

# ÅLANDSBANKEN

## ÅLANDSBANKEN ABP

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

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

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

This supplement (the **Supplement**) comprises a supplement for Ålandsbanken Abp (the **Issuer**) to the Base Prospectus to the Medium Term Note and Covered Bond Programme (the **Programme**) dated 6 October 2017 as supplemented by a supplement dated 26 October 2017 and a supplement dated 14 November 2017. This Supplement should be read in conjunction with the Programme.

The purpose of this Supplement is to (i) incorporate by reference the unaudited consolidated financial statements for the twelve months ended 31 December 2017 of the Issuer into the Base Prospectus and (ii) confirm that there has been no significant change in the financial position of the Group since 31 December 2017.

#### **1. Coming changes in capital requirement regulations**

The following information is added to “**Risk Factors**” as a new section after section “*Increased capital requirement may adversely affect the Group*” on page 9.

*“Coming changes in capital requirement regulations*

Starting on January 1, 2018, the existing international accounting regulation IAS 39 will be replaced by IFRS 9, “Financial Instruments”. Under IFRS 9, banks will apply a forward-looking approach to impairments by estimating expected credit losses based on each bank’s view of the market. Banks will achieve this by employing statistical methods to calculate impairments to essentially all credit risk-bearing assets, thus also including loans that have not yet defaulted. This will lead to an increase in provision amounts, which may affect the banks’ capital adequacy ratios. For banks that apply IRB and have a substantial surplus of regulatory expected losses, the effect on the capital base is expected to be limited, since the surplus has already been subtracted from the capital base today. The EU has decided on an optional 5-year phase-in of the effect of IFRS 9 on the capital base, with a gradually declining recovery to the capital base. During 2018, 95 per cent of expected impairment losses may be restored to common equity Tier 1 capital in the capital adequacy assessment. In practise, for Ålandsbanken this will only include those exposures that are handled according to the standardised approach, since IRB exposures have a substantial surplus of regulatory expected loss.

In 2017 the Finnish FSA announced a macroprudential supervisory decision to introduce a 15 per cent risk weight floor for home mortgage loans. This minimum level applies to banks that use internal ratings-based (IRB) models in their capital requirement calculations for mortgage loans. The requirement went into effect on January 1, 2018 and will be in effect for two years. Given the situation on December 31, 2017, the new risk weight floor implied an extra capital requirement of EUR 5.3 M.”

## **2. Important events after close of report period**

The following information is added as a new section between sections “**Significant or material change**” and “**Ålandsbanken’s funding arrangements**” on page 53.

### **“Important events after close of report period**

The Finnish FSA has established buffer requirements related to Pillar 2 capital adequacy regulations totalling 1.5 per cent of the Group’s risk exposure amount. This requirement is related to credit concentration risk (1.0 per cent) and interest rate risk in the balance sheet (0.5 per cent). The requirement, which must be covered by common equity Tier 1 capital, goes into effect starting in the third quarter of 2018.”

## **3. Information Incorporated by Reference**

The following information is added into the list of documents on page 69 as a new subclause (f)

“f) the auditors’ report and audited consolidated and non-consolidated annual financial statements for the financial year ended 31 December 2017 of the Issuer as set out on pages 43 to 166 (inclusive) of the Issuer’s Annual Report for the year ended 31 December 2017 and the five-year group summary set out on page 41 of the Issuer’s Annual Report for the year ended 31 December 2017.”

## **4. No significant change**

There has been no significant change in the financial position of the Group since 31 December 2017.

A subscriber, who has made a subscription before the publication of the supplement or the updated Base Prospectus, is entitled to cancel the subscription pursuant to Chapter 4, Section 14 of the Finnish Securities Markets Act (*Arvopaperimarkkinalaki* 746/2012; as amended) within two (2) Business Days from the publication of the supplement or updated Base Prospectus.