

## PROSPECTUS

# ÅLANDSBANKEN ABP

(incorporated with limited liability in the Republic of Finland)

## Issue of

### **EUR 100,000,000 1.125 per cent. Covered Bonds due 2015 EUR 100,000,000 Floating Rate Covered Bonds due 2014 and EUR 100,000,000 Floating Rate Covered Bonds due 2016**

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

**Issue Price: 99.953 per cent. in respect of the Series A Notes and 100 per cent in respect of the Series B Notes and Series C Notes (each as defined below)**

The EUR 100,000,000 1.125 per cent. Covered Bonds due 2015 (the **Series A Notes**), the EUR 100,000,000 Floating Rate Covered Bonds due 2014 (the **Series B Notes**) and the EUR 100,000,000 Floating Rate Covered Bonds due 2016 (the **Series C Notes** and, together with the Series A Notes and the Series B Notes, the **Notes** and each a **Series**) are being issued by Ålandsbanken Abp (**Ålandsbanken**, the **Bank of Åland** or the **Issuer**) under the Issuer's EUR 1,000,000,000 Euro Medium Term Note and Covered Bond Programme (the **Programme**) under the Finnish Covered Bonds Act (*Laki kiinnitysluottopankkitoiminnasta 688/2010*) (the **CBA**).

The Series A Notes will bear interest from (and including) 14 September 2012 (the **Issue Date**) to (but excluding) 14 September 2015 at a rate of 1.125 per cent. per annum, payable annually in arrear on 14 September.

In the case of the Series B Notes, interest will be payable in arrear on 14 March and 14 September of each year (each an **Interest Payment Date**). Interest on the Series B Notes will accrue from and including the Issue Date to but excluding the Interest Payment Date falling in or nearest to September 2014 at a rate of 0.45 per cent. per annum above the Euro-zone interbank offered rate for euro deposits for each Interest Period, as further described, and except as mentioned, under Condition 3 (*Interest*).

In the case of the Series C Notes, interest will be payable in arrear on each Interest Payment Date. Interest on the Series C Notes will accrue from and including the Issue Date to but excluding the Interest Payment Date falling in or nearest to September 2016 at a rate of 0.65 per cent. per annum above the Euro-zone interbank offered rate for euro deposits for each Interest Period, as further described, and except as mentioned, under Condition 3 (*Interest*).

**An investment in the Notes involves certain risks. For a discussion of these risks, see "Risk Factors".**

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for each Series to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for each Series to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

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*" in the Offering Circular (as defined in "*Documents Incorporated by Reference*")).

The Issuer has been assigned a long-term credit rating of BBB (with stable outlook) by Standard & Poor's Credit Market Services Europe Limited (**S&P**). Each Series is expected on issue to be rated AA by S&P. S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as

amended). 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 such Regulation.

The Series A Notes will initially be represented by a temporary global note (the **Series A Temporary Global Note**), without interest coupons, which will be deposited on or about the Issue Date with a common safe-keeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Series A Temporary Global Note will be exchangeable for interests in a permanent global note (the **Series A Permanent Global Note** and, together with the Series A Temporary Global Note, the **Series A Global Notes**), without interest coupons, on or after 25 October 2012 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Series A Permanent Global Note will be exchangeable for definitive Series A Notes only in certain limited circumstances - see "*Form of the Notes*".

The Series B Notes will initially be represented by a temporary global note (the **Series B Temporary Global Note**), without interest coupons, which will be deposited on or the Issue Date with a common safe-keeper for Euroclear and Clearstream, Luxembourg. Interests in the Series B Temporary Global Note will be exchangeable for interests in a permanent global note (the **Series B Permanent Global Note** and, together with the Series B Temporary Global Note, the **Series B Global Notes**), without interest coupons, on or after the Exchange Date, upon certification as to non-U.S. beneficial ownership. Interests in the Series B Permanent Global Note will be exchangeable for definitive Series B Notes only in certain limited circumstances - see "*Form of the Notes*".

The Series C Notes will initially be represented by a temporary global note (the **Series C Temporary Global Note** and, together with the Series A Temporary Global Note and the Series B Temporary Global Note, the **Temporary Global Notes**), without interest coupons, which will be deposited on or about the Issue Date with a common safe-keeper for Euroclear and Clearstream, Luxembourg. Interests in the Series C Temporary Global Note will be exchangeable for interests in a permanent global note (the **Series C Permanent Global Note** (together with the Series A Permanent Global Note and the Series B Permanent Global Note, the **Permanent Global Notes**) and, together with the Series C Temporary Global Note, the **Series C Global Notes** (together with the Series A Global Notes and the Series B Global Notes, the **Global Notes**)), without interest coupons, on or after the Exchange Date, upon certification as to non-U.S. beneficial ownership. Interests in the Series C Permanent Global Note will be exchangeable for definitive Series C Notes only in certain limited circumstances - see "*Form of the Notes*".

**Joint Lead Managers**

**SEB**

**Danske Bank**

**Co Manager**

**Bankhaus Lampe**

The date of this Prospectus is 6 September 2012.

**This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the *Prospectus Directive*).**

**The Issuer accepts responsibility for the information contained in this Prospectus. 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 Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**Danske Bank A/S and Skandinaviska Enskilda Banken AB (publ) (the *Joint Lead Managers*) and Bankhaus Lampe KG (the *Co Manager* and, together with the Joint Lead Managers, the *Managers*) 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 Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.**

**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 Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Managers.**

**Neither this Prospectus nor any other information supplied in connection with the offering of the 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 Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase the 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 Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.**

**Neither the delivery of this Prospectus 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 offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.**

**This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the 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 Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Prospectus may be lawfully distributed, or that the 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 Managers which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus 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 Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus 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*" in the Offering Circular (as defined in "*Documents Incorporated by Reference*").

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case in relation to such offer. Neither the Issuer nor the Managers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

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 Prospectus 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 any relevant indices and 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

**Where historical financial information (and the accompanying audit and review reports) of the Issuer has been translated from Swedish to English for the purposes of the inclusion in this Prospectus, the English translations included herein constitute direct and accurate translations of the Swedish originals. In the event of any discrepancy between the Swedish originals and the English translations, the Swedish originals will prevail.**

**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.**

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Prospectus:

- (a) the following sections of the Offering Circular of the Issuer dated 29 December 2011 relating to the Issuer's EUR 1,000,000,000 Euro Medium Term Note and Covered Bond Programme (the **Offering Circular**):

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- (b) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2011 (including a translation of the auditors' audit report thereon) (set out on pages 34 to 102 (inclusive) of the Issuer's Annual Report for the year ended 31 December 2011); and

- (c) the unaudited reviewed consolidated financial statements of the Issuer for the six month period ended 30 June 2012 (including a translation of the auditors' review report thereon) (set out on pages 5 to 22 (inclusive) of the Issuer's interim report for the six months ended 30 June 2012),

save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

Where only parts of a document are being incorporated by reference, the non-incorporated parts of that document are either not relevant for the investor or covered elsewhere in the Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the Issuer at Nygatan 2, AX-22 100 Mariehamn, Finland and at the principal office in England of the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

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



## **RISK FACTORS**

The risk factors set out under the heading "*Risk Factors – Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme*" (the **Programme Risk Factors**) on pages 7 to 11 (inclusive) of the Offering Circular (as defined in "*Documents Incorporated by Reference*" above) are incorporated herein by reference.

Factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. The risks described below could have a material adverse effect on the value of the Notes.

The Issuer believes that the factors described in the Programme Risk Factors and below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus or incorporated by reference in this Prospectus and reach their own views prior to making any investment decision.

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

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

##### *CBA Untested*

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 the Notes 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 the Notes*

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

##### *Failure of the Cover Pool to meet the matching requirements*

The Issuer will be required under the CBA to comply with certain matching requirements as long as any Notes are outstanding. Under the CBA, if the assets over which statutory security is conferred by the CBA (the **Cover Pool**) do not fulfil the requirements provided for in the CBA, the Finnish Financial Supervisory Authority (the **FIN-FSA**) may set a time limit within which the Issuer shall place more collateral in compliance with the CBA. 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 Notes 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 Notes due and payable and sell the assets in the Cover Pool. This could result in the holders of Notes receiving payment according to a schedule that is different than that contemplated by the terms of the Notes (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*".

### *Benefit of the Cover Pool*

In the event of liquidation or the bankruptcy of the Issuer, the holders of the Notes (along with counterparties to related derivative transactions and providers of bankruptcy liquidity loans (each as defined in Condition 3)) have the benefit of priority in relation to the assets in the 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 Cover Pool and (ii) 60 per cent. of the value at the relevant time of the assets securing commercial mortgages in the Cover Pool. If the proceeds from the assets in the Cover Pool are not sufficient to discharge the Notes in full, the holders of the Notes 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 Notes 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 Pool 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 the Cover Pool in Finland or an eligible transferee to take over the obligations relating to the Notes 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 the Cover Pool to fulfil the obligations relating to the Notes. 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. Counterparties in such transactions will rank *pari passu* with holders of the Notes and existing derivative counterparties with respect to assets in the 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 the Notes and existing derivative counterparties.

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

Where the Notes are secured by mortgage loans, such mortgage loans 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. 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 condition 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 Cover Pool will primarily be secured on property located or incorporated in Finland. The value of the Cover Pool may decline sharply and rapidly in the event of a general downturn in the value of property in Finland. Any such downturn may have an adverse effect on the Issuer's ability to make payment under the Notes.

#### *No due diligence in relation to the Cover Pool*

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

#### *Limited description of the assets in the Cover Pool*

Investors will not receive detailed statistics or information in relation to the mortgage loans and other assets included in the Cover Pool and it is expected that the composition of the 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 Cover Pool. The assets contained in the 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 Cover Pool will remain the same as at the date of this Prospectus or on or after the issue date of the Notes.

#### *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 Notes, 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 Notes.

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

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

#### *Modification*

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.

### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being 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).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

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 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.

### *Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. 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 Prospectus.

### *Denominations involving integral multiples: definitive Notes*

The Notes have denominations consisting of a minimum of €100,000 plus one or more higher integral multiples of €1,000. It is therefore possible that the Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to €100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

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

Each Series will be represented on issue by a Temporary Global Note which will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg (each as defined under "*Form of the Notes*"). Interests in each Temporary Global Note will be exchangeable for interests in a Permanent Global Note on or after the Exchange Date. Except in the circumstances described in each Permanent Global Note, investors will not be entitled to receive Notes of the relevant Series 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 any 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 any Notes are represented by a Global Note, the Issuer will discharge its payment obligation under the relevant 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 relevant 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 the principal market risks:

#### *The secondary market generally*

The 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.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in euro. 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 euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro 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 euro 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. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks in respect of the Series A Notes*

Investment in the Series A Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Series A Notes.

#### *Credit ratings may not reflect all risks*

Independent credit rating agencies will assign credit ratings to the Issuer and each Series. 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 relevant Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

## RECENT DEVELOPMENTS

On 19 April 2012, the composition of the Board of Directors of the Issuer was changed at the Issuer's annual general meeting. These changes included the appointment of Folke Husell, Anders Å. Karlsson and Annika Wijkström to the Board of Directors. In addition, Kaj-Gustaf Bergh was appointed as Chairman of the Board of Directors and Folke Husell was appointed as Deputy Chairman. Göran Lindholm, Leif Nordlund, Sven-Harry Boman and Per Axman did not stand for re-election.

The Board of Directors now consists of six directors, namely Kaj-Gustaf Bergh (Chairman), Folke Husell (Deputy Chairman), Agneta Karlsson, Anders Wiklöf, Anders Å. Karlsson and Annika Wijkström. Information regarding Folke Husell, Anders Å. Karlsson and Annika Wijkström is set out below:

FOLKE HUSELL	Born 1945
Master of Laws	Board member since 2012
Master of Arts	Deputy Chairman
ANDERS Å. KARLSSON	Born 1959
Bachelor of Commerce	Board member since 2012
ANNIKA WIJKSTRÖM	Born 1951
Master of Arts	Board member since 2012

## FORM OF THE NOTES

Each Series will initially be represented by a Temporary Global Note which will be delivered on or prior to the Issue Date to a common safekeeper (the **Common Safekeeper**) for Euroclear and Clearstream, Luxembourg.

Whilst any Series is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the relevant Notes due prior to the Exchange Date will be made only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the relevant Temporary 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 Exchange Date, interests in each Temporary Global Note will be exchangeable (free of charge) upon a request as described therein for interests in a Permanent Global Note against certification of beneficial ownership as described above unless such certification has already been given. The holder of the relevant Temporary 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 relevant Temporary Global Note for an interest in a Permanent Global Note is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg without any requirement for certification.

A Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with interest coupons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) 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 (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the relevant Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 10 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common safekeeper for Euroclear and Clearstream, Luxembourg on their behalf (acting on the instructions of any holder of an interest in such Permanent 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 (ii) 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 the Notes of each Series of Notes 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 Notes or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of the Notes or interest coupons.

The Notes 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.

### **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 as may otherwise be approved by the Issuer and the Principal Paying Agent.

Where a Series is represented by a Global Note and such Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of the Notes of each Series and payment in full of the amount due has not been made in accordance with the provisions of the relevant Global Note then the relevant 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 (the **Deed of Covenant**) dated 29 December 2011 and executed by the Issuer.



## TERMS AND CONDITIONS OF THE SERIES A NOTES

*The following are the Terms and Conditions of the Series A Notes.*

This Note is one of a Series (as defined below) of EUR 100,000,000 1.125 per cent. Covered Bonds due 2015 (the **Notes**) under the Finnish Covered Bonds Act (*Laki kiinnitysluottopankkitoiminnasta 688/2010*) (the **CBA**). 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 the Specified Denomination (as defined below);
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

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 29 December 2011 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 as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents) 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).

Definitive Notes have interest coupons (**Coupons**) attached on issue.

Any reference to **Noteholders** or **holders** in relation to the Notes shall mean the holders of the Notes 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.

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) identical in all respects (including as to listing and admission to trading) except for their respective dates of issue, Interest Commencement Dates (as defined in Condition 3) and/or issue prices.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (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 depository 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 and the other Paying Agents (together, the **Agents**). 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 and the Deed of Covenant. 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 shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

## 1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the denomination (the **Specified Denomination**) of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. No Notes in definitive form will be issued with a denomination above EUR 199,000.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon 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 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.

## 2. STATUS

### 2.1 Ranking

The Notes are obligations issued in accordance with the CBA and 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 Cover Pool in accordance with the CBA.

### 2.2 Liquidity Reserve

For so long as the Notes are outstanding:

- (i) the recorded value of all Public-Sector Debt and Supplemental Assets in the Cover Pool will not at any time be less than the greater of (a) 10 per cent. of the recorded value from time to time of all Mortgages in the Cover Pool and (b) EUR 120,000,000; and
- (ii) in the event that a Mortgage Prepayment Event occurs, the Issuer shall add to the Cover Pool Public-Sector Debt and/or Supplemental Assets with a recorded value equal to the Applicable Amount.

### 2.3 Cover Pool Asset Cashflow

For so long as the Notes are outstanding,

- (i) where Public-Sector Debt and/or Supplemental Assets are included in the 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.
- (ii) as soon as practicable after the occurrence of a Payment Default, the Issuer shall instruct the debtors in respect of Mortgages in the 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 2.3 ceases to be an Eligible Bank, then the Issuer shall ensure that, for purposes of this Condition 2.3, 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 2:

**Applicable Amount** means:

- (a) in respect of a Mortgage Prepayment Event that has occurred in respect of any rolling three-month period, an amount equal to the amount of prepayments of principal (ahead of the originally agreed amortisation schedule) on Mortgages in the Cover Pool in such period; and
- (b) in respect of a Mortgage Prepayment Event that has occurred in respect of any rolling 12-month period, an amount equal to the amount of prepayments of principal (ahead of the originally agreed amortisation schedule) on Mortgages in the Cover Pool in such period,

except that once a Mortgage Prepayment Event has occurred, the prepayments which were used in the determination of the Applicable Amount in respect of such Mortgage Prepayment Event shall not, in the case of a subsequent Mortgage Prepayment Event, be included in the determination of the Applicable Amount;

**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 covered bonds;

**Cover Pool** means the cover pool maintained by the Issuer in accordance with the CBA and this Condition 2;

**Derivative Transactions** means derivative transactions entered into by the Issuer to hedge against risks relating to the Notes or the underlying assets in the cover pool and recorded in the relevant register of 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 2 does not adversely impact the then current Standard & Poor's rating of the Notes;

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

**Mortgage Prepayment Event** means an event where debtors in respect of the Mortgages in the Cover Pool make prepayments of principal (ahead of the originally agreed amortisation schedule) on such Mortgages either (a) in respect of any rolling three-month period, in an amount exceeding EUR 60,000,000 or (b) in respect of any rolling 12-month period, in an amount exceeding EUR 180,000,000. For the avoidance of doubt, (i) once a Mortgage Prepayment Event has occurred, the prepayments which triggered the Mortgage Prepayment Event shall not be included in the determination of whether or not any subsequent Mortgage Prepayment Event has occurred, except that prepayments included in a Mortgage Prepayment Event under (a) above may also be included in the determination of a Mortgage Prepayment Event under (b) above where the period in (a) above falls wholly or partly within the period in (b) above and (ii) if a Mortgage Prepayment Event in respect of both a rolling three-month period and a rolling 12-month period occurs on the same day, then only the Mortgage Prepayment Event in respect of the 12-month period shall be deemed to have occurred;

the **recorded value** of any asset shall be the value recorded in the Cover Pool for such asset in accordance with the provisions of 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; and

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

### 3. INTEREST

#### 3.1 Interest Rate and Interest Payment Dates

The Notes bear interest from (and including) 14 September 2012 (the **Interest Commencement Date**) at the rate of 1.125 per cent. per annum (the **Rate of Interest**) payable in arrear on 14 September in each year (each an **Interest Payment Date**) up to (and including) 14 September 2015 (the **Maturity Date**).

If the Notes are in definitive form, the amount of interest payable on each Interest Payment Date will amount to EUR 11.25 per EUR 1,000 in nominal amount of Notes (the **Calculation Amount**).

In the case of Notes represented by a Global Note, interest shall be calculated in respect of any period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note and multiplying such sum by the Day Count Fraction, and rounding the resultant figure to the nearest cent, half of a cent being rounded upwards or otherwise in accordance with applicable market convention. Where the nominal amount of a Note in definitive form is a multiple of the Calculation Amount, the amount of interest 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 nominal amount of the Note concerned, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest, in accordance with this Condition 3:

- (A) 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 that would occur in one calendar year; or
- (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (1) 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
  - (2) 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.

In these Conditions:

**Determination Date** means 14 September in each year; and

**Determination Period** means each period from (and including) a Determination Date to but excluding the next Determination Date.

### 3.2 **Accrual of interest**

Each Note will cease to bear interest from and including 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 and notice to that effect has been given to the Noteholders in accordance with Condition 10.

## 4. **PAYMENTS**

### 4.1 **Method of payment**

Payments will be made 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 any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6.

### 4.2 **Presentation of definitive Notes and Coupons**

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 4.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive 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)).

Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto, 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 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

If the due date for redemption of any definitive 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 Note.

#### **4.3 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by a Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note in the records of Euroclear and Clearstream, Luxembourg.

#### **4.4 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.

#### **4.5 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 7) is 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) Frankfurt and Helsinki; and
- (iii) a day on which the TARGET2 System is open.

#### **4.6 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to principal under Condition 6.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to interest under Condition 6.

### **5. REDEMPTION AND PURCHASE**

#### **5.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its principal amount on the Maturity Date.

#### **5.2 Redemption for tax reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 10, 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 6 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 6 September 2012; 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 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 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 5.2 will be redeemed at their principal amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

#### **5.3 Purchases**

The Issuer or any subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons 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 for cancellation.

#### 5.4 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 5.3 (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

#### 6. TAXATION

All payments of principal and interest in respect of the Notes and Coupons by 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 4.5); 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 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 10.



## **7. PRESCRIPTION**

The Notes 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 6) therefor.

## **8. REPLACEMENT OF NOTES AND COUPONS**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent 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 or Coupons must be surrendered before replacements will be issued.

## **9. AGENTS**

The names of the initial Agents and their initial specified offices are set out below.

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;
- (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 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.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 10.

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.

## **10. NOTICES**

All notices regarding the 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 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.

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 on 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. 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 through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **11. 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 10 as soon as practicable thereafter.

## **12. 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 so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **13. 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.

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

### **14.1 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 Notes 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.

### **14.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Noteholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **14.3 Appointment of Process Agent**

The Issuer appoints Law Debenture at its registered office at Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent for service of process, and undertakes that, in the event of Law Debenture ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

#### **14.4 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.

## TERMS AND CONDITIONS OF THE SERIES B NOTES

*The following are the Terms and Conditions of the Series B Notes.*

This Note is one of a Series (as defined below) of EUR 100,000,000 Floating Rate Covered Bonds due 2014 (the **Notes**) under the Finnish Covered Bonds Act (*Laki kiinnitysluottopankkitoiminnasta 688/2010*) (the **CBA**). 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 EUR 100,000;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

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 29 December 2011 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 as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents) 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).

Definitive Notes have interest coupons (**Coupons**) attached on issue.

Any reference to **Noteholders** or **holders** in relation to the Notes shall mean the holders of the Notes 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.

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) identical in all respects (including as to listing and admission to trading) except for their respective dates of issue, Interest Commencement Dates (as defined in Condition 3) and/or issue prices.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (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 depository 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 and the other Paying Agents (together, the **Agents**). 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 and the Deed of Covenant. 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 shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

## 1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. No Notes in definitive form will be issued with a denomination above EUR 199,000.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon 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 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.

## 2. STATUS

### 2.1 Ranking

The Notes are obligations issued in accordance with the CBA and 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 Cover Pool in accordance with the CBA.

### 2.2 Liquidity Reserve

For so long as the Notes are outstanding:

- (i) the recorded value of all Public-Sector Debt and Supplemental Assets in the Cover Pool will not at any time be less than the greater of (a) 10 per cent. of the recorded value from time to time of all Mortgages in the Cover Pool and (b) EUR 120,000,000; and
- (ii) in the event that a Mortgage Prepayment Event occurs, the Issuer shall add to the Cover Pool Public-Sector Debt and/or Supplemental Assets with a recorded value equal to the Applicable Amount.

### 2.3 Cover Pool Asset Cashflow

For so long as the Notes are outstanding,

- (i) where Public-Sector Debt and/or Supplemental Assets are included in the 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.
- (ii) as soon as practicable after the occurrence of a Payment Default, the Issuer shall instruct the debtors in respect of Mortgages in the 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 2.3 ceases to be an Eligible Bank, then the Issuer shall ensure that, for purposes of this Condition 2.3, 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 2:

**Applicable Amount** means:

- (a) in respect of a Mortgage Prepayment Event that has occurred in respect of any rolling three-month period, an amount equal to the amount of prepayments of principal (ahead of the originally agreed amortisation schedule) on Mortgages in the Cover Pool in such period; and
- (b) in respect of a Mortgage Prepayment Event that has occurred in respect of any rolling 12-month period, an amount equal to the amount of prepayments of principal (ahead of the originally agreed amortisation schedule) on Mortgages in the Cover Pool in such period,

except that once a Mortgage Prepayment Event has occurred, the prepayments which were used in the determination of the Applicable Amount in respect of such Mortgage Prepayment Event shall not, in the case of a subsequent Mortgage Prepayment Event, be included in the determination of the Applicable Amount;

**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 covered bonds;

**Cover Pool** means the cover pool maintained by the Issuer in accordance with the CBA and this Condition 2;

**Derivative Transactions** means derivative transactions entered into by the Issuer to hedge against risks relating to the Notes or the underlying assets in the cover pool and recorded in the relevant register of 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 2 does not adversely impact the then current Standard & Poor's rating of the Notes;

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

**Mortgage Prepayment Event** means an event where debtors in respect of the Mortgages in the Cover Pool make prepayments of principal (ahead of the originally agreed amortisation schedule) on such Mortgages either (a) in respect of any rolling three-month period, in an amount exceeding EUR 60,000,000 or (b) in respect of any rolling 12-month period, in an amount exceeding EUR 180,000,000. For the avoidance of doubt, (i) once a Mortgage Prepayment Event has occurred, the prepayments which triggered the Mortgage Prepayment Event shall not be included in the determination of whether or not any subsequent Mortgage Prepayment Event has occurred, except that prepayments included in a Mortgage Prepayment Event under (a) above may also be included in the determination of a Mortgage Prepayment Event under (b) above where the period in (a) above falls wholly or partly within the period in (b) above and (ii) if a Mortgage Prepayment Event in respect of both a rolling three-month period and a rolling 12-month period occurs on the same day, then only the Mortgage Prepayment Event in respect of the 12-month period shall be deemed to have occurred;

the **recorded value** of any asset shall be the value recorded in the Cover Pool for such asset in accordance with the provisions of 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; and

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

### 3. INTEREST

#### 3.1 Interest Payment Dates

The Notes bear interest from and including 14 September 2012 (the **Interest Commencement Date**), and interest will be payable on 14 March and 14 September in each year (each an **Interest Payment Date**). The first Interest Payment Date will be 14 March 2013. If any Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. The period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment date to but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

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 Frankfurt and Helsinki; and
- (b) a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the **TARGET2 System**) is open.



### 3.2 Rate of Interest

The rate of interest payable from time to time in respect of the Notes (the **Rate of Interest**) will be determined on the basis of the following provisions:

- (a) On each Interest Determination Date (as defined below), the Principal Paying Agent or its duly appointed successor will determine the Screen Rate (as defined below) at approximately 11.00 a.m. (Brussels time) on that Interest Determination Date. If the Screen Rate is unavailable, the Principal Paying Agent will request the principal Euro-zone (as defined below) office of each of the Reference Banks (as defined below) to provide the Principal Paying Agent with the rate at which deposits in euro are offered by it to prime banks in the Euro-zone interbank market for six months at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question and for a Representative Amount (as defined below).
- (b) The Rate of Interest for the Interest Period shall be the Screen Rate plus the Margin (as defined below) or, if the Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Principal Paying Agent of such rates, plus the Margin (as defined below).
- (c) If fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in the Euro-zone, selected by the Principal Paying Agent, at approximately 11.00 a.m. (Brussels time) on the first day of such Interest Period for loans in euro to leading European banks for a period of six months commencing on the first day of such Interest Period and for a Representative Amount, plus the Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date.
- (d) The Margin (the **Margin**) in relation to the Notes is 0.45 per cent. per annum.
- (e) In these Conditions (except where otherwise defined), the expression:
  - (i) **Euro-zone** means the region comprised of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25th March, 1957) as amended;
  - (ii) **Interest Determination Date** means the second TARGET2 Settlement Day before the commencement of the Interest Period for which the rate will apply;
  - (iii) **Reference Banks** means the principal Euro-zone office of each of four major banks engaged in the Euro-zone interbank market selected by the Principal Paying Agent, provided that, once a Reference Bank has been selected by the Principal Paying Agent, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;
  - (iv) **Representative Amount** means, in relation to any quotation of a rate for which a Representative Amount is relevant, an amount that is representative for a single transaction in the relevant market at the relevant time;
  - (v) **Screen Rate** means the Euro-zone interbank offered rate for six month deposits in euro which appears on the Reuters page EURIBOR01 (or such replacement page on that service which displays the information); and

- (vi) **TARGET2 Settlement Day** means any day on which the TARGET2 System is open.

### **3.3 Determination of Rate of Interest and Interest Amount**

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 Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of 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 Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by 360, and rounding the resultant figure to the nearest cent, half a cent being rounded upwards or otherwise in accordance with applicable market convention. Where the nominal amount of a 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 nominal amount of the Note concerned without any further rounding.

### **3.4 Publication of Rate of Interest and Interest Amount**

The Principal Paying Agent shall cause the Rate of Interest and the Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Issuer and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed (by no later than the first day of each Interest Period) and to be published in accordance with Condition 10 as soon as possible after their determination, and in no event later than the second Business Day thereafter. The Interest Amount and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

### **3.5 Notifications, etc. to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them) or the Principal Paying Agent, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents and all Noteholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Noteholders or the Couponholders shall attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

### **3.6 Accrual of interest**

Each Note will cease to bear interest from and including 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 and notice to that effect has been given to the Noteholders in accordance with Condition 10.

#### **4. PAYMENTS**

##### **4.1 Method of payment**

Payments will be made 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 any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6.

##### **4.2 Presentation of definitive Notes and Coupons**

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 4.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive 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)).

Upon the date on which any Note in definitive form becomes due and repayable, unmatured Coupons relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

If the due date for redemption of any definitive 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 Note.

##### **4.3 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by a Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note in the records of Euroclear and Clearstream, Luxembourg.

##### **4.4 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.

#### **4.5 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 7) is 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) Frankfurt and Helsinki; and
- (iii) a day on which the TARGET2 System is open.

#### **4.6 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to principal under Condition 6.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to interest under Condition 6.

### **5. REDEMPTION AND PURCHASE**

#### **5.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its principal amount on the Interest payment Date falling in or nearest to September 2014.

#### **5.2 Redemption for tax reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date, on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 10, 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 6 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 6 September 2012; 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 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 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 5.2 will be redeemed at their principal amount together with interest accrued to (but excluding) the date of redemption.

### **5.3 Purchases**

The Issuer or any subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons 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 for cancellation.

### **5.4 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 5.3 (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **6. TAXATION**

All payments of principal and interest in respect of the Notes and Coupons by 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 4.5); 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 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 10.

## 7. PRESCRIPTION

The Notes 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 6) therefor.

## 8. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent 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 or Coupons must be surrendered before replacements will be issued.

## 9. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

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;
- (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 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.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 10.

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.

## **10. NOTICES**

All notices regarding the 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 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.

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 on 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. 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 through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **11. 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 10 as soon as practicable thereafter.

## **12. 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 so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **13. 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.

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

### **14.1 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 Notes 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.

### **14.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Noteholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.



### **14.3 Appointment of Process Agent**

The Issuer appoints Law Debenture at its registered office at Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent for service of process, and undertakes that, in the event of Law Debenture ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### **14.4 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.

## TERMS AND CONDITIONS OF THE SERIES C NOTES

The Terms and Conditions of the Series C Notes will be identical to those described under "Terms and Conditions of the Series B Notes" above, except as follows:

- (a) the reference in the introductory paragraph to the "EUR 100,000,000 Floating Rate Covered Bonds due 2014" shall be replaced by reference to the "EUR 100,000,000 Floating Rate Covered Bonds due 2016" and references to "Notes" shall be construed as references to the EUR 100,000,000 Floating Rate Covered Bonds due 2016;
- (b) the reference in Condition 3.2(d) to "0.45 per cent." shall be replaced by a reference to "0.65 per cent."; and
- (c) the reference in Condition 5.1 to "September 2014" shall be replaced by a reference to "September 2016".

## **USE OF PROCEEDS**

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

## 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 Prospectus. 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.

### New Legislation

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 the Finnish Financial Supervisory Authority (the **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 Land Law Code (540/1995) 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 (1599/2009), 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 Land Law 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, 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 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**).

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 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, 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 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 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 Notes 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 POOL

The Issuer must ensure that the Cover Pool is comprised only of Mortgages, Public-Sector Debt, Inter-Bank Loans 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 Notes. The Issuer will substitute assets that are no longer eligible to be included in the Cover Pool in accordance with the requirements of the CBA and such terms and conditions and supplement the Cover Pool with new Mortgages, Public-Sector Debt or Supplemental Assets upon the existing Mortgages, Public-Sector Debt or Supplemental Assets in the Cover Pool being repaid by the relevant borrowers in respect of such assets.

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

All Mortgages included in the 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 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 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.

Commercial Mortgages and Inter-Bank Loans will not be included in the Cover Pool.

The Issuer will also include Public-Sector Debt and/or Supplemental Assets in the Cover Pool, within the limits set by the CBA and as required by the terms and conditions of the Notes. The terms and conditions of the Notes provide that the Issuer must include Public-Sector Debt and/or Supplemental Assets in the Cover Pool in an amount equal to at least 10 per cent. of the recorded value from time to time of all Mortgages in the Cover Pool or EUR 120,000,000, whichever is greater. In the event of material prepayments (determined in accordance with Condition 2) in respect of Mortgages in the Cover Pool, the Issuer will, in the circumstances specified in that Condition, be required to supplement the assets in the Cover Pool with additional Public-Sector Debt and/or Supplemental Assets. As a result, a significant proportion of the assets recorded in the Cover Pool may at any given time be comprised of Public-Sector Debt and/or Supplemental Assets. The proportion of Public-Sector Debt and/or Supplemental Assets to Mortgages in the Cover Pool will depend on the amount of the Notes outstanding and the extent to which the Issuer has been required to

supplement the Cover Pool with additional Public-Sector Debt and/or Supplemental Assets. In any event, if the aggregate amount of the Notes outstanding is EUR 120,000,000 or less, then 100 per cent. of the assets required to be included in the Cover Pool will be comprised of Public-Sector Debt and/or Supplemental Assets. In the event of a bankruptcy or liquidation of the Issuer, holders of the Notes will therefore be exposed to the issuers of, or debtors in respect of, such Public-Sector Debt and Supplemental Assets. Public-Sector Debt may, for example, be comprised of government bonds. Supplemental Assets may, for example, be comprised of cash. Such a debtor or issuer may default on its obligation under the Public-Sector Debt or Supplemental Asset. Defaults may occur for a variety of reasons, including general economic conditions and factors specific to the relevant issuer or debtor, including its insolvency.

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

## 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 the Notes or the assets in the Cover Pool. Such derivative transactions will be entered into the Register.

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 the Cover Pool that carry floating rates of interest covering the Notes 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 the Cover Pool that carry fixed rates of interest covering the Notes 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 "*Derivate 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 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. 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 Cover Pool before all other holders of claims and this right remains for so long as the Notes remain outstanding.

## GENERAL INFORMATION

### Authorisation

The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 28 October 2011.

### Listing

It is expected that official listing will be granted on or about 17 September 2012 subject only to the issue of each Temporary Global Note. Application has been made to the UK Listing Authority for each Series to be admitted to the Official List and to the London Stock Exchange for each Series to be admitted to trading on the London Stock Exchange's regulated market. The total expenses related to such admission to trading are estimated to be 10,800 pounds sterling.

### Clearing Systems

Each Series has been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Series A Notes is XS0828356013 and the Common Code is 082835601. The ISIN for the Series B Notes is XS0828352533 and the Common Code is 0828352533. The ISIN for the Series C Notes is XS0828359116 and the Common Code is 082835911.

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.

### No significant change

There has been no significant change in the financial position of the Group since 30 June 2012 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2011.

### Material contracts

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

### Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to the issue of any Series.

### Documents Available

For the period of 12 months following the date of this Prospectus, 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 2011 and 2010 (with an accurately reproduced English translation thereof), in each case together with the audit reports prepared in connection therewith;

- (c) the unaudited consolidated financial statements of the Issuer for the six month period ended 30 June 2012 (with an accurately reproduced English translation thereof) together with the review report prepared in connection therewith;
- (d) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form and the Coupons; and
- (e) a copy of this Prospectus and the Offering Circular.

### **Litigation**

Neither the Issuer nor any other member of the Group is or has been involved in 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.

### **Auditors**

The following auditors have audited the Issuer's accounts, without qualification, in accordance with the International Standards on Auditing for each of the two financial years ended on 31 December 2010 and 31 December 2011.

Bengt Nyholm Certified Public Accountant	Leif Hermans Certified Public Accountant	Terhi Mäkinen Certified 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 reviewed the Issuer's accounts for the six month period ended 30 June 2012.

Bengt Nyholm Certified Public Accountant	Erika Sjölund Certified Public Accountant	Terhi Mäkinen Certified 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 auditors of the Issuer have no material interest in the Issuer.

### **Managers transacting with the Issuer**

Certain of the Managers 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.

### **Yield**

The yield of the Series A Notes is 1.141 per cent. per annum calculated at the date of this Prospectus on the basis of the Issue Price of the Series A Notes. It is not an indication of future yield.

**ISSUER**

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Finland

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**PAYING AGENT**

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