer form on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for definitive Notes in bearer form [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Registered Notes:
- [Registered Global Note ([ ] nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]
- (b) New Global Note: [Yes][No]
25. Additional Financial Centre(s): [Not Applicable/[ ]]
26. Talons for future Coupons to be attached to definitive Notes in bearer form: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

Signed on behalf **ÅLANDSBANKEN ABP:**

By: .....  
*Duly authorised*



## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [ ].
- (ii) Estimate of total expenses [ ] related to admission to trading:

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [ ] by Standard & Poor's Credit Market Services Europe Limited.]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business] / [ ].

### 4. YIELD (FIXED RATE NOTES ONLY)

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

### 5. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/[ ]]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]

(vi) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]

**6. THIRD PARTY INFORMATION**

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note.*

This Note is one of a Series (as defined below) of medium term notes or covered bonds under the Finnish Covered Bonds Act (*Laki kiinnitysluottopankkitoiminnasta 688/2010*) (the **CBA**), as specified in the applicable Final Terms (as defined below). The Notes are issued by Ålandsbanken Abp (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note;
- (c) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form; and
- (d) any definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 27 June 2013 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and Deutsche Bank Luxembourg S.A. as registrar (the **Registrar**, which expression shall include any successor registrar) and as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents).

References to the **applicable Final Terms** are, unless otherwise stated, to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The provisions of the applicable Final Terms which supplement these Terms and Conditions (the **Conditions**) are those, unless otherwise stated, set out in Part A of the Final Terms. The expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and includes any relevant implementing measure in the relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

Interest bearing definitive Bearer Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are

registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated 29 December 2011 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar, the other Paying Agents and the other Transfer Agents (such Agents and the Registrar being together referred to as the **Agents**). If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

## **2. TRANSFERS OF REGISTERED NOTES**

### **2.1 Transfers of interests in Registered Global Notes**

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.

### **2.2 Transfers of Registered Notes in definitive form**

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 7 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver, or procure the delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In

the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so delivered or (at the risk of the transferor) sent to the transferor.

### **2.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Notes under Condition 6, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

### **2.4 Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **3. STATUS**

### **3.1 Medium Term Notes**

If the Notes are specified as MTNs in the applicable Final Terms, the Notes and any relative Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### **3.2 Covered Bonds**

If the Notes are specified as Covered Bonds in the applicable Final Terms, the Notes are obligations issued in accordance with the CBA. The applicable Final Terms will indicate whether the Covered Bonds are Category FIN Covered Bonds or Category SWE Covered Bonds.

#### **(a) Category FIN Covered Bonds**

##### **(i) Ranking**

The Category FIN Covered Bonds rank pari passu among themselves and with Derivative Transactions and Bankruptcy Liquidity Loans in respect of the statutory right of preference to assets registered in the Finnish Cover Pool in accordance with the CBA. The Category FIN Covered Bonds shall not have a statutory right of preference to the assets registered in the Swedish Cover Pool.

##### **(ii) Finnish Cover Pool Asset Cashflow**

For so long as the Category FIN Covered Bonds are outstanding,

(A) where Public-Sector Debt and/or Supplemental Assets are included in the Finnish Cover Pool, the Issuer shall ensure that the debtors in respect of such Public-Sector Debt and Supplemental Assets make all payments of principal and/or interest to which the Issuer is entitled in respect of its holding of such Public-Sector Debt and/or Supplemental Assets to a bank account designated by the Issuer which must be held with an Eligible Bank.

- (B) as soon as practicable after the occurrence of a Payment Default, the Issuer shall instruct the debtors in respect of Mortgages in the Finnish Cover Pool to make all payments of principal and/or interest to which the Issuer is entitled in respect of such Mortgages to a bank account designated by the Issuer which must be held with an Eligible Bank.

If a bank or credit institution to which debtors have been instructed to make payments in accordance with this Condition 3.2(a)(ii) ceases to be an Eligible Bank, then the Issuer shall ensure that, for purposes of this Condition 3.2(a)(ii), such bank or credit institution is replaced with an Eligible Bank as soon as reasonably practicable, and in any event not later than 60 calendar days, after the date when such bank or credit institution ceased to be an Eligible Bank.

**(b) Category SWE Covered Bonds**

**(i) Ranking**

The Category SWE Covered Bonds rank pari passu among themselves and with Derivative Transactions and Bankruptcy Liquidity Loans in respect of the statutory right of preference to assets registered in the Swedish Cover Pool in accordance with the CBA. The Category SWE Covered Bonds shall not have a statutory right of preference to the assets registered in the Finnish Cover Pool.

**(ii) Swedish Cover Pool Asset Cashflow**

For so long as the Category SWE Covered Bonds are outstanding,

- (A) where Public-Sector Debt and/or Supplemental Assets are included in the Swedish Cover Pool, the Issuer shall ensure that the debtors in respect of such Public-Sector Debt and Supplemental Assets make all payments of principal and/or interest to which the Issuer is entitled in respect of its holding of such Public-Sector Debt and/or Supplemental Assets to a bank account designated by the Issuer which must be held with an Eligible Bank.
- (B) as soon as practicable after the occurrence of a Payment Default, the Issuer shall instruct the debtors in respect of Mortgages in the Swedish Cover Pool to make all payments of principal and/or interest to which the Issuer is entitled in respect of such Mortgages to a bank account designated by the Issuer which must be held with an Eligible Bank.

If a bank or credit institution to which debtors have been instructed to make payments in accordance with this Condition 3.2(b)(ii) ceases to be an Eligible Bank, then the Issuer shall ensure that, for purposes of this Condition 3.2(b)(ii), such bank or credit institution is replaced with an Eligible Bank as soon as reasonably practicable, and in any event not later than 60 calendar days, after the date when such bank or credit institution ceased to be an Eligible Bank.

For the purposes of this Condition 3.2:

**Bankruptcy Liquidity Loans** means loans made by the bankruptcy administrator of the Issuer to secure liquidity or take out liquidity credit in accordance with Section 26 of the CBA and recorded in the relevant register of the relevant covered bonds;

**Derivative Transactions** means derivative transactions entered into by the Issuer to hedge against risks relating to the Notes or the underlying assets in the relevant cover pool and recorded in the relevant register of the relevant covered bonds;

**Eligible Bank** means (a) The Bank of Finland provided that the long-term credit rating assigned by Standard & Poor's to the Republic of Finland is at least "AA" or (b) a bank or credit institution which has a long-term credit rating assigned by Standard & Poor's of at least "A" or, if such bank or credit institution (or its debt securities) are not rated by Standard & Poor's, such bank or credit institution shall be deemed to be an Eligible Bank if Standard & Poor's confirms to the Issuer in writing, with a copy to the Principal Paying Agent, that the use of such bank or credit institution for the purpose stated in this Condition 3 does not adversely impact the then current Standard & Poor's rating of the Notes;

**Finnish Cover Pool** means the cover pool maintained by the Issuer in accordance with the CBA and this Condition 3 and that secures the Category FIN Covered Bonds;

**Mortgage** shall mean commercial mortgages (*liikekiinteistöluotto*) and residential mortgages (*asuntoluotto*), each as defined in the CBA;

**Payment Default** means a default by the Issuer in the payment of any principal or interest due in respect of any of its material Indebtedness for Borrowed Money where the default continues for a period of five days in the case of principal and three days in the case of interest;

**Public-Sector Debt** means public sector debt (*julkisyhteisöluotto*) as defined in the CBA;

**Supplemental Assets** means supplemental assets (*täytevakuus*) within the meaning of Section 15 of the CBA; and

**Swedish Cover Pool** means the cover pool maintained by the Issuer in accordance with the CBA and this Condition 3 and that secures the Category SWE Covered Bonds.

## 4. INTEREST

### 4.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:



- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest, in accordance with this Condition 4.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## 4.2 Interest on Floating Rate Notes

### (a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(i) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (b) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Centre specified in the applicable Final Terms; and

- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the **TARGET 2 System**) is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

**(i) ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

**(ii) Screen Rate Determination for Floating Rate Notes**

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or STIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service

which displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Stockholm time, in the case of STIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the

Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first day of the Interest Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

**D<sub>1</sub>** is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

**D<sub>2</sub>** is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first day of the Interest Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case  $D_2$  will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case  $D_2$  will be 30.

**(e) Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Principal Paying Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Principal Paying Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

**Designated Maturity** means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

**(f) Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, by the Principal Paying Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.3 Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 13.

**5. PAYMENTS**

**5.1 Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

- (b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto.

## 5.2 Presentation of definitive Bearer Notes and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.



### 5.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

### 5.4 Payments in respect of Registered Notes

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non resident of Japan, shall be a non resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **5.5 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## **5.6 Payment Day**

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) each Additional Financial Centre specified in the applicable Final Terms; and

- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open.

## **5.7 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6.5); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

## **6. REDEMPTION AND PURCHASE**

### **6.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

If an Extended Final Maturity Date is specified as applicable in the Final Terms for a Series of Notes and the Issuer has not paid the Final Redemption Amount on the Maturity Date specified in the Final Terms, then references in these Conditions to Maturity Date shall be deemed to be references to the Extended Final Maturity Date and payment of the unpaid amount by the Issuer shall be deferred until the Extended Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Final Maturity Date and on any such payment by the Issuer each Note will be redeemed accordingly.

### **6.2 Redemption for tax reasons**

Subject to Condition 6.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than maximum period of notice specified in the applicable Final Terms to the Principal Paying Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **6.3 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption.

### **6.4 Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the

Optional Redemption Date. Registered Notes may be redeemed under this Condition 6.4 in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg, or any common depository or common safekeeper, as the case may be, for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 6.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.4 and instead to declare such Note forthwith due and payable pursuant to Condition 9.

## 6.5 Early Redemption Amounts

For the purpose of Condition 6.2 and Condition 9:

- (a) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and
- (b) each Zero Coupon Note will be redeemed at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

**y** is the Day Count Fraction specified in the applicable Final Terms which will be

either (i) 30/360 (in which case the numerator of which will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365)

## **6.6 Purchases**

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer surrendered to any Paying Agent and/or the Registrar for cancellation.

## **6.7 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.7 (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **6.8 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1, 6.2, 6.3 or 6.4 or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.5(b) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## **7. TAXATION**

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case

may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) presented for payment in the Republic of Finland; or
- (b) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.6); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Republic of Finland or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

## 8. PRESCRIPTION

The Notes (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

## 9. EVENTS OF DEFAULT

### 9.1 Events of Default

This Condition 9 only applies to Notes which are specified as MTNs in the applicable Final Terms.

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing with respect to any Note:

- (a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and three days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment; (iii) any security given by the Issuer or any of its Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person; provided that no event described in this 10.1(c) shall constitute an Event of Default unless the Indebtedness for Borrowed Money or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) to (iv) above which have occurred and are continuing, amounts to at least €1,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Subsidiaries, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution; or
- (e) if the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or the Issuer or any of its Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (i) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrance takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (ii) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (g) if the Issuer or any of its Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors



generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

then any holder of a Note may, by written notice to the Issuer at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

## 9.2 Definitions

For the purposes of the Conditions, **Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

## 10. REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## 11. AGENTS

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5. A Notice of any variation, termination,

appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **12. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## **13. NOTICES**

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### **14. MEETINGS OF NOTEHOLDERS AND MODIFICATION**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Coupons, the Deed of Covenant or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Coupons, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

#### **15. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

#### **16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **17. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **17.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes and the Coupons, are and shall be governed by, and construed in accordance with, English law, except for the provisions relating to coverage of the Covered Bonds pursuant to the CBA (and any non-contractual obligations arising out of or in connection with such provisions), which will be governed by, and construed in accordance with, Finnish law.

### **17.2 Submission to jurisdiction**

- (a) Subject to Condition 17.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes and/or the Coupons including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 17.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders and the Couponholders may in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

### **17.3 Appointment of Process Agent**

The Issuer irrevocably appoints Law Debenture at Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Law Debenture being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

### **17.4 Other documents**

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit.

## DESCRIPTION OF ÅLANDSBANKEN

### General information

Ålandsbanken is a public limited liability company with its registered office in Mariehamn in the autonomous Finnish Province of Åland. Ålandsbanken was incorporated on 3 December 1919 under the laws of Finland with registration number 0145019-3 and its registered address is as follows:

Ålandsbanken Abp  
Nygatan 2  
AX-22 100 Mariehamn  
Tel: +358(0)204 29 011

Ålandsbanken's core markets are the Åland Islands, mainland Finland and Sweden. Ålandsbanken's head office is located in Mariehamn on the Åland Islands. Ålandsbanken has a total of seven offices plus two representative offices in the Åland Islands and five offices on the Finnish mainland, situated in Helsinki, Parainen, Tampere, Turku and Vaasa. Ålandsbanken's Swedish branch has three offices in Sweden situated in Stockholm, Gothenburg and Malmö.

As at 31 December 2013, Ålandsbanken had total assets of EUR 3,887 million, total equity of EUR 184 million and a net operating profit of EUR 10.4 million. As at 31 December 2012, Ålandsbanken had total assets of EUR 3,633 million, total equity of EUR 179 million and a net operating profit of EUR 9.9 million.

As at 31 December 2013, the Group had 617 employees (based on hours worked, recalculated to full-time equivalent positions), of whom 385 worked for the Issuer and 186 for Crosskey Banking Solutions Ab Ltd. The Group has a total of six subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Asset Management Ab, Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder AB, Ab Compass Card Oy Ltd, and Crosskey Banking Solutions Ab Ltd. along with its own subsidiary, S-Crosskey Ab.

The focus of Ålandsbanken is on enhancing its role as a bank for investors while also seeking to offer good financing know-how and banking services. Its most important operational areas are Private Banking and Premium Banking. Ålandsbanken's Private Banking service provides individuals and corporate customers with banking, financial and advisory services. Premium Banking, which is offered mainly to individuals, is a concept that combines banking, financial and advisory services with security and lifestyle related services. As a relationship bank, Ålandsbanken seeks to generate value for individual clients and their companies by building, deepening and maintaining long-term personal client relationships.

For further information on the Group and the Group's financial position, please refer to the financial statements incorporated by reference in this Offering Circular.

### History of Ålandsbanken

Ålandsbanken was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now NASDAQ OMX Helsinki Ltd) since 1942.

In 1982, Ålandsbanken opened its first office in mainland Finland in Helsinki. It was the first bank in Finland to offer asset management services to its clients. In the 1990s, Ålandsbanken expanded on the Finnish mainland and opened seven new offices.

In 1996, Ålandsbanken began to focus on investment products, including the issuance of Finland's first equity index bond, and launched its Environmental Accounts product. Environmental Accounts are bank accounts which generate 0.2 per cent. of deposited funds per year for donations to projects that improve the

environment or conserve nature. In 1998, Ålandsbanken launched its first in-house mutual funds and established Ålandsbanken Fondbolag Ab, with operations in Mariehamn.

The subsidiary Ålandsbanken Asset Management Ab was established in 2000.

To improve customer contact, the Premium Banking service was launched in 2004, combining multi-faceted banking and lifestyle services. During the same year, Ålandsbanken started an information technology venture by establishing Crosskey Banking Solutions Ab Ltd, which develops, sells and implements systems solutions in the financial sector. In 2005, Crosskey Banking Solutions Ab Ltd opened a branch office in Sweden.

In 2006, the subsidiary, Ab Compass Card Oy Ltd, was established. It supplies Ålandsbanken with new international debit and credit cards.

In 2009, Ålandsbanken acquired selected parts of Kaupthing Bank Sverige AB, which changed its name to Ålandsbanken Sverige AB following the acquisition. In December 2011, Ålandsbanken Sverige AB's banking operations in Sweden were transferred to Ålandsbanken Abp (Finland), svensk filial, the Swedish branch of Ålandsbanken. Ålandsbanken's Swedish branch now has offices in Stockholm, Gothenburg and Malmö.

### **Strategy of Ålandsbanken**

Ålandsbanken's goal is to be a bank for investors that has financing know-how and that thrives in building and maintaining customer relationships. Ålandsbanken's development from being a financing bank having investment know-how to being a bank for investors that has financing know-how has been under way since the first office offering asset management services was established in Helsinki in 1982.

Ålandsbanken functions as one bank. In 2010, the banking operations were divided into three geographical business areas – the Åland Islands, mainland Finland and Sweden. The business areas are supported by common Group functions.

Ålandsbanken's strategy in its two growth markets, mainland Finland and Sweden, is to offer more personal and flexible services than the larger banks, while at the same time offering a broader portfolio of products and services than the smaller banking firms. On the Finnish mainland and in Sweden, Ålandsbanken's strategy is to be a unique, personal bank. Within its Private and Premium Banking concepts, it focuses on administering its clients' financial investments profitably and on providing home financing solutions. In addition, Ålandsbanken offers asset management services to institutional investors.

In its third market, the Åland Islands, Ålandsbanken's strategy is to maintain its position as the largest bank. As a major employer on the Åland Islands, Ålandsbanken has an important position in the society and a desire to participate in developing the future of the Åland Islands.

A key success factor in Ålandsbanken's strategy is the provision of high service levels to its Premium and Private Banking clients.

Ålandsbanken intends to seek a long-term strategic business partner for the wholly owned subsidiary Crosskey Banking Solutions Ab Ltd. Possible forms of collaboration may also include a reduction in Ålandsbanken's ownership in the company. Today Crosskey Banking Solutions Ab Ltd accounts for nearly one third of the number of employees in the Group.

### **Share capital and shareholders**

Following a rights issue in October 2011, the share capital of Ålandsbanken is EUR 29,103,547.58.

The shares are divided into 6,476,138 Series A shares and 7,944,015 Series B shares. Each Series A share represents twenty votes and each Series B share one vote at the shareholders' meetings. The Articles of Association stipulate that no representative at the annual general meeting may vote for more than one fortieth of the number of votes represented at the meeting. Series B shares enjoy priority over Series A shares for dividends of up to six per cent. of their previous nominal value. The previous nominal value is the euro equivalent of 12 Finnish Markka (approximately EUR 2.02).

As at 31 March 2014, there were five shareholders in Ålandsbanken holding more than 2 per cent. of the share capital, as shown in the table below. The list below also includes companies within the each shareholder's group as well as other companies controlled by each shareholder.

Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1. Wiklöf Anders (and Wiklöf controlled companies)	1,589,396	1,296,549	2,885,945	20.01%	24.07%
2. Alandia Group (insurance group)	917,358	406,432	1,323,790	9.18%	13.64%
3. Aaland Mutual Insurance Company (and subsidiaries)	794,566	262,901	1,057,467	7.33%	11.75%
4. Pohjola Bank plc (nominee registered shares)	125	914,124	914,249	6.34%	0.67%
5. Veritas Pension Insurance Company Ltd.	123,668	165,954	289,622	2.01%	1.92%

As far as Ålandsbanken is aware, (i) it is not directly or indirectly owned or controlled by any corporation or by any government and (ii) there are no arrangements that may result in a change of control of Ålandsbanken.

### Business activities

Ålandsbanken is focused on banking and securities operations, with the core concepts being Private Banking and Premium Banking. Ålandsbanken provides a wide range of financial services to private individuals, corporate clients and local governments. The Premium Banking service is offered mainly to private individuals by all of Ålandsbanken's offices. The Premium Banking full-service concept includes a broad array of personal banking, financing, lifestyle and security services. During 2010, it was expanded to include more sophisticated financial investment services. The Private Banking service is offered to both private individuals and corporate customers who require more extensive financial advisory services. The service is focused on both discretionary and consultative asset management as well as wealth management with a focus on investments and tax issues. Ålandsbanken also offers a wide range of web-based services, providing its clients with an internet-based tool for monitoring their financial engagements with Ålandsbanken. In addition to the services described above, Ålandsbanken offers several other financial services through its subsidiaries, including the issuance of credit and debit cards and fund management.

A significant proportion of the Group's lending activities is comprised of lending to private individuals and households. As at 31 December 2013, the Group's total lending was EUR 3,104 million, of which 64 per cent. constituted loans to private individuals or households. The Group's total home loan lending as at 31 December 2013 was EUR 1,383 million, or 45 per cent. of total lending. As at 31 December 2013, the total lending in Sweden was EUR 797 million, or 26 per cent. of the total lending of the Group.



The 2013 Financial Statements include certain statistical information on the Group's lending activities:

- **Loan Portfolio:** for information in relation to the Group's loan portfolio, please see Notes G14 (*Classification of financial assets and liabilities*), G15. (*Measurement of financial assets and liabilities at fair value*), G16. (*Assets and liabilities by currency*), G17. (*Holdings of debt securities*), G18. (*Lending to credit institutions*) and G19. (*Lending to the public*) in the 2013 Financial Statements and the chart entitled "*Financial assets and liabilities – maturity overview*" on page 57 of the 2013 Financial Statements.
- **Impaired Loans:** for information in relation to the Group's impaired loans, please see Note G11. (*Impairment losses on loans and other commitments*) in the 2013 Financial Statements and the section entitled "*Overdue and impaired receivables*" on page 54 of the 2013 Financial Statements.

In addition, for a discussion of the Group's loan origination and monitoring procedures, its customer concentrations, large exposures, institutional counterparty risk exposure and collateral policy, please see the section entitled "*Risks and risk management*" beginning on page 41 of the 2013 Financial Statements.

### **Principal markets and competition**

Ålandsbanken is actively conducting business in three geographic markets, the Åland Islands, mainland Finland and Sweden. On the Åland Islands, Ålandsbanken's two largest competitors are member cooperative banks of the OP-Pohjola group and Nordea Bank Finland Plc. Ålandsbanken has a significant share of both the retail and private banking market on the Åland Islands. In mainland Finland, Ålandsbanken is a strategically positioned niche player within its client and product segments. The main competitors on the mainland Finland retail market are large banks, including Nordea Bank Finland Plc, Danske Bank Plc and the OP-Pohjola group as well as smaller domestic banks like S-Bank Ltd, Aktia Plc and local savings banks. Together with small specialised firms such as FIM Bank Ltd and Evli Bank Plc, these banks also make up the competition for private banking and wealth management in mainland Finland. In Sweden Ålandsbanken faces competition primarily from Skandinaviska Enskilda Banken AB (publ), Svenska Handelsbanken AB (publ), Nordea Bank AB (publ) and Swedbank AB (publ). Also, as is the case with Ålandsbanken's business in Finland, its Swedish business also faces competition from several smaller specialised firms which act in the Swedish market, especially in the Private Banking segment.

### **Organisational structure**

Ålandsbanken is the parent company of the Group.

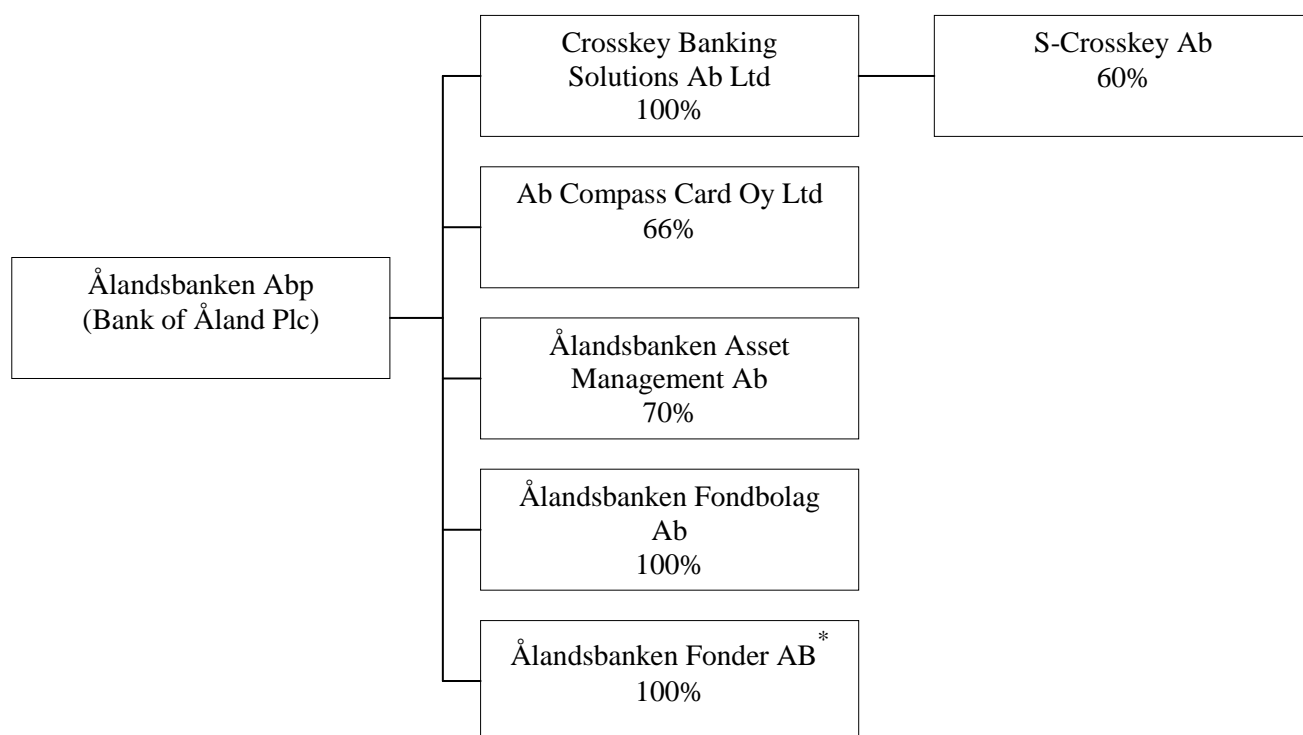
Ålandsbanken has three wholly-owned and two majority-owned subsidiaries. The wholly-owned companies are Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder AB and Crosskey Banking Solutions Ab Ltd. Ålandsbanken Fondbolag Ab, domiciled in Mariehamn, is a fund management company pursuant to the Finnish Act on Investment Funds (*sijoitusrahastolaki 48/1999*, as amended). Ålandsbanken Fonder AB, domiciled in Stockholm, is a securities fund management company pursuant to the Swedish Act on Securities Funds (*Sw. Lag (2004:46) om värdepappersfonder*, as amended). Crosskey Banking Solutions Ab Ltd, domiciled in Mariehamn, develops, sells and supports banking systems to small and medium-sized banks primarily in the Nordic countries.

Ålandsbanken completed the liquidation of Alpha Management S.A. in November 2013 and is also in the process of liquidating its Swedish subsidiary, Ålandsbanken Fonder AB. Neither of these entities had any business activities. The administration of these entities' investment funds has been transferred to an external party in Luxembourg, although Ålandsbanken continues to manage the investment funds.

The majority-owned Group companies are Ålandsbanken Asset Management Ab and Ab Compass Card Oy Ltd. The investment firm, Ålandsbanken Asset Management Ab, domiciled in Helsinki, is 70 per cent. owned by Ålandsbanken and offers asset management services. Ab Compass Card Oy Ltd, domiciled in

Mariehamn, is 66 per cent. owned by Ålandsbanken and offers credit and debit cards to private and institutional customers. The subsidiary of Crosskey Banking Solutions Ab Ltd., S-Crosskey Ab, is 60 per cent. owned by the Crosskey Banking Solutions Ab Ltd. and is domiciled in Mariehamn.

The following diagram depicts the Group structure as at the date of this Offering Circular.



\*Under liquidation

In Sweden, Ålandsbanken operates through its Swedish branch, Ålandsbanken Abp (Finland), svensk filial.

### Recent events

During the second quarter of 2014 the number of offices on the Finnish mainland was reduced as the office in Espoo was closed.

### Significant or material change

There has been no significant change in the financial position of the Group since 31 March 2014 and there has been no material adverse change in the prospects of the Issuer since 31 December 2013.

### Ålandsbanken's funding arrangements

Ålandsbanken's borrowing is conducted in both the Finnish and the international markets and with short-term and long-term products.

Short-term funding is mainly in the form of certificates of deposit issued on the Finnish market by Ålandsbanken. The total outstanding volume of certificates of deposit issued was EUR 160 million as at 31 March 2014 (EUR 176 million as at 31 March 2013) and EUR 134 million as at 31 December 2013 (EUR

188 million as at 31 December 2012). Long-term funding is mainly in the form of bonds issued by Ålandsbanken under the Programme and its Finnish medium term note programme. The total outstanding volume of bonds issued was EUR 855 million as at 31 March 2014 (EUR 671 million as at 31 March 2013) and EUR 878 million as at 31 December 2013. The total outstanding volume of covered bonds issued was EUR 544 million as at 31 March 2014 and EUR 540 million as at 31 December 2013. Ålandsbanken issued its first covered bond in September 2012. During 2013, Ålandsbanken issued a EUR 100 million 2.75 per cent. fixed rate covered bond due 2023, a EUR 100 million 1.55 per cent. fixed rate covered bond due 2019, a SEK 500 million floating rate note due 2014 and a SEK 750 million floating rate note due 2015. On 27 March 2014, Ålandsbanken issued a SEK 750 million floating rate note due 2016.

In addition, Ålandsbanken had outstanding subordinated debenture loans of EUR 56 million as at 31 March 2014 (EUR 62 million as at 31 March 2013). The outstanding amount of subordinated debenture loans as at 31 December 2013 was 64 million (EUR 64 million as at 31 December 2012).

For further details on the Group's funding, please see Notes G15. (*Measurement of financial assets and liabilities carried at fair value*), G16. (*Assets and liabilities by currency*), G30. (*Debt securities issued*) and G34. (*Subordinated liabilities*) in the 2013 Financial Statements and the chart entitled "*Financial assets and liabilities – maturity overview*" on page 57 of the 2013 Financial Statements.

### **Liquidity management**

For information on the Group's liquidity management and the Group's level of liquidity reserves, please see the section entitled "*Liquidity risk*" in the 2013 Financial Statements, beginning on page 56.

### **Capital adequacy**

The Group is reporting capital adequacy in accordance with the Basel rules. During the first quarter of 2012, the FIN-FSA approved the Bank's application to be allowed to calculate the capital requirement for credit risk according to the internal ratings based (**IRB**) approach for its Finnish household loan portfolio. The Group's total capital ratio at 31 December 2013 was 15.2 per cent. The capital requirement for credit risks has been calculated according to the IRB and standardised approach, and as of 30 June 2013 the capital requirement for operational risks according to the standardised approach, instead of the basic indicator approach.

For further information about the Group's capital management, capital base and capital adequacy calculations, please see the section entitled "*Risks and Risk Management*" in the 2013 Financial Statements, beginning on page 41.

### **Investments**

The Group has a portfolio of debt securities amounting to EUR 480 million at 31 December 2013. For details of the breakdown of these investments at 31 December 2013, please see Notes G17. (*Holdings of debt securities*) and G20. (*Shares and participations*) in the 2013 Financial Statements. The portfolio of debt securities eligible for refinance is defined as collateral in central bank monetary policy operations. Other debt securities are certificates of deposit issued by Nordic banks in Finland. Under normal market conditions such assets are generally liquid and can generally be turned into cash almost immediately.

### **Risk management**

For a detailed description of the Group's risk management policies, please see the section entitled "*Risks and risk management*" in the 2013 Financial Statements, beginning on page 41. For further information relating to the financial risks faced by the Group, please see "*Risk factors – Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme*".

**Related Party Transactions**

For information relating to the Group's transactions with related parties, please see Note G40. (*Disclosures about related parties*) in the 2013 Financial Statements.

## MANAGEMENT

The Board of Directors of Ålandsbanken has overall responsibility for the activities of the Group and decides on the nature of its business and its business strategies and goals.

The Managing Director supervises the business operations of Ålandsbanken in accordance with the Board's instructions and is responsible for the day-to-day administration.

The Executive Team serves as an advisory team to the Managing Director.

The Board of Directors has instituted a nomination committee (the **Nomination Committee**), an audit committee (the **Audit Committee**) and a remuneration committee (the Remuneration Committee).

### The Board of Directors

The members of the Board of Directors are annually elected by a simple majority of the shareholders' votes represented at the annual general meeting for a one-year term ending at close of the next annual general meeting.

The Board of Directors consists of seven directors which are presented below.

NILS LAMPI Bachelor of Economic Sciences, Managing Director of Wiklöf Holding Ab	Born 1948 Board member since 2013 Chairman
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CHRISTOFFER TAXELL Master of Laws Chairman of the Board of Directors: Föreningen Konstsamfundet, Member of the Board Directors: Rettig Group Ab, Luvata Oy, Stiftelsen för Åbo Akademi Member of the investment committee of Svenska Litteratursällskapet	Born 1948 Board member since 2013 Vice Chairman
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AGNETA KARLSSON Doctor of Economics, Associate Professor Director of Åland International Institute of Comparative Island Studies (AICIS)	Born 1954 Board member since 2003
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ANDERS Å KARLSSON Bachelor of Commerce	Born 1959 Board member since 2012
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ANNIKA WIJKSTRÖM Master of Arts	Born 1951 Board member since 2012
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ANDERS WIKLÖF Business owner Commercial Counsellor Chairman of the Board of Directors: Wiklöf Holding Ab	Born 1946 Board member since 2006
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DAN-ERIK WOIVALIN  
Master of Laws  
Aaland Mutual Insurance Company:  
Director, Private Market  
Member of the Executive Team  
Member of the Board Directors:  
Ålands Telefonandelslag

Born 1959  
Board member since 2013

### **Nomination Committee**

The Nomination Committee is responsible for the preparation of the election of the board members at the annual general meeting and for giving proposals regarding the compensation of the Board. The Nomination Committee has four members, consisting of the Chairman of the Board and one representative of each of the three shareholders with the largest number of voting shares as at 1 November 2013. The composition of the Nomination Committee will be decided in December 2013.

### **Audit Committee**

The Audit Committee assists the Board in fulfilling its duties in overseeing the internal control and risk management systems, reporting, the audit process and observance of laws and regulations. In addition, before the Annual General Meeting the Audit Committee prepares proposals for the election of auditors and their fees. The Audit Committee consists of the Board members Agneta Karlsson, Anders Å Karlsson and Nils Lampi. Folke Husell has been appointed auxiliary member and Chairman of the Audit Committee.

### **Compensation Committee**

The Compensation Committee is responsible for the preparation of material compensation-related decisions and the evaluation of compensation policies and principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses their suitability and effect on the Group's risks and risk management. The Compensation Committee consist of the Board members Nils Lampi, Agneta Karlsson and Annika Wijkström. Annika Wijkström is the Chairman of the Remuneration Committee.

### **The Managing Director and the Executive Team**

The Board of Directors has adopted rules of procedures for the Group with internal guidelines regarding, among other matters, the work of the Managing Director and the Executive Team.

The Managing Director supervises the business operations of Ålandsbanken in accordance with the instructions of the Board of Directors and is responsible for the day-to-day administration of Ålandsbanken.

The Executive Team serves as an advisory team to the Managing Director and has decision making powers in any matters that the Board of Directors has delegated to it.

The Executive Team consists of seven persons which are presented below.

PETER WIKLÖF  
Master of Laws  
Managing Director  
Chief Executive

Born 1966  
Member of the Executive Team since 2008  
Chairman

JAN-GUNNAR EURELL  
Master of Business Administration,  
Bachelor of Science (Economics)

Born 1959  
Member of the Executive Team since 2011

Chief Financial Officer  
Deputy Managing Director

BIRGITTA DAHLÉN  
Bank officer training  
Director, Åland Business Area

Born 1954  
Member of the Executive Team since 2010

TOVE ERIKSLUND  
Master of Business Administration  
Chief Administrative Officer

Born 1967  
Member of the Executive Team since 2006

ANNE-MARIA SALONIUS  
Attorney at Law, Master of Laws  
Director, Finnish Mainland Business Area

Born 1964  
Member of the Executive Team since 2010

MAGNUS HOLM  
Economic studies  
Director, Sweden Business Area

Born 1962  
Member of the Executive Team since 2011

JUHANA RAUTHOVI  
Licentiate of Laws  
Master of Science (Economics)  
Master of Science (Technology)  
Master in International Management  
Chief Risk Officer

Born 1975  
Member of the Executive Team since 2012

### **General information on the management of Ålandsbanken**

The Board of Directors has adopted and applies the Finnish Corporate Governance Code (the **Code**). The Code is applied according to the “comply or explain” principle, which means that departures from its recommendations must be disclosed and explained. Ålandsbanken departs from Recommendation 22, “Appointment of members to the committees”, since the Nomination Committee may include members who are not members of the Board of Directors of Ålandsbanken. In order to broaden the competency of the Audit Committee, the Audit Committee also includes one co-opted member who is not a member of the Board of Directors.

The business address of each member of the Board of Directors and the Executive Team is Ålandsbanken Abp, Post Box 3, AX-22101 Mariehamn, Finland.

#### *Independence of directors*

According to the Board of Directors’ evaluation, the Board members Agneta Karlsson, Anders Å Karlsson, Nils Lampi, Christoffer Taxell, Annika Wijkström and Anders Wiklöf are independent in relation to Ålandsbanken. The Board member Dan-Erik Woivalin was employed by Ålandsbanken until January 2013 and accordingly is not regarded as independent.

The Board members Agneta Karlsson, Christoffer Taxell and Annika Wijkström are independent in relation to significant shareholders. Nils Lampi represents Wiklöf Holding Ab and Anders Å Karlsson and Dan-Erik Woivalin represent Aaland Mutual Insurance Company. These companies each own at least 10 per cent. of Ålandsbanken shares or total voting power and therefore Mr. Lampi, Mr. Karlsson and Mr. Woivalin are not independent in relation to significant shareholders. Anders Wiklöf personally and through his companies owns more than 20 per cent. of Ålandsbanken’s shares or total voting power and therefore is not independent in relation to significant shareholders.

*Conflicts of interests*

There are no conflicts of interest between any duties of the members of the Board of Directors or the Executive Team to Ålandsbanken and their private interests or duties.



## SUMMARY OF THE FINNISH LEGISLATION REGARDING COVERED BONDS

The following is a brief summary of certain features of the CBA at the date of this Offering Circular. It does not purport to be, and is not, a complete description of all aspects of the Finnish legislative and regulatory framework for covered bonds.

### General

Covered bonds are debt instruments issued by Finnish commercial banks that are at all times secured by a pool of qualifying assets (the **Cover Pool**), the quality and standards of which are regulated by the CBA.

The CBA was enacted on 1 August 2010. The CBA replaced the Finnish Act on Mortgage Credit Banks from 1999.

Covered bonds may only be issued by commercial banks that are licensed by FIN-FSA to do so. The FIN-FSA supervises banks' compliance with the CBA.

### Eligible Assets for the Cover Pool

According to the CBA, the following types of assets qualify for the Cover Pool:

- Loans that are secured by a mortgageable object referred to in chapter 16, section 1 or in chapter 19, section 1 of the Finnish Land Code (*Maakaari 540/1995*, as amended) and whose purpose is to serve as housing, by shares in a housing company according to chapter 1, section 2 of the Act on Housing Companies (*Asunto-osakeyhtiölaki 1599/2009*, as amended), by other comparable shares or rights-of-occupancy, or by collateral that is comparable to the above and situated in another State in the European Economic Area (**Residential Mortgages**). A housing company is a special form of limited liability company (regulated by the Housing Companies Act (1599/2009)) which owns a building. Shares of a housing company carry rights to occupy a specific part of the building owned by the company as stipulated in its articles of association.
- Loans that are secured by a mortgageable object referred to in chapter 16, section 1 or in chapter 19, section 1 of the Finnish Land Code (540/1995) and whose purpose is to serve as office or commercial space, by shares in a housing company or a mutual real estate company that entitle its holder to occupy commercial or office space, or by comparable collateral situated in another State belonging to the European Economic Area (**Commercial Mortgages**) (Residential Mortgages and Commercial Mortgages are collectively referred to as **Mortgages**). The governance of a mutual real estate company is similar to that of any other Finnish limited liability company. Real estate companies may be governed by the Housing Companies Act or the Companies Act (624/2006), as stipulated in each company's articles of association. Shares of a mutual real estate company carry rights to occupy a specific part of the building owned by the mutual real estate company as stipulated in its articles of association.
- Public-sector debt that has been issued by the Finnish government, a Finnish municipality or another public body that, according to section 58 of the Act on Credit Institutions (*Laki luottolaitostoiminnasta 121/2007*), is equivalent to the Finnish government or a Finnish municipality, and indebtedness that is fully guaranteed by, or fully collateralised by a claim against, the Finnish government, a Finnish municipality or such public body (**Public-Sector Debt**).
- Certain inter-bank loans granted by the mortgage bank issuer of covered bonds to another credit institution where the inter-bank loan is secured by Mortgages granted by that credit institution or Public-Sector Debt posted as collateral by that credit institution and where those Mortgages and that

Public-Sector Debt forms part of the Cover Pool for the covered bonds (**Inter-Bank Loans**). The use of Inter-Bank Loans is not available to the Issuer because it is not a mortgage bank.

- In addition, up to 20 per cent. of the aggregate amount of all the assets in the Cover Pool may in certain circumstances temporarily consist of certain supplemental assets. Supplemental assets in the Cover Pool (together referred to as the **Supplemental Assets**) may include:
  - bonds and other debt obligations issued by the Finnish government, a municipality or another public-sector entity or a credit institution (other than one belonging to the same consolidated group as the issuer of the covered bonds);
  - guarantees granted by a public-sector entity or a credit institution (other than one belonging to the same consolidated group as the issuer of the covered bonds);
  - credit insurance given by an insurance company other than one belonging to the same group as the issuer of the covered bonds; and
  - cash of the issuer of the covered bonds deposited in the Bank of Finland or a deposit bank.

Debt obligations issued by credit institutions may not, however, exceed 15 per cent. of the aggregate amount of assets in the Cover Pool. The FIN-FSA may in limited circumstances grant an exemption from the 20 per cent. limit for a set period.

Supplemental Assets may temporarily be used in situations where Mortgages or Public-Sector Debt have not yet been granted or registered in the Cover Pool or the CBA's requirements described below under "*Loan to Value Ratios, Liquidity and Interest Cover Requirements*" are not fulfilled.

### **Covered Bond Register**

The issuer of covered bonds is required to maintain a register of the covered bonds and the assets in the related cover pool (the **Register**). The Register must include, amongst other things, details on:

- each series of covered bonds in issue, including the outstanding principal amount, interest rate and maturity;
- the assets in the Cover Pool, including the aggregate principal amount, interest and maturity of the Mortgages and any Public-Sector Debt in the pool;
- any Supplemental Assets in the Cover Pool; and
- any derivative hedging contracts.

The Register must be continuously updated to reflect changes in the covered bonds and the Cover Pool. The Mortgages, Public-Sector Debt, Inter-Bank Loans and Supplemental Assets recorded in the Register at any given time constitute the Cover Pool that secures the covered bonds, subject to the limitations set forth in the CBA. Each of the assets in the Cover Pool secures each series of covered bonds in issue on a *pari passu* basis, to the extent each of the series is secured by the same assets. If an asset recorded in the Register secures only a particular series or category of covered bonds, the Register must specify which series the asset secures. If a Mortgage, Public-Sector Debt or Supplemental Asset that is included in the Cover Pool is repaid in full, it must be removed from the Register. Mortgages that are no longer eligible Residential Mortgages or Commercial Mortgages must also be removed. Assets may also be removed from the Register if after the removal the remaining assets in the Cover Pool are sufficient to meet the requirements of the CBA and the terms and conditions of the covered bonds. The fact that an issuer of covered bonds has included certain

Mortgages, Public-Sector Debt or other indebtedness in the Cover Pool does not prevent it from allowing, or allow it to prevent, the debtor in relation to such indebtedness to pre-pay the relevant indebtedness or to change the terms of the relevant indebtedness (including changing the collateral (e.g., residential property or shares in a housing company) securing the indebtedness). According to the Finnish Consumer Protection Act (*Kuluttajansuojalaki 38/1978*, as amended), consumers are entitled at any time to pre-pay their Residential Mortgages in full or in part before they mature. The issuer of covered bonds is, however, prohibited from creating any security interest in or selling Mortgages or Public-Sector Debt that forms part of the Cover Pool without the permission of the FIN-FSA. If Inter-Bank Loans are included in the Cover Pool, the same restrictions as to the sale and creation of security interests apply to the debtor credit institution under the Inter-Bank Loan. The composition of the Cover Pool may change over time, subject at all times to the requirements of the CBA and the terms and conditions of the covered bonds. For a summary of the requirements in the CBA relating to the Cover Pool, see “Certain Cover Pool Requirements” and “Loan to Value Ratios, Liquidity and Interest Cover Requirements” below. Issuers of covered bonds may also enter into derivatives contracts in order to hedge risks relating to the covered bonds and the Cover Pool. Details of any derivatives contracts must be listed in the Register.

The security interest in the Mortgages and Public-Sector Debt included in the Cover Pool will be recorded on the documentation evidencing the Mortgages or Public-Sector Debt or in a register that is used to administer the Mortgages or Public-Sector Debt.

### **Certain Cover Pool Requirements**

The CBA provides that the principal amount of the Mortgages included in the Cover Pool may not exceed the fair value of the collateral securing those Mortgages. The fair value of the collateral is to be determined in keeping with the FIN-FSA’s rules and regulations. For example, any collateral assets underlying the Mortgages that exceed a value of EUR 3 million are to be valued by an independent third-party valuation agent.

If the assets in the Cover Pool do not meet the requirements of the CBA, the FIN-FSA will set a time period within which the issuer of the covered bonds is required to add such amount of qualifying assets to the Cover Pool as is required to remedy the breach. If the issuer does not comply with the requirements within the set time period, the FIN-FSA may revoke the issuer’s license to carry on mortgage banking activities.

### **Loan to Value Ratios, Liquidity and Interest Cover Requirements**

The CBA provides for the following requirements as to the assets in the Cover Pool.

- The aggregate value of the assets in the Cover Pool (calculated as specified below) must at all times exceed the aggregate outstanding principal amount of the covered bonds.
- The present value of the assets in the Cover Pool must at all times exceed 102 per cent. of the present value of the payment obligations under the covered bonds. When determining the present value of the assets in the Cover Pool for this purpose, only 60 per cent. and 70 per cent. of the payments made or to be made under the Commercial Mortgages and Residential Mortgages, respectively, may be included. According to the preparatory works of the CBA (HE 42/2010), present value means the total value of the future cashflows applying the market rate of interest prevailing at the relevant time as a discount factor. The FIN-FSA may in the future issue more specific rules and regulations regarding present value calculations.
- Unless the terms of the covered bonds provide otherwise, at least 90 per cent. of the aggregate value of the assets in the Cover Pool (calculated as specified below) must be comprised of Residential Mortgages, Public-Sector Debt or Supplemental Assets.

- The aggregate value of the assets in the Cover Pool (calculated as specified below) relating to the Inter-Bank Loans must at all times exceed the amount of the Inter-Bank Loans. In the case of Inter-Bank Loans, the Public-Sector Debt and Mortgages that secure those loans are to be recorded in the Register and included in the Cover Pool; the Inter-Bank Loans themselves are not included in the Cover Pool for purposes of the tests and requirements described in this section “*Loan to Value Ratios, Liquidity and Interest Cover Requirements*”.
- The weighted average maturity of the covered bonds must not be longer than the weighted average maturity of the assets in the Cover Pool.
- The interest accruing on the aggregate amount of assets in the Cover Pool (calculated as specified below) in any 12-month period must cover the interest payments on the covered bonds (and any derivative contracts related thereto) in the same period. The FIN-FSA may in the future issue more specific rules and regulations regarding the liquidity and interest cover requirements.

For purposes of the requirements described in this section “*Loan to Value Ratios, Liquidity and Interest Cover Requirements*”, certain additional loan-to-value thresholds apply. Namely, for purposes of determining the aggregate amount or value of assets in the Cover Pool:

- in the case of Residential Mortgages, only up to 70 per cent. of the fair value of the residential property securing the mortgage can be included;
- in the case of Commercial Mortgages, only up to 60 per cent. of the fair value of the commercial property securing the mortgage can be included;
- in the case of Public-Sector Debt and Supplemental Assets, the book value is to be included; and
- Residential Mortgages and Commercial Mortgages that according to the rules of FIN-FSA are to be booked as non-performing loans cannot be included.

In addition, derivative transactions concluded in order to hedge the covered bonds or any assets in the Cover Pool are taken into account for the purposes of the requirements described in this section.

### **Limited Recourse Against Assets in the Cover Pool**

According to the CBA, creditors of the issuer of covered bonds other than the covered bondholders cannot have recourse against the assets in the Cover Pool. Therefore, the assets in the Cover Pool cannot be subject to injunctions, debt execution or other enforcement measures by such creditors. In addition, in a bankruptcy or liquidation of an issuer of covered bonds, a Mortgage debtor or issuer of Public-Sector Debt cannot as a general rule invoke the right of set-off in relation to a Mortgage or Public-Sector Debt that is included in the Cover Pool.

### **Right of Priority in Bankruptcy or Liquidation of the Issuer**

Under the CBA, holders of covered bonds are given a preferential status in the liquidation or bankruptcy of the issuer of those covered bonds. If the issuer has been placed in liquidation or declared bankrupt, the holders of covered bonds have the right to receive payment, in preference to all other creditors of the issuer, in accordance with the terms and conditions of the covered bonds, from the assets that comprise the Cover Pool (i.e., assets included in the Register). After the commencement of the bankruptcy or liquidation proceedings, any proceeds from the assets in the Cover Pool will be recorded in the Register for the benefit of the holders of the covered bonds. Prior to the commencement of bankruptcy or liquidation, proceeds from the assets in the Cover Pool will only be recorded in the Register for the benefit of the holders of the covered bonds to the extent that such proceeds are temporarily recorded in the Register as Supplemental Assets.

However, with respect to Mortgages included in the Cover Pool, the covered bondholders' preferential treatment will be limited, in accordance with section 25 of the CBA, to a maximum amount which corresponds to 70 per cent. of the value, as recorded in the Register, of the assets securing the Residential Mortgages in the pool; and to 60 per cent. of the value, as recorded in the Register, of the assets securing the Commercial Mortgages in the pool, in each case at the time the issuer was declared bankrupt or when the issuer is placed in liquidation, as the case may be. Any excess proceeds from the Mortgages in the Cover Pool will be paid to the bankruptcy estate for the benefit of the general creditors of the estate.

The issuer's counterparties to derivative transactions that are recorded in the Register and the providers of any liquidity loans borrowed by the bankruptcy estate enjoy the same preferential treatment as covered bondholders in the issuer's bankruptcy or liquidation. These counterparties and lenders have an equal right with the holders of covered bonds to payments from the assets in the Cover Pool. Accordingly, derivative transactions and such liquidity loans rank *pari passu* with the covered bondholders with respect to assets in the Cover Pool.

In the bankruptcy or liquidation of the issuer, holders of covered bonds rank *pari passu* amongst themselves in respect of proceeds from the Cover Pool, to the extent their bonds are secured by the same assets in the Register. If an asset recorded in the Register secures a particular series of covered bonds only, only that particular series of covered bonds will receive the benefit of any proceeds from the relevant asset.

If an issuer of covered bonds is placed in liquidation or declared bankrupt, a supervisor will be appointed by the FIN-FSA to represent the interests of the holders of the relevant covered bonds. A bankruptcy administrator will also be appointed by the courts. The supervisor supervises the management and any liquidation of the assets in the Cover Pool as well as the payments to be made to the holders of covered bonds.

In the bankruptcy or liquidation of the issuer, the bankruptcy administrator shall, at the supervisor's request or with its consent, enter into such derivatives contracts as are necessary to hedge the risks relating to the covered bonds or the assets in the Cover Pool, and, where necessary, sell a sufficient amount of assets in the Cover Pool in order for the issuer to discharge its obligations relating to the covered bonds. The bankruptcy administrator may also take out liquidity loans to secure the liquidity of the bankruptcy estate. Moreover, the bankruptcy administrator may, with the permission of the FIN-FSA and subject to the terms and conditions of the covered bonds, transfer the covered bonds and the entire Cover Pool to another Finnish financial institution that is licensed to issue covered bonds (or to an equivalent non-Finnish institution).

If the requirements described above under "*Loan to Value Ratios, Liquidity and Interest Cover Requirements*" are not satisfied, the bankruptcy administrator shall, at the supervisor's request or with its consent, accelerate the covered bonds, liquidate the assets in the Cover Pool relating to such covered bonds and use the proceeds thereof to discharge the covered bonds. If the proceeds from the assets in the Cover Pool (after application of the limitation in respect of Mortgages described above) are not sufficient to discharge the covered bonds in full, the holders of the covered bonds will be general creditors in the issuer's bankruptcy with no priority in payment as to the shortfall. In such circumstances the holders of the Covered Bonds may not be paid in full.

### **Management of the Cover Pool upon Liquidation or Bankruptcy of an Interbank Loan Debtor**

If the debtor in respect of an Inter-Bank Loan that has been included in the Cover Pool is in bankruptcy or liquidation, the FIN-FSA shall without delay appoint a supervisor to protect (i) the interests of the holders of covered bonds issued by the issuer (i.e., the creditor of the Inter-Bank Loan debtor) and (ii) the bondholders' interests in the debtor's bankruptcy or liquidation. The supervisor shall in particular supervise the administration and liquidation of the assets in the Cover Pool and the payments to be made to the holders of covered bonds. Notwithstanding the liquidation or bankruptcy of an Inter-Bank Loan debtor, payments shall

be made on the covered bonds, in accordance with their terms, from the Inter-Bank Loan related assets comprising the Cover Pool, taking into account the right of preference provided in the CBA.

In the liquidation of the Inter-Bank Loan debtor, the debtor's estate administrator shall at the request of, or with the consent of, the supervisor:

- sell the debtor's Mortgages or Public-Sector Debt that comprise the Cover Pool to the issuer of the covered bonds by, in whole or in part, offsetting the purchase price against the issuer's Inter-Bank Loan claim against the debtor; or
- if necessary, sell to a third party such amount of the debtor's assets in the Cover Pool as is necessary to discharge the obligations under the covered bonds.

## CHARACTERISTICS OF THE COVER POOLS

The Issuer must ensure that each of the Cover Pools are comprised only of Mortgages, Public-Sector Debt and Supplemental Assets within the limitations set by the CBA (as summarised under “*Summary of the Finnish Legislation regarding Covered Bonds*”) and the terms and conditions of the Covered Bonds. The Issuer will substitute assets that are no longer eligible to be included in the relevant Cover Pool in accordance with the requirements of the CBA and such terms and conditions and supplement the relevant Cover Pool with new Mortgages, Public-Sector Debt or Supplemental Assets upon the existing Mortgages, Public-Sector Debt or Supplemental Assets in the Cover Pools being repaid by the relevant borrower in respect of such assets.

The criteria that the Issuer applies in the selection of assets for the Cover Pools and the policies for granting loans are summarised below.

### **The Finnish Cover Pool**

All Mortgages included in the Finnish Cover Pool are originated by the Issuer in Finland in accordance with the applicable lending criteria, which include, among other things, verifying the identity of the borrower, assessing the creditworthiness of the borrower and checking the past defaults of the borrower which are contained in the Issuer’s internal payment default register.

The Issuer identifies the Mortgages that are eligible for inclusion in the Finnish Cover Pool according to criteria set by the CBA and the Issuer. These criteria, in summary, include (but are not limited to):

- the principal amount of the Mortgage must not exceed the fair value of the collateral securing the Mortgage, that is, the loan-to-value ratio must be 100 per cent. or lower;
- the Issuer must have security over the collateral securing the Mortgage;
- the Mortgage must not have been in default for more than 89 days;
- if several loans are secured by the same collateral, the group of loans is only eligible for the Finnish Cover Pool if the entire group meets the loan-to-value ratio requirement stated above. However, certain types of loans within such a group, such as currency loans and credit limits, are not eligible for inclusion (although they are included for the purpose of the loan-to-value ratio requirement);
- the Mortgage must be secured by eligible assets located or incorporated in Finland and must be denominated in euro; and
- the terms and conditions of the pledge relating to the property that constitutes the collateral for the Mortgage must contain a provision according to which the pledgor undertakes to maintain the fire insurance of the property.

The composition and characteristics of the Finnish Cover Pool will change over time.

### **The Swedish Cover Pool**

All Mortgages included in the Swedish Cover Pool are originated by the Issuer’s Swedish branch in accordance with the applicable lending criteria, which include, among other things, verifying the identity of the borrower, assessing the creditworthiness of the borrower and checking the past defaults of the borrower which are contained in the Issuer’s internal payment default register.

The Issuer identifies the Mortgages that are eligible for inclusion in the Swedish Cover Pool according to criteria set by the CBA and the Issuer. These criteria, in summary, include (but are not limited to):

- the principal amount of the Mortgage must not exceed the fair value of the collateral securing the Mortgage, that is, the loan-to-value ratio must be 100 per cent. or lower;
- the Issuer must have security over the collateral securing the Mortgage;
- the Mortgage must not have been in default for more than 89 days;
- if several loans are secured by the same collateral, the group of loans is only eligible for the Swedish Cover Pool if the entire group meets the loan-to-value ratio requirement stated above. However, certain types of loans within such a group, such as currency loans and credit limits, are not eligible for inclusion (although they are included for the purpose of the loan-to-value ratio requirement);
- the Mortgage must be secured by eligible assets located or incorporated in Sweden and must be denominated in Swedish kronor; and
- the terms and conditions of the pledge relating to the property that constitutes the collateral for the Mortgage must contain a provision according to which the pledgor undertakes to maintain the fire insurance of the property.

The composition and characteristics of the Swedish Cover Pool will change over time.

### **Liquidity Reserve**

The terms of the Covered Bonds do not contain a liquidity reserve provision.

However, certain covered bonds issued under the Programme prior to the date of this Offering Circular which have the benefit of the Finnish Cover Pool (including covered bonds issued subject to the 2013 Conditions (as defined in “*Documents Incorporated by Reference*”)) have been issued with terms that contain a liquidity reserve provision. Pursuant to this liquidity reserve provision, the Issuer is required to ensure that (i) the recorded value of all Public Sector Debt and Supplemental Assets in the Finnish Cover Pool does not fall below a certain level so long as such covered bonds are outstanding and (ii) in the event that there have been prepayments of principal in respect of the Mortgages in the Finnish Cover Pool which exceed a certain level that the Issuer shall add to the Finnish Cover Pool an amount of Public-Sector Debt and/or Supplemental Assets equal to the amount of such prepayments.

Accordingly, any Covered Bonds issued under this Programme following the date of this Offering Circular which have the benefit of the Finnish Cover Pool will benefit from the fact that the Finnish Cover Pool is required to be maintained in this way (for so long as the previous covered bonds are outstanding) notwithstanding that the liquidity reserve provisions do not apply to such Covered Bonds.

The Issuer has not previously issued covered bonds which have the benefit of the Swedish Cover Pool and, accordingly, Covered Bonds issued under this Programme which have the benefit of the Swedish Cover Pool will not benefit from the above



## DERIVATIVE TRANSACTIONS

### Permitted Derivative Transactions

The Issuer may from time to time enter into one or more derivative transactions in order to hedge against risks relating to a Category of Covered Bonds and/or a Series of Covered Bonds or the assets in a Cover Pool. Such derivative transactions will be entered into the Register for the relevant Cover Pool.

The Issuer may enter into one or more interest rate swap transactions to hedge the interest rate exposure arising as a result of Mortgages and other assets in a Cover Pool that carry floating rates of interest covering the relevant Covered Bonds that carry a fixed rate payment obligation for the Issuer. The Issuer may also enter into one or more interest rate swap transactions to hedge the interest rate exposure arising as a result of Mortgages and other assets in a Cover Pool that carry fixed rates of interest covering the relevant Covered Bonds that carry a floating rate payment obligation for the Issuer.

### Documentation

The Issuer currently anticipates that derivative transactions entered into between the Issuer and a swap counterparty will be evidenced by a confirmation and such confirmation will supplement, form part of and be subject to an agreement between the Issuer and such swap counterparty in the form of a 1992 ISDA Master Agreement (Multicurrency – Cross Border) or an ISDA 2002 Master Agreement, as amended and supplemented from time to time, each as published by the International Swaps and Derivatives Association Inc. (ISDA) (each such agreement a Swap Agreement). All such derivative transactions will be terminable by a party if an Event of Default (as defined in the relevant Swap Agreement) occurs in respect of the other party or all or a group of derivative transactions will be terminable by one or both of the parties if a Termination Event (as defined in the relevant Swap Agreement) occurs.

Upon the early termination of one or more derivative transactions, the Issuer or the relevant swap counterparty may be liable to make a payment to the other party reflecting the value of the terminated derivative transaction(s).

The Issuer may also at its discretion use other types of instruments and transactions for the purposes described in this section “*Derivative Transactions*”.

### Bankruptcy or Liquidation of the Issuer

Under the CBA, the Issuer is required to fulfil the obligations arising under a derivative transaction entered into the Register for a Cover Pool in accordance with its terms notwithstanding a bankruptcy or liquidation of the Issuer. Counterparties to such derivative transactions (along with holders of the Notes and providers of bankruptcy liquidity loans) are given a statutory priority in the liquidation or bankruptcy of the Issuer to the assets in the relevant Cover Pool. Accordingly, such counterparties (and holders of the Notes and providers of liquidity loans) have the statutory right to receive payment from the assets in the relevant Cover Pool before all other holders of claims and this right remains for so long as the Notes remain outstanding.

## TAXATION

*The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

### **General**

Prospective purchasers of Notes are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including, but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

### **Finland**

#### ***Taxation of the Finnish residents***

Under the present Finnish domestic tax law, Holders of Notes and Coupons, who are resident in Finland for tax purposes, will be subject to Finnish tax on interest payments (including deemed interest for tax purposes through a discounted issue price) under the Notes and the Coupons and on gains realised on the sale or redemption of the Notes and the Coupons.

#### ***Taxation of Non-Finnish residents***

Holders of Notes and Coupons who are not resident in Finland for tax purposes and who do not engage in trade or business through a permanent establishment in Finland will not be subject to Finnish taxes either on payments in respect of the Notes and the Coupons or gains realised on the sale or redemption of the Notes and the Coupons. Non-resident Holders of Notes and Coupons who engage in trade or business through a permanent establishment in Finland will be subject to similar Finnish taxes on payments in respect of the Notes and the Coupons and gains realised on the sale or redemption of the Notes and the Coupons as Finnish resident Holders of Notes and Coupons.

#### ***Transfer Tax***

Transfers of the Notes and the Coupons are not subject to Finnish transfer tax.

#### ***Withholding Requirement***

The Issuer is obliged to withhold tax on interest payments (including deemed interest) to Finnish resident individuals and death estates as well as Finnish resident unregistered partnerships, associations and similar.

#### ***Reporting Requirements***

Under Finnish law, the Issuer is obliged to report any interest payments under the Notes and the Coupons to the Finnish tax authorities.

## **EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

## **FATCA DISCLOSURE**

### ***Foreign Account Tax Compliance Act***

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a **foreign financial institution**, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a **United States Account** of the Issuer (a **Recalcitrant Holder**). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the **grandfathering date**, which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and Finland have entered into an agreement (the **US-Finland IGA**) based largely on the Model 1 IGA.

The Issuer expects to be treated as a Reporting FI pursuant to the US-Finland IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. The Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common Depository / Common Safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.**

**TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

### **The Proposed Financial Transactions Tax**

On 14 February 2013, the European Commission published a proposal (the **Commission’s Proposal**) for a Directive for a common Financial Transaction Tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 27 June 2013, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Final Terms (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## **Finland**

This Offering Circular has not been prepared to comply with the standards and requirements applicable under Finnish law, including the Finnish Securities Market Act (*Arvopaperimarkkinalaki 746/2012*, as amended) and it has not been approved by the FIN-FSA. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not, directly or indirectly, offer or sell in Finland any Notes other than in compliance with all applicable provisions of the laws of Finland, including the Finnish Securities Market Act (746/2012) and any regulation issued thereunder, as supplemented and amended from time to time.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **General**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefore.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.



## GENERAL INFORMATION

### Authorisation

The update of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 29 April 2014.

### Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of one or more Global Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or before 6 June 2014.

### Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the articles of association (with an accurately reproduced English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2012 and 31 December 2013 (with an accurately reproduced English translation thereof), in each case together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (d) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (e) a copy of this Offering Circular;
- (f) any future offering circulars, prospectuses, information memoranda, supplements to this Offering Circular and Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

## Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

## Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

## Yield

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

## Litigation

There are no nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

## Material contracts

To the best of Ålandsbanken's knowledge, there are no material contracts entered into outside the ordinary course of Ålandsbanken's business, which could result in any group member being under an obligation or entitlement that is material to Ålandsbanken's ability to meet its obligation to security holders in respect of the securities being issued.

## Auditors

The following auditors have audited the Issuer's accounts, without qualification, in accordance with the International Standards on Auditing for financial year ended on 31 December 2012.

Bengt Nyholm  
Authorised Public Accountant

Leif Hermans  
Authorised Public Accountant

Erika Sjölund  
Authorised Public Accountant

Ernst & Young Ab  
Elielinaukio 5 B  
FI-00100 Helsinki, Finland

Hermans & Revisorernas Ab  
Torggatan 5  
AX-22100 Mariehamn,  
Åland, Finland

Ernst & Young Ab  
Elielinaukio 5 B  
FI-00100 Helsinki, Finland

The following auditors have audited the Issuer's accounts in accordance with the International Standards on Auditing for the financial year ended on 31 December 2013.

Pauli Salminen  
Authorised Public Accountant

Birgitta Immerthal  
Authorised Public Accountant

Mari Suomela  
Authorised Public Accountant

KPMG Oy Ab  
Töölönlahdenkatu 3 A  
FI-00100 Helsinki, Finland

KPMG Oy Ab  
Töölönlahdenkatu 3 A  
FI-00100 Helsinki, Finland

KPMG Oy Ab  
Töölönlahdenkatu 3 A  
FI-00100 Helsinki, Finland

The following auditors were elected as auditors on 10 April 2014 in the annual general meeting. The auditors' term of office covers the period until the end of the next annual general meeting.

Pauli Salminen  
Authorised Public Accountant

Birgitta Immerthal  
Authorised Public Accountant

Mari Suomela  
Authorised Public Accountant

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The auditors of the Issuer have no material interest in the Issuer.

#### **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

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