

## PROSPECTUS

# ÅLANDSBANKEN ABP

*(incorporated with limited liability in the Republic of Finland)*

## **Issue of EUR 100,000,000 2.75 per cent. Covered Bonds due 2023 under the Euro Medium Term Note and Covered Bond Programme**

**Issue Price: 100 per cent.**

The EUR 100,000,000 2.75 per cent. Covered Bonds due 2023 (the **Notes**) 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 Notes will bear interest from (and including) 30 January 2013 (the **Issue Date**) to (but excluding) 30 January 2023 at a rate of 2.75 per cent. per annum, payable annually in arrear on 30 January.

**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 the Notes to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes 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 by Standard & Poor's Credit Market Services Europe Limited (**S&P**). The Notes are 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 Notes will initially be represented by a temporary global note (the **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 Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 12 March 2013 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - see "*Form of the Notes*" in the Offering Circular (as defined in "*Documents Incorporated by Reference*").

**Manager**

**Berenberg Bank**

The date of this Prospectus is 25 January 2013.

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

**The Issuer accepts responsibility for the information contained in this 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.**

**Joh. Berenberg, Gossler & Co. KG (the *Manager*) has 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 Manager 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. The Manager accepts no 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 the Manager.**

**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 the Manager 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 the Manager 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 Manager expressly does 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 Manager 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 Manager 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

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 the 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 Manager 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 Manager 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 advisors 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 supplement to the Offering Circular dated 7 March 2012 published to incorporate by reference the Issuer's consolidated unaudited financial statements as at and for the financial year ended 31 December 2011;

- (c) the supplement to the Offering Circular dated 13 August 2012 published to (i) incorporate by reference pages 34 to 102 (inclusive) of the Issuer's Annual Report for the financial year ended 31 December 2011 into the Offering Circular; (ii) incorporate by reference pages 5 to 22 (inclusive) of the Issuer's interim report for the six months ended 30 June 2012 into the Offering Circular; (iii) confirm that there has been no significant change in the financial position of the Bank of Åland Group (the **Group**) since 30 June 2012 and no material adverse change in the prospects of the Group since 31 December 2011; (iv) update the description of the Board of Directors contained in the Offering Circular to reflect changes to the composition of the Board of Directors; and (v) update the Offering Circular to reflect the credit rating obtained by the Issuer;
- (d) the supplement to the Offering Circular dated 31 October 2012 published to (i) incorporate by reference pages 6 to 22 (inclusive) of the Issuer's interim report for the nine months ended 30 September 2012 into the Offering Circular; and (ii) confirm that there has been no significant change in the financial position of the Group since 30 September 2012;
- (e) the supplement to the Offering Circular dated 4 December 2012 published to reflect the announcement by Standard & Poor's Credit Market Services Europe Limited on 20 November 2012 that it is changing the outlook of the Issuer's long-term credit rating of BBB from stable to negative;
- (f) 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
- (g) the unaudited reviewed consolidated financial statements of the Issuer for the six and nine month periods ended 30 June 2012 and 30 September 2012, respectively (including translations of the auditors' review reports thereon) (set out on pages 5 to 22 and 6 to 22, respectively (inclusive) of the Issuer's interim reports for the six and nine months ended 30 June 2012 and 30 September 2012, respectively),

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 and have been made available at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

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 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 Manager. Instead, it 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 description of the material 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*

The Notes 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 the 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 the Permanent Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by a Global Note, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive

payments under the 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, as the case may be, 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 Notes*

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

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

Independent credit rating agencies will assign credit ratings to the Issuer and the Notes. 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.

## TERMS AND CONDITIONS OF THE NOTES

*The terms and conditions of the Notes shall consist of the terms and conditions set out in the Offering Circular (the **Base Conditions**) as amended or supplemented by the Final Terms set out below. References in the Base Conditions to the applicable Final Terms shall be deemed to refer to the Final Terms set out below.*

### ÅLANDSBANKEN ABP

#### Issue of EUR 100,000,000 2.75 per cent. Covered Bonds due 2023 under the EUR 1,000,000,000 Euro Medium Term Note and Covered Bond Programme

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated 29 December 2011 as supplemented by the supplements dated 7 March 2012, 13 August 2012, 31 October 2012 and 4 December 2012, which are incorporated by reference in the Prospectus dated 25 January 2013 (the **Prospectus**) which constitutes a prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus (including the Conditions and other information incorporated by reference in it). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. The Prospectus is also available for viewing during normal business hours at the registered office of the Issuer at Nygatan 2, AX-22100 Mariehamn, Finland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

1.	Issuer:	Ålandsbanken Abp
2.	Securities:	Covered Bonds
3.	(a) Series Number:	7
	(b) Tranche Number:	1
4.	Specified Currency or Currencies:	Euro (€ or <b>EUR</b> )
5.	Aggregate Nominal Amount:	
	(a) Series:	€100,000,000
	(b) Tranche:	€100,000,000
6.	Issue Price:	100 per cent. of the Aggregate Nominal Amount

7.	(a)	Specified Denominations:	€100,000 and integral multiples of €1,000 in excess thereof
	(b)	Calculation Amount:	€1,000
8.	(a)	Issue Date:	30 January 2013
	(b)	Interest Commencement Date:	Issue Date
9.		Maturity Date:	30 January 2023
10.		Interest Basis:	2.75 per cent. Fixed Rate (further particulars specified below)
11.		Redemption/Payment Basis:	Redemption at par
12.		Method of distribution:	Non-Syndicated

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

13.		Fixed Rate Note Provisions	Applicable
	(a)	Rate of Interest:	2.75 per cent. per annum payable annually in arrear
	(b)	Interest Payment Date(s):	30 January in each year up to and including the Maturity Date
	(c)	Fixed Coupon Amount(s): <i>(Applicable to Notes in definitive form.)</i>	€27.50 per Calculation Amount
	(d)	Broken Amount(s): <i>(Applicable to Notes in definitive form.)</i>	Not Applicable
	(e)	Day Count Fraction:	Actual/Actual (ICMA)
		• Determination Date(s):	30 January in each year
		• Other terms relating to the method of calculating interest for Fixed Rate Notes:	None

#### **PROVISIONS RELATING TO REDEMPTION**

14.		Final Redemption Amount:	€1,000 per Calculation Amount
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15. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): €1,000 per Calculation Amount

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

16. Form of Notes:
- (a) Form: Bearer Notes
- Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event
- (b) New Global Note: Yes
17. Additional Financial Centre(s) or other special provisions relating to Payment Days: TARGET 2 System and Helsinki
18. Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): No
19. Redenomination applicable: Redenomination not applicable
20. Other final terms: See Annex 1.

**DISTRIBUTION**

21. (a) If syndicated, names of Managers: Not Applicable
- (b) Date of Subscription Agreement: 11 January 2013
22. If non-syndicated, name of relevant Dealer: Joh. Berenberg, Gossler & Co. KG
23. U.S. Selling Restrictions: Reg. S Category 2; TEFRA D

Signed on behalf **ÅLANDSBANKEN ABP**:

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and to be listed on the Official List of the UK Listing Authority.
- (ii) Estimate of total expenses related to admission to trading: 3,600 pounds sterling

### 2. RATINGS

Ratings: The Notes to be issued are expected to be rated AA by Standard & Poor's Credit Market Services Europe Limited (S&P).

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

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

### 4. YIELD (*Fixed Rate Notes only*)

Indication of yield: 2.75 per cent. per annum

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

### 5. OPERATIONAL INFORMATION

- (i) ISIN Code: XS0876678391
- (ii) Common Code: 087667839
- (iii) Delivery: Delivery against payment
- (iv) Intended to be held in a manner which would allow Eurosystem eligibility: Yes.

Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

## ANNEX 1

### 1. STATUS

For the purposes of the Notes, Condition 3 shall be deemed to be deleted and replaced with the following:

#### "3. STATUS

##### 3.1 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.

##### 3.2 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.

##### 3.3 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 3.3 ceases to be an Eligible Bank, then the Issuer shall ensure that, for purposes of this Condition 3.3, 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 3:

**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 3;

**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 3 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."

## **USE OF PROCEEDS**

The net proceeds from the Notes 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 30 January 2013 subject only to the issue of the Temporary Global Note. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes 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 3,600 pounds sterling.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Notes is XS0876678391 and the Common Code is 087667839.

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 September 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 the Notes.

### 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 nine month period ended 30 September 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, together with a copy of each document incorporated by reference in this Prospectus.

### **Litigation**

There are no 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.

### **Manager transacting with the Issuer**

The Manager and its 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.

**ISSUER**

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Finland

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**PAYING AGENT**

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**AUDITORS**

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