

## OFFERING CIRCULAR



### STADSHYPOTEK AB (publ)

(incorporated with limited liability in The Kingdom of Sweden)

€20,000,000,000

#### **Euro Medium Term Covered Note Programme for the issue of Notes with a minimum maturity of one year and one day**

Under this €20,000,000,000 Euro Medium Term Covered Note Programme (the **Programme**), Stadshypotek AB (publ) (the **Issuer** or **Stadshypotek**) may from time to time issue covered bonds in accordance with the Covered Bonds Issuance Act (as defined below) (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The Issuer may issue covered bonds in accordance with the Covered Bonds Issuance Act under other programmes than the Programme. Such covered bonds are in this Offering Circular, by themselves or together with the Notes, defined as **Covered Bonds**.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €20,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein. As described herein, the Notes will have a minimum maturity of one year and one day.

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

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

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market.

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

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) will be disclosed in the Final Terms.

The Issuer expects the Notes to be assigned a rating by Moody’s Investors Service Limited (**Moody’s**), as further described under the heading “*Rating of the Notes*” in “*Description of the Issuer*”. In addition, certain ratings assigned by Fitch Ratings Limited (**Fitch**), Standard & Poor’s Credit Market Services Europe Limited (**S&P**) and Moody’s are referred to in the documents incorporated by reference, as described in “*Documents Incorporated by Reference*”. Each of Fitch, Moody’s and S&P is established in the European Union and is registered under the CRA Regulation. As such, each of Fitch, Moody’s and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

#### *Arranger*

**The Royal Bank of Scotland**

#### *Dealers*

|                                      |  |
|--------------------------------------|--|
| <b>Barclays Capital</b>              | <b>BofA Merrill Lynch</b>                                  |
| <b>BNP PARIBAS</b>                   | <b>Citigroup</b>   |
| <b>Commerzbank</b>                   | <b>Crédit Agricole CIB</b>                                 |
| <b>Credit Suisse</b>                 | <b>Danske Bank</b>   |
| <b>Deutsche Bank</b>                 | <b>Goldman Sachs International</b>                         |
| <b>Handelsbanken Capital Markets</b> | <b>HSBC</b>  |
| <b>J.P. Morgan</b>                   | <b>Morgan Stanley</b>                                      |
| <b>Natixis</b>                       | <b>Société Générale Corporate &amp; Investment Banking</b> |
| <b>The Royal Bank of Scotland</b>    | <b>UBS Investment Bank</b>                                 |
| <b>UniCredit Bank</b>                |  |

The date of this Offering Circular is 6 December 2011.

**This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the *Prospectus Directive*).**

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

**Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below). In addition, copies of each Final Terms relating to Notes which are either listed on the London Stock Exchange or offered to the public in the United Kingdom will be available on the website of the Regulatory News Service operated by the London Stock Exchange.**

**This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.**

**Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.**

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

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

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

**The Notes have not been and will not be registered under the United States 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*”).**

**This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Sweden and France), and Japan, see “*Subscription and Sale*”.**

**The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:**

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;**
- (ii) have 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;**
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;**
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets;**
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and**
- (vi) understand the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Notes.**

**Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio.**

**All references in this document to *U.S. dollars*, *U.S.\$* and *\$* refer to United States dollars and those to *Swedish Krona* and to *SEK* refer to the currency of the Kingdom of Sweden. In addition, all references to *euro* 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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**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only, if appropriate, a supplemental Offering Circular will be published.*

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

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

|               |   |
|---------------|---|
| Issuer:       | Stadshypotek AB (publ)  |
| Description:  | Euro Medium Term Covered Note Programme   |
| Risk Factors: | <p>There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “<i>Risk Factors</i>” below and include credit risk (the potential risk of a loss arising from the failure of a customer or counterparty of the Issuer to fulfil obligations as they fall due), market risk (which includes interest rate risk and exchange rate risk), liquidity risk (risk that the Issuer cannot meet its payment obligations when they fall due), operational risk (risk of loss as a result of the Issuer’s operational systems, error on the part of the employees of the Issuer or external events) or regulatory risk.</p> <p>In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “<i>Risk Factors</i>” and include certain risks relating to the structure of particular Series of Notes and certain market risks.</p> |
| Arranger:     | The Royal Bank of Scotland plc  |
| Dealers:      | Barclays Bank PLC<br>BNP Paribas<br>Citigroup Global Markets Limited<br>Commerzbank Aktiengesellschaft<br>Crédit Agricole Corporate and Investment Bank<br>Credit Suisse Securities (Europe) Limited<br>Danske Bank A/S<br>Deutsche Bank Aktiengesellschaft<br>Goldman Sachs International<br>HSBC Bank plc<br>J.P. Morgan Securities Ltd.<br>Merrill Lynch International<br>Morgan Stanley & Co. International plc<br>Natixis<br>Société Générale<br>Svenska Handelsbanken AB (publ)<br>The Royal Bank of Scotland plc<br>UBS Limited  |

UniCredit Bank AG

and any other Dealers appointed in accordance with the Programme Agreement.

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| Certain Restrictions:               | Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”).   |
| Issuing and Principal Paying Agent: | Deutsche Bank AG, London Branch  |
| Trustee:                            | Deutsche Trustee Company Limited   |
| Programme Size:                     | Up to €20,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.   |
| Swedish Notes/Norwegian Notes:      | The Issuer has established an asset pool consisting of mainly mortgage loans over real estate located in the Kingdom of Sweden, public assets and certain qualified supplementary security (the <b>Swedish Cover Pool</b> ) in accordance with the Covered Bonds Issuance Act and an asset pool consisting of mainly mortgage loans over real estate located in the Kingdom of Norway, public assets and certain qualified supplementary security (the <b>Norwegian Cover Pool</b> ) in accordance with the Covered Bonds Issuance Act. The Swedish Cover Pool and the Norwegian Cover Pool are together referred to as the <b>Cover Pools</b> . Notes which have a statutory preferential right over the Swedish Cover Pool shall be designated <b>Swedish Notes</b> and Notes which have a statutory preferential right over the Norwegian Cover Pool shall be designated <b>Norwegian Notes</b> . The applicable Final Terms specifies whether the Notes have a statutory preferential right over the Swedish Cover Pool or the Norwegian Cover Pool (being the <b>relevant Cover Pool</b> and each a <b>Cover Pool</b> ). The Issuer will keep a separate Register (as defined in “ <i>Overview of the Swedish legislation regarding Covered Bonds</i> ”) for each Cover Pool, its assets and relevant derivative contracts. |
| Distribution:                       | Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.   |
| Currencies:                         | Notes may, subject to any applicable legal or regulatory restrictions, be denominated in any currency agreed between the Issuer and the relevant Dealer.   |
| Redenomination:                     | The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 3.  |

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| Maturities:  | The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to a minimum maturity of one year and one day, and such other minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.   |
| Issue Price:   | Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.  |
| Form of Notes:   | The Notes will be issued in bearer form as described in " <i>Form of the Notes</i> ".  |
| Fixed Rate Notes:  | Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.   |
| Floating Rate Notes:   | <p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p> |
| Index Linked Notes:  | Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.   |
| Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes: | <p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the</p>  |

|                        |   |
|------------------------|---|
|                        | basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.  |
| Dual Currency Notes:   | Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.  |
| Zero Coupon Notes:     | Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.  |
| Redemption:            | <p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity or that such Notes will be redeemable at the option of the Issuer upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p>   |
| Denomination of Notes: | The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency at the time of issue of such Notes). |
| Taxation:              | All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction unless the withholding or deduction of such taxes is required by law, in which case such deduction will be made by or on behalf of the Issuer. In the event that any such withholding or deduction is required by law, the terms and conditions of the Notes do not require the Issuer to pay any additional amounts in respect of such withholding or deduction.  |
| Negative Pledge:       | The terms of the Notes will not contain a negative pledge provision.  |
| Cross Default:         | The terms of the Notes will not contain a cross default provision or any other events of default.   |
| Status of the Notes:   | The Notes will be issued on an unsubordinated basis and in accordance with the Swedish Covered Bonds Issuance Act ( <i>Sw. lag (2003:1223) om utgivning av säkerställda</i>   |

*obligationer*) (the **Covered Bonds Issuance Act**). As such, the Notes will have the benefit of a priority right over the relevant Cover Pool upon bankruptcy of the Issuer.

The Swedish Notes constitute unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The Swedish Notes are obligations issued in accordance with the Covered Bonds Issuance Act and rank *pari passu* in the Swedish Cover Pool with all other obligations of the Issuer that have been provided the same priority as debt instruments issued in accordance with the terms of the Covered Bonds Issuance Act in respect of the Swedish Cover Pool.

The Norwegian Notes constitute unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The Norwegian Notes are obligations issued in accordance with the Covered Bonds Issuance Act and rank *pari passu* in the Norwegian Cover Pool with all other obligations of the Issuer that have been provided the same priority as debt instruments issued in accordance with the terms of the Covered Bonds Issuance Act in respect of the Norwegian Cover Pool.

The applicable Final Terms will state whether the Notes will have a statutory preferential right over the Swedish Cover Pool or the Norwegian Cover Pool; see also “*Overview of the Swedish legislation regarding Covered Bonds*” on pages 55 to 58.

Rating:

The rating, if any, of any Notes to be issued under the Programme will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.

Listing and admission to trading:

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law, except

for Condition 2, which will be governed by, and shall be construed in accordance with, Swedish law.

Selling Restrictions:

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

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

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

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any 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 Offering Circular and reach their own views prior to making any investment decision.*

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

#### **Credit risks**

Credit risk is the potential risk of financial loss arising from the failure of a customer or counterparty to fulfil its financial and contractual obligations as they fall due. The Issuer's credit risk primarily arises from its lending activities but also includes risks relating to counterparties to derivative agreements. Stadshypotek's lending is conducted via the branch network of its parent company Svenska Handelsbanken AB (publ) (**Handelsbanken**) and in accordance with the same fundamental principles which are applied by Handelsbanken. In Handelsbanken's decentralised organisation, the branches are responsible for credit decisions, but credit limits are reviewed at different decision-making levels depending on the size of the credit.

The use of derivative agreements in connection with the Issuer's funding leads to credit exposure to the banks that are counterparties to these agreements. This type of risk is usually referred to collectively as value change risk. Such a risk arises when the Issuer has entered into derivative agreements, such as forward rate contracts or swaps with a counterparty and there is a risk that this counterparty will not be able to meet its commitments. If such a situation arises, a new equivalent contract must be acquired in the market to replace the old one. This may entail a cost, depending on price developments in the market in question. Most of the Issuer's derivative agreements are entered into with Handelsbanken as the counterparty, which means that it is Handelsbanken that bears this type of risk. In the few cases where Stadshypotek enters into derivative agreements with an external counterparty, such agreements are restricted by credit limits established in the standard credit process at Handelsbanken.

Adverse changes in the credit quality of the Issuer's borrowers or counterparties or a general deterioration in economic conditions or arising from systemic risks in financial systems could affect the recoverability and value of its assets and require an increase in its provisions for bad and doubtful loans or exposures.

#### **Market Risks**

Market risks originate from price changes in the financial markets and are comprised of interest rate risk, equity price risk, exchange rate risk and commodity price risk. The market risks affecting Stadshypotek are interest rate risk and exchange rate risk. Stadshypotek's Board decides on limits for interest rate risk and exchange rate risk.

*Interest rate risk* arises when the rate adjustment periods for financial assets and liabilities or derivatives do not coincide.

Within Stadshypotek, interest rate risk is defined as the difference that arises in the present value of future cash flows if the yield curve experiences an upward shift of one percentage point. Due to the concentration of the benchmark loans to a small number of final maturity dates, it is not possible to match maturities in a

traditional manner. Instead, a general method for achieving risk-neutral matching is based on the use of two different bond loans to finance one lending transaction. Since one of the bond loans has a somewhat shorter maturity than the lending and the other a somewhat longer maturity, interest risks which can balance each other are achieved so that the borrowing is risk-neutral with respect to the lending. Due to this matching of financial assets and liabilities and off-balance-sheet items, changes in interest rates should have only a marginal effect on the Issuer's net income. Interest rate risks are measured and checked against the interest rate limits set by the Board of Directors, on a daily basis.

Stadshypotek uses interest rate swaps mainly to hedge against risks on its balance sheet. Long-term funding may be shortened using interest rate swaps, so that the interest rate adjustment period matches the short-term lending at fixed and variable rates.

Although derivative agreements entered into constitute a hedge against unfavourable changes in value in the mortgage group's lending and borrowing portfolios, there can be no assurance that they will remain available or remain available at appropriate prices.

*Exchange rate risk* arises through funding being obtained in currencies other than Swedish Krona, while lending mainly is in Swedish Krona. Stadshypotek has active commercial paper programmes in the US and eurozone. The exchange rate risk in connection with all such funding in foreign currencies is hedged by matching currency swaps. Stadshypotek has also issued bonds in various currencies under its Euro Medium Term Covered Note Programme and in U.S.\$ under its U.S. Medium Term Covered Bond Program, which were converted into SEK through cross currency interest rate swaps. While the Issuer endeavours to reduce exchange rate risk in connection with funding in foreign currencies by matching currency swaps and cross currency interest rate swaps, there can be no assurance that it will always be able to do so.

### **Liquidity risks**

Liquidity risk is the risk that Stadshypotek will not be able to meet its payment obligations when they fall due, without being affected by unacceptable costs or losses. Stadshypotek's Board establishes limits for liquidity risk. Liquidity risk is measured and limited by carrying out a gap analysis of cash flows for various maturities and all currencies, and also a gap analysis of groups of currencies. The liquidity deficit consists of the amount by which estimated out-payments exceed estimated in-payments, and is restricted by limits. To an increasing extent, loans with a short interest fixing period and variable rate loans are funded by long-term funding in order to minimise the liquidity risk. However, some of this lending is still funded through the issuance of short-term instruments. The maturity structure of this funding is well-diversified and adapted so that Handelsbanken's liquidity at group level is in balance. The coordination with Handelsbanken's treasury has also given Stadshypotek access to Handelsbanken's liquidity.

### **Operational risks**

Operational risk is the risk of loss due to deficient or inadequate operational systems, error on the part of the employees or external events. Stadshypotek manages operational risks in accordance with the same policies and guidelines as the Handelsbanken group.

Responsibility for the identification, management and control of operational risk in the Handelsbanken group is an integrated part of managerial responsibility. It is the duty of managers responsible for specific functions to ensure that appropriate instructions and procedures are drawn up for their business area. An annual evaluation of operational risk is carried out for purposes of identifying operational risks and quantifying the losses that may arise. In addition, the chief executive of Stadshypotek carries out an overall review of the company's operational risks twice a year.

Although such risks are reduced through active efforts relating to risk culture, compliance with regulations and corporate governance, it cannot be guaranteed that such procedures will be effective in controlling each of the operational risks.

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

### **Regulatory risks**

The Issuer is a public credit market limited liability company regulated by the Banking and Financing Activities Act and other laws and regulations applicable to banking businesses. Stadshypotek is subject to supervision by the SFSA and rules and regulations regarding, among other things, requirements with regard to the granting and negotiating of credit and capital adequacy requirements, including solvency ratios and management of liquidity. If the Issuer fails to comply with any relevant rules and regulations, there is a risk of sanctions, fines and other actions imposed by relevant authorities and courts which may negatively affect its business.

### **The Issuer may be adversely affected as a result of global market conditions**

The Swedish economy is tied to and is affected by developments in the global economy and the performance of the Issuer has been and will continue to be influenced by the economic conditions of the countries in which it operates, particularly Sweden. The outlook for the global economy over the near to medium term remains challenging, particularly in the United States and European economies. Volatility and disruption of the capital and credit markets has resulted in only modest levels of GDP growth globally during the first six months of 2011. Many forecasts continue to predict only modest levels of GDP growth over the course of 2011 and 2012.

The global financial system has yet to fully overcome the difficulties which first manifested themselves in August 2007 and financial market conditions have not yet fully normalised. These conditions led to severe dislocation of financial markets around the world and unprecedented levels of illiquidity in 2008 and 2009, resulting in the development of significant problems at a number of the world's largest corporate institutions operating across a wide range of industry sectors. These developments have resulted in greater volatility, a widening of credit spreads and a lack of price transparency in the United States, Europe and the global credit and financial markets. There was some positive economic momentum in 2010 and the first half of 2011 and the world economy has shown signs of recovery. However, despite optimism for the beginning of a sustainable turnaround in the economy, market conditions remain difficult and volatile.

A lingering recessionary environment or a "double dip" economic downturn may have a material adverse effect on the Issuer's results of operations, financial condition, business and prospects. The performance of the Issuer may also be affected by economic conditions impacting European Union Member States. The financial problems experienced by the governments of Greece, Ireland, Italy, Portugal and Spain, for example, may require each of the affected countries to issue significant amounts of indebtedness or refinance some or all of their respective outstanding debt, which may reduce demand for debt issued by financial institutions and corporate borrowers. This could adversely affect the Issuer's access to the debt capital markets and may increase the Issuer's funding costs.

The precise nature of all the risks and uncertainties the Issuer faces as a result of current economic conditions cannot be predicted and many of these risks are outside the control of the Issuer and if the current levels of market disruption and volatility continue, worsen or abate and then recur, the Issuer's business, results of operations, financial condition and prospects may be materially adversely affected and this may also have a material adverse effect on the Issuer's ability to fulfil its obligations under the Notes.

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

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

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

#### ***Notes subject to optional redemption by the Issuer***

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

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

#### ***Index Linked Notes and Dual Currency Notes***

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

#### ***Partly-paid Notes***

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

### ***Variable rate Notes with a multiplier or other leverage factor***

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features. An investor may receive substantially less or no interest at all on such variable rate Notes.

### ***Inverse Floating Rate Notes***

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### ***Fixed/Floating Rate Notes***

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

### ***Notes issued at a substantial discount or premium***

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

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

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

#### ***No Due Diligence***

Neither the Arranger nor the Dealers have undertaken, nor will they undertake, any investigations, searches or other actions in respect of the loans and other assets contained or to be contained in the relevant Cover Pool, but will instead rely on the obligations of the Issuer under the Covered Bonds Issuance Act.

#### ***Limited Description of the Portfolio***

Noteholders will not receive detailed statistics or information in relation to the loans and other assets contained or to be contained in the relevant Cover Pool, as it is expected that the constitution of such Cover Pool may change from time to time due to, for example, the purchase of further loans by the Issuer from time to time.

#### ***Legal risks***

The Issuer's business operations are governed by laws and regulations and are subject to supervision by regulatory authorities. Any changes to the current legislation, regulations or regulatory supervision might affect the Issuer's business operations and its operating result.

### ***No gross-up***

Under the terms and conditions of the Notes, all payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction unless the withholding or deduction of such taxes is required by law, in which case such deduction will be made by or on behalf of the Issuer.

In the event that any such withholding or deduction is required by law, the terms and conditions of the Notes do not require the Issuer to pay any additional amounts in respect of such withholding or deduction.

### ***No events of default***

The terms and conditions of the Notes do not include any events of default relating to the Issuer, the occurrence of which would entitle Noteholders or the Trustee to accelerate the Notes, and it is envisaged that Noteholders 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.

### ***Non-compliance with matching rules***

The Covered Bonds Issuance Act contains matching rules which, *inter alia*, prescribe that the nominal value of the relevant Cover Pool must at all times exceed the total nominal value of the claims that may be brought against the Issuer under Covered Bonds issued by it in respect of the relevant Cover Pool.

Should the market value of the property (for example real property) forming the security for the loans in a Cover Pool decline substantially, such loan shall be ascribed a new, lower value in such Cover Pool. Should the Issuer at such time be unable to add new assets to such Cover Pool, this may result in the matching rules not being fulfilled.

In the event that the Issuer is declared bankrupt and there is non-compliance with the matching rules that is not merely temporary, upon the bankruptcy of the Issuer this should lead to the receiver of the Issuer ceasing to maintain the relevant Cover Pool intact and separated from the insolvency estate. This may, in turn, result in the holders of Notes ceasing to obtain payment from such Cover Pool in accordance with the terms of the Notes. As regards the assets comprising the relevant Cover Pool, the holders of Notes would, instead, be treated as creditors of the Issuer with rights of priority in respect of the assets comprising the relevant Cover Pool and would be entitled to receive payment in the form of dividends in the bankruptcy. This may result in holders of Notes not receiving payment when due and/or not receiving payment in full in respect of outstanding Notes from the proceeds from liquidation of the assets comprising the relevant Cover Pool.

To the extent that holders of Covered Bonds are not fully paid from the proceeds from the liquidation of the assets comprising a Cover Pool to which their Covered Bonds related, holders of Covered Bonds will be entitled to prove their claims as unsecured creditors of the Issuer. They are thereby entitled to receive payment from the proceeds from the liquidation of the Issuer's assets, beyond those which comprised such Cover Pool. In such case, holders of Covered Bonds shall rank, from a rights of priority perspective, *pari passu* with the Issuer's other unsecured creditors.

### ***Conflicting interests of other creditors***

In the event of the Issuer's bankruptcy, the Covered Bonds Issuance Act does not give clear guidance on certain issues. This may lead to a conflict between the Noteholders, holders of any other Covered Bonds and counterparties to derivative agreements, on the one hand, and other creditors of the Issuer on the other hand. Examples of such issues include (a) how proceeds from a loan partly registered to a Cover Pool should be distributed between the portion of such loan registered to a Cover Pool and the portion of such loan not registered to such Cover Pool, and (b) how the proceeds of enforcement of a mortgage certificate should be distributed if this serves as collateral for two different loans ranking *pari passu* in the mortgage certificate where one such loan is not wholly or partly registered to a Cover Pool. The lack of clear guidance on these and similar issues may lead to unsecured creditors arguing that part of the proceeds from a loan and/or mortgage certificate should not be included in such Cover Pool or to any creditors with loans that rank *pari*

*passu* in a mortgage certificate which also serves as collateral for a loan registered to a Cover Pool arguing that part of the proceeds from such mortgage certificate should not be included in a Cover Pool.

The assets that are not included in a Cover Pool will be available to meet the claims of holders of Covered Bonds through dividends in the bankruptcy (advance and/or final) if the assets in a Cover Pool are insufficient to pay the claims of the holders of Covered Bonds in respect of such Cover Pool in full.

#### ***Levy of execution on the assets in the Cover Pools***

Although the Swedish Rights of Priority Act (*Sw. Förmånsrättslagen (1970:979)*) (the **Rights of Priority Act**) prescribes that a special right of priority applies upon both bankruptcy and levy of execution, it has been argued with considerable authority that, as the Swedish Enforcement Code (*Sw. Utsökningsbalken (1981:774)*) does not protect the special right of priority of a holder of Covered Bonds in competition with another creditor seeking execution, such a creditor may, through levy of execution, obtain a right which is superior to the right of priority accorded to holders of Covered Bonds under the Rights of Priority Act. Such preference right may be challenged by a bankruptcy administrator and be voidable if the preference was obtained within three months prior to the commencement of the Issuer's bankruptcy proceedings on the basis that such creditor has been preferred over the covered bondholders and the Issuer's ordinary creditors. If such challenge is not made this could ultimately result in a reduction in the return to the holders of Notes.

#### ***Payment of advance dividends post bankruptcy of the Issuer***

In the event of the bankruptcy of the Issuer, a receiver of the Issuer could, under certain circumstances, make payment of advance dividends to creditors other than holders of Covered Bonds and counterparties to derivatives agreements, using funds derived from a Cover Pool. Such a payment of advance dividends could result in Noteholders not being paid in accordance with the Conditions. It is however likely that a receiver, or ultimately a court, would only authorise such advance payments using funds derived from a Cover Pool if satisfied that a Cover Pool contained significantly more assets than necessary to fulfil the Issuer's contractual obligations to make payment and/or dividends to Noteholders, holders of any other Covered Bonds and counterparties to derivatives agreements.

Additionally, the Issuer's estate would be entitled to have any advance dividends repaid should a Cover Pool subsequently prove to contain insufficient funds to make payments to Noteholders, holders of any other Covered Bonds and counterparties to derivatives agreements as a result of the payment of advance dividends. The right to recover advance dividends may also be secured through the issuance of a bank guarantee or equivalent security pursuant to the Swedish Insolvency Act (*Sw. Konkurslagen (1987:672)*).

#### ***Applicable law***

Generally, the law applicable to the assets in the relevant Cover Pool is the law of the jurisdiction where the relevant asset is located. Although the Notes are subject to the Covered Bonds Issuance Act and the majority of the assets included in the Swedish Cover Pool are governed by Swedish law, other assets included in the Swedish Cover Pool as well as the assets included in the Norwegian Cover Pool used to collateralise the Notes, as applicable, may be governed by the laws and regulations of a number of different jurisdictions. To the extent that such laws may restrict, limit, hinder or even prohibit certain actions in respect of the enforcement of the eligible assets in the relevant Cover Pool, there is a risk that the ability of a bankruptcy administrator to realise the assets in the relevant Cover Pool may be delayed or may result in an increase in the costs of enforcement. This may, ultimately, result in a delay of the liquidation of the bankruptcy estate and a reduced return to the Noteholders.

#### ***Modification and waivers***

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

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes, in the circumstances described in Condition 14 of the Notes.

### ***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 agreed to adopt 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 will not be obliged to withhold or deduct tax pursuant to the Directive.

### ***Change of law and establishment of case law***

The conditions of the Notes are based on English law or, as provided in Condition 2, Swedish law, in each case in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English and/or Swedish law or administrative practice after the date of issue of the relevant Notes.

In particular, the Covered Bonds Issuance Act is relatively new legislation in Sweden and for this reason there is no available case law on it. It is uncertain how the Covered Bonds Issuance Act will be interpreted or whether changes or amendments will be made to it which will affect Notes issued under the Programme.

### ***Notes where denominations involve integral multiples: definitive Notes***

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

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

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

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

### ***The secondary market generally***

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. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

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

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

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

### ***Interest rate risks with regard to Fixed Rate Notes***

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

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

One or more independent credit rating agencies may assign credit ratings to 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 Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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

### ***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 (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) 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.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditors report and audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2010 (contained on pages 14 to 43 of the Issuer's 2010 Annual Report) and 31 December 2009 (contained on pages 20 to 39 of the Issuer's 2009 Annual Report);
- (b) the interim consolidated financial statements of the Issuer for the nine months ended 30 September 2011; and
- (c) the Terms and Conditions of the Notes set out on pages 33 to 52 of the Offering Circular dated 4 December 2009 and pages 34 to 53 of the Offering Circular dated 2 December 2010.

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

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer in Stockholm and are available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

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

Any information set out in the non-incorporated parts of the documents incorporated by reference is not relevant for investors in the Notes.

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

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a global note (a **Global Note**) which will:

- (i) if the Global Note is intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and
- (ii) if the Global Note is not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

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

A Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons 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 satisfactory to the Trustee is available or (ii) the Issuer has or will become subject to adverse tax consequences, resulting from changes to Swedish legislation, which would not be suffered were the Notes represented by the Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Note) or the Trustee may give notice to the 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 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 Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and 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, receipts 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 such Notes, receipts or interest coupons.

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

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

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

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## APPLICABLE FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

[Date]

### STADSHYPOTEK AB (publ)

#### Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the €20,000,000,000 Euro Medium Term Covered Note Programme

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 6 December 2011 which[, as supplemented by a supplement to the Offering Circular dated [date of supplement] (the **Supplement**),] constitutes a base prospectus for the purposes of Directive 2003/71/EC (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 Offering Circular[, as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms [and/,] the Offering Circular [and the Supplement]. The Offering Circular [and the Supplement] [is/are] available for viewing at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]*

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 [original date], which Conditions are incorporated by reference in the Offering Circular dated 6 December 2011. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and must be read in conjunction with the Offering Circular dated 6 December 2011 [, as supplemented by a supplement to the Offering Circular dated [date of supplement] (the **Supplement**),] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms [, /and] the Offering Circular dated 6 December 2011 [and the Supplement]. Copies of such Offering Circular [and the Supplement] [is/are] available for viewing at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]*

1. Issuer: Stadshypotek AB (publ)
2. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*  
(c) Relevant Cover Pool: [Swedish Cover Pool/Norwegian Cover Pool]
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:

- (a) Series: [ ]
- (b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
6. (a) Specified Denominations: [ ]
- (Note: Where multiple denominations above €100,000 or its equivalent in another currency are being issued the following sample wording should be followed: “€100,000 and integral multiples in excess thereof up to and including €199,000. No Notes in definitive form will be issued with a denomination above €199,000.”)*
- (N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)*
- (b) Calculation Amount: [ ]
- (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [ ]
- [Specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate – specify date/  
Floating rate – Interest Payment Date falling in or nearest to  
[specify month]]
- (N.B. The Notes must have a minimum maturity of one year and one day)*
9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[LIBOR/EURIBOR/STIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[specify other]  
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
[specify other]

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Call Options: [Issuer Call]  
[(further particulars specified below)]
13. Date [Board] approval for issuance of Notes obtained: [ ]  
*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
14. Method of distribution: [Syndicated/Non-syndicated]

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

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]  
*(If payable other than annually, consider amending Condition 4)*
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[specify other]  
*(N.B. This will need to be amended in the case of long or short coupons)*
- (c) Fixed Coupon Amount(s): [ ] per Calculation Amount  
*(Applicable to Notes in definitive form)*
- (d) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): [ ] in each year  
*(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*  
*N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration*  
*N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Specified Period(s)/Specified Interest Payment Dates: [     ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): [     ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [     ]
- (f) Screen Rate Determination:
- Reference Rate: [     ]  
*(Either LIBOR, EURIBOR, STIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
  - Interest Determination Date(s): [     ]  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Stockholm prior to the start of each Interest Period if STIBOR)*
  - Relevant Screen Page: [     ]  
*(In the case of EURIBOR, if not Reuters Screen EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination:
- Floating Rate Option: [     ]
  - Designated Maturity: [     ]
  - Reset Date: [     ]
- (h) Margin(s): [+/-] [     ] per cent. per annum
- (i) Minimum Rate of Interest: [     ] per cent. per annum
- (j) Maximum Rate of Interest: [     ] per cent. per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA)  
Actual/365 (Fixed)]

Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
*Other*  
*(See Condition 4 for alternatives)*

- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [     ]
17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [     ] per cent. per annum
- (b) Reference Price: [     ]
- (c) Any other formula/basis of determining amount payable: [     ]
- (d) Day Count Fraction in relation to late payment: [Condition 6.7 applies/specify other]  
*(Consider applicable day count fraction if not U.S. dollar denominated)*
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value of the Notes, the Notes will be derivative securities for the purpose of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive will apply.)*
- (a) Index/Formula: [give or annex details]
- (b) Calculation Agent: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [     ]
- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]

- (e) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (f) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (g) Additional Business Centre(s): [ ]
- (h) Minimum Rate of Interest: [ ] per cent. per annum
- (i) Maximum Rate of Interest: [ ] per cent. per annum
- (j) Day Count Fraction: [ ]
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value of the Notes, the Notes will be derivative securities for the purpose of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive will apply.)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [ ]
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (d) Person at whose option Specified Currency(ies) is/are payable: [ ]

## PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]

- (ii) Maximum Redemption Amount: [     ]
- (d) Notice period (if other than as set out in the Conditions): [     ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
21. Final Redemption Amount: [[     ] per Calculation Amount/specify other/see Appendix]  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes:
- (a) Form: Global Note exchangeable for Definitive Notes only upon an Exchange Event  
*[Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.]<sup>1</sup>*
- (b) New Global Note: [Yes][No]
23. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]  
*(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate)*
24. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
25. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Global Note may be required for Partly Paid issues]
26. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]

<sup>1</sup> Include for Notes that are to be offered in Belgium.

27. Redenomination applicable: Redenomination [not] applicable  
 [(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
28. Other final terms: [Not Applicable/give details]  
 (When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)

## DISTRIBUTION

29. (a) If syndicated, names [and addresses]\* of Managers: [Not Applicable/give names [and addresses]\*]  
 (If the Notes are derivative securities to which Annex XII of the Prospectus Regulation applies, include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)
- (b) Date of Subscription Agreement:\* [ ]\*
- (c) Stabilising Manager (if any): [Not Applicable/give name]
30. If non-syndicated, name [and address]\* of relevant Dealer: [Name [and address]\*]
31. U.S. Selling Restrictions: [Reg. S Compliance Category 2, TEFRA C/TEFRA not applicable]
32. Additional selling restrictions: [Not Applicable/give details]

## PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [admission to trading on the London Stock Exchange's Regulated Market and listing on the Official List of the UK Listing Authority] of the Notes described herein pursuant to the €20,000,000,000 Euro Medium Term Covered Note Programme of Stadshypotek AB (publ).

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Stadshypotek AB (publ):

By: \_\_\_\_\_  
 Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the London Stock Exchange's Regulated Market and listing on the Official List of the UK Listing Authority] with effect from [ ].] [Not Applicable.]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*
- (ii) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

**EITHER** [[*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). [As such [*insert the legal name of the relevant credit rating agency entity*] 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.]]

**OR** [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended). [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]

**OR** [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union and is registered under the CRA Regulation [(and, as such, is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation)], disclosed the intention to endorse credit

ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*]. While notification of the corresponding final endorsement decision has not yet been provided by the relevant competent authority, the European Securities and Markets Authority has indicated that ratings issued in third countries may continue to be issued in the EU by relevant market participants for a transitional period ending on 31 January 2012 (which may be extended to 30 April 2012).]

**OR** [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings [[have been]/[are expected to be]] endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation. [As such [*insert the legal name of the relevant EU credit rating agency entity*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.]]

**OR** [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**), but it [[is]/[has applied to be]] certified in accordance with the CRA Regulation [[EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation][[OR:] although notification of the corresponding certification decision has not yet been provided by the relevant competent authority and [*insert the legal name of the relevant non-EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

**OR** [[*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (as amended), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority[ and [*insert the legal name of the relevant credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation].]

**OR** [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European

Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*], although notification of the corresponding registration decision has not yet been provided by the relevant competent authority and [*insert the legal name of the relevant EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

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

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

[*(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)*]

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer [ ]]

*(See “Use of Proceeds” wording in Offering Circular – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*

[(ii) Estimated net proceeds: [ ]]

[(iii) Estimated total expenses: [ ]]

*(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)*

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

Indication of yield: [ ]

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

### 6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-linked Notes only*)

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]*

*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]*

The Issuer does not intend to provide post-issuance information.

## **7. PERFORMANCE OF RATE[S] OF EXCHANGE (Dual Currency Notes only)\***

*[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]*

## **8. OPERATIONAL INFORMATION**

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
- [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.][Include this text if “yes” selected in which case the Notes must be issued in NGN form]

Notes:

\* Delete if the Notes are not derivative securities to which Annex XII of the Prospective Directive Regulation applies

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

The Notes are issued in accordance with the Swedish Covered Bonds Issuance Act (*Sw. lag (2003:1223) om utgivning av säkerställda obligationer*) (the **Covered Bonds Issuance Act**).

The Issuer has established an asset pool consisting of mainly mortgage loans over real estate located in the Kingdom of Sweden, public assets and certain qualified supplementary security (the **Swedish Cover Pool**) in accordance with the Covered Bonds Issuance Act and an asset pool consisting of mainly mortgage loans over real estate located in the Kingdom of Norway, public assets and certain qualified supplementary security (the **Norwegian Cover Pool**) in accordance with the Covered Bonds Issuance Act. The Swedish Cover Pool and the Norwegian Cover Pool are together referred to as the **Cover Pools**. Notes which have a statutory preferential right over the Swedish Cover Pool shall be designated **Swedish Notes** and Notes which have a statutory preferential right over the Norwegian Cover Pool shall be designated **Norwegian Notes**. The applicable Final Terms specifies whether the Notes have a statutory preferential right over the Swedish Cover Pool or the Norwegian Cover Pool (being the **relevant Cover Pool** and each a **Cover Pool**). The Issuer will keep a separate Register (as defined in “*Overview of the Swedish legislation regarding Covered Bonds*”) for each Cover Pool, its assets and relevant derivative contracts.

This Note is one of a Series (as defined below) of Notes issued by Stadshypotek AB (publ) (the **Issuer**) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 24 November 2006 made between the Issuer and Deutsche Trustee Company Limited (the **Trustee**, which expression shall include any successor as Trustee).

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

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) 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 6 December 2011 and made between the Issuer, the Trustee, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

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 Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 6 December 2011 at Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

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

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

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

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

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

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

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt 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 SA/NV (**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, the Paying Agents and the Trustee 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 Global Note shall be treated by the Issuer, any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

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

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

## **2. STATUS OF THE NOTES**

The Swedish Notes constitute unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The Swedish Notes are obligations issued in accordance with the Covered Bonds Issuance Act and rank *pari passu* in the Swedish Cover Pool with all other obligations of the Issuer that have been provided the same priority as debt instruments issued in accordance with the terms of the Covered Bonds Issuance Act in respect of the Swedish Cover Pool.

The Norwegian Notes constitute unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The Norwegian Notes are obligations issued in accordance with the Covered Bonds Issuance Act and rank *pari passu* in the Norwegian Cover Pool with all other obligations of the Issuer that have been provided the same priority as debt instruments issued in accordance with the terms of the Covered Bonds Issuance Act in respect of the Norwegian Cover Pool.

## **3. REDENOMINATION**

### **3.1 Redenomination**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, but after prior consultation with the Trustee, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 13, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes held (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes, in the denomination of euro 100,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 5; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent and the Trustee may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
  - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

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

- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

## 3.2 Definitions

In the Conditions, the following expressions have the following meanings:

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 3.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

**Relevant Notes** means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

## 4. INTEREST

### 4.1 Interest on Fixed Rate Notes

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

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

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

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

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

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

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

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

In the Conditions:

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

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

## 4.2 Interest on Floating Rate Notes and Index Linked Interest Notes

### (a) Interest Payment Dates

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

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

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

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

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

In the 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 London and each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

**(b) Rate of Interest**

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

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

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

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**), on the Euro-zone interbank offered rate (**EURIBOR**) or on the Stockholm interbank offered rate (**STIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

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

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

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

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

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

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

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no

such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR, EURIBOR or STIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

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

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

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

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

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, 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. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

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

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

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

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

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

**(f) Determination or Calculation by Trustee**

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with Condition 4.2(b)(i) or Condition 4.2(b)(ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with Condition 4.2(d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in

such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable. In connection therewith the Trustee may (at the expense of the Issuer) appoint or employ an expert to determine and/or assist in determining such Rate of Interest and/or Interest Amount(s).

**(g) Certificates to be final**

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

**4.3 Interest on Dual Currency Interest Notes**

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

**4.4 Interest on Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

**4.5 Accrual of interest**

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

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) as provided in the Trust Deed.

**5. PAYMENTS**

**5.1 Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro 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 7.

## 5.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above 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)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

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

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

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

If the due date for redemption of any definitive 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.

As used herein, **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 Agent or the Trustee 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 Noteholders in accordance with Condition 13.

### 5.3 Payments in respect of Global Notes

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

### 5.4 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 or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

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

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

### 5.5 Payment Day

If the date for payment of any amount in respect of any Note, Receipt 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 8) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## 5.6 Interpretation of principal and interest

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

- (a) the Final Redemption Amount of the Notes;
- (b) the Optional Redemption Amount(s) (if any) of the Notes;
- (c) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (d) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6.7); and
- (e) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

## 6. REDEMPTION AND PURCHASE

### 6.1 Redemption at maturity

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

### 6.2 Redemption at the option of the Issuer (Issuer Call)

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.2 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

### 6.3 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.

### 6.4 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

### 6.5 Purchases

The Issuer or any subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmaturing Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased will be surrendered to a Paying Agent for cancellation.

### 6.6 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmaturing Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 6.5 above (together with all unmaturing Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

### 6.7 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1 or 6.2 above is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

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

where:

**RP** means the Reference Price;

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

**y** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date which is the earlier of:

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

or on such other calculation basis as may be specified in the applicable Final Terms.

## 7. TAXATION

All payments of principal and interest in respect of the Notes, Receipts 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 which case such deduction will be made by or on behalf of the Issuer.

As used herein, **Tax Jurisdiction** means the Kingdom of Sweden or any political subdivision or any authority thereof or therein having power to tax.

## **8. PRESCRIPTION**

The Notes, Receipts 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 5.2) therefor. Any moneys paid by the Issuer to the Agent for the payment of principal or interest in respect of the Notes and remaining unclaimed for two years after the date on which such principal or interest shall have become due shall (at the Issuer's request) be repaid by the Agent to the Issuer, and the holders of the relevant Notes, Receipts or Coupons shall thereafter only look to the Issuer for any payment which such holders may be entitled to collect.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5.2 or any Talon which would be void pursuant to Condition 5.2.

## **9. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

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

## **10. PAYING AGENTS**

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

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

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing 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) the Issuer undertakes that it will ensure that it maintains 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 with a specified office in a city approved by the Trustee in continental Europe outside Sweden.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.4. 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 13.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying 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 paying agent.

## **11. ENFORCEMENT**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within 60 days and the failure shall be continuing.

## **12. EXCHANGE OF TALONS**

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

## **13. NOTICES**

All notices regarding the 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. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

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

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

The Trust Deed 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 Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee 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 more 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, the Receipts or the Coupons or the Trust Deed (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 or altering the currency of payment of the Notes, the Receipts or the Coupons), 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 Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification, waiver or authorisation shall be binding on the Noteholders, the Receiptholders and the Couponholders and shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders.

## **15. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## **16. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders 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.

## **17. 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.

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

### **18.1 Governing law**

The Trust Deed, the Agency Agreement, the Notes (except for Condition 2), the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with any of them, are governed by, and shall be construed in accordance with, English law. Condition 2 is governed by, and shall be construed in accordance with, the laws of the Kingdom of Sweden.

### **18.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Trustee, the Noteholders, the Receiptholders 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 Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with it) 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 Trustee, the Noteholders, the Receiptholders and the Couponholders, may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with it), against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **18.3 Appointment of Process Agent**

The Issuer has appointed Svenska Handelsbanken AB (publ) at its registered office for the time being at 3 Thomas More Square, London E1W 1WY, United Kingdom as its agent for service of process, and undertakes that, in the event of Svenska Handelsbanken AB (publ) ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee 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.

### **18.4 Other documents**

The Issuer has in the Trust Deed and the Agency Agreement 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.

## OVERVIEW OF THE SWEDISH LEGISLATION REGARDING COVERED BONDS

*The following is a brief summary of certain features of the Covered Bonds Issuance Act as of the date of this Offering Circular. The summary does not purport to be, and is not, a complete description of all aspects of the Swedish legislative and regulatory framework for covered bonds. Please also refer to the section “Risk Factors”, sub-section “Risks related to Notes generally”, on pages 15 to 18 above.*

### Introduction

The Covered Bonds Issuance Act entered into force on 1 July 2004. It enables Swedish banks and credit market companies (**Institutions**), which have been granted a specific licence by the SFSA to issue full-recourse debt instruments secured by a pool of mortgage credits and/or public sector credits.

The SFSA has issued regulations and recommendations under the authority conferred on it by the Covered Bonds Issuance Act (*Sw. Finansinspektionens föreskrifter och allmänna råd om säkerställda obligationer (FFFS 2004:11)*) (the **SFSA Regulations**).

Swedish covered bonds may take the form of bonds and other comparable debt instruments, such as commercial paper.

In the event of an Institution’s bankruptcy, holders of covered bonds (and certain eligible counterparties to derivative contracts entered into for the purpose of matching the financial terms of the assets in a Cover Pool with those of the covered bonds relating to it) benefit from a priority right in the relevant Cover Pool. The Covered Bonds Issuance Act further enables such holders (and derivative counterparties) to continue to receive timely payments also following the Institution’s bankruptcy, subject to certain conditions being met.

The Cover Pools are dynamic in the sense that an Institution may supplement or substitute assets in a Cover Pool at any time.

### Registration

Information in respect of each Cover Pool, its assets, relevant derivative contracts and covered bonds for which such Cover Pool has been used for collateralisation must be entered into a separate register (the **Register**), which is maintained by the Institution. The actual registration of the covered bonds, the assets and relevant derivative contracts in such Register is necessary to confer the priority right in a Cover Pool. Further, only assets entered into the Register form part of a Cover Pool.

At all times the Register must show the nominal value of the covered bonds, the relevant Cover Pool and the relevant derivative contracts. As a result, the Register requires regular updating, including without limitation due to changes in interest rates, interest periods, outstanding debt and the composition of the relevant Cover Pool. The value of the underlying collateral securing mortgage credits in such Cover Pool must also be entered into the Register.

Stadshypotek will keep a separate Register for the Swedish Cover Pool and the Norwegian Cover Pool respectively.

### Eligibility criteria for assets in the Cover Pools

The Cover Pools may consist of certain mortgage credits, public credits and supplemental assets.

Mortgage credits are defined as loans secured by (i) mortgages over real property (*Sw. fastigheter*) intended for residential, agricultural, office or commercial purposes or site leasehold rights (*Sw. tomträtter*) intended for residential, office or commercial purposes, (ii) pledges over tenant-owner rights (*Sw. bostadsrätter*), or (iii) comparable security interests over equivalent assets situated in other countries within the European Economic Area.

Public credits are defined as certain loans to (or guaranteed by) *inter alia* the Swedish State, Swedish municipalities and comparable public bodies, the European Communities, certain foreign states and central banks and certain foreign municipalities and comparable public bodies with powers of taxation.

Supplemental assets consist primarily of government bonds and cash, although the SFSA may also authorise the use of certain debt instruments issued by credit institutions and other bodies as supplemental assets.

### **Loan-to-value ratios and certain other restrictions**

For mortgage credits, there is a maximum loan amount which may be included in a Cover Pool, depending on the value of the underlying collateral:

1. For residential collateral, a loan may be included in a Cover Pool only to the extent the loan amount does not exceed 75 per cent. of the market value of the collateral.
2. For agricultural collateral, a loan may be included in a Cover Pool only to the extent the loan amount does not exceed 70 per cent. of the market value of the collateral.
3. For office or commercial collateral, a loan may be included in a Cover Pool only to the extent the loan amount does not exceed 60 per cent. of the market value of the collateral.

Should a loan exceed the relevant ratio, only the part of the loan that falls within the permitted limit may be included in a Cover Pool (a **Partly Eligible Loan**). The Covered Bonds Issuance Act does not explicitly regulate how proceeds in respect of a Partly Eligible Loan shall be distributed between the eligible and the non-eligible parts of the loan.

The most likely interpretation is that interest payments shall be allocated pro rata between the eligible and non-eligible parts of the loan and that amortisations shall be applied first towards the non-eligible part of the loan (absent enforcement of the security over the underlying collateral). However, proceeds from enforcement of the security should most likely be applied first towards the eligible part of the loan.

A similar situation arises if, for example, the same mortgage security serves as first-ranking security for two (or more) loans granted by an Institution and only one of these loans is included in a Cover Pool. The Covered Bonds Issuance Act does not give clear guidance as to how proceeds shall be allocated between the two loans in case of the Institution's bankruptcy. The lack of guidance may give room for unsecured creditors of the Institution to argue that only a *pro rata* portion of such proceeds shall be allocated to the loan included in a Cover Pool.

The Covered Bonds Issuance Act restricts the overall proportion of loans provided against security over real property (or site leasehold rights or tenant-owner rights) intended for office or commercial purposes to 10 per cent. of an Institution's Cover Pool.

Furthermore, the proportion of supplemental assets may not exceed 20 per cent. of a Cover Pool, although the SFSA has the authority to raise this limit to 30 per cent. for a limited period in special circumstances.

Institutions are required to regularly monitor the market value of the mortgage assets that serve as collateral for loans included in a Cover Pool. If the market value of such a mortgage asset declines significantly (15 per cent. or more according to the preparatory works to the Covered Bonds Issuance Act), then only such part of the loan that falls within the permitted loan-to-value ratio will be eligible for inclusion in such Cover Pool and will be subject to the priority right described below. However, a decline in the market value following an Institution's bankruptcy would not result in a reduction of the assets in which holders of covered bonds (and relevant derivative counterparties) have a priority right, but could result in a Cover Pool ceasing to meet the matching requirements.

### **Matching requirements**

The Covered Bonds Issuance Act prescribes that the nominal value of a Cover Pool shall at all times exceed the aggregate nominal value of claims that may be asserted against an Institution by reference to covered

bonds. The calculation shall be made on the basis of current book values and shall take into account the effect of relevant derivative contracts.

Furthermore, an Institution must compose a Cover Pool in such a way as to ensure a sound balance between the covered bonds and the assets in the Cover Pool in terms of currencies, interest rates and interest fixation periods. Such sound balance is deemed to exist when the present value of a Cover Pool at all times exceeds the present value of the liabilities relating to covered bonds. The present value of derivative contracts shall be taken into account for the purposes of such calculation. The calculations of present value shall withstand certain stress tests (changes in interest rates and/or currency exchange rates).

The payment flows relating to the assets in a Cover Pool, derivative contracts and covered bonds shall be such that an Institution is at all times able to meet its payment obligations towards holders of covered bonds and relevant derivative counterparties.

Non-performing assets in a Cover Pool which are more than 60 days overdue must be disregarded for the purposes of the matching tests.

### **Supervision by the SFSA and the independent monitor**

The SFSA monitors that an Institution complies with the Covered Bonds Issuance Act and other provisions of the legislative and regulatory framework which regulates the business of the Institution. In addition, the SFSA appoints an independent monitor (*Sw. oberoende granskare*) for each Institution that issues covered bonds.

The independent monitor is responsible for monitoring a Register to assess whether or not it is being maintained correctly and in compliance with the Covered Bonds Issuance Act and the SFSA Regulations. In particular, the independent monitor shall verify that (i) covered bonds and relevant derivative contracts are registered in a Register, (ii) only loans and supplemental assets that satisfy the eligibility criteria are included in a Cover Pool and registered in a Register, (iii) the valuations of the underlying collateral for loans in a Cover Pool are in accordance with the Covered Bonds Issuance Act and the SFSA Regulations, (iv) mortgage loans the underlying collateral of which has decreased significantly in value are, for the purpose of the matching requirements, deducted from a Cover Pool to the extent necessary to comply with the relevant loan-to-value ratio and (v) the matching requirements are complied with.

The independent monitor is entitled to request information from the Institution, conduct site visits and is required to report regularly, and at least once a year, to the SFSA. The Covered Bonds Issuance Act does not provide for any change to the independent monitor's remit upon the bankruptcy of an Institution.

### **Benefit of a priority right in Cover Pools**

Pursuant to the Covered Bonds Issuance Act and the Swedish Rights of Priority Act, holders of covered bonds benefit from a priority right in the relevant Cover Pool should the Institution be declared bankrupt (*Sw. försatt i konkurs*). The same priority is awarded to the Institution's eligible counterparties to derivative contracts entered into for the purpose of matching the financial terms of the assets in a Cover Pool with those of the covered bonds relating to it. Such derivative counterparties and the holders of covered bonds rank *pari passu* with joint seniority in relation to the relevant Cover Pool.

By virtue of the aforementioned priority, holders of covered bonds and relevant derivative counterparties rank ahead of unsecured creditors and all other creditors of the Institution in respect of assets in a Cover Pool (except the administrator-in-bankruptcy as regards fees for his administration of assets in a Cover Pool and costs for such administration). The priority right also covers cash received by an Institution and deriving from a Cover Pool or relevant derivative contracts, provided that certain administrative procedures have been complied with.

Due to what is generally regarded as an oversight by the legislator, there is some uncertainty as to whether a creditor that obtains execution (*Sw. utmätning*) against an asset in a Cover Pool earlier than three months before an Institution's bankruptcy could defeat the priority afforded to holders of covered bonds and

derivative counterparties as regards such asset. However, an execution that is levied less than three months before the Institution is being declared bankrupt will typically not defeat the priority.

### **Administration of the Cover Pools in the event of bankruptcy**

Should an Institution be declared bankrupt, at least one administrator-in-bankruptcy would be appointed by the bankruptcy court and one administrator-in-bankruptcy would be appointed by the SFSA. The administrators-in-bankruptcy would take over the administration of the bankruptcy estate, including the Cover Pools.

Provided that (and as long as) a Cover Pool meets the requirements of the Covered Bonds Issuance Act (including the matching requirements), the assets in such Cover Pool, the covered bonds and any relevant derivative contracts relating to it that have been entered into the Register are required to be maintained as a unit and kept segregated from other assets and liabilities of the bankruptcy estate of the Institution. The administrators-in-bankruptcy are in such case required to procure the continued timely service of payments due under such covered bonds and any relevant derivative contracts. Consequently, the bankruptcy would not as such result in early repayment or suspension of payments to holders of such covered bonds or to derivative counterparties, so long as the relevant Cover Pool continues to meet the requirements of the Covered Bonds Issuance Act.

Upon an Institution's bankruptcy, neither the Institution nor its bankruptcy estate would have the ability to issue further covered bonds. However, following a recent amendment, the Covered Bonds Issuance Act gives the bankruptcy administrator an explicit mandate to take out additional loans and enter into derivative and similar agreements for the purpose of achieving a balance between the financial terms and conditions of the assets in the cover pool and derivative agreements entered into, on the one hand, and the obligations of the issuing institution pursuant to the covered bonds and derivative agreements, on the other hand. Counterparties in such agreements will rank senior to existing covered bondholders and derivative counterparties with respect to the assets in the cover pool. The bankruptcy administrator may also increase liquidity, for example by selling assets in the cover pool in the market.

If a Cover Pool ceases to meet the requirements of the Covered Bonds Issuance Act, and the deviations are not just temporary and minor, such Cover Pool may no longer be maintained as a unit and the continuous payment under the terms and conditions of the covered bonds and derivative contracts will cease. The holders of covered bonds and derivative counterparties relating to it would in such case instead benefit from a priority right in the proceeds of a sale of the assets in such Cover Pool in accordance with general bankruptcy rules. This could result in the holders of covered bonds relating to it receiving payment according to a schedule that is different from that contemplated by the terms and conditions of such covered bonds (with accelerations as well as delays) or that the holders of such covered bonds are not paid in full. However, the holders of such covered bonds and derivative counterparties would retain the benefit of the right of priority in the assets comprising such Cover Pool. Any residual claims of the holders of covered bonds and derivative counterparties remain valid claims against the Institution, but will rank *pari passu* with other unsecured and unsubordinated creditors of the Institution.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for general corporate purposes. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation (EC) 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## DESCRIPTION OF THE ISSUER

Stadshypotek was incorporated on 23 December 1992 for an unlimited period as a public credit market limited liability company under the laws of Sweden and was registered with the Municipality of Stockholm under registration number 556459-6715. The registered office of Stadshypotek is Torsgatan 12, SE-103 70 Stockholm, Sweden (telephone number: +46 8 701 54 00). Since 1997, Stadshypotek has been a wholly-owned subsidiary of Handelsbanken and its business is focused primarily on the financing of residential, office and real estate in Sweden.

Handelsbanken and its consolidated subsidiaries constitute a full-service bank which provides a wide range of services, both domestically and internationally, for private and corporate customers, including deposit-taking, lending, property mortgages, payment facilities, investment banking, factoring, leasing and life insurance. The full-service bank concept is marketed and supported through Handelsbanken's network of branch offices, with each branch responsible for coordinating customer services in collaboration with regional and central specialists, as necessary. Handelsbanken has a decentralised business model and branch offices are given delegated responsibility for marketing, customer contact, pricing and administration of all mortgage lending, which in Sweden, Norway, Denmark and, since May 2011, Finland is done through Stadshypotek. Handelsbanken therefore acts as Stadshypotek's agent in originating business and has the responsibility for ensuring that credit assessments and collateral valuations are made in accordance with the SFSA's regulations and the guidelines adopted by Stadshypotek's Board of Directors.

On 13 March 2006, Stadshypotek was granted authorisation by the SFSA to issue covered bonds in accordance with the Covered Bonds Issuance Act. A Cover Pool consists mainly of mortgage loans, public assets and certain qualified supplementary security. An issuer can create several Cover Pools, where the holder of a covered bond has a priority right in the Cover Pool which is used to collateralise that particular issue of covered bonds. Currently, Stadshypotek has two Cover Pools, the Swedish Cover Pool which includes Swedish loans and mortgages and other assets eligible under the Covered Bonds Issuance Act and the Norwegian Cover Pool which includes Norwegian loans and mortgages and other assets eligible under the Covered Bonds Issuance Act. The applicable Final Terms will specify whether the Notes have a statutory preference right over the Swedish Cover Pool or the Norwegian Cover Pool. In addition, Stadshypotek's counterparties under certain derivative contracts are also entitled to rights of priority in relation to a Cover Pool, as applicable. In addition to what is required by law, Stadshypotek has committed to maintain a 10% overcollateralisation in each Cover Pool.

See "*Overview of the Swedish Legislation regarding Covered Bonds*" for further details.

### **Stadshypotek's Lending Policies and Loan Portfolio**

The guidelines adopted by Stadshypotek's Board of Directors with respect to lending policies and procedures cover the following principal areas:

- *Collateral and loan to value ratios:* Multi-family, commercial and tenanted properties or farms as well as housing co-operative apartments and summer cottages have a lower loan to value ratio than do single-family houses in locations with a stable housing market. Loans to governments, municipalities, banks and insurance companies from within the EU may be made on an unsecured basis. The valuation of the property is either conducted by the Handelsbanken group's branch managers, Handelsbanken's own internal evaluators or a professional third-party evaluator.
- *Credit limits:* There are limits on the loan amounts that can be granted by a Handelsbanken branch office and Stadshypotek's credit committee. Loans to senior employees have to be approved by Stadshypotek's Board of Directors.
- *Impaired loans:* While impaired loans are initially handled by Handelsbanken on behalf of Stadshypotek, restructurings of loans need to be approved by Stadshypotek, as do sales of collateral with a value above a certain threshold.

In 2010 Stadshypotek increased its total loan portfolio by SEK 73,935 million (SEK 69,657 million in 2009), mainly reflecting the continued strong growth in the Swedish market.

Lending to the private market increased by SEK 50,369 million (SEK 38,756 million in 2009), while corporate lending increased by SEK 23,561 million (SEK 30,900 million in 2009) consisting mainly of credits that were transferred from Handelsbanken and credits to municipalities and municipal companies.

### Loan Portfolio

The following table shows details of Stadshypotek's loan portfolio as at the dates indicated:

| Loans to the public by type of property                              | As at 31 December (SEK m) |                |               |
|--|---------------------------|----------------|---------------|
|  | 2010                      | 2009           | Change        |
| Single-family housing .....  | 402,377                   | 367,370        | 35,007        |
| Housing co-operative apartments .....                                | 117,820                   | 101,676        | 16,144        |
| Owner-occupied apartments .....                                      | 4,318                     | 5,100          | (782)         |
| <b>Private Market</b> .....  | <b>524,515</b>            | <b>474,146</b> | <b>50,369</b> |
| Multi-family housing .....   | 185,423                   | 176,038        | 9,385         |
| Offices and commercial buildings .....                               | 48,923                    | 34,747         | 14,176        |
| <b>Corporate market</b> .....  | <b>234,346</b>            | <b>210,785</b> | <b>23,561</b> |
| <b>Total loans to the public, before collective provisions</b> ..... | <b>758,861</b>            | <b>684,931</b> | <b>73,930</b> |
| Collective Provision .....   | (6)                       | (11)           | 5             |
| <b>Total loans to the public</b> .....                               | <b>758,855</b>            | <b>684,920</b> | <b>73,935</b> |

Stadshypotek's business consists of property financing, primarily residential property. Industrial and warehouse properties are not financed by Stadshypotek. The borrower base in Sweden is distributed throughout the country with a concentration in urban areas. Categories of borrowers vary from individual households to large property companies. At 31 December 2010, single-family houses, housing co-operative apartments and owner occupied apartments made up 69.1 per cent. (69.2 per cent. in 2009), of the loan portfolio, with multi-family housing accounting for 24.4 per cent. (25.7 per cent. in 2009), and offices and commercial property 6.5 per cent. (5.1 per cent. in 2009).

A breakdown of loan volumes by borrower category is given in the following table:

| Loans to the public by borrower category                             | As at 31 December (SEK m) |                |               |
|--|---------------------------|----------------|---------------|
|  | 2010                      | 2009           | Change        |
| Households .....   | 547,952                   | 495,932        | 52,020        |
| Public sector, municipal companies .....                             | 21,208                    | 15,801         | 5,407         |
| Housing co-operative associations .....                              | 97,793                    | 92,872         | 4,921         |
| Other legal entities .....   | 91,908                    | 80,326         | 11,582        |
| <b>Total loans to the public, before collective provisions</b> ..... | <b>758,861</b>            | <b>684,931</b> | <b>73,930</b> |
| Collective provisions .....  | (6)                       | (11)           | 5             |
| <b>Total loans to the public</b> .....                               | <b>758,855</b>            | <b>684,920</b> | <b>73,935</b> |

At the end of 2010, Stadshypotek's share of mortgage institutions' lending in Sweden was 31.9 per cent. of the corporate market, whereas its share of the private market was 25.1 per cent.

Stadshypotek's market share as a lender to housing co-operative associations stood at 32.2 per cent. as at the end of 2010.

Stadshypotek's total market share of the Swedish market for mortgage loans was 26.9 per cent. as at the end of 2010.

## Loan Losses, Non-performing Loans and Impaired Loans

The considerable growth in Stadshypotek's loan portfolio over recent years has not resulted in any decrease in portfolio quality. The condition of the property market in the parts of Sweden where Stadshypotek has most of its lending remain favourable and a high level of expertise among employees at Handelsbanken's network of branches has helped maintain Stadshypotek's low credit risk level.

This good credit quality is mainly maintained through continued strong focus on the principles that govern lending in the Handelsbanken group. These include individual assessment of each customer, which leads to understanding of the customer's repayment capacity and possibilities of meeting his or her loan obligations.

Local presence through the branch offices of Svenska Handelsbanken is a vital element in the credit approval process and also creates a firm basis to continually assess the ability of the Issuer's customers to meet their loan obligations.

It also enables rapid identification of any problems among borrowers, and measures to minimise the effects of such problems can then be implemented at an early stage.

Stadshypotek's entire loan portfolio is regularly checked using an analysis tool developed in-house. This ensures that property values and loan-to-property values are on a secure level and comply well with Stadshypotek's guidelines for lending. The system can generate many different presentations of data and can be used to conduct sensitivity analyses.

The above-mentioned factors played an important role in ensuring that recoveries exceeded new loan losses for the twelfth consecutive year.

Net loan losses thus had a positive impact of SEK 38 million in 2010 (SEK 31 million in 2009) on profits, which corresponds to a loan loss ratio of -0.01 per cent. (-0.00 per cent. in 2009) of total lending.

The largest loan loss attributable to a single customer or customer category was SEK 1.7 million in 2010 (SEK 3.0 million in 2009). The ten largest loan losses totalled SEK 8 million in 2010 (SEK 13 million in 2009).

Details of loan losses are shown in the following table (amounts refer to both the group and the parent company):

|  | <b>2010</b>    | <b>2009</b>    |
|--|----------------|----------------|
|  | <i>(SEK m)</i> | <i>(SEK m)</i> |
| <b>Specific provision for individually assessed loans</b>  |                |                |
| The year's provision .....                                 | (12)           | (14)           |
| Reversals of previous provisions .....                     | 13             | 17             |
| <b>Total</b> .....   | <b>1</b>       | <b>3</b>       |
| <b>Collective provisions</b>                               |                |                |
| Collective provision for individually assessed loans ..... | 5              | 1              |
| <b>Write-offs</b>  |                |                |
| Actual loan losses for the year .....                      | (30)           | (36)           |
| Utilised share of previous provisions .....                | 10             | 17             |
| Reversal of actual loan losses in previous years .....     | 52             | 46             |
| <b>Total</b> .....   | <b>32</b>      | <b>27</b>      |
| <b>Net loan losses</b> .....                               | <b>38</b>      | <b>31</b>      |

Stadshypotek classifies a loan as an impaired loan when objective evidence indicates that payments in respect of the loan are unlikely to be made according to the conditions of the loan agreement. A loan is not classified as an impaired loan if there is sufficient collateral to cover the principal amount and interest and penalties for late payments by a satisfactory margin. Stadshypotek classifies a loan as a non-performing loan

where principal or interest has been overdue for more than 60 days. As at 31 December 2010, Stadshypotek's impaired loans before deduction of the provision for probable loan losses amounted to SEK 108 million (SEK 116 million as at end 31 December 2009). SEK 49 million (SEK 61 million as at 31 December 2009) of the impaired loans were non-performing loans, while SEK 59 million (SEK 55 million as at 31 December 2009) were loans on which the borrowers pay interest and amortisation, but which are considered doubtful due to uncertainty regarding the borrowers' repayment capacity and the value of the collateral.

In addition, there were non-performing loans of SEK 509 million as at 31 December 2010 (SEK 591 million as at 31 December 2009) that are not classified as impaired loans.

After deduction for specific provisions totalling SEK –41 million (SEK –55 million as at 31 December 2009) and provisions by group for individually assessed loan receivables amounting to SEK –6 million for probable loan losses (SEK –11 million as at 31 December 2009), impaired loans totalled SEK 61 million (SEK 50 million as at 31 December 2009).

The following table provides information as to non-performing loans by borrower as at the dates indicated:

|  | As at 31 December (SEK m)                         |   |   |   |
|--|---|---|---|---|
|  | 2010  |   | 2009  |   |
|  | Non-performing loans which are not impaired loans | Non-performing loans which are included in impaired loans | Non-performing loans which are not impaired loans | Non-performing loans which are included in impaired loans |
| Households .....                         | 486   | 40  | 535   | 35  |
| Public sector, municipal companies ..... | –   | –   | –   | –   |
| Housing co-operative associations .....  | 1   | 2   | 19  | 10  |
| Other legal entities .....               | 22  | 7   | 37  | 16  |
| <b>Total</b> .....                       | <b>509</b>  | <b>49</b>   | <b>591</b>  | <b>61</b>   |

The following table provides information as to impaired loans by borrower as at the dates indicated:

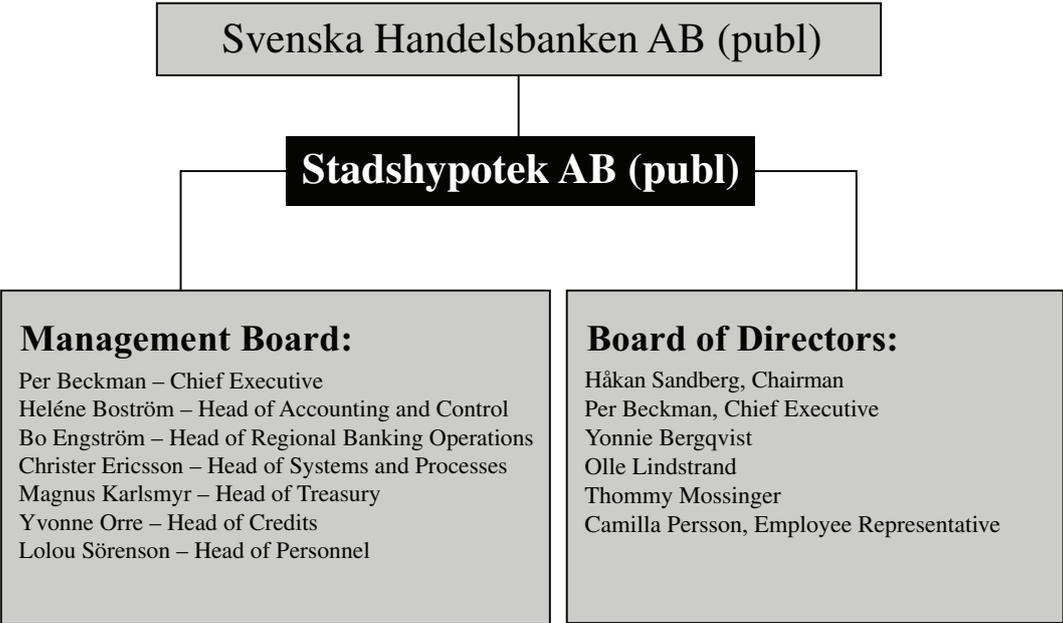
|   | As at 31 December (SEK m) |                               |                    |                |                               |                    |
|---|---------------------------|-------------------------------|--------------------|----------------|-------------------------------|--------------------|
|   | 2010                      |                               |                    | 2009           |                               |                    |
|   | Impaired loans            | Provision for probable losses | Net impaired loans | Impaired loans | Provision for probable losses | Net impaired loans |
| Households.....                         | 54                        | (17)                          | 37                 | 40             | (19)                          | 21                 |
| Public sector, municipal companies..... | –                         | –                             | –                  | –              | –                             | –                  |
| Housing co-operative associations ..... | 40                        | (15)                          | 25                 | 41             | (15)                          | 26                 |
| Other legal entities .....              | 14                        | (9)                           | 5                  | 35             | (21)                          | 14                 |
| <b>Total</b> .....                      | <b>108</b>                | <b>(41)</b>                   | <b>67</b>          | <b>116</b>     | <b>(55)</b>                   | <b>61</b>          |

Impaired loans relate in their entirety to the Swedish market. The reserved amount for probable loan losses in the tables showing impaired loans consists of a specific provision for individually assessed receivables.

**Organisational Structure and Management**

Stadshypotek is the parent company of a sub-group of companies and is responsible for Handelsbanken’s mortgage lending business in Sweden, Norway, Denmark and, as of 1 May 2011, Finland. Following a merger in March 2003 between Stadshypotek and another Handelsbanken subsidiary, Handelsbanken Hypotek AB, that business has been conducted through Stadshypotek only. Stadshypotek’s subsidiary, Stadshypotek Delaware, Inc., raises funds on the U.S. commercial paper market.

Stadshypotek’s treasury function is integrated with Handelsbanken’s treasury department, but under the control of Stadshypotek’s Board of Directors. The following chart shows Stadshypotek’s organisational structure:



Overall responsibility for the administration of Stadshypotek is vested in the Board of Directors. Sweden’s Banking and Financing Activities Act requires a credit market company to have a Board of Directors consisting of not less than three members. Stadshypotek’s Board of Directors consists of the following six elected members:

**Håkan Sandberg**, Executive Vice President of Handelsbanken, Chairman of the Board of Directors since 2006, Member of the Board since 2002.

**Per Beckman**, Chief Executive of Stadshypotek, Member of the Board of Directors since 2011.

**Yonnie Bergqvist**, Chief Executive of Handelsbanken, Member of the Board of Directors since 2006.

**Olle Lindstrand**, Executive Vice President of Handelsbanken, Member of the Board of Directors since 2006.

**Thommy Mossinger**, Executive Vice President of Handelsbanken, Member of the Board of Directors since 2011.

**Camilla Persson**, Employee Representative, Member of the Board of Directors since 2011.

Day to day management of Stadshypotek’s activities is vested in its Management Board which consists of the following seven members:

**Per Beckman**, Chief Executive, employed since 2011.

**Heléne Boström**, Head of Accounting and Control, employed since 2006.

**Bo Engström**, Head of Regional Banking Operations, employed since 2008.

**Christer Ericsson**, Head of Systems and Processes, employed since 2006.

**Magnus Karlsmyr**, Head of Treasury, employed by Handelsbanken.

**Yvonne Orre**, Head of Credits, employed since 2007.

**Lolou Sörenson**, Head of Personnel, employed by Handelsbanken.

The business address of each of the members of Stadshypotek's Board of Directors and Management Board is Stadshypotek's registered office, Torsgatan 12, SE-103 70 Stockholm, Sweden. None of them have any commitments or assignments outside of the Handelsbanken group that affect the interests of Stadshypotek.

Conflicts of interest may arise between the above-mentioned persons' private interests and Stadshypotek's interests in connection with the taking up and granting of loans, transactions in financial instruments or other engagements such persons may have. In order to avoid such conflicts of interest as far as possible and to indicate the manner in which the individual should act in the event a conflict of interest should arise, a number of guidelines adopted by the parent company, Handelsbanken, such as ethical guidelines, guidelines for employees' engagements outside the bank and rules regarding securities and currency transactions by employees apply also to Stadshypotek. The provisions of the Swedish Companies Act (*Sw. Aktiebolagslagen (2005:551)*), regarding *inter alia* conflicts of interest, apply to members of the Board of Directors. There are no conflicts of interest between the duties to Stadshypotek of each of (i) the members of the Board of Directors and (ii) the Management Board listed above and his/her private interests or other duties.

## **Regulatory Environment**

For more than a century, banking in Sweden has been subject to close government inspection and control. This inspection and control is presently exercised by the SFSA. The SFSA has regulatory powers conferred by law, including the power to make accounting regulations and to require banks to submit monthly financial statements and a variety of risk reports and to carry out periodic reviews to ensure that each bank's operations comply with the laws regulating banking operations as well as such bank's Articles of Association. The SFSA may appoint one or more auditors who, together with the auditors elected by the shareholders at the annual general meeting of each bank, examine the financial statements and administration of such bank. The SFSA has chosen not to appoint such an auditor with respect to Stadshypotek since the fiscal year ended 31 December 2006.

## **Capital Adequacy**

In 2007, the Act on Capital Adequacy and Large Exposures (*Sw. lag (2006:1371) om kapitaltäckning och stora exponeringar*) was adopted to implement the CRD and the Basel II Requirements. The new regulatory regime entails major changes in how a credit institution's capital requirements are to be calculated and how a satisfactory capital base is to be ensured. The Act has subsequently been amended to implement the revisions to the CRD, Directive 2009/111 (**CRD II**) and Directive 2010/76 (**CRD III**). CRD III will be fully implemented by 31 December 2011. The original Act on Capital Adequacy and Large Exposures included transitional rules, e.g. establishing a floor for the capital requirement under Basel II rules. The transitional rules were intended to expire after 2009 but were subsequently extended to 2011. In June 2011, however, the transitional rules were amended and from 30 June 2011 up until and including such date decided by the Swedish Government, the capital requirement may not be lower than 80% of the capital requirements under Basel I rules. The current capital adequacy framework is undergoing revisions on both a global and on a European level, in response to the global financial crisis.

The regulatory requirements demand that a credit institution's capital base must cover credit, market and operational risks. The exposure to credit risk can, after approval by the SFSA, be calculated according to models that have been developed internally by the credit institution. The Board reaffirmed the Stadshypotek group's capital policy in 2010, which, as previously, included adopting Handelsbanken's credit risk

classification and calculation. Since the Issuer's lending is performed via Handelsbanken's branch network, Handelsbanken's approach to risk classification and calculation of credit risk also applies to the Issuer. For its calculation of credit risk, Handelsbanken has chosen to use internal risk classification models which have been approved by the SFSA. Handelsbanken uses two different approaches: the foundation approach and the advanced approach. The Issuer uses the advanced approach for retail exposures (households and small companies) and, following approval from the SFSA, the advanced approach is applied also for medium sized companies, housing co-cooperative associations and property companies with effect from 31 December 2010.

For operational risks, the Issuer also follows Handelsbanken's approach and uses the standardised approach, which requires the capital requirement for operational risks to be based on income.

The Issuer has no market risks which are reported according to the capital adequacy regulations for market risks.

As at 31 December 2010, Stadshypotek's capital ratio according to Basel II was 48.9 per cent. (39.9 per cent. in 2009) and the Tier 1 ratio was 36.8 per cent. (28.4 per cent. in 2009). The capital ratio in accordance with the transitional rules was 9.1 per cent. as at 31 December 2010 (10.3 per cent. in 2009), while the Tier 1 ratio was 6.8 per cent. (7.3 per cent. in 2009).

## **Recent Developments**

### *Expansion into Finland*

As part of its continued expansion in the Nordic region, on 1 May 2011 Stadshypotek established its Finnish Branch. For the period 1 May 2011 to 30 June 2011, the Finnish Branch had lent approximately SEK 0.4 billion in mortgage loans. On 1 August 2011, the Finnish Branch acquired a mortgage loan portfolio of approximately EUR 3 billion from Handelsbanken's branch operations in Finland.

### *The Norwegian Cover Pool*

Stadshypotek's primary objective for establishing its Norwegian, Danish and Finnish Branches was to enable Stadshypotek to create cover pools in which Stadshypotek may include the respective Nordic countries' (excluding Swedish) loans and mortgages and other assets eligible under the Covered Bonds Issuance Act and thereby enable Stadshypotek to increase funding through the issuance of covered bonds which are collateralised by such assets. The Norwegian Cover Pool has now been established. The applicable Final Terms will state whether the Notes will have a statutory preferential right over the Swedish Cover Pool or the Norwegian Cover Pool.

## **Rating of the Notes**

Stadshypotek expects the Notes to be assigned a Aaa rating by Moody's.

## **Auditors**

At the annual general meeting held on 17 April 2008, KPMG AB were appointed auditors of Stadshypotek, with Stefan Holmström, authorised public accountant, as the auditor in charge, until the end of the annual general meeting in 2012.

## TAXATION

### Swedish Taxation

*The following summary outlines certain Swedish tax consequences relating to holders of Notes that are not considered to be Swedish residents for Swedish tax purposes, if not otherwise stated. The summary is based on the laws of the Kingdom of Sweden in effect as at the date of this Offering Circular and is intended to provide general information only. The summary does not address the rules regarding reporting obligations for, among others, payers of interest. Investors should consult their professional tax advisors regarding the Swedish tax and other tax consequences (including the applicability and effect of tax treaties for the avoidance of double taxation) of acquiring, owning and disposing of Notes in their particular circumstances.*

#### ***Holders not resident in the Kingdom of Sweden***

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to the holder of any Notes should not be subject to Swedish income tax, provided that such a holder is not resident in the Kingdom of Sweden for Swedish tax purposes and provided that such a holder does not have a permanent establishment in the Kingdom of Sweden to which the Notes are effectively connected.

However, and somewhat simplified, provided that the value or the return of the Notes is related to securities taxed as shares, private individuals who have been residents of the Kingdom of Sweden or have had a habitual abode in the Kingdom of Sweden at any time during the calendar year of disposal or redemption or the ten calendar years preceding the year of disposal or redemption, are liable for capital gains taxation in the Kingdom of Sweden upon disposal or redemption of such Notes. In a number of cases though, the applicability of this rule is limited by the applicable tax treaty for the avoidance of double taxation.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a holder not resident in the Kingdom of Sweden for Swedish tax purposes.

#### ***Holders resident in the Kingdom of Sweden***

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) with residence in the Kingdom of Sweden for Swedish tax purposes, all capital income (for example income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable. Specific tax consequences, however, may be applicable to certain categories of corporations, such as life insurance companies. Further, specific tax consequences may be applicable if, and to the extent that, a holder of Notes realises a capital loss on the Notes and to any currency exchange gains or losses.

If amounts that are considered to be interest for Swedish tax purposes are paid by a legal entity domiciled in the Kingdom of Sweden, including a Swedish branch, to a private individual (or an estate of a deceased individual) with residence in the Kingdom of Sweden for Swedish tax purposes, Swedish preliminary taxes are normally withheld by the legal entity on such payments. The Swedish government has, in the bill 2010/11:165, proposed amendments to present Swedish law which will mean that Swedish preliminary taxes may also be withheld on other returns on securities and receivables (but not capital gains), if the return is paid out together with an amount that is considered to be interest for Swedish tax purposes. The new rules are proposed to enter into force on 1 January 2012 and be applied to amounts that are paid out after the end of 2011.

### 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 certain limited types of entities established in that 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.

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 6 December 2011, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **United States**

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

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

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

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

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

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

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

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100, or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors, as

defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

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

### **United Kingdom**

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

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

### **Sweden**

Each Dealer has confirmed and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell any Notes or distribute any draft or definite document in relation to any such offer, invitation or sale in Sweden except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*Sw. lag (1991:980) om handel med finansiella instrument*).

### **Japan**

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

### **France**

This Offering Circular has not been prepared in the context of a public offering of financial securities (*offre au public de titres financiers*) in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Articles 211-1 et seq. of the General Regulation of the *Autorité des marchés financiers*, and

has therefore not been, and will not be, submitted to the *Autorité des marchés financiers* for clearance procedure.

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Offering Circular, the relevant Final Terms or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account, other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 to D.411-3, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*.

Pursuant to Article 211-3 of the General Regulation of the *Autorité des marchés financiers*, investors in France are informed that the Notes may only be issued, directly or indirectly, to the public in France in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French *Code monétaire et financier*.

### **General**

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

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

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 25 October 2011.

### Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of the Programme in respect of Notes is expected to be granted on or before 9 December 2011.

### Documents Available

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

- (a) the constitutional documents (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2009 and 31 December 2010 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer (in each case with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (d) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Offering Circular; and
- (f) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

In addition, copies of this Offering Circular, any supplement to this Offering Circular and each Final Terms relating to Notes which are either listed on the London Stock Exchange or offered to the public in the United Kingdom will be available on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

The English translations of the audit reports and financial statements referred to in (b) and (c) above are direct and accurate translations of the original documents.

## **Clearing Systems**

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

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

## **Conditions for determining price**

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

## **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer or the Issuer's group (being the Issuer and its consolidated subsidiaries) since 30 September 2011 and there has been no material adverse change in the financial position or prospects of the Issuer or the Issuer's group since 31 December 2010.

## **Litigation**

Neither the Issuer nor any other member of the Issuer's 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 Issuer's group.

## **Auditors**

The auditors of the Issuer named in the following paragraph have audited the Issuer's accounts, without qualification, in accordance with IFRS for each of the two financial years ended on 31 December 2009 and 31 December 2010.

The auditor of the Issuer for the fiscal years ended 31 December 2009 and 31 December 2010 was KPMG AB, with Stefan Holmström as auditor in charge. The auditor is an Authorised Public Accountant and does not have a material interest in the Issuer.

## **Trust Deed**

The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) and/or any other expert in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and the Auditors or such other expert in connection therewith contains any limit on the liability (monetary or otherwise) of the Auditors or such other expert.

## **Post-issuance information**

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

## **Dealers transacting with the Issuer**

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

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