Annual Report 2018

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2019 financial year:

- January–March Interim Report April 25, 2019
- January–June Interim Report July 18, 2019
- January–September Interim Report October 23, 2019

The Annual Report and all Interim Reports will be published on the Bank's website: *www.alandsbanken.fi*

They can be ordered from: info@alandsbanken.fi or from Secretariat, Bank of Åland Plc, PB 3, AX-22101 Mariehamn, Åland, Finland.

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,400-island Åland archipelago has more than 29,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2018, the middle rate for EUR 1 was USD 1.145 and SEK 10.2584.

"The Bank" refers to the Bank of Åland Plc (Ålandsbanken Abp), Parent Company of the Bank of Åland Group. Amounts have generally been rounded off to millions or thousands, but percentage figures, totals, ratios etc. are calculated on the exact amounts. The abbreviation M refers to million(s), and K means thousand(s).

Translation: Victor Kayfetz, SCAN EDIT, Oakland, CA
Cover photo: Staffan Sundström

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About the Bank of Åland

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of three offices in the Åland Islands and five offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has a total of three subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Fondbolag Ab, Ab Compass Card Oy Ltd and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- In the Åland Islands, the Bank of Åland is a bank for all residents and is both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®. We also offer asset management services for institutional investors.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2018 amount, over the years the Bank's Baltic Sea Account (formerly the Environmental Account) has contributed almost EUR 2 M to projects that improve and protect the environment.

Bank of Åland Group	2018	2017	2016	2015	2014
EUR M					
Income					
Net operating profit	29.0	26.0	25.1	30.3	22.4
Profit for the year attributable to shareholders	22.9	20.7	19.7	24.3	16.1
Volume					
Receivables from the public and public sector entities	4,022	3,979	3,808	3,617	3,343
Deposits from the public	3,304	3,148	3,028	2,517	2,201
Actively managed assets [1]	5,177	5,737	3,900	3,927	3,696
Equity capital	242	234	222	213	196
Risk exposure amount	1,578	1,538	1,576	1,581	1,554
Financial ratios					
Return on equity after taxes (ROE), % [2]	9.8	9.1	9.1	12.0	8.7
Expense/income ratio [3]	0.77	0.78	0.76	0.73	0.80
Loan loss level, % [4]	0.02	0.06	0.11	0.09	0.06
Core funding ratio, % [5]	90	88	89	100	105
Equity/assets ratio, % [6]	4.4	4.4	4.3	4.6	4.6
Common equity Tier 1 capital ratio, % [7]	13.0	12.9	11.8	12.0	10.9
Working hours re-calculated to full-time equivalent positions	691	691	683	663	644
Earnings per share, EUR	1.48	1.35	1.29	1.60	1.12
Equity capital per share, EUR	15.67	15.14	14.50	14.00	13.49
Dividend per share, EUR	0.70	0.65	0.60	0.60	0.40

[1] Actively managed assets include managed assets in the Bank's own mutual funds plus securities custodial accounts with discretionary and advisory asset management agreements

[2] Profit for the report period attributable to shareholders/Average shareholders' portion of equity capital

[3] Expenses/Income

[4] Impairment losses on loans and other commitments/Receivables from the public at the beginning of the period

[5] Receivables from the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

[6] Equity capital/Balance sheet total

[7] (Common equity Tier 1 capital/Capital requirement)×8%

The year 2018 in brief

Financial summary of 2018

- Profit for the year attributable to shareholders increased by 11 per cent to EUR 22.9 M (20.7).
- Earnings per share increased by 10 per cent to EUR 1.48 (1.35).
- Return on equity after taxes (ROE) increased to 9.8 per cent (9.1).
- Net interest income decreased by 2 per cent to EUR 54.5 M (55.9).
- Net commission income increased by 2 per cent to EUR 50.6 M (49.7).
- Total expenses decreased by 2 per cent to EUR 97.8 M (99.8).
- Net impairment losses on financial assets (including recoveries) decreased by 61 per cent to EUR 0.8 M (2.1), equivalent to a loan loss level of 0.02 (0.06) per cent.
- Actively managed assets decreased by 10 per cent to EUR 5,177 M (5,737).
- Lending increased by 1 per cent to EUR 4,022 M (3,979).
- Deposits increased by 5 per cent to EUR 3,304 M (3,148).
- The common equity Tier 1 capital ratio increased to 13.0 (12.9) per cent.
- The Board of Directors proposes an 8 per cent increase in the dividend to EUR 0.70 (0.65) per share.

Important events in 2018

FIRST QUARTER

- For the fifth consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic Fund in its category and received the prestigious Lipper Fund Award Nordic. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years.
- The Bank of Åland continued its commitment to a cleaner Baltic Sea. In 2018 the Baltic Sea Project funded nine projects that combat the problem of plastics in the Baltic Sea, totalling nearly EUR 250,000.

SECOND QUARTER

- The Annual General Meeting (AGM) on April 5, 2018 re-elected the Board onsisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Göran Persson, Ulrika Valassi and Anders Wiklöf. Board member Dan-Erik Woivalin had declined re-election. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board.
- The Bank of Åland issued SEK 200 M in subordinated debt instruments with a write-down clause to institutional investors in Sweden. The instrument has a 20-year maturity, with early repayment possible after five years and each year thereafter. The issue was priced at 3-month Stibor plus 2.40 per cent. The issue nearly doubled the Bank of Åland's supplementary capital.
- A new fund, Ålandsbanken Lunastustontti I Ky, was started. It is an alternative investment fund in the form of a limited partnership. The fund unit owners are Ålandsbanken Tomtfond, the Finnish construction company YIT and the Finnish pension insurance company Varma. Like Ålandsbanken Tomtfond, the fund invests in housing construction sites, but the newly started fund also has the opportunity to mortgage its investment properties.

THIRD QUARTER

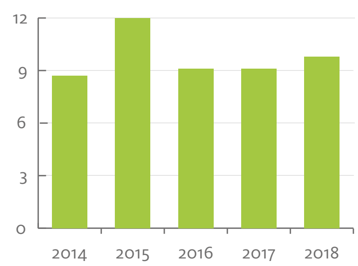
- The Standard & Poor´s Global Ratings agency revised its outlook on the Bank of Åland Plc to positive from stable. The outlook was revised based on a high probability of stronger capitalisation and profitability.
- The Bank of Åland became a part-owner of Dreams Nordic AB, a Swedish-based company that the Bank has worked with since 2015.

FOURTH QUARTER

- The Bank of Åland and the Swedish fintech start-up Doconomy began collaboration in order to offer customers a platform where they can easily use their consumer power to make a positive difference for the climate and contribute to change as part of their daily life. The Bank of Åland has also chosen to become a minority shareholder in the company. Doconomy develops the DO app, a mobile banking service enabling customers to easily track their climate impact and compensate for it, both through certified climate compensation and sustainable saving.
- The Bank of Åland and FIM Asset Management, which is owned by S-Bank (S-Pankki) and manages its mutual funds, began collaboration on certain mutual funds. As part of this collaboration, the FIM Global and Ålandsbanken Premium 100 mutual funds were merged. The combined fund's name is Ålandsbanken Global Aktie Placeringsfond. At the same time, the Bank of Åland's Emerging Markets and Kina Aktie (Chinese equity) mutual funds were merged with FIM's Emerging Markets ESG fund.

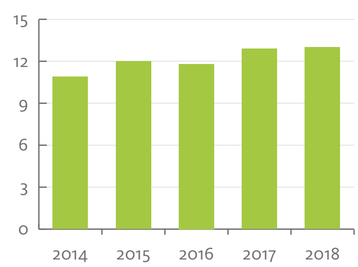
Return on equity after taxes (ROE)

Per cent

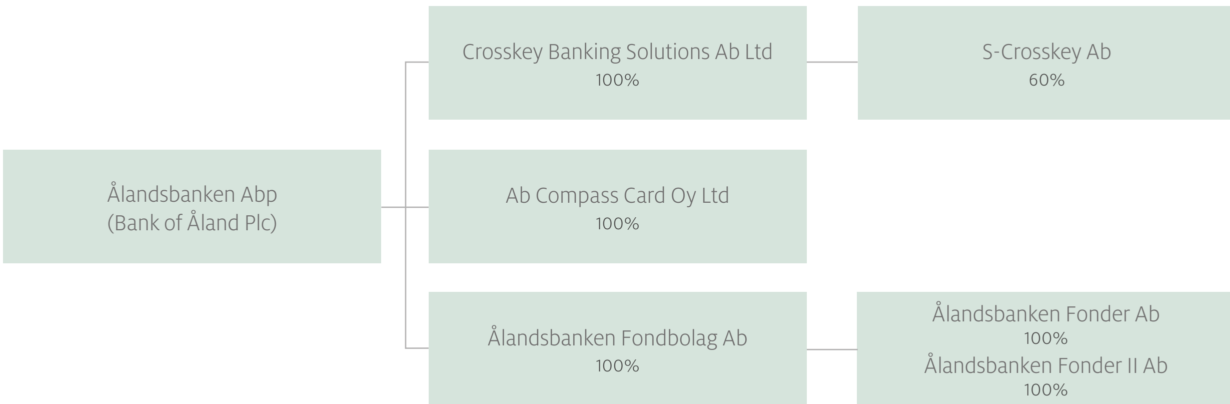


Common equity Tier 1 capital ratio

Per cent



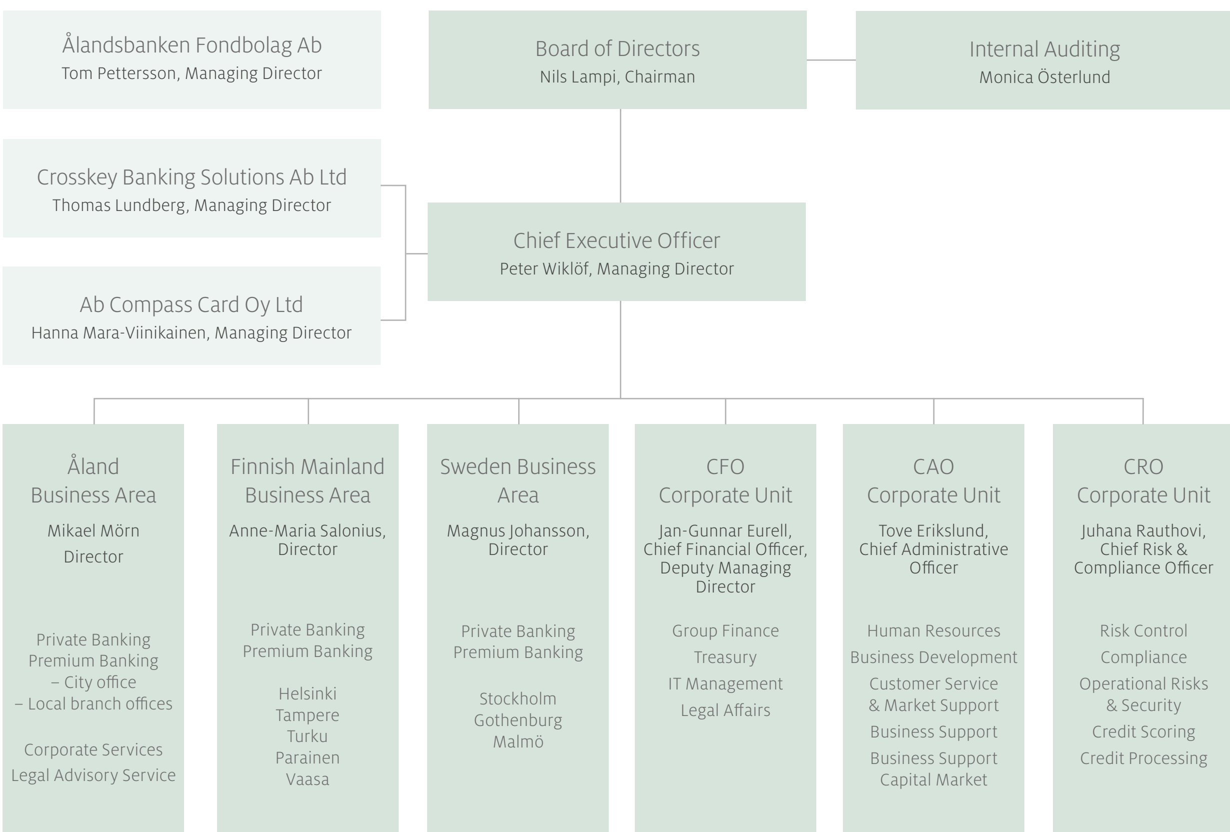
Legal structure of the Group



Associated companies consolidated in the Group:
Mäklarhuset Åland Ab, 29%
There is also one small property company, in which the Bank of Åland has 50% ownership.

Bank of Åland Abp

Organisational chart



Towards our 100th anniversary, with good earnings

Photographer: Viktor Fremling

Peter Wiklöf, Managing Director

Good earnings growth despite extensive regulatory adjustments, weak stock markets and Swedish krona depreciation.

THE WORLD AROUND US

Last year was dominated by healthy growth rates in the world's largest economies, yet towards the close of 2018 the stock and fixed income markets became turbulent. Many economists began to warn that the expansion period is approaching its end and that worries about trade wars breaking out will intensify.

Bolstered by the economic upturn, the US Federal Reserve managed to hike its key interest rate four times during 2018. It is increasingly clear that the American economy is leading the process of recovering from the financial crisis and moving us away from central banks' negative interest rates and large-scale asset purchases. Sweden's Riksbank also managed to hike its key rate for the first time in seven years, while the European Central Bank was content to stop expanding its balance sheet via bond purchases.

Short-term European market rates stopped falling. In Sweden the 3-month Stibor rate moved upward to just below zero after the Riksbank rate hike.

Stock markets were volatile during the year, with several clear upturns and downturns. Trading in 2018 closed on a sombre note. Both the Helsinki and Stockholm exchanges ended the year 8 per cent lower than they began it. Higher market volatility spread to the Swedish krona, which depreciated by 4 per cent during 2018. Since a relatively large share of our business today is in Sweden, this currency depreciation hurt both our earnings and volume figures when we report them in euros.

A SUCCESSFUL YEAR

In terms of earnings, the year as a whole was successful for the Bank of Åland. Compared to 2017, we improved our net operating profit by 11 per cent to EUR 29 M. Our return on equity after taxes reached 9.8 per cent, up from 9.1 per cent in 2017. This improvement occurred even though our employees, both in the line organisation and corporate units, faced an extensive task in implementing new regulations including MiFID 2, IFRS 9, PSD 2 and GDPR.

More than 10 years have passed since the financial crisis began, and regulators have made revolutionary changes in the playing field for banks by introducing many new regulations. The purpose of these regulations has been sound and they have strived to make banks more orderly and stable, but this had led to a new complexity in the banking world that makes it hard to assess the overall impact of each individual set of regulations. Ten years on, however, it feels as if we are starting to see a slowdown in new regulations. I believe that from 2020 onward we will be able to devote a larger share of our development resources to enhancing the customer experience and improving our processes. This is something I really look forward to.

At first glance, our total income of EUR 127.6 M may appear to be at the same level as in 2017, but if the Swedish krona exchange rate had been equivalent to its 2017 level our income would have climbed by a few million euros. The krona depreciation in 2018 consistently distorted comparisons with 2017.

CHANGED LENDING MIX

Our net interest income fell by 2 per cent to EUR 54.5 M, despite continued increases in deposit and lending volume. The reason is that market interest rates fell during most of the year, adversely affecting our net interest income. In addition, we have continued to change our lending mix in such a way that an ever-larger share, 73 per cent, of our lending goes to private individuals. Since the risk is generally lower in our type of lending to private individuals, the lending margins are also narrower. Net interest income was thus adversely affected by a lower risk level, but adjusted for risk we do not expect profitability to be lower in our lending, which is usually combined with the savings and investments of private individuals.

Overall lending rose by 1 per cent during the year to EUR 4,022 M, while lending to private individuals rose by 3 per cent compared to 2017. We are making this change in our lending mix on the Finnish mainland and in Sweden. In Åland our ambition is still to support our local entrepreneurs, and corporate lending there grew during 2018.

Deposits from the public grew during the year by 5 per cent to EUR 3,304 M. This growth in deposits occurred in all segments.

TIGHTER MUTUAL FUND STANDARDS

Net commission income rose by 2 per cent to EUR 50.6 M. This improvement was driven by rising income from customers' investment transactions and from payment traffic. The volume of financial investments we manage on behalf of our customers admittedly fell during the year due to declining share prices and a major regulatory change in the Swedish premium pension system. The change was intended to reduce the number of mutual funds offered to Swedish retirement savers, with the authorities thus raising their standards in terms of fund history and volume, among other factors. Funds were also prohibited from investing in other mutual funds. For the Bank of Åland this led to certain changes in our fund volume but had no effect on earnings, since we have not charged customers when any of our own funds have used another Bank of Åland fund to manage a given asset allocation.

The net flow of new customers and their financial investments remained strong in our Private Banking segment, which had a net inflow of EUR 393 M during the year. Because of this net inflow, the volume of our discretionary and advisory asset management mandates ended the year higher than in 2017 despite sagging stock markets.

At first glance, our total expenses of EUR 97.8 M appear to be less than in 2017, but without the Swedish krona's depreciation they would have been at about the same level. After several years of clearly rising costs, this was the trend reversal we have been aiming at. In 2018 our expenses were pushed upward by a higher resolution fee. The increase was EUR 1.7 M to EUR 2.6 M. According to the Financial Stability Authority, the increase occurred because in 2017 Danske Bank and Nordea left Finland and reorganised their Finnish business into branches. During 2018 Nordea chose to return to Finland, and it remains to be seen whether this will have any impact on the resolution fee during future years. Otherwise I think we managed to follow our plan and we had good cost discipline in all units.

THE BANK OF ÅLAND AS A TEST BED

A few years ago we were the first bank in the Nordic countries to begin collaborating with fintech start-ups. Today we see most major banks emulating us and wanting to create various kinds of fintech collaboration. Our first such business partner was the Swedish-based company Dreams, which wants to change the behaviour of young people: its goal is to encourage them to save before they consume and consequently to reject expensive "quick loans". In December 2018 we reached a milestone: 100,000 Swedes are saving money with the Bank of Åland via the Dreams service. Dreams handles all customer communications and packaging of its offerings, while we provide the banking infrastructure. During the summer of 2018 Dreams began to prepare its European expansion, and at that time we chose to become a minority shareholder.

Late in 2018 we also became a minority shareholder and business partner of Doconomy, another Swedish-based fintech company. Doconomy has chosen to combine sustainability offerings with financial services and saving in a way we have not seen matched by anyone else in the world. Since saving and sustainability issues are close to our hearts, this collaboration also feels right – as well as exciting. It is based on our shared fundamental values. Doconomy's app will be launched during the spring of 2019.

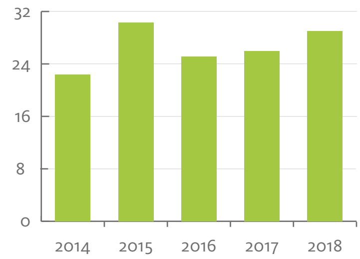
PROUDLY APPROACHING THE CENTURY MARK

To summarise, I think we turned in a solid performance during 2018. We are now seeing major banks pursuing their streamlining projects ever more aggressively: fewer and fewer customers will be offered a personal advisor. In contrast, we will be sticking to our principles and continuing to give our customers the opportunity for personal meetings with an advisor they know, while also offering first-class digital services. This approach requires more from our employees than a pure digitisation strategy would, but we are also seeing a clear demand for this offering and a willingness among customers to pay for good service.

We thus continue to follow our own path as we close the accounts for our ninety-ninth year of operations and begin our 100th anniversary year. I feel that our hundred-year-old Bank is energetic and poised to continue its journey. I also find it inspiring that customers and employees are increasingly supportive of the stable core values that serve as our inner compass as we navigate onward. Products, services and technology change over time, but we have always based our offering on a close working relationship with our customers. Or as our employees have put it: We offer a large bank's range of services with a small bank's thoughtfulness and good sense.

In closing, I would like to thank our customers and our employees for their very fine cooperation during 2018.

Net operating profit
EUR M



Daring to go our own way

As large banks become ever larger and their customers feel ever smaller, a clear need arises – the need for a bank where each customer feels seen, heard and appreciated. The Bank of Åland has nearly a century behind it as an independent, innovative and customer-oriented bank. This is why it is self-evident that we will continue along a path where the needs of our customers are the guiding principle for our development.

OUR VISION

Our aim is to be the self-evident bank for individuals with ambitions and companies that value relationships.

OUR POSITION

The Bank of Åland is a bank for investors, with financing know-how. The Bank of Åland generates value for individuals and companies by delivering a large bank's range of services with a smaller bank's thoughtfulness and sense of dedication.

At the Bank of Åland, we focus on what problems we solve, what opportunities we create and how we deliver different types of value to our customers. We always go our own way, and that is how we persuade more and more friends to join us on this path. Our choice of position is ambitious and it is a position where the Bank of Åland foresees a clear customer need and a growing market. We are growing within selected target groups, putting special emphasis on financial investment operations at the same time as we deliver financing solutions and outstanding service in other banking services.

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

The Bank of Åland's proficiency as a bank for investors has been confirmed in all its markets over the past few years. This is demonstrated by its increasing number of customers, along with various industry awards. Our financing know-how has long traditions and will continue to play a central role.

CUSTOMER RELATIONSHIPS AND TRUST

All sound banking business is based on trust. This is especially evident in the way that customers handle their financial investments. We know that it requires time and dedication to build trust among new customers. The Bank of Åland offers a bank as it should be – a bank that wants individuals, companies and the community to have fertile ground for development.

We are convinced that strong, long-term relationships are built through good performance by ambitious people.

GOOD SERVICE VIA ALL CHANNELS

The Bank of Åland has always welcomed new technology that makes everyday life easier for our customers. Our Internet Bank has thus been a forerunner in the industry since its inception. In our development work, we draw no distinctions between personal and digital encounters. Regardless of the channel, our customers shall always feel that they are receiving good service. Our relationships shall be equally strong in every channel. But we also take advantage of the special strengths of the various channels. Personal meetings are the most suitable channel for advisory services, while our Internet Office – delivered via the Web – and our banking app using mobile devices enable customers to gain a clear overview and seamlessly manage their everyday finances.

OUR THREE MARKETS

The Bank of Åland's vision and choice of preferred position are the same in our three markets, but there are also dissimilarities between them. In Åland, we are a bank for all residents and we contribute proactively to the Åland community. On the Finnish mainland and in Sweden, we emphasise financial investments and saving, while our strong financing know-how is an important element of our customer offering.

GOING OUR OWN WAY IS EMBEDDED IN OUR GENES

Over the years, the Bank of Åland has successfully and repeatedly chosen a path that was new and different – often ambitious but always responsible. We will continue on that path, while upholding our ambition to always put the customer first. Our own path is based on the conviction that a clear customer focus will give us both loyal customers and strong relationships. We take responsibility for the parts and we take responsibility for the whole. The most important thing for our customers is that we ensure them a responsible sense of dedication that optimally satisfies their needs. By providing such a customer experience, we go our own way.

As large banks become ever larger and their customers feel ever smaller, a clear need arises – the need for a bank where each customer feels seen, heard and appreciated. The Bank of Åland has nearly a century behind it as an independent, innovative and customer-oriented bank. This is why it is self-evident that we will continue along a path where the needs of our customers are the guiding principle for our development.

Photo: Shutterstock

Sustainable business, good business

A year ago we wrote that our customers are surrounded by sustainability noise. That noise has hardly decreased, but we do not see people at the individual level having thereby become desensitised. On the contrary, among the broad general public we perceive a growing commitment and an increasingly obvious awareness – an awareness that, especially among younger generations, seems to stem from fear and concern about the state of the world.

In case this analysis is sound, of which there are many indications, it means that the responsibility of the business community is very much increasing. Those businesses that want to be able to look their customers in the eyes cannot rely on lip service. They must proactively contribute to a more sustainable world.

Meanwhile we are seeing the sustainability aspect becoming an ever-stronger economic driver for many inventive start-ups. Happily, the Bank of Åland has been able to join in supporting two interesting innovators. The first of these was Dreams, which late in 2018 was proclaimed as one of the world's foremost fintech innovators. In June, the Bank intensified its collaboration with Dreams by becoming a part-owner of the company. With its inspiring savings and investment services, Dreams wants to be a sound alternative to expensive consumer "quick loans" – contributing to a healthier financial lifestyle among its customers.

Late in the year, the Bank announced its collaboration with Doconomy (read more about Doconomy further ahead), which has a connection with the Åland Index, one of the cornerstones of our Baltic Sea Project.

These two Swedish start-ups are part of a growing number of market players which realise that business opportunities and a strong focus on sustainability are not polar opposites, but instead two equally valuable building blocks for creating sustainable businesses in a new era.

As for the Baltic Sea Project, 2018 was the year when we also launched the project on a broad front for our customers in Sweden by beginning distribution of the Baltic Sea Card during the autumn. Initial reactions from Swedish customers have been very encouraging. In Finland, where the Baltic Sea Project has been up and running for a couple of years, more and more people are choosing to switch to the Bank of Åland and are citing our commitment to the Baltic Sea as one reason. We see this as yet another example of how sustainability and good business go hand in hand.

International interest in the Baltic Sea Project remained extensive in 2018. We presented the Baltic Sea Card and the Åland Index at such events as the Sustainable Brand Seminar in Vancouver, at MasterCard's Nordic customer meetings and during the Social Enterprise Summit in Hong Kong. After internal discussions, we have concluded that by reaching out to an international audience, we have an opportunity to inspire and influence organisations to create climate-smart tools and services.

If we look in the mirror, we can note with cautious pride that in 2018 we took concrete steps forward to lower the Bank of Åland's environmental impact. While the Bank's carbon dioxide footprint during 2017 was 396,300 kg (travel, materials and energy consumption), during 2018 we cut this to about 338,500 kg, a 14 per cent decrease from 2017. By far the biggest decrease was due to air travel, which fell by 57,600 kg while the target we had set was 16,900 kg of CO_2.

We compensate for our environmental impact via the Baltic Sea Account and its support for a healthier Baltic Sea. Up to 2018, this compensation has amounted to EUR 2 million. This is one way of living up to the expectations that our customers and other stakeholders have about the Bank of Åland and our sustainability work. At the same time, environmental compensation must only be regarded as a tool for raising awareness of a problem. The objective is a lasting change in our collective behaviour pattern.

The Bank's sustainability strategy in 2018

The efforts we make in our sustainability work are based on the strategy we rely on daily and adapt as the Group evolves.

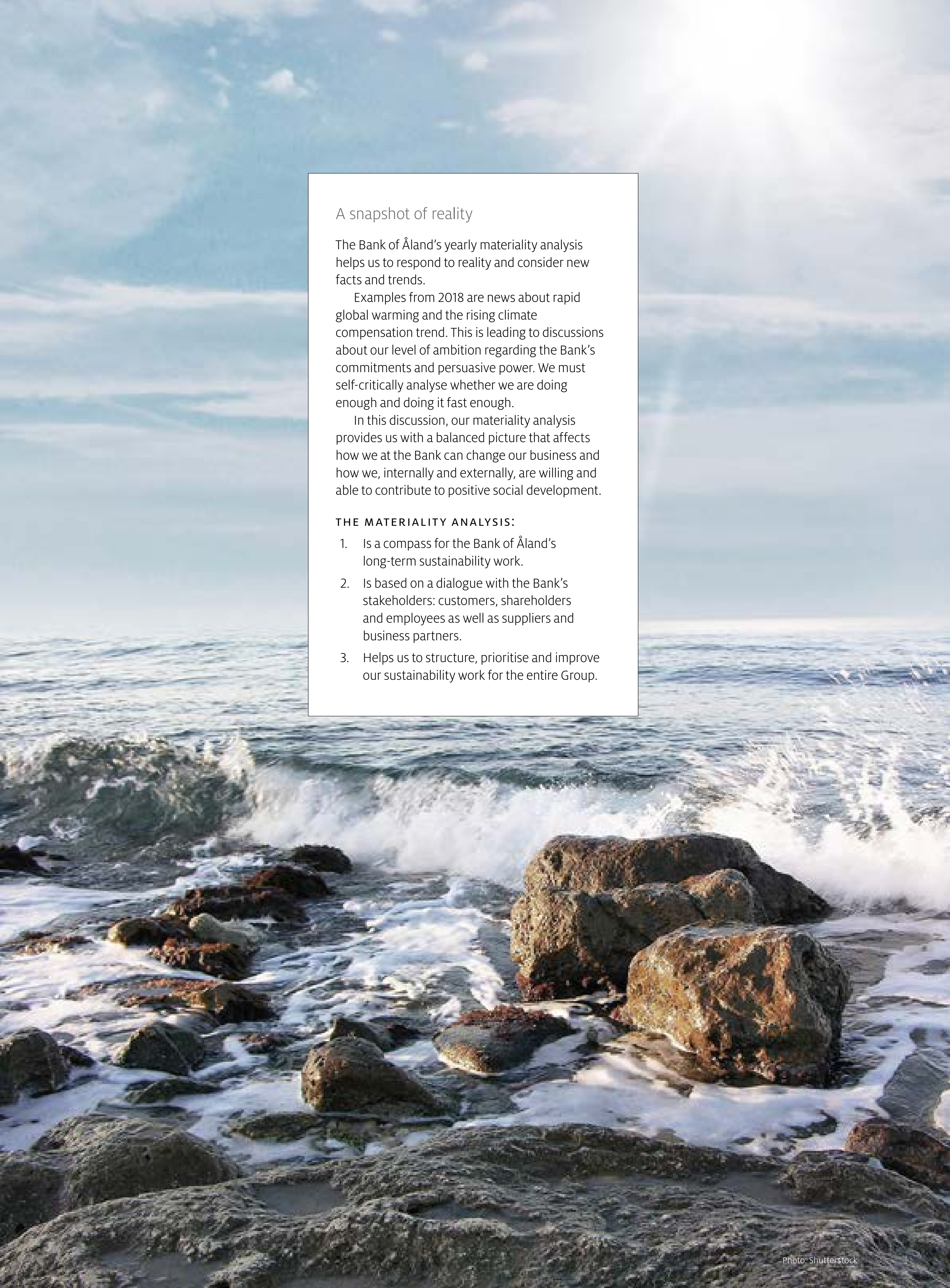
We must carry out our operations with long-term financial, social and environmental sustainability in mind. In this work, we follow the United Nations' global sustainable development goals and our own yearly materiality analysis.

Below is a presentation of the Bank of Åland's four focus areas, each with a brief description of our strategy and the Bank's main actions in 2018.

1. RESPONSIBLE INVESTMENTS

The Bank of Åland follows the United Nations principles for responsible investment (UNPRI), and our reviews of companies' environmental, social and governance (ESG) actions are performed on the basis of UN guidelines. Our partnership with the independent ESG evaluator Sustainalytics enables us to integrate ESG factors into the Bank's investment process on a global basis. We follow a best-in-class model and prioritise the companies in each sector with the highest sustainability scores. We exclude companies that specialise in gaming, tobacco and alcohol products, weapons and pornography.

- We trained Bank employees in the field of responsible investments. We see a growing demand for information on how we work with ESG issues when choosing investments.
- We measure the CO_2 intensity of our mutual funds according to recommendations from the Swedish Investment Fund Association and we aim at gradually falling levels.
- We signed on to the Climate Action 100+ initiative, whose vision is that investors worldwide should help persuade the 100 international companies that top the list of greenhouse gas emitters to change their business models so they can reduce their emissions.



A snapshot of reality

The Bank of Åland's yearly materiality analysis helps us to respond to reality and consider new facts and trends.

Examples from 2018 are news about rapid global warming and the rising climate compensation trend. This is leading to discussions about our level of ambition regarding the Bank's commitments and persuasive power. We must self-critically analyse whether we are doing enough and doing it fast enough.

In this discussion, our materiality analysis provides us with a balanced picture that affects how we at the Bank can change our business and how we, internally and externally, are willing and able to contribute to positive social development.

THE MATERIALITY ANALYSIS:

1. Is a compass for the Bank of Åland's long-term sustainability work.
2. Is based on a dialogue with the Bank's stakeholders: customers, shareholders and employees as well as suppliers and business partners.
3. Helps us to structure, prioritise and improve our sustainability work for the entire Group.

Photo: Shutterstock

- We actively participated in public discourse via our membership in the Finland Sustainable Investment Forum (Finsif) and the Swedish Sustainable Investment Forum (Swesif). We also took part in panel discussions sponsored by such organisations as the IVL Swedish Environmental Research Institute, Emmaus, Bonnier Media, Lund University and the Dagens Industri Advisory Board on corporate sustainability ranking.
- Reporting on our work with responsible investments occurs by means of the annual PRI self-evaluation, which is published externally. New in 2018 was a sustainability report for the Bank of Åland's mutual funds.

In discussions with customers and potential customers during 2018, we noted an increasing interest in how we pursue our efforts to influence the companies we invest in. There is also growing demand for reporting of sustainability scores for our portfolios. The Bank's attitude towards fossil fuels and the potential for reporting sustainability facts about discretionary investment portfolios remain topical.

2. RESPONSIBLE LENDING

We support the national economy by financing sound projects that can be successfully realised. Our lending must always be based on knowing the customer well. We make responsible lending decisions based on an objective assessment of the customer's repayment capacity.

- The Bank of Åland encourages its corporate customers to develop sustainability work in their businesses and monitors their sustainability maturity.
- The Bank's lending mainly consists of home mortgage financing for private individuals and lending to support our customers' savings and investment activities. Eighty per cent of the Group's lending is intended for homes, other real estate, securities and other financial assets.
- The Bank of Åland protects the water quality of the Baltic Sea by limiting its lending for maritime-based fish farming only to those investments that decrease environmental impacts.

3. SOCIAL RESPONSIBILITY

We are a bank that works for the development of people, businesses and society. We respect social and cultural diversity. We want to be an attractive workplace and the first choice among the best talents in the market. We follow a policy of ethical behaviour as well as identification and management of conflicts of interest. We work actively to combat money laundering and other criminality.

- During the year we continued our task of centralising the Group's corporate units at the Head Office. This meant that in 2018 we had a staff turnover of 12.2 per cent, which is somewhat higher than our target. Reorganisations in Sweden and Finland have also led to some reallocation of roles. Despite increased staff turnover, employee commitment remained high: employees rated the Group at 3.8 out of 5. Healthy attendance increased to 94.1 per cent from 92.8 per cent the previous year, which is in line with our short-term target of 95 per cent healthy attendance.
- During 2018 the Group's skills platform largely focused on ensuring that we are living up to the regulatory requirements that arose due to the EU's MiFID directive. A number of online training programmes were initiated during the year and will go into service during 2019.
- We improved our internal ethical behaviour regulations in order to ensure that the Bank's actions maintain a high level of ethics in compliance with external laws and rules as well as sound practices in financial markets. Training courses in such areas as GDPR, confidentiality, information security, money laundering and conflicts of interest were provided during the year.
- As part of the Bank's social and youth work, we became involved in local immigrant integration projects. We encourage studies by donating yearly stipends to all Åland schools. The Bank has also sponsored the youth activities of Åland non-profit organisations.
- In the Group's gender equality work, we try to achieve a balance between the sexes when filling new positions. Our goal is an even gender breakdown (at least 40/60). At the team and department level, and in certain roles, imbalances may occur, but total gender representation in the Group is now 49/51. In the Executive Team and on boards of directors with external members, the breakdown is 28 per cent women and 72 per cent men (2017: 24/76). In the Group's succession planning, we have a 50/50 balance.

As for employee turnover, in the short term we will achieve greater stability. The objective is that employee turnover should not exceed 5 per cent yearly. During 2019 we will also focus on ensuring good, efficient employee skills development. The new regulations introduced in recent years have led to higher training requirements in all positions, and we want to meet this challenge in the best way.

4. ENVIRONMENTAL RESPONSIBILITY

The Bank of Åland works towards an awareness and reduction of the organisation's resource consumption and environmental impact. We make an active effort to achieve the established targets in the Group's environmental plan. We offset our resource consumption and environmental impact by distributing funds yearly for Baltic Sea environmental projects. We pursue a dialogue about sustainability and environmental responsibility with our suppliers and business partners.

- Our customers have shown a strong commitment through the Baltic Sea Account, in which 0.2 per cent of returns go to environmentally supportive or compensatory activities. Our goal for 2018 was 1,600 new depositors in Baltic Sea Accounts, and we achieved more than 1,500 new depositors. During 2018 we distributed about EUR 250,000 to nine environmental projects.
- The Bank of Åland's environmental communications via social media have also reached a large audience. Our ambition is to provide environmental education and tips about sustainable choices in everyday life. On Facebook, for example, we have more than three million followers.

- In addition to the Baltic Sea Project, we also continued our commitment to the Stockholm International Water Institute (SIWI) and to the Bärkraft Network for a sustainable Åland. We participate in the strategic planning of both organisations.
- During 2018 we continued to systematically highlight sustainability in our daily work through support and encouragement. We signed a contract during the year aimed at obtaining more green energy, while taking advantage of our solar panels on the Head Office building in Mariehamn. The energy we have generated via these panels would heat two single-family homes for a year, but this quantity of energy is of course only a fraction of what our business requires. Of the energy that the Group uses, 65 per cent comes from renewable sources. Our long-term ambition is to use more and more green energy each year and try to achieve 100 per cent in 2022.
- The number of business trips varies from year to year. In 2017 we were unable to live up to our targets, but in 2018 we reported a 13 per cent downturn in air travel from the year before. This decrease is of course visible in the Group's total carbon dioxide emissions. This means we exceeded our target of a 3 per cent reduction by a wide margin. The reduction was the result of a deliberate effort to change travel behaviour in the Group. To an increasing extent, we have relied on digital solutions. Several travel-intensive projects have also ended or moved into a new phase. The target for the year was that 25 per cent of our travel would use modes of transport with lower carbon dioxide emissions that aircraft, and we achieved 23 per cent.
- As for materials, we improved our procurement monitoring. More and more suppliers are delivering environmentally certified products, including all the paper that the Group uses. We did not quite achieve our target of reducing paper consumption by 5 per cent, but we decreased consumption by 3 per cent compared to 2017. Yet we are still confident about the future, since the Bank is implementing various streamlining projects that will decrease the quantity of paper mailings to customers, for example. The response from our customers has been encouraging. A clear majority prefer digital mailings.

Finally, it is worth noting that our employees have expressed enthusiasm about working for a bank with a clear sense of responsibility about sustainability and the environment. We view this internal commitment as essential if we are to inspire and engage our customers, and also if we are to reduce our own carbon dioxide emissions. During 2018 we lowered our carbon dioxide emissions from travel, electricity and paper consumption by 14 per cent compared to 2017. During 2019 we want to reduce our emissions by another 10 per cent, mainly though more environmentally friendly travel choices.

Of the energy that the Group uses, 65 per cent comes from renewable sources. Our long-term ambition is to use more and more greenenergy each year and try to achieve 100 per cent in 2022.

Governance and management

Sustainability is a natural element of the Bank of Åland's business strategy. The Group's Board of Directors consequently oversees both its strategic sustainability objectives and their yearly monitoring.

The Group's Executive Team pursues a continuous discussion on our corporate responsibility. The Team is in charge of the Bank of Åland's strategic sustainability work. A sense of commitment and responsibility drives this work in a natural, self-evident way.

Based on their specific roles, all executives and employees are responsible for ensuring that the Bank of Åland develops in a sustainable way. Among the tools of this work are directives, guidelines and plans that concretise the strategy in each area of sustainability.

The Group's ESG Committee met on a quarterly basis to discuss and make decisions on current sustainability and investment-related issues.

The Bank's environmental working group consists of committed employees. The group met regularly during 2018. Its agenda has included such matters as reducing the use of plastics and how the Group can use water more efficiently.

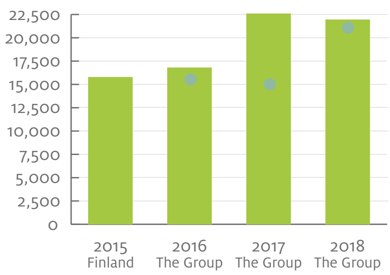
Photographer: Jan Karlsson

Measuring our environment impact

Paper consumption | **Energy consumption** | **Business travel**

The targets in the Group's yearly environmental plan are shown in the charts below as small circles. The calculation models for these targets diverged somewhat in 2015 compared to 2016, 2017 and 2018, which used the same calculation models.

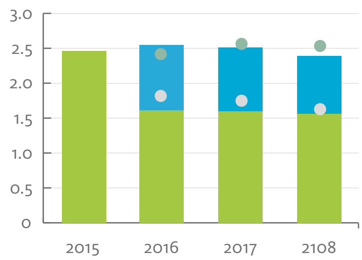
Group paper consumption
kg



Our target

Our target is an annual decrease of at least 5 per cent. During 2018 we achieved a reduction of about 3 per cent compared to 2017.

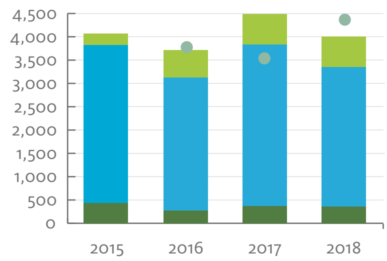
Group energy consumption
GWh



GWh other
GWh renewable
Our total target
Our green energy target

During 2018, total energy consumption fell from 2.51 GWh to 2.39 GWh. More than 65 per cent of the energy consumed was generated using renewal sources ("green energy"), while the target was 70 per cent.

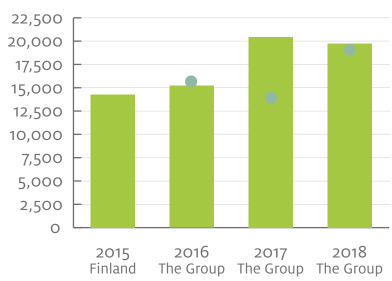
Number of business trips in the Group



Train
Aircraft
Ship
Our total target

The target for 2018 was to lower the number of air trips by 3 per cent, and the reduction was 13 per cent. More than 23 per cent of all trips used alternative modes of transport, while the target was 25 per cent.

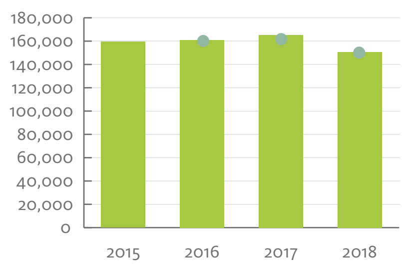
Quantity of carbon dioxide emissions caused by paper consumption
CO_2 in kg



Our total target

Decreased paper consumption during 2018 led to a carbon dioxide emissions reduction of about 700 kg, while the target was 1,000 kg.

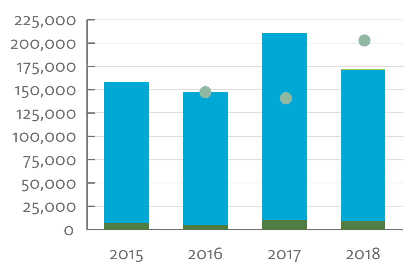
Indirect carbon dioxide emissions from Group energy consumption
CO_2 in kg



Our target

At the same time as the Group consumed less energy, carbon dioxide emissions also fell from 160,000 kg to 150,000 kg.

Quantity of carbon dioxide emissions caused by travel
CO_2 in kg



Train
Aircraft
Ship
Our total target

Fewer air trips within the Group meant less carbon dioxide emissions. Emissions from air travel decreased by 18 per cent during 2018, while emissions from all travel decreased from 210,600 kg to 172,000 kg.

Information about employees

Employee mobility	2018	2017	2016
Expansion, %	12.6	12.3	10.7
Employee turnover, %	12.2	11.9	8.8

Expansion

By gender

- Women
- Men

By age category

- >30
- 30–50
- 50>

By region

- Åland
- Finnish mainland
- Sweden

The Group hired 88 new regular employees during 2018. Compared to total full-time equivalent employees, this represented an expansion of 12.6 per cent, which was an increase from 12.3 per cent in 2017.

Employee turnover

By gender

- Women
- Men

By age category

- >30
- 30–50
- 50>

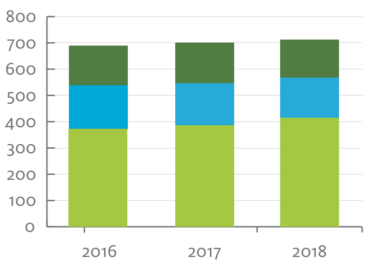
By region

- Åland
- Finnish mainland
- Sweden

In the Bank of Åland Group, 85 people ended their regular employment, including five retirements. Turnover as a percentage of total full-time equivalent employees during 2018 was thus 12.2 per cent, an increase from 11.9 per cent in 2017.

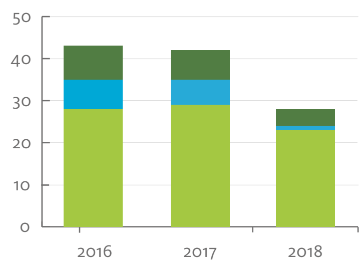
Employment contract type by region

Regular



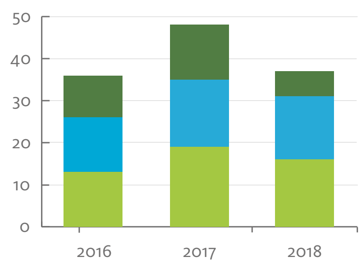
Åland · Finnish mainland · Sweden

Temporary, monthly



Åland · Finnish mainland · Sweden

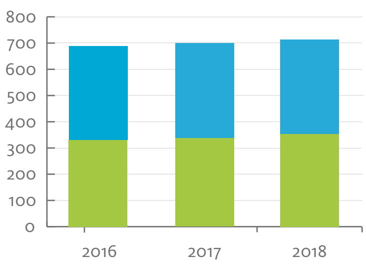
Temporary, hourly



Åland · Finnish mainland · Sweden

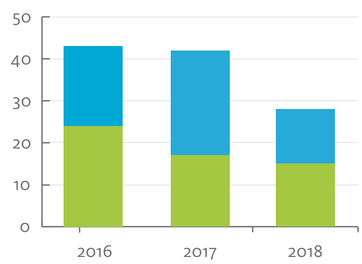
Employment contract type by gender

Regular



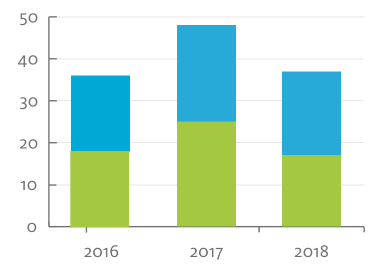
Women · Men

Temporary, monthly



Women · Men

Temporary, hourly



Women · Men

Full-time/part-time by gender	2018			2017			2016		
Gender	Part-time	Full-time	Total	Part-time	Full-time	Total	Part-time	Full-time	Total
Women	69	316	385	75	304	379	84	289	373
Men	30	363	393	31	380	411	25	370	395
Total	**99**	**679**	**778**	**106**	**684**	**790**	**109**	**659**	**768**

The number of jobs in the Group totalled 778 at the end of 2018, which was a decrease of 12 during the year. Of these 778 employees, 91 per cent had permanent contracts and 9 per cent had temporary contracts. Women accounted for 69 per cent of all part-time jobs while men accounted for 31 per cent. Just over half the work force was stationed in Åland, while the Finnish mainland and Sweden each accounted for half of the remainder. In addition, 136 consultants worked in the Group at year-end.

Healthy attendance and accidents	2018	2017	2016
Healthy attendance, %	94.1	92.8	93.7
Accidents	12	8	11

"Healthy attendance" means the percentage of people who did not have any continuous absence due to illness longer than two weeks during the year.

Information about diversity

Gender breakdown	2018		2017		2016	
Gender	Number	%	Number	%	Number	%
Governing bodies						
Women	7	28	6	24	7	28
Men	18	72	19	76	18	72
Total	**25**	**100**	**25**	**100**	**25**	**100**
Employees						
Women	385	49	379	48	373	49
Men	393	51	411	52	395	51
Total	**778**	**100**	**790**	**100**	**768**	**100**

Our goal is an even gender breakdown (at least 40/60). Total gender representation in the Group is now 49/51. In the Executive Team and on boards of directors with external members, the breakdown is 28 per cent women and 72 per cent men.

Age breakdown	2018		2017		2016	
Age category	Number	%	Number	%	Number	%
Governing bodies						
<30	0	0	0	0	0	0
30–50	8	32	9	36	9	36
50>	17	68	16	64	16	64
Total	**25**	**100**	**25**	**100**	**25**	**100**
Employees						
<30	121	16	133	17	111	15
30–50	425	55	438	55	425	55
50>	232	30	219	28	232	30
Total	**778**	**100**	**790**	**100**	**768**	**100**

Information about social commitments

Economic value-added	2018	2017
EUR M		
Total income minus impairment losses		
Value-added generated by serving the Bank's customers	**126.8**	**125.9**
Employees		
Salaries	42.1	42.8
Social security and other staff costs	15.0	17.0
Total value to employees	**57.1**	**59.8**
To central government		
Income taxes	6.1	5.3
Non-deductible value-added taxes	5.1	6.0
Deposit guarantee fees	0.0	0.0
Fees to government stability fund	2.6	0.9
Total value to central government	**13.8**	**12.2**
Suppliers *	32.7	32.5
Sponsorships	0.3	0.5
Total other value to society	**33.0**	**33.1**
Transactions with shareholders		
Dividend paid	10.0	9.2
New share issue	–0.5	–1.6
Total transactions with shareholders	**9.5**	**7.6**
Remaining in the Bank		
Reinvested economic value	**13.4**	**13.1**

* Refers to miscellaneous administrative expenses and depreciation/amortisation.

Economic value-added

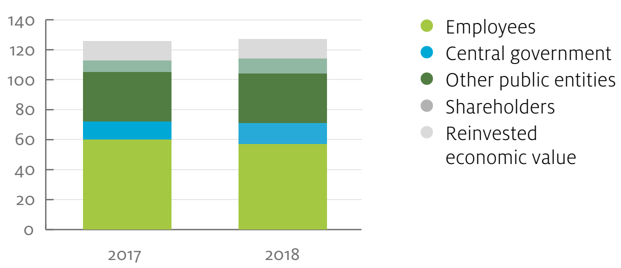


Photo: Shutterstock

Promoting sustainable consumption without lecturing

When the DO app can be downloaded during the first quarter of 2019, Swedish consumers will be able to track in real time what climate impact their spending has and then compensate for it. DO is not about lecturing consumers, but about changing their shopping habits through encouragement, tips and suggestions.

In the autumn of 2018, when Nathalie Green accepted the challenge of becoming CEO of Doconomy, a start-up based in Stockholm, her previous résumé included working with sustainable funds and handling communications at the Swedish pension insurance company SPP.

"I have watched consumers moving towards sustainable forms of savings, but consumption is still much closer to their heart than saving."

This is where Doconomy and its DO computer application help bridge a gap.

"DO is all about a positive customer experience. You should consider it easy to track how your everyday consumption and climate impact go hand in hand," says Nathalie Green.

To make this possible, Doconomy offers the DO app along with a debit and credit card that measure and display the carbon footprint of every purchase you make – both the quantity of carbon dioxide and a monetary amount. It uses the Åland Index, provided by the Bank of Åland and its subsidiary Crosskey, to make this complex calculation. The Index is one of the cornerstones of the Bank's Baltic Sea Project. By translating the carbon dioxide emissions from a new T-shirt into a monetary amount, it gives users a clearer idea of the total cost of their climate impact.

DO users will then have an opportunity to compensate for this impact, either by helping to finance United Nations-certified projects in developing countries or by investing the money in sustainable mutual funds.

"But since it is better for the world climate for us to reduce our consumption, we will also offer an opportunity to save in an account that climate-compensates for the money that is saved," says Nathalie Green. She continues:

"We want to encourage a positive change of behaviour. We can do this by giving our customers concrete tips and suggestions."

And she is convinced that it is possible to change people's deeply rooted purchasing habits. "In fact, I am pleasantly surprised at seeing the sense of commitment we have encountered."

At the Bank of Åland, Managing Director Peter Wiklöf says that the Bank has seized the opportunity to serve as an enabler for a company with which it shares fundamental principles.

"At the Bank of Åland, together with our customers we have worked for more than 20 years to support environmental projects. So it is both natural and enjoyable to continue that task together with our new business partner Doconomy, in which we have also chosen to become a minority shareholder," Wiklöf says.

Nathalie Green, CEO of Doconomy.

Photographer: Dan Coleman

Battle against plastic pollution grows stronger

More and more people are rolling up their sleeves and dealing with the world's plastic problem. While private individuals choose cloth and paper carrier bags, companies and organisations are responsible for a growing number of innovations to reduce plastic waste. Consequently the battle against plastic was the focus when the winner of the Baltic Sea Project's 2018 prize competition was selected.

Johannes Myllykoski of Kokkola, Finland, received the year's main funding grant of EUR 70,000. Myllykoski previously worked with equipment for cleaning up oil spills, and for nearly eight years he has been developing a plastic waste collector that can clean up both oil and plastic at sea – 1.2 km at a time.

"The thought of what we are leaving behind for our children and whether they will drown in plastic made me feel sick," said Myllykoski at the prize ceremony.

Second prize, EUR 50,000, went to Sulapac, a company that produces biodegradable design packaging. The company's founders, Suvi Haimi and Laura Kyllönen, have developed a material that is a combination of wood and other biological materials. It is completely biodegradable but still has plastic-like qualities. In other words: a perfect challenger for those awful plastics.

"Our motto is 'Every package makes a difference'," said CEO Suvi Haimi as the two Sulapac founders accepted their prize from the Baltic Sea Project.

Meanwhile more and more cities are beginning to realise that they should join the battle against plastic pollution. One of them is Mariehamn, which has launched an ambitious project together with the environmental unit of the Åland provincial government.

The intention is to remove microplastics from Slemmern bay on the east side of the city. The solution is a multifunctional wetland that separates out microplastics, nutrients and other pollutants while creating a suitable biotope for fish and fowl. This ambitious project received EUR 35,000 in support from the Baltic Sea Project.

During 2018 the Bank of Åland provided EUR 250,000 in project funding via the Baltic Sea Project. In addition, the Bank supported the Baltic Sea with an additional EUR 105,000 via the environmental organisations WWF Finland and Race for the Baltic. Since 1997 the Bank has distributed nearly EUR 2 million to various environmental projects.

A one-minute sustainability review

THREE BUSINESS AREAS

The Bank of Åland has operations in thirteen locations, of which five are in the Åland Islands.

INVESTING

We follow the United Nations principles for responsible investment (UNPRI).

PRI Principles for Responsible Investment

NO LENDING TO

or to activities that, for example, have an adverse impact on places on the UNESCO World Heritage list or on national parks and nature reserves.

THE BALTIC SEA PROJECT

EUR 2,000,000 for good environmental ideas since 1997.

2,000,000

ÖSTERSJÖPROJEKTET
ITÄMERIPROJEKTI
BALTICSEAPROJECT.ORG

SUSTAINABLE ENERGY USE

70% of all energy via renewable sources ("green energy").

Priorities in the Bank's travel:

+

-

OUR VALUES

In our day-to-day work, we navigate towards sustainability through our values.

ONE PLANET

The Bank of Åland works to ensure that we can live the life we live today and still make sure the resources on our planet will be enough.

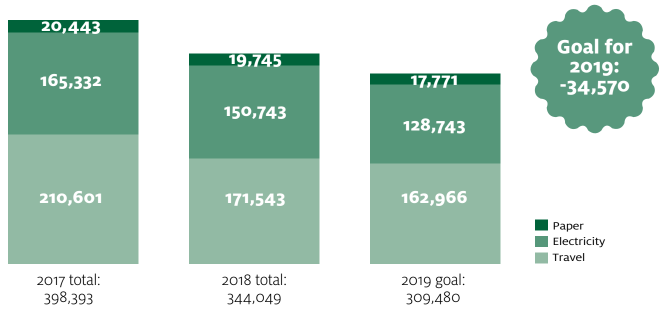
97%

The Bank seeks to always have at least 97% healthy attendance.

Best in Class means investing only in businesses with high ESG ratings in their peer group, where we measure carbon dioxide intensity.

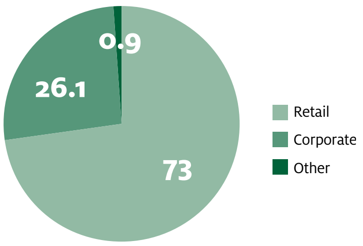
Best in Class
ESG Rating

CO_2 EMISSIONS BY BANK OF ÅLAND (KG)

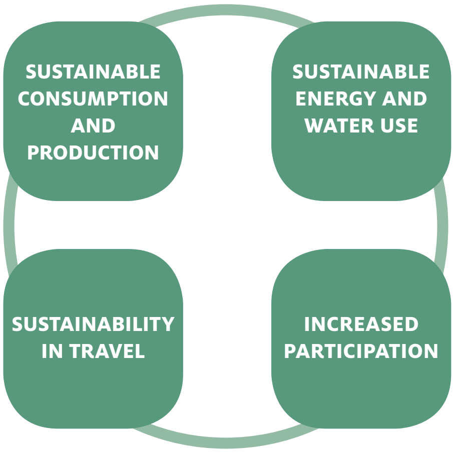


SUSTAINABLE LENDING

Our overall loan portfolio mainly consists of private individuals ("retail" lending).

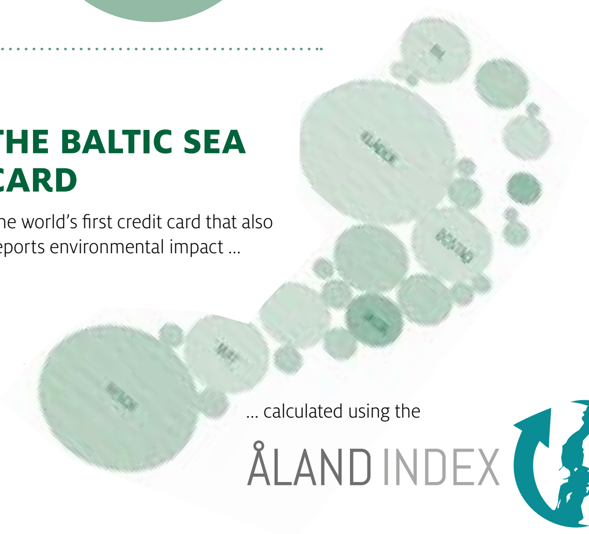


INTERNAL FOCUS ON REDUCING CO_2



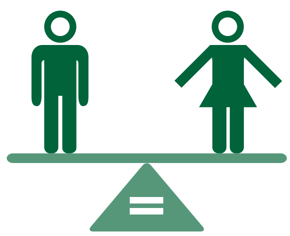
THE BALTIC SEA CARD

The world's first credit card that also reports environmental impact ...



... calculated using the ÅLAND INDEX®

THE BANK OF ÅLAND'S PRIORITIES AMONG UN SUSTAINABLE DEVELOPMENT GOALS



Balanced representation between women and men

Social commitments
We encourage and become involved in sports, culture and studies by donating stipends to Åland schools yearly. We also participate in the Business Lead Finland immigrant integration project, aimed at increasing diversity in the financial services sector.

Ensure equal pay for equal work.

bärkraft.ax · Climate Action 100+ · SIWI · SWESIF · FINSIF · WWF FINLAND IN COOPERATION WITH ALANDSBANKEN FOR A CLEANER BALTIC SEA

In addition to the Baltic Sea Project, we are involved in the Stockholm Water Institute (SIWI), the Bärkraft network for a sustainable Åland, WWF Finland, Climate Action 100+ and the Swedish Sustainable Investment Forum and the Finnish Sustainable Investment Forum.

Growing demand is being met with new colleagues

Photographer: Viktor Fremling

Magnus Johansson, Director of the Sweden Business Area; Mikael Mörn, Director of the Åland Business Area; and Anne-Maria Salonius, Director of the Finnish Mainland Business Area.

A total of 114 people work in the Bank of Åland's Private Banking operations in Åland, on the Finnish mainland and in Sweden. Our Private Banking offering is one of the cornerstones of the Bank's business.

Private Banking customers accounted for 60 per cent of the Bank's actively managed assets, 52 per cent of deposit volume and 57 per cent of lending volume. Net operating profit from Private Banking in 2018 amounted to EUR 17.7 M, which was equivalent to 61 per cent of the Bank's total net operating profit. Return on allocated equity was 18.0 per cent.

In Åland, our offering continues to attract new Private Banking customers. Some of the increase has taken place through more business with existing customers, but we are seeing many new customers switching to the Bank of Åland and we are happy to interpret this as an acknowledgment that we are delivering a high-quality service package. The number of Åland customers with asset management agreements rose by 8 per cent in 2018. This good growth rate has gone hand in hand with a carefully considered and active employee recruitment strategy that ensures high quality service.

In Sweden, the Private Banking team has successfully recruited and strengthened its staff resources in such areas as Financial Planning. One interesting detail in the recruitment process is that we can increasingly welcome highly qualified employees from other Private Banking providers, which we see as a good testimonial for our reputation among industry colleagues. Another trend that has strengthened during the year is that an increasing number of Swedes living abroad and Swedish entrepreneurs are choosing the Bank of Åland as their main Private Banking partner. Consequently, actively managed assets increased by about 30 percent, which is the highest growth since the Bank established operations in Sweden.

On the Finnish mainland, the Private Banking team has been expanded by five recruitments. Interestingly, it is the offices in Turku, Tampere and Vaasa that have grown, which is a signal that the Bank of Åland's reputation as a high-quality Private Banking provider has now spread far beyond the Helsinki metropolitan area. This trend is also evident in the fact that demand for the bank's legal services reached a record level in 2018.

All in all, the Bank of Åland's Private Banking model is working well and is attracting interest among the target groups in all three of our markets. Since the necessary adjustments to new regulations occurred successfully in 2018, there are good reasons to look ahead to the future with confidence.

Greater accessibility provides stronger relationships

All individual customers who are not Private Banking customers or direct Asset Management customers are reported in the Premium Banking business segment. The Bank of Åland's corporate unit in Åland is also part of this segment.

In 2018 the number of customers with Premium Banking agreements increased by 5 per cent. The largest number of Premium Banking customers is found on the Finnish mainland, while our fastest growth rate is in Sweden. In Åland, too, the number of premium customers continues to grow.

Volume growth during the year was good but was slower than in 2017. Deposits grew by 6 percent and lending by 5 percent. Due to negative stock market performance, actively managed assets were essentially unchanged.

Profitability has continued to improve within Premium Banking. In 2018 net operating profit was EUR 9.9 M, and return on allocated equity was 8.7 per cent. One important explanation for the increase in earnings is that the quality of the lending portfolio improved as the special funding unit in Helsinki was phased out. At the same time as income has increased, expenses have decreased.

During the year, customers gained improved functionality in the Mobile Bank, including push alerts in case of card transactions (in Sweden) and making Premium Security/ Lifestyle services accessible also via the Mobile Bank. The Premium Banking concept strengthened its security features by adding the new Web Cleanup service. Combined with ID theft support and ID theft insurance, Premium Banking provides a comprehensive service package for prevention and assistance to people exposed to ID fraud.

In our home market, Åland, we are pleased with the continued strong interest in our Premium offering. Mortgage customers appreciate both the personalised service and the holistic approach that the Bank provides. Åland customers have also expressed their appreciation for the availability of various digital channels, and the new option of signing loan agreements digitally will make daily life even easier for our customers.

On the Finnish mainland, much has happened behind the scenes: in addition to adapting them to new regulations, most systems in daily use were updated during 2018. At the same time, we redoubled our investment offering, among other things by adding more advisors who specialise in financial investment issues. We also continued our efforts to streamline internal processes in order to make more employee time available for personalised service.

In Sweden, more and more people are becoming aware of the Bank of Åland as an alternative to the major banks. Consequently, we are seeing both a good influx of new customers and an increase in deposit and lending volumes. The increases in 2018 improved the balance between deposits and lending. In addition to all the new services in the Premium Banking package, our customers in Sweden have also shown their appreciation for the Bank's Baltic Sea project, and their Premium Card was replaced during the year by the new Baltic Sea Card.

To summarise, during 2018 Premium Banking made a strong effort in all three markets to offset the many regulatory adjustments with personalised service and a commitment to helping customers with their financial investment questions.

Since internal processes have been streamlined and the number of regulatory adjustments looks set to decrease during 2019, this will give us good opportunities to elevate our Premium Banking offering to the next level in terms of service, investment concepts and relationship building.

THE ÅLAND CORPORATE SERVICES UNIT

The Bank of Åland's Corporate Services unit is the market leader in Åland and offers a wide range of services and products adapted for Åland-based companies. The target group is broad and includes small and medium-sized businesses as well as large corporations with international operations.

The number of corporate customers continued to grow in 2018 and the level of customer activity was high. At year-end, lending had increased by 6 per cent.

A survey conducted in 2018 revealed that our customers are happy to recommend us to other business owners and that they appreciate the way they are treated and the service they receive. They have great confidence in their customer advisor.

During 2018, the Bank of Åland joined the European Union's new European Investment Fund (EIF) guarantee programme for loans to small and medium-sized companies. With the help of guarantees from the EIF, the Bank's capital and credit risk expenses are decreasing. This, in turn, benefits companies. As a result, the Bank of Åland has been able to offer better funding conditions for small and medium-sized companies that want to expand their operations or make investments in sustainability, for example. The programme has been well received by the Åland business community.

During 2018 the Corporate Services unit continued its involvement in projects such as Business Lab Åland and Young Entrepreneurship. It also organised customer events with various business themes. In this way, we want to contribute to a positive view of entrepreneurship and give young business owners the opportunity to get started more easily by using effective tools.

Photographer: Staffan Sundström

Focusing on the best Asset Management results

Photographer: Kjell Söderlund

Tom Pettersson, Managing Director of Ålandsbanken Fondbolag Ab, the Bank's fund management subsidiary.

Milestones during 2018 included a renewed range of mutual funds and a new property fund. The Bank also reorganised its Asset Management department. Lars Söderfjell was appointed the new head of equity investment management and asset allocation.

After a restructuring of mutual fund and portfolio holdings, their relative returns improved, but returns for the year as a whole were unsatisfactory due to general stock market performance, especially in the late autumn. In Nordic stock markets, the year-end was the weakest since the Lehman Brothers crash late in 2018. Meanwhile increased risk aversion in the markets adversely affected credit margins in the fixed income market.

The Bank of Åland's active asset management focuses on "value" companies with good dividend yields and sound business operations. The purpose of this strategy is to generate superior returns over time, compared to the underlying markets. The strategy is justified in the long term, even though during 2018 markets occasionally favoured more speculative investments.

Starting in 2019, new legislation in Sweden imposes stricter standards on the mutual funds that are part of the premium pension system. Among the new requirements is that each fund must have assets outside the premium pension system of at least SEK 500 M and at least three years of continuous and relevant history of returns. The funds must also fulfil specified responsible investment standards.

In order to meet these requirements, the Bank of Åland restructured its range of mutual funds during 2018. At the same time, the Bank adjusted its fund offerings and management to better match our core competence. Similar or overlapping funds have thus been merged, and some funds have been phased out. The focus is now on management of Nordic and European equities, fixed income funds with an emphasis on corporate bonds, dynamic asset management mandates consistent with the Bank's market outlook and management of property mutual funds. These changes have led to larger and more efficient funds that the Bank's asset managers can focus on. Given our emphasis on the Nordic countries and Europe generally, we have phased out our global, Chinese and other emerging market equity fund management. Instead our offering includes a global equity fund in collaboration with FIM Asset Management Ab.

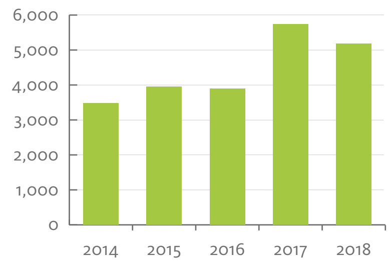
The healthy, stable performance of the Bank's property funds – Ålandsbanken Bostadsfond (housing) and Ålandsbanken Tomtfond (housing sites) – continued during 2018. During the second quarter, we introduced a new property fund in the form of a limited partnership, Ålandsbanken Lunastustontti. It is the first in a series of planned property funds in limited partnership form.

Like Ålandsbanken Tomtfond, the new fund invests in sites that are leased for housing construction. The two funds are different, however, in that Ålandsbanken Lunastustontti is a time-limited fund intended for professional investors. The fund also mortgages its investment properties, unlike Ålandsbanken Tomtfond, which only uses its investors' money.

During 2019 the objective of the Bank of Åland's mutual fund and asset management operations is to build further and deliver on the basic structure that has now been created. We also foresee good potential to expand our offering related to responsible investments. The Bank of Åland has long experience of investment products that benefit environmental purposes, and we believe that an increased element of sustainability in our investment products will have a good chance of being an attractive alternative for a steadily growing target group.

Actively managed assets

EUR M



Successful transition to new regulations

Photographer: Viktor Fremling

Tove Erikslund, Chief Administrative Officer; Jan-Gunnar Eurell, Chief Financial Officer; and Juhana Rauthovi, Chief Risk & Compliance Officer.

CFO Corporate Unit

Chief Financial Officer Jan-Gunnar Eurell is in charge of the Treasury, Group Finance, IT Management and Legal Affairs departments. The CFO Corporate Unit has about 45 employees. As with the other corporate units, they are stationed in Mariehamn, Helsinki and Stockholm.

Treasury occupies a central role at the Bank of Åland, with responsibility for the Group's liquidity, funding and interest rate risk, including interest rate risk in banking operations. In recent years, the department has successfully expanded and streamlined its operations.

Due to regulatory requirements, the Treasury portfolio – which includes liquid assets and assets pledged – has grown faster than the lending portfolio in recent years. At year-end 2018, the Treasury portfolio totalled EUR 1.3 billion, equivalent to about 33 per cent of the lending portfolio. Because of the prevailing interest rates, it is difficult to earn a positive return on this growing part of the balance sheet. At year-end, the Bank of Åland's capital market borrowings amounted to EUR 1.8 billion, equivalent to about 45 per cent of the lending portfolio. Treasury's dominant funding instrument is covered bonds, which now total about EUR 1.1 billion. The trend towards declining capital market funding costs fortunately continued in 2018 as well.

For years, Group Finance has done a commendable job of streamlining and raising the quality of the financial reporting process, so that nowadays consolidated financial statements are ready as early as the fifth banking day after each month. During 2018 the department's work included the implementation of IFRS 9 – the new international accounting regulation for reporting of financial instruments – as well as preparations for IFRS 16, the new regulation for reporting of leases.

A large proportion of resources at both the IT Management and Legal Affairs departments are directed to the most highly prioritised Bank of Åland projects at any given time. During 2018 this including working with projects driven by international regulatory requirements, such as MiFID 2, GDPR and PSD 2. During the year, the Bank also implemented a new, modern solution for telephone services and recording of telephone calls.

During 2019 the CFO Corporate Unit will continue its efforts to streamline and raise the quality of its work processes.

CAO Corporate Unit

Chief Administrative Officer Tove Erikslund is in charge of the following departments: Business Support, Business Support Capital Market, Customer Service & Market Support, Business Development and Human Resources. The CAO Corporate Unit has about 120 employees in Mariehamn, Helsinki and Stockholm.

The CAO Corporate Unit is responsible for back office and systems support for securities administration, deposits and payment intermediation. The unit also includes customer service and marketing support, business development, business partnerships and the Human Resources department. In addition, the CAO Corporate Unit is responsible for coordinating and administering the Bank of Åland's sustainability work in keeping with the sustainability strategy established by the Bank.

During 2018 the centralisation of working tasks to Mariehamn was completed. Some restructuring also occurred in order to lay the groundwork for more efficient development work.

The CAO Corporate Unit carries out extensive development work in order to live up to new regulatory requirements and continuously streamline operations as well as improve the customer experience in the Bank's various channels.

As for regulatory adaptation efforts, 2018 was an intensive year, especially in the capital market field where the amended Markets in Financial Instruments Directive (MiFID 2) was the largest regulatory project. The purpose of MiFID 2 is to increase transparency and further strengthen customer protection.

During 2018 the TARGET2-Securities (T2S) project was finally completed after repeated delays, especially from Euroclear Finland. The project, which was initiated by the European Central Bank (ECB), aims at harmonising securities trading in Europe. Since 2015, European central securities depositories (CSDs) have gradually joined the ECB's T2S platform. The Finnish CSD, Euroclear Finland, joined the new infrastructure in May 2018. For the Bank of Åland, this involved new technical connections and changed processes in working with Euroclear Finland.

The EU's General Data Protection Regulation (GDPR) went into effect on May 25, 2018. The purpose of the regulation is to protect people's fundamental rights and freedoms, especially their right to protect their personal data. During 2018, the Bank of Åland prepared for the coming technical and organisational changes resulting from GDPR.

Another major Bank project during 2018 was the EU's latest Payment Services Directive (PSD2), for which the Bank – together with its IT subsidiary Crosskey – is delivering an Open Banking platform.

During 2018 the CAO Corporate Unit also focused on further streamlining the Bank of Åland's new capital market system, which went into service in July 2017 in Sweden.

The Bank of Åland's Mobile Bank was continuously improved during the year. For example, it now offers a QR/barcode reader to customers in Finland and push alerts when e-invoices are received in Sweden.

In the digitisation field, customer signatures via the Internet Office and the Mobile Bank were improved along with digital signatures for new loan agreements in Finland. The Bank likewise began to apply a comprehensive approach to digitising its various customer mailings, and this task will continue during 2019.

Card security collaboration with the Bank's Crosskey and Compass Card subsidiaries continued, in order to combat card-related fraud. Compass Card's new card platform went into effect during November 2018, creating better conditions for both combating card-related fraud and streamlining card-related processes.

A new service was established in order to ensure the quality of operational work related to combating money laundering and financing of terrorism.

The Bank of Åland continued to develop its corporate partnerships. At the end of 2018, the Bank had more than 100,000 savings account customers and 4,000 mutual fund savings customers via the Dreams app. During the year, the Bank entered into a new partnership with the fintech company Doconomy related to financial services with a clear focus on sustainability. Doconomy develops the DO app, which is being launched during 2019. DO is a mobile banking service enabling users to easily follow their climate impact and compensate for it, both through certified climate compensation and sustainable savings.

The volume of cases handled by Customer Service – which customers can contact via telephone, the internet messaging service, email or online chat – continued to increase, very much thanks to the accessibility offered by the Mobile Bank. During 2019 we expect to be able to offer our customers digital telephone identification. Communication via social media continued to increase.

CRO Corporate Unit

Chief Risk & Compliance Officer Juhana Rauthovi is in charge of the Risk Control, Compliance, Operational Risks & Security, Credit Scoring and Credit Processes departments. The corporate unit consists of about 40 people in Mariehamn, Helsinki and Stockholm.

The Risk Office Corporate Unit is primarily entrusted with protecting the Bank's assets, earnings and brand by providing a framework for risk and credit management. Its purpose is to create a healthy risk culture that corresponds to the Bank's risk appetite and risk-bearing ability. The Bank of Åland's risk level has gradually fallen for a number of years in all major risk areas (credit risk, liquidity risk, market risk and operational risk). Meanwhile risk management and monitoring processes have been strengthened.

The Risk Control department is responsible for independent oversight and reporting of the Bank's financial risks. During 2018 it analysed and prepared implementation of new regulatory requirements. This included conducting an in-depth analysis of how Basel IV affects the Bank. During 2018 it also completed the task of modelling loan losses in compliance with IFRS 9. During 2019 the existing credit risk models will be revised and reporting of market risks will be streamlined to enable the Bank to reduce both time required and manual work.

The Credit Scoring department develops and carries out credit analyses and oversight in order to ensure good credit quality in the Bank's lending. The proportion of unsettled loans in the lending portfolio remains at a historically low level, thanks to good credit quality combined with strong economic conditions in the Bank's operating area. The transition to the new IFRS 9 reporting standard has resulted in a new way of estimating expecting loan losses. The level of expected loan losses fell during 2018 compared to the beginning of the year.

The Credit Processes department is responsible for developing the Bank's lending process and ensuring that it fulfils internal and external regulations. During 2018 it began a long-term effort to digitise and streamline the loan decision process in compliance with the Bank's sustainability objectives. One first step in November was to introduce the option for private individuals to sign their loan agreements digitally. Beyond this, the department is still occupied to a significant extent with development activities that are necessary because of various regulatory requirements.

The Compliance department works with permit and supervisory matters, while overseeing and monitoring compliance with regulations in the fields of customer protection, market behaviour and combating money laundering and financing of terrorism. During 2018 the department also worked with new regulations concerning investment services and management of personal data. The department works continuously to ensure that the Bank of Åland takes the necessary steps to combat money laundering and financing of terrorism. As always, internal training and advisory services related to compliance, the Bank's internal regulations and carrying out various inspections were important elements of the Compliance department's work.

The Operational Risks & Security department has focused on promoting a healthy risk culture and increasing awareness of operational risks. In practice, this has involved training courses about new regulations such as GDPR, further development of the incident management process and development of the Bank's risk identification tools. Participation in the Bank's PSD2 project was an important effort during 2018. New e-training courses were placed in service, and models for updating the Bank's authorisation structure were created. The department regularly organises continuity drills and security reviews.

Crosskey and Compass Card

Crosskey Banking Solutions Ab Ltd

During 2018 Crosskey's consistent marketing in Sweden continued to bear fruit. We have become an increasingly attractive alternative for Swedish capital market players, and during the year asset manager Garantum signed an agreement for our new capital market system. In 2018 the fintech company Northmill (with such brands as Easycredit, Rebilla, Credway and Credigo) also launched a card offering based on Crosskey's card issuance service.

We consequently expanded our market presence noticeably in Sweden during 2018. Crosskey has a competitive product range in most procurements related to banking, card or capital market IT services, and we will continue to benefit from this during 2019. In Finland, too, we are seeing market changes open up a number of attractive opportunities for us.

Several important and much-appreciated launches occurred during 2018. The Bank of Åland placed Crosskey's fingerprint authentication system in service in its Mobile and Internet Bank applications. For Finland's S-Bank (S-Pankki), we launched a digital pincode service that enabled the end customer to smoothly change the PIN on their debit cards.

The launch of C Open, Crosskey's Open Banking platform, will enable banks to comply with the EU's new Payment Services Directive (PSD2), which goes into effect in 2019. Meanwhile C Open paves the way to quickly and easily begin collaboration with external partners such as fintech market players. As for other projects related to regulatory reforms, the EU's new General Data Protection Regulation (GDPR) and the MiFID 2 regulations have required extensive adaptation work.

Late in 2018, Crosskey implemented a change of platform at the Bank of Åland's Compass Card subsidiary. As a result of the company's transition to Crosskey's modern card platform, the Bank's Finnish debit cards will also be handled via the new card service.

Crosskey has several major projects booked for 2019. These include new collaboration with the Swedish fintech company Doconomy, which has the Bank of Åland as its banking partner, and the implementation and integration of the Mobilepay payment solution, which S-Bank has joined and which is now being integrated with Crosskey's banking and card systems.

Another large-scale project concerns the continued modernisation of the systems that support our customers' lending decision processes. The project began in 2018 and will continue over the next few years. System deliveries for improved support to lending decisions will be released continuously during the development task.

We are continuing to monitor and educate ourselves in new technology, where the main trends are robotisation, artificial intelligence, machine learning and blockchains. During 2018 we initiated a pilot project about robotisation, and during 2019 we will evaluate whether these new trends will be implemented in Crosskey's product range. One crucial question is how the new technologies can generate business benefits for our customers at a reasonable investment cost.

Crosskey maintained its high level of quality, and after the year's audits the company was re-certified according to both the ISO and PCI DSS standards.

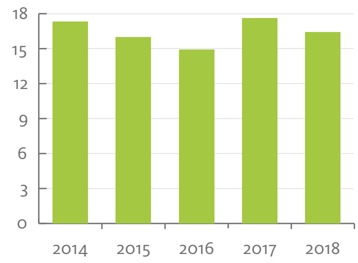
Employee satisfaction, which was measured in our yearly employee survey, remained at a high level.

Ab Compass Card Oy Ltd

Compass Card manages the Bank of Åland's card business in Finland and Sweden. In addition, the company has credit card collaboration with a number of Finnish partners.

Last year was dominated by significant structural changes. One milestone was that the company's card platform was upgraded late in 2018 to Crosskey's new solution. Compass Card also began a streamlining process, where the company's operations were increasingly coordinated with the resources of the Bank of Åland and Crosskey. During 2019, this streamlining process will be completed when Compass Card merges with the Bank of Åland.

Non-Group income, Crosskey
EUR M



Report of the Directors

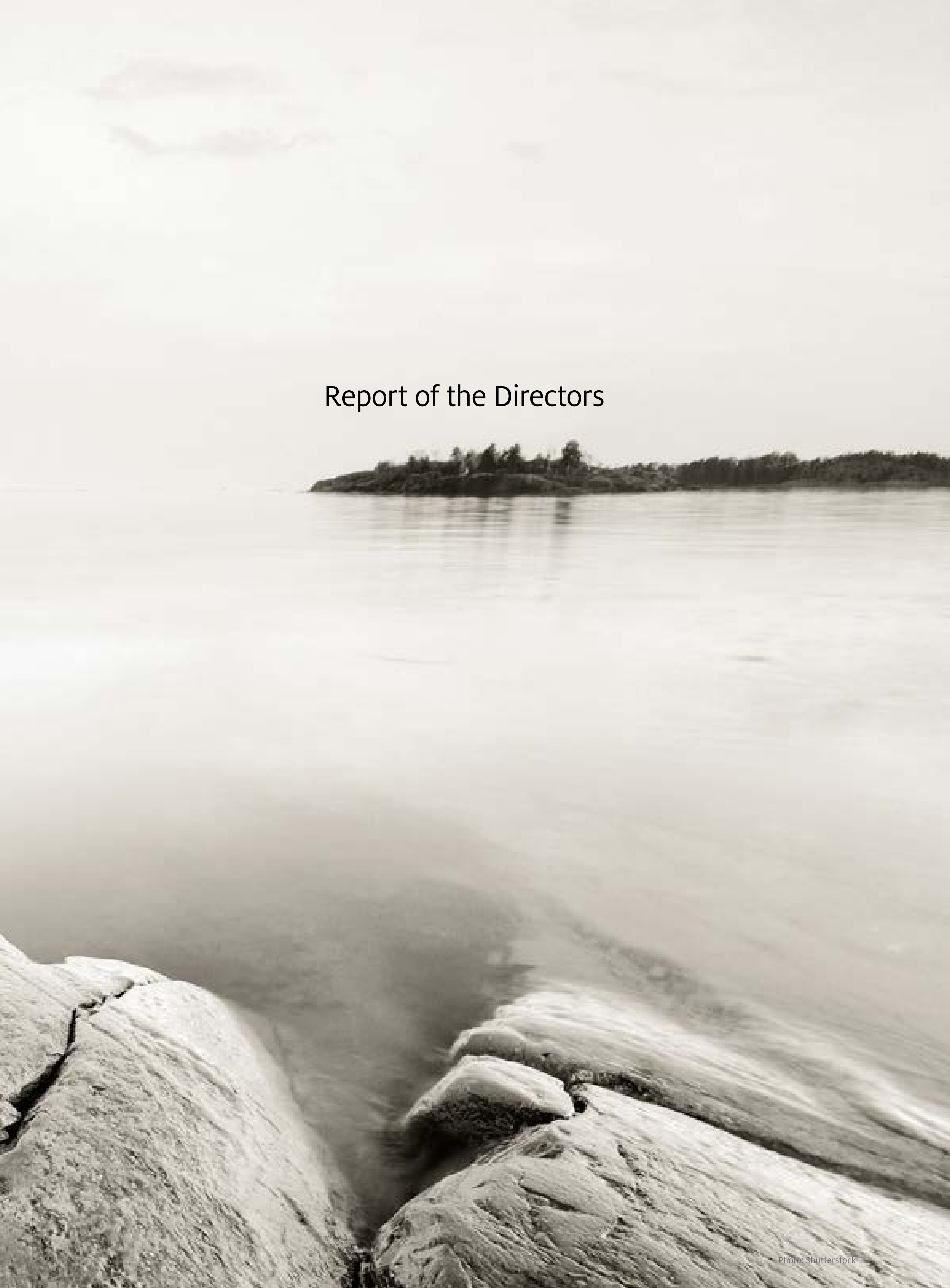


Photo: Shutterstock

Report of the Directors

Macro situation and regulatory requirements

The autumn of 2018 was dominated by worries about trade policy, Brexit and Italy. Most major economies saw continued good economic growth, but political developments raised questions about how sustainable this growth is and whether the next recession is approaching. The Finnish economy keeps growing, but its growth rate is slowing.

Since December 2015, the US Federal Reserve has raised its key interest rate nine times, of which four times during 2018. In December 2018, Sweden's Riksbank hiked its key rate for the first time since 2011. The European Central Bank has not yet followed suit.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2018	2017
Euribor 3 mo	−0.32	−0.33
Euribor 12 mo	−0.17	−0.15
Stibor 3 mo	−0.40	−0.50

Stock markets around the world showed substantial volatility in 2018 and ended the year with large downturns. During the year, share prices according to both the Nasdaq Helsinki (OMXHPI) equity index and the Nasdaq Stockholm (OMXSPI) index fell by 8 per cent.

During 2018, the average value of the Swedish krona (SEK) in relation to the euro (EUR) was 6 per cent lower than in 2017. Compared to its position at year-end 2017, the value of the krona on December 31, 2018 was 4 per cent lower. When converting the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been converted at the exchange rate prevailing on the closing day of the report period.

Among the regulations that went into effect during 2018 are:

- MiFID 2, which aims at strengthening consumer protection for investors by creating uniform rules for investment firms, regulated markets and other trading platforms.
- IFRS 9, "Financial instruments", which replaces IAS 39 for classification and measurement of financial instruments.
- The General Data Protection Regulation (GDPR), which aims at creating a uniform, equal level of protection for personal information within the European Union (EU).
- The EU's revised Payment Services Directive (PSD2), which among other things regulates new types of services for making payments and obtaining account information.
- The Finnish Financial Supervisory Authority (FSA)'s 15 per cent risk weight floor for home mortgage loans, which applies to banks that use internal ratings-based (IRB) models in their capital requirement calculations and which will be included in the Pillar 1 requirement.
- The Swedish FSA's tightened principal repayment ("amortisation") requirement, which means that private individuals who take out a new home mortgage loan or increase their existing loan to more than 4.5 times their annual gross income must repay an additional 1 per cent of principal in addition to the previously existing principal repayment requirement.

On June 14, the Swedish Parliament approved a two-step corporate tax cut, from the current 22 per cent to 21.4 per cent during 2019–2020 and to 20.6 per cent starting in 2021.

Important events

In November the Bank of Åland and FIM Asset Management, which is owned by S-Bank (S-Pankki) and manages that bank's mutual funds, began collaboration on certain mutual funds. As part of this collaboration, the FIM Global and Ålandsbanken Premium 100 mutual funds were merged. The combined fund's name is Ålandsbanken Global Aktie Placeringsfond. At the same time, the Bank of Åland's Emerging Markets and Kina Aktie (Chinese equity) mutual funds were merged with FIM's Emerging Markets ESG fund. The mergers occurred on December 18, 2018.

During the fourth quarter of 2018, the Bank of Åland and the Swedish fintech (financial technology) start-up Doconomy began collaboration in order to offer customers a platform where they can easily use their consumer power to make a positive difference for the climate and contribute to change as part of their daily life. The Bank of

Åland has also chosen to become a minority shareholder in the company. Doconomy develops the DO app, a mobile banking service enabling customers to easily track their climate impact and compensate for it, both through certified climate compensation and sustainable saving.

In July, Standard & Poor's Global Ratings revised its outlook on the Bank of Åland Plc to positive from stable. The outlook was revised based on a high probability of stronger capitalisation and profitability.

In July, the Bank of Åland became a part-owner of Dreams Nordic AB, a Swedish-based company that the Bank has worked with since 2015. At that time, the Bank of Åland was the first bank in the Nordic countries to engage in this type of cooperation with a fintech market player. Today the Bank of Åland has more than 100,000 customers in Sweden who save for their dreams in bank accounts or mutual funds via the Dreams app.

A new fund, Ålandsbanken Lunastustontti I Ky, was started during the second quarter of 2018. It is an alternative investment fund in the form of a limited partnership. The fund unit owners are Ålandsbanken Tomtfond, the Finnish construction company YIT Suomi Oy and the Finnish pension insurance company Keskinäinen työeläkevakuutusyhtiö Varma. Like Ålandsbanken Tomtfond, the fund invests in housing construction sites, but the newly started fund also has the opportunity to mortgage its investment properties.

For the fifth consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic Fund in its category and received the prestigious Lipper Fund Award Nordic. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years.

The Bank of Åland is continuing its commitment to a cleaner Baltic Sea, together with its customers. In 2018 the Baltic Sea Project funded a total of nine projects that combat the problem of plastics in the Baltic Sea in various ways, totalling nearly EUR 250,000. The winning project was presented in February at the Helsinki International Boat Fair and consisted of a plastic collection system that can be used to remove waste from large areas of the sea. Since 1997 the Bank of Åland has awarded nearly EUR 2 M to various environmentally related projects.

The Annual General Meeting (AGM) on April 5, 2018 re-elected the Board consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Göran Persson, Ulrika Valassi and Anders Wiklöf. Board member Dan-Erik Woivalin had declined re-election. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board.

During 2018, the number of Series B shares outstanding increased by 36,372 as a result of the Bank's obligations within the framework of its incentive and share savings programmes.

Earnings

Profit for the period attributable to shareholders increased by EUR 2.2 M or 11 per cent to EUR 22.9 M (20.7). Net operating profit rose by EUR 3.0 M or 11 per cent to EUR 29.0 M (26.0).

Return on equity after taxes amounted to 9.8 per cent (9.1).

Total income was at an unchanged level of EUR 127.6 M (128.0). The weaker Swedish krona resulted in EUR 2.8 M lower income when converted to euros.

Net interest income decreased by EUR 1.4 M or 2 per cent to EUR 54.5 M (55.9), despite lower borrowing expenses. Negative and falling market interest rates – mainly the 12-month Euribor – along with increased price competition, had an adverse impact on interest income from lending. Re-weighting towards lower risk in the loan portfolio also adversely affected the lending margin.

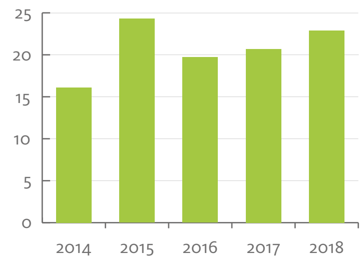
Net commission income rose by EUR 0.9 M or 2 per cent to EUR 50.6 M (49.7), primarily thanks to increased income from customers' investment transactions.

Net income on financial items rose by EUR 2.1 M or 67 per cent to EUR 5.2 M (3.1), mainly thanks to higher capital gains in the liquidity portfolio and higher net income on foreign exchange dealing.

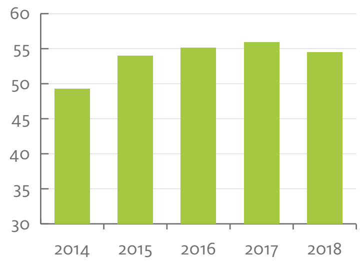
IT income fell by EUR 1.2 M or 7 per cent to EUR 16.4 M (17.6). The decrease was due to last year's nonrecurring income of EUR 1.5 M from licence sales of Bank of Åland subsidiary Crosskey's card system in the Swedish market.

Total expenses decreased by EUR 2.0 M or 2 per cent to EUR 97.8 M (99.8), even though fees for the resolution fund increased by EUR 1.7 M to EUR 2.6 M (0.9). The fee, which the Bank of Åland began to pay in May 2017, almost doubled in 2018 for the Finnish banks that are paying it. The main explanation for this dramatic fee increase is that during 2017 Nordea and Danske Bank moved their operations in Finland

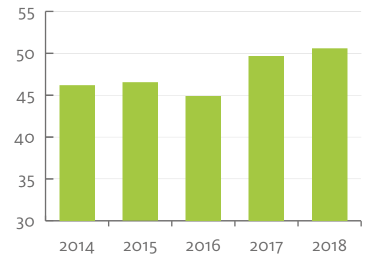
Profit attributable to shareholders
EUR M



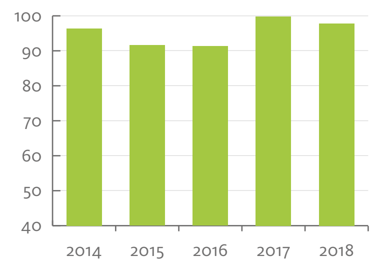
Net interest income
EUR M



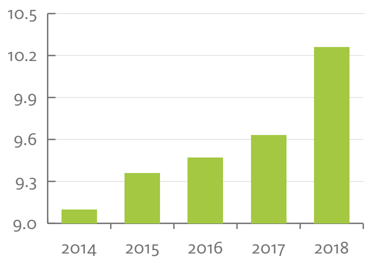
Net commission income
EUR M



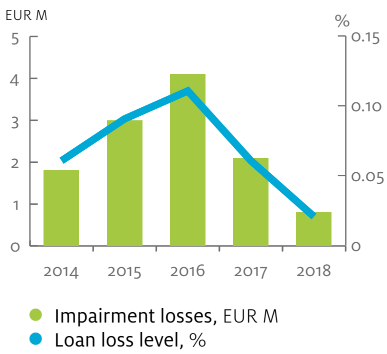
Total expenses
EUR M



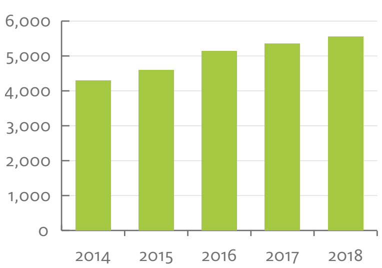
Average EUR/SEK exchange rate



Impairment losses and loan loss level



Balance sheet total
EUR M



to branches and in 2018 no longer paid the fee in Finland. The remaining banks instead had to pay correspondingly more. Staff costs fell by EUR 2.7 M or 5 per cent, partly due to lower severance pay expenses. IT expenses decreased by EUR 1.6 M or 13 per cent. If the SEK/EUR exchange rate had been unchanged, total expenses would have been essentially unchanged.

Net impairment losses on financial assets decreased by EUR 1.3 M or 61 per cent to EUR 0.8 M (2.1), equivalent to a loan loss level of 0.02 per cent (0.06).

Tax expenses amounted to EUR 6.1 M (5.3), equivalent to an effective tax rate of 20.9 (20.5) per cent. Higher earnings in the Swedish branch, where the tax rate is higher than in Finland, were the main explanation for the higher effective tax rate.

Strategic business areas

The Group's EUR 3.0 M increase in net operating profit to EUR 29.0 M during 2018 was allocated as follows:

- Private Banking −1.6
  (lower net interest income, higher expenses)
- Premium Banking +4.3
  (higher net interest income, lower loan losses)
- Asset Management −0.3
  (2018 severance pay)
- IT +0.8
  (lower expenses)
- Corporate units & eliminations −0.2

Business volume

Actively managed assets declined by EUR 560 M or 10 per cent compared to 2017 and totalled EUR 5,177 M (5,737) at year-end 2018. The decrease was partly due to falling market values and partly due to changes in the Swedish premium pension system that led to a decrease in fund-of-funds volume without management income. In addition, volume declined as a result of the Bank's mutual fund collaboration with FIM Kapitalförvaltning. Net inflow of actively managed assets during 2018 totalled EUR 190 M (506).

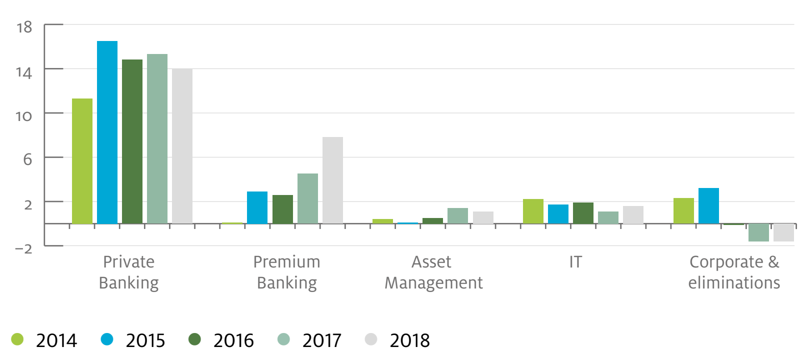
Deposits from the public increased by EUR 156 M or 5 per cent and amounted to EUR 3,304 M (3,148) at year-end 2018. Excluding exchange rate effects (SEK/EUR), deposits from the public increased by EUR 194 M or 6 per cent.

Receivables from the public rose by EUR 43 M or 1 per cent and amounted to EUR 4,022 M (3,979) at year-end 2018. Excluding the SEK/EUR exchange rate effect, lending increased by EUR 100 M or 3 per cent.

Balance sheet total and off-balance sheet obligations

During 2018, the Group's balance sheet increased by EUR 206 M or 4 per cent to EUR 5,558 M. The increase was primarily related to debt securities eligible for refinancing with central banks. The increase in assets was funded mainly through increased deposits from the public. Off-balance sheet obligations rose by EUR 8 M or 2 per cent to EUR 493 M. The increase was mainly related to unutilised overdraft facilities.

Profit attributable to shareholders, by segment
EUR M



Credit quality

Lending to private individuals comprised 73 per cent of the loan portfolio. Home mortgage loans accounted for 78 per cent of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprised the second-largest type of lending to individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

In compliance with IFRS 9, earlier individual and group impairment loss provisions have been replaced by expected loss provisions classified in Stages 1–3. For a majority of the Bank's receivables, provisions are made in Stage 1 and 2 according to the model. Defaulted receivables are dealt with in Stage 3 after individual assessment. Stage 3 loans increased during the report period by EUR 3.0 M to EUR 19.7 M. Stage 3 loans as a share of gross lending to the public totalled 0.49 per cent (0.42 on January 1, 2018). The level of provisions for Stage 3 loans amounted to 47 (59) per cent.

The Bank of Åland Group had EUR 11.3 M (12.5 on January 1, 2018) in impairment loss provisions, of which EUR 0.9 M (1.5) in Stage 1; EUR 1.2 M (1.1) in Stage 2 and EUR 9.3 M (9.9) in Stage 3.

Liquidity and borrowing

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,195 M on December 31, 2018 (1,066 on December 31, 2017). This was equivalent to 22 (20) per cent of total assets and 30 (27) per cent of lending to the public.

In September, the Bank of Åland issued EUR 250 M in non-covered bonds with a three-year maturity. In October, EUR 150 M in covered bonds matured. On December 31, 2018, the average remaining maturity on outstanding bonds was about 2.7 (3.2) years. During 2019, SEK 1,000 M in covered bonds will mature in March, EUR 100 M in covered bonds in June and SEK 750 M in covered bonds in December.

The Bank of Åland's core funding ratio, defined as receivables from the public divided by deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued, amounted to 90 (88) per cent on December 31.

The loan/deposit ratio amounted to 122 (126) per cent.

Of the Bank of Åland's external funding sources, deposits from the public accounted for 64 (63) per cent and covered bonds issued accounted for 22 (27) per cent.

The liquidity coverage ratio (LCR) amounted to 120 (142) per cent.

The net stable funding ratio (NSFR) amounted to 113 (110) per cent.

Rating

The Bank of Åland has a credit rating from the Standard & Poor's Global Ratings agency of BBB/A-2 with a positive outlook for its long- and short-term borrowing. Covered bonds issued by the Bank of Åland have a credit rating of AAA with a stable outlook.

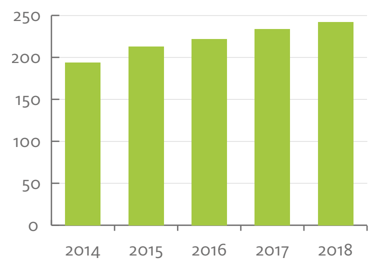
Equity and capital adequacy

The opening equity capital balance changed by EUR 3.1 M as a consequence of IFRS 9 and amounted to EUR 230.5 M on January 1, 2018. During 2018, equity capital changed in the amount of profit for the year, EUR 22.9 M; other comprehensive income, EUR –1.6 M; the issuance of new shares as part of the incentive programme, EUR 0.2 M; EUR 0.3 M related to the share savings programme; and payment to shareholders of a dividend totalling EUR –10.0 M. On December 31, 2018, equity capital amounted to EUR 242.4 M (233.6).

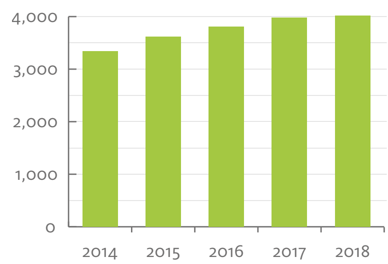
Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 0.3 M after taxes, in compliance with IAS 19.

During the second quarter, the Financial Supervisory Authority approved a calibration of the Bank's own model for calculating the capital requirement in Finland. The new model led to a decrease in expected losses by EUR 1.1 M and a decrease in the risk exposure amount by EUR 51 M before – and by EUR 30 M after – taking into account the risk weighting floor for home mortgage loans.

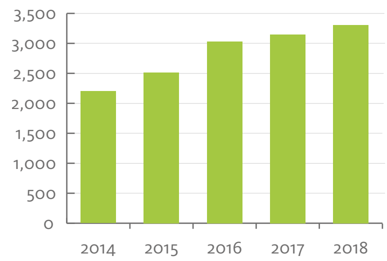
Equity capital attributable to shareholders
EUR M



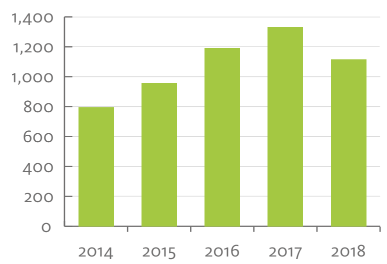
Lending
EUR M



Deposit accounts
EUR M



Covered bonds
EUR M



Common equity Tier 1 capital rose by EUR 6.8 M or 3 per cent during 2018 to EUR 204.4 M (197.6), mainly thanks to the comprehensive income for the period and lower provisions for expected losses due to IFRS 9. The deduction for intangible assets increased by EUR 5.1 M.

The risk exposure amount rose by EUR 37 M or 2 per cent to EUR 1,578 M (1,538). The credit risk exposure amount, excluding the risk weighting floor for home mortgage loans, fell by EUR 68 M. The Finnish FSA's 15 per cent risk weighting floor for mortgage loans, which was implemented starting on January 1, 2018, increased the risk exposure amount by EUR 94 M. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 11 M.

The common equity Tier 1 capital ratio amounted to 13.0 (12.9) per cent.

Since the Bank of Åland has no hybrid capital, its common equity Tier 1 capital ratio is the same as its Tier 1 capital ratio.

In May, the Bank of Åland issued SEK 200 M in subordinated debt instruments with a write-down clause to institutional investors in Sweden. The instrument has a 20-year maturity, with early repayment possible after five years and each year thereafter. The issue was priced at 3-month Stibor plus 2.40 per cent. This issue nearly doubled the Bank of Åland's supplementary capital.

The total capital ratio increased to 15.4 (14.2) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of common equity Tier 1 capital, applies in all European Union countries. The countercyclical capital buffer requirement may vary between 0–2.5 per cent. The decision concerning the size of a countercyclical capital buffer in Finland is made quarterly by the Board of the Financial Supervisory Authority (FSA) on the basis of a macroeconomic stability analysis. So far, the FSA has not imposed any countercyclical buffer requirement related to Finnish exposures. As for Sweden, the Swedish FSA has set the requirement at 2.5 per cent of Swedish exposures starting on September 19, 2019. The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. The Bank of Åland is not included in the buffer requirements for systemically important institutions.

Because of Nordea's move of its head office from Sweden to Finland, the Board of the Finnish FSA has decided that starting on July 1, 2019 it will introduce a systemic risk buffer for all credit institutions. The purpose of the buffer is to strengthen the risk tolerance of all credit institutions to structural systemic risks. For the Bank of Åland, a buffer requirement of 1.0 per cent applies. This requirement must be covered by common equity Tier 1 capital.

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

When all these buffer requirements are . taken into account starting in September 2019, the minimum levels for the Bank of Åland will be:

- Common equity Tier 1 capital ratio, 10.7 per cent
- Tier 1 capital ratio, 12.2 per cent
- Total capital ratio, 14.2 per cent

Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.70 per share (0.65), equivalent to a total amount of EUR 10.8 M (10.0). The proposed dividend is equivalent to a 47 (48) per cent payout ratio.

Important events after close of report period

During 2019, Ab Compass Card Oy Ltd will be merged with the Bank of Åland Plc.

Risks and uncertainties

The Bank of Åland's earnings are affected by external changes that the Company itself cannot control. Among other things, the Group's trend of earnings is affected by macroeconomic changes and changes in general interest rates, share prices and exchange rates, along with higher expenses due to regulatory decisions and directives as well as the competitive situation.

The Group aims at achieving operations with reasonable and carefully considered risks. The Group is exposed to credit risk, liquidity risk, market risk, operational risk and business risk.

The Bank does not engage in trading for its own account.

Future outlook

The Bank of Åland expects its net operating profit in 2019 to be at about the same level as in 2018.

The Bank of Åland is especially dependent on developments in the fixed income and stock markets. There is concern about the economic trends in various important markets. For this reason, there is significant uncertainty in our current forecast of the future.

Long-term financial targets

- *Return on equity after taxes (ROE) shall exceed 10 percent.*
- *The Bank's capital adequacy, primarily defined as the common equity Tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.*
- *The payout ratio shall eventually amount to 50 percent.*
  This payout ratio target is subject to the condition that the capital adequacy target continues to be achieved. At present, the Bank of Åland is prioritising balanced growth.

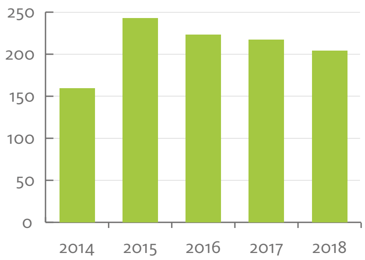
FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2018	2017	2016	2015	2014
EUR M					
Net interest income	54.5	55.9	55.1	54.0	49.3
Net commission income	50.6	49.7	44.9	46.5	46.2
Net income from financial items carried at fair value	5.2	3.1	4.2	8.0	6.8
IT income	16.4	17.6	14.9	16.0	17.3
Other income	1.0	1.6	1.3	0.4	1.0
Total income	**127.6**	**128.0**	**120.4**	**124.9**	**120.6**
Staff costs	−57.1	−59.8	−57.0	−56.0	−53.1
Other expenses	−33.4	−32.9	−28.3	−28.7	−34.9
Derpreciation/amortisation and impairment losses on tangible and intangible assets	−7.3	−7.1	−5.9	−6.9	−8.2
Total expenses	**−97.8**	**−99.8**	**−91.3**	**−91.6**	**−96.4**
Profit before impairment losses	**29.8**	**28.2**	**29.2**	**33.3**	**24.2**
Impairment losses on loans and other commitments	−0.8	−2.1	−4.1	−3.0	−1.8
Net operating profit	**29.0**	**26.0**	**25.1**	**30.3**	**22.4**
Income taxes	−6.1	−5.3	−5.4	−6.0	−4.8
Profit for the report period	**22.9**	**20.7**	**19.7**	**24.3**	**17.6**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	1.5
Shareholders in Bank of Åland Plc	**22.9**	**20.7**	**19.7**	**24.3**	**16.1**
Volume					
Receivables from the public and public sector entities	4,022	3,979	3,808	3,617	3,343
Deposits from the public	3,304	3,148	3,028	2,517	2,201
Actively managed assets [1]	5,177	5,737	3,900	3,927	3,696
Equity capital	242	234	222	213	196
Balance sheet total	5,558	5,352	5,137	4,602	4,292
Risk exposure amount	1,578	1,538	1,576	1,581	1,554
Financial ratios					
Return on equity after taxes (ROE), % [2]	9.8	9.1	9.1	12.0	8.7
Expense/income ratio, % [3]	0.77	0.78	0.76	0.73	0.80
Loan loss level, % [4]	0.02	0.06	0.11	0.09	0.06
Core funding ratio, % [5]	90	88	89	100	105
Equity/assets ratio, % [6]	4.4	4.4	4.3	4.6	4.6
Common equity Tier 1 capital ratio, % [7]	13.0	12.9	11.8	12.0	10.9
Working hours re-calculated to full-time equivalent positions	691	691	683	663	644

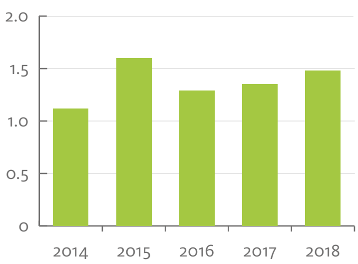
[1] Actively managed assets include managed assets in the Bank's own mutual funds plus discretionary and advisory securities volume.
[2] Profit for the report period attributable to shareholders/Average shareholders' portion of equity capital
[3] Expenses/Income
[4] Impairment losses on loans and other commitments/Receivables from the public at the beginning of the period
[5] Receivables from the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued
[6] Equity capital/Balance sheet total
[7] (Common equity Tier 1 capital/Capital requirement)×8%

Facts on Bank of Åland shares

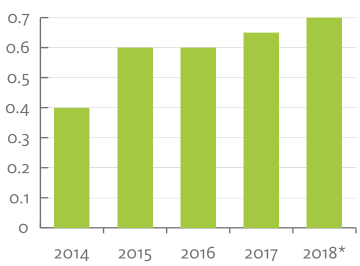
Market capitalisation
EUR M



Earnings per share
euros



Dividend per share
euros



* Proposed by the Board of Directors for approval by the 2019 Annual General Meeting.

Share capital

The share capital of the Bank of Åland is EUR 41,974,063.28. The shares are divided into 6,476,138 Series A and 8,995,547 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a General Meeting may vote for more than one fortieth of the number of shares represented at the Meeting.

In April 2014, the Annual General Meeting voted to authorise the Board to decide on the issuance of shares, option rights and other special rights entitling their holders to shares, as provided by the Finnish Companies Act, Chapter 10, Section 1. The authorisation concerns Series B shares. The total number of shares that may be issued with the support of the authorisation may not exceed 3,000,000 Series B shares. The authorisation covers one or more issues in exchange for payment or without payment and may also cover divestment of the Company's own shares. The authorisation replaces all of the Annual Meeting's earlier unutilised authorisations of shares, option rights and other special rights entitling their holders to shares. The Board's mandate is in force until April 10, 2019. So far 1,073,257 Series B shares (as of December 31, 2018) have been issued or divested as authorised, and consequently an additional 1,926,743 Series B shares may be issued or divested on the basis of the authorisation.

Share savings programme

The Bank of Åland's Board of Directors has approved two share savings programmes for all Group employees: the 2015 share savings programme and the 2016 share savings programme. Sixty-nine per cent of employees participated in the 2015 programme and 60 per cent in the 2016 programme. The share savings programmes enabled employees to save a portion of their monthly salary to invest in the Bank of Åland's Series B shares. Participation in the share savings programme was voluntary. Employees could save a maximum of five per cent of their monthly salary in order to subscribe for twice-yearly targeted issues of Series B shares. The programmes ran for one year. Three years after each respective share issue, the Bank of Åland will distribute one free matching share for each share that has been acquired in the targeted share issues to those who have participated in the share issues and who are still employed by the Group and own the shares that were issued. Employees are offered the opportunity to subscribe for Series B shares at a price that is 10 per cent below the average price during the calendar month before each respective share issue. The savings amount in the 2015 share savings programme totalled about EUR 0.9 M, and 63,756 shares were issued. The savings amount in the 2016 programme totalled about EUR 0.8 M, and 60,236 shares were issued in September 2016 and February 2017, respectively. In September 2018, 23,954 matching shares were issued on the basis of the 2015 share savings programme. During 2019 and 2020 about 78,000 more shares will be issued.

Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In March 2019, about 28,000 newly issued Series B shares will be disbursed. About 12,000 additional shares will be disbursed as a delayed portion of incentive programmes during the years 2020–2022, provided that the criteria for disbursement are fulfilled. The number of shares is dependent on the share price on the disbursement date.

Changes in share capital

Year	Share capital, EUR	Series A shares	Series B shares
2018	41,974,063.28	6,476,138	8,995,547
2017	41,949,003.76	6,476,138	8,959,175
2016	41,674,226.83	6,476,138	8,823,012
2015	41,500,786.10	6,476,138	8,737,101
2014	29,103,547.58	6,476,138	7,944,015

Trading in the Bank's shares

During 2018, the volume of trading in the Bank's Series A shares on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) was EUR 1.1 M. Their average price was EUR 14.11. The highest quotation per share was EUR 17.10, the lowest EUR 13.20. Trading in Series B shares totalled EUR 7.4 M at an average price of EUR 13.63. The highest quotation was EUR 15.00, the lowest EUR 12.80.

On December 31, 2018, the number of registered shareholders was 9,784 and they owned 14,014,630 shares. There were also a total of 1,457,055 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2018

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Wiklöf Anders and companies	1,768,534	1,332,961	3,101,495	20.05	26.50
2	Alandia Insurance	754,908	302,632	1,057,540	6.48	11.12
3	OP Corporate Bank plc (nominee registered shares)	1,642	919,780	921,422	5.96	0.69
4	Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)	794,566	111,201	905,767	5.85	11.55
5	Fennogens Investments S.A.	474,264	152,088	626,352	4.05	6.96
6	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	265,754	389,422	2.52	1.98
7	OMXBS/Skandinaviska Enskilda Banken AB (nominee registered shares)	187,024	66,399	253,904	1.64	2.75
8	Nordea Bank AB (nominee registered shares)	23,071	212,833	235,904	1.52	0.49
9	Svenska Litteratursällskapet i Finland rf (literary society)	208,750	0	208,750	1.35	3.01
10	Oy Etra Invest Ab (investment company)	0	200,000	200,000	1.29	0.14

The above list also includes the shareholder's Group companies and shareholder-controlled companies.

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding	Voting power, %
1–100	4,098	177,917	43	1.1
101–1,000	4,469	1,565,067	350	7.2
1,001–10,000	1,111	2,848,138	2,564	12.2
10,001–	106	10,880,563	102,647	79.6
Of which, nominee registered shares		1,457,055		4.1

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,580,197	36.1
Companies	4,023,781	26.0
Financial institutions and insurance companies	2,879,981	18.6
Non-profit organisations	645,936	4.2
Government organisations	9,186	0.1
Foreign investors	875,549	5.7
Nominee registered shares	1,457,055	9.4
	15,471,685	**100.0**

Bank of Åland share data	2018	2017	2016	2015	2014
Number of shares, thousands [1]	15,472	15,435	15,299	15,208	14,398
Number of shares after dilution, thousands	15,590	15,586	15,572	15,411	14,498
Average number of shares, thousands	15,453	15,330	15,266	15,188	14,398
Earnings per share, EUR [2]	1.48	1.35	1.29	1.60	1.12
Earnings per share after dilution, EUR	1.48	1.34	1.28	1.59	1.12
Dividend per share, EUR [3]	0.70	0.65	0.60	0.60	0.40
Dividend payout ratio [4]	47.2	48.5	46.6	37.5	35.7
Equity capital per share, EUR [5]	15.67	15.14	14.50	14.00	13.49
Equity capital per share after dilution, EUR	15.58	15.02	14.37	13.94	13.46
Market price per share, closing day, EUR					
Series A	13.30	14.20	14.84	16.40	11.27
Series B	13.10	14.05	14.38	15.60	10.87
Price/earnings ratio [6]					
Series A	9.0	10.5	11.5	10.2	10.1
Series B	8.8	10.4	11.2	9.7	9.7
Effective dividend yield, % [7]					
Series A	5.3	4.6	4.0	3.7	3.5
Series B	5.3	4.6	4.2	3.8	3.7
Market capitalisation, EUR M	204.0	217.8	223.0	242.4	159.1

1 Number of registered share minus own shares on closing day

2 $\dfrac{\text{Shareholders' interest in profit for the accounting period}}{\text{Average number of shares}}$

3 Proposed by the Board of Directors for approval by the Annual General Meeting

4 $\dfrac{\text{Dividend for the accounting period}}{\text{Shareholders' interest in profit for the accounting period}} \times 100$

5 $\dfrac{\text{Shareholders' portion of equity capital}}{\text{Number of shares minus own shares on closing day}} \times 100$

6 $\dfrac{\text{Share price on closing day}}{\text{Earnings per share}}$

7 $\dfrac{\text{Dividend}}{\text{Share price on closing day}} \times 100$

Bank of Åland shares traded, Helsinki Stock Exchange

Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2018	A	81	1.3	17.10–13.20	14.11
2018	B	545	6.1	15.00–12.80	13.63
2017	A	167	2.6	15.89–13.06	14.85
2017	B	482	5.4	15.49–13.27	14.41
2016	A	208	3.2	16.99–12.11	14.45
2016	B	809	9.2	16.10–12.62	14.11
2015	A	772	11.9	19.50–11.00	16.28
2015	B	972	11.1	17.58–10.76	15.33
2014	A	194	3.0	12.24–10.00	11.09
2014	B	1,129	14.2	11.30–7.86	9.03

Financial statements, capital and risk management report

Photo: Shutterstock

Consolidated income statement

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Interest income		64,545	66,493
Interest expenses		−10,019	−10,593
Net interest income	G7	**54,526**	**55,901**
Commission income		78,537	70,161
Commission expenses		−27,983	−20,442
Net commission income	G8	**50,554**	**49,719**
Net income from financial items carried at fair value	G9	5,181	3,110
IT income		16,366	17,646
Share of income in associated companies		57	68
Other operating income	G10	957	1,563
Total income		**127,641**	**128,006**
Staff costs	G11	−57,070	−59,827
Other costs	G12	−33,434	−32,872
Depreciation/amortisation and impairment losses on tangible and intangible assets	G25, G26	−7,306	−7,125
Total expenses		**−97,811**	**−99,825**
Profit before impairment losses		**29,830**	**28,181**
Net impairment loss on financial assets	G13	−841	−2,146
Net operating profit		**28,990**	**26,036**
Income taxes	G14	−6,058	−5,330
Net profit for the period		**22,932**	**20,705**
Attributable to:			
Non-controlling interests		0	1
Shareholders in Bank of Åland Plc		**22,931**	**20,704**
Earnings per share, EUR	G15	1.48	1.35
Earnings per share after dilution, EUR	G15	1.48	1.34

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Profit for the accounting period		**22,932**	**20,705**
Cash flow hedge			
Change in valuation at fair value		118	7,782
Transferred to the income statement		−62	−7,615
Assets measured via other comprehensive income			
Change in valuation at fair value		−1,767	101
Realised change in value		2	
Transferred to the income statement		−832	14
Translation differences			
Gains/losses arising during the period		697	114
of which hedging of net investment in foreign operations	G14	2,609	1,635
Taxes on items that have been or may be reclassified to the income statement		−13	−383
of which cash flow hedges		−11	−33
of which assets measured via other comprehensive income		520	−23
of which hedging of net investment in foreign operations		−522	−327
Items that have been or may be reclassified to the income statement		**−1,857**	**11**
Changes in value of equity instruments		14	22
Re-measurements of defined benefit pension plans	G42	370	−1,633
Taxes on items that may not be reclassified to the income statement	G14	−77	322
of which changes in value of equity instruments		−3	−4
of which re-measurements of defined-benefit pension plans		−74	327
Items that have been or may be reclassified to the income statement		**308**	**−1,289**
Other comprehensive income		**−1,549**	**−1,277**
Total comprehensive income for the period		**21,382**	**19,428**
Attributable to:			
Non-controlling interests		0	1
Shareholders in Bank of Åland Plc		**21,382**	**19,427**

Consolidated balance sheet

(EUR K)

Bank of Åland Group	Note	Dec 31, 2018	Jan 1, 2018	Dec 31, 2017
Assets				
Cash and deposits with central banks		506,897	523,801	523,801
Debt securities eligible for refinancing with central banks	G19	815,095	633,733	633,789
Receivables from credit institutions	G20	80,202	92,984	92,984
Receivables from the public and public sector entities	G21	4,021,654	3,975,071	3,978,642
Shares and participations	G22	2,564	531	531
Shares and participations in associated companies	G23	153	119	119
Derivative instruments [1]	G24	15,347	21,424	21,424
Intangible assets	G25	21,582	17,272	17,272
Tangible assets	G26	22,217	23,959	23,959
Investment properties	G26	315	323	323
Current tax assets		915	665	665
Deferred tax assets	G27	5,428	5,881	5,109
Other assets	G28	44,426	32,192	32,192
Accrued income and prepayments [1]	G29	20,997	21,574	21,574
Total assets		**5,557,791**	**5,349,530**	**5,352,386**
Liabilities				
Liabilities to credit institutions	G30	250,334	206,392	206,392
Liabilities to the public	G31	3,303,546	3,148,117	3,148,117
Debt securities issued	G32	1,587,888	1,599,518	1,599,518
Derivative instruments [1]	G24	8,110	22,562	22,562
Current tax liabilities		2,327	113	113
Deferred tax liabilities	G27	27,887	25,212	25,214
Other liabilities	G33	56,952	49,889	49,889
Provisions	G34	191	1,273	1,031
Accrued expenses and prepaid income [1]	G35	31,277	32,912	32,912
Subordinated liabilities	G36	46,895	33,003	33,003
Total liabilities		**5,315,407**	**5,118,991**	**5,118,751**
Equity capital and non-controlling interests	G37			
Share capital		41,974	41,949	41,949
Share premium account		32,736	32,736	32,736
Reserve fund		25,129	25,129	25,129
Hedging reserve		0	−45	−45
Fair value reserve		−124	1,943	1,846
Translation differences		−404	−579	−579
Unrestricted equity capital fund		27,075	26,926	26,926
Retained earnings		115,984	102,466	105,660
Shareholders' portion of equity capital		**242,370**	**230,526**	**233,623**
Non-controlling interests' portion of equity capital		13	13	13
Total equity capital		**242,383**	**230,539**	**233,636**
Total liabilities and equity capital		**5,557,791**	**5,349,530**	**5,352,386**

[1] Derivatives are reported starting on January 1, 2018 together with related accrued interest. Historical figures for comparative figures have been restated.

The January 1, 2018 column is restated to account for the effects of IFRS 9 (EUR −3,096 K change in equity capital).

Statement of changes in equity capital

(EUR K)

Bank of Åland Group

	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Unrestricted equity capital fund	Retained earnings	Share-holders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2016	**41,674**	**32,736**	**25,129**	**−178**	**1,736**	**−366**	**25,982**	**95,086**	**221,801**	**12**	**221,812**
Profit for the period								20,705	20,705	1	20,706
Other comprehensive income				133	109	−213		−1,307	−1,277		−1,277
Transactions with the Group's owners											
Dividend paid								−9,201	−9,201		−9,201
Incentive programme	218						618	−22	813		813
Share savings programme	57						326	400	783		783
Equity capital, Dec 31, 2017	**41,949**	**32,736**	**25,129**	**−45**	**1,846**	**−579**	**26,926**	**105,660**	**233,623**	**13**	**233,636**
Transition to IFRS 9					98			−3,194	−3,096		−3,096
Equity capital, Jan 1, 2018	**41,949**	**32,736**	**25,129**	**−45**	**1,943**	**−579**	**26,926**	**102,466**	**230,526**	**13**	**230,539**
Profit for the period								22,931	22,931	0	22,932
Other comprehensive income				45	−2,068	175		298	−1,549		−1,549
Transactions with the Group's owners											
Dividend paid								−10,041	−10,041		−10,041
Incentive programme	25						149	−5	169		169
Share savings programme								334	334		334
Equity capital, Dec 31, 2018	**41,974**	**32,736**	**25,129**	**0**	**−124**	**−404**	**27,075**	**115,984**	**242,370**	**13**	**242,383**

For further disclosures about change in equity capital, see Note G37.

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Cash flow from operating activities		
Net operating profit	28,990	26,036
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	7,306	7,125
Impairment losses on loans and other commitments	1,147	1,690
Unrealised changes in value	–472	–1,236
Accrued surpluses/deficits on debt securities and bonds issued	4,174	4,977
Defined benefit pension plan	453	321
Gains/losses from investment activity	–107	–1
Income taxes paid	–1,144	–2,495
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–187,024	–134,131
Receivables from credit institutions	9,933	100,227
Receivables from the public and public sector entities	–98,084	–208,690
Other assets	–36,518	–14,264
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	63,660	1,480
Liabilities to the public	188,596	144,415
Debt securities issued	–55,350	–13,232
Other liabilities	–9,580	–46,782
Cash flow from operating activities	**–84,022**	**–134,561**
Cash flow from investing activities		
Investment in shares and participations	–2,000	0
Divestment of shares and participations	104	1
Investment in shares of associated companies and subsidiaries	–20	0
Investment in tangible assets	–1,497	–2,699
Divestment of tangible assets	168	76
Investment in intangible assets	–8,684	–4,972
Cash flow from investing activities	**–11,930**	**–7,595**
Cash flow from financing activities		
Share issues, share savings programme/option rights	174	1,219
Finance leases	–556	–869
Increase in unsecured bonds issued	249,111	99,850
Decrease in unsecured bonds issued	0	–85,634
Increase in covered bonds issued	0	255,297
Decrease in covered bonds issued	–198,237	–102,246
Increase in subordinated debentures	19,335	2,179
Decrease in subordinated debentures	–5,454	–8,435
Dividend paid	–10,041	–9,201
Cash flow from financing activities	**54,332**	**152,159**
Exchange rate differences in cash and cash equivalents	–3,710	–2,867
Change in cash and cash equivalents	**–45,330**	**7,136**
Cash and cash equivalents at beginning of year	586,368	579,232
Cash flow from operating activities	–84,022	–134,561
Cash flow from investing activities	–11,930	–7,595
Cash flow from financing activities	54,332	152,159
Exchange rate differences in cash and cash equivalents	–3,710	–2,867
Cash and cash equivalents at end of year	**541,037**	**586,368**
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	483,353	523,801
Claims repayable on demand from credit institutions	57,685	62,566
Total cash and cash equivalents	**541,037**	**586,368**

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, claims repayable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months as well as claims on public sector entities that are not lending. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that fund operating activities. The analysis was prepared according to the indirect method.

"Operating activities" included interest received of EUR 64,899 K (64,790), interest paid of EUR 9,721 K (11,262) and dividend income received of EUR 1 K (177).

Reconciliation of liabilities attributable to funding activities

	Dec 31, 2017	Cash flow from funding activities	Changes not affecting cash flows: Effect of exchange rate changes	Change in fair value	Accrual of surplus/deficit value	Dec 31, 2018
Covered bonds	1,331,570	–198,237	–18,860	1,766	447	1,116,687
Unsecured bonds	99,889	249,111	0	699	139	349,837
Subordinated debenture loans	33,003	13,881	72	–45	–16	46,895
Leasing liabilities	2,097	–556	0	0	0	1,541
Total liabilities attributable to funding activities	**1,466,560**	**64,199**	**–18,788**	**2,421**	**569**	**1,514,960**


Photographer: Staffan Sundström

Table of contents, capital and risk management report

Capital and risk management report

1 Introduction

In this section, the Bank reports on the disclosure requirements laid down in Part Eight of the Capital Requirements Regulation (EU) No 575/2013 (CRR). The information that is provided covers the entire Group. Aside from the Bank of Åland Plc (LEI code: 7437006WYM821IJ3MN73), the consolidated situation also relates to the subsidiaries Ab Compass Card Oy Ltd., Crosskey Banking Solutions Ab Ltd and Ålandsbanken Fondbolag Ab. Ab Compass Card Oy Ltd and Ålandsbanken Fondbolag Ab are required to prepare capital requirement reporting at the solo level in compliance with the CRR. All figures that are presented in the Bank's Pillar 3 report refer to the situation on December 31, 2018, unless otherwise stated.

The Bank of Åland follows the guidelines of the European Banking Authority (EBA) on the disclosure requirements in Part Eight of CRR to the extent that they apply to a bank that is not a global or otherwise systemically important institution. The Bank presents its comprehensive disclosures in compliance with Part Eight on a yearly basis in a specially delimited section of the Annual Report. Between these reports, it publishes quarterly disclosures concerning capital adequacy in compliance with Section 8.7 of the Regulation and Guidelines 2/2016 of the Finnish Financial Supervisory Authority (FIN-FSA).

In accordance with Article 431.3 of the CRR, the Bank's Board of Directors has adopted a formal policy document to comply with the disclosure requirements of the regulation. By annually adopting the policy and this part of the Annual Report (the Bank's Pillar 3 information), the Bank's Board ensures that the information provided in this section is satisfactory and gives market participants a comprehensive picture of the Bank's risk profile.

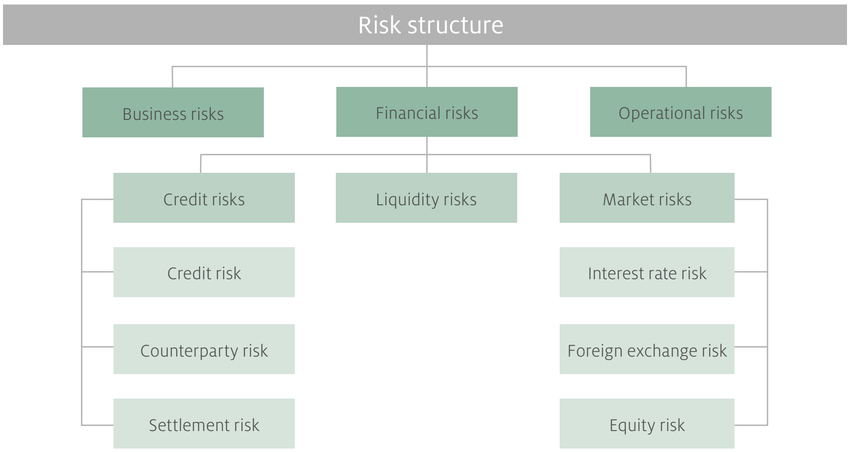
Information provided below on the Group's risks is presented in accordance with Article 435 of the CRR, and the Group thus explains the central principles it applies in managing the various risks. In compliance with Article 432, the Group may omit such disclosures that the Board regards as non-material, proprietary or confidential information.

In the "Credit risk" section, the Bank also provides special disclosures about central principles for impairment loss procedures in compliance with IFRS 9 that were established in the regulation IFRS 7, "Financial instruments: Disclosures".

1.1 RISK PROFILE

Exposure to risk is a natural element of a bank's operations. The Bank of Åland has a low risk profile, with a conservative attitude towards risk and with the aim that all risk shall derive from its normal business operations. The Bank of Åland's customers are mainly private individuals with solid finances, often entrepreneurs and business owners, who value personal relationships. In Åland, where the Bank wants to serve all residents and contribute actively to the Åland community, the risk profile is a little different, among other things through the Bank's corporate services. The Bank of Åland carries out no trading operations. The Bank's low risk profile is reflected in its low losses related to financial and operational risks that have arisen over the years.

The risks in the Group can generally be categorised as business risks, financial risks and operational risks.



1.2 RISK ORGANISATION

To create a strong risk culture that permeates the entire organisation, the Bank of Åland's risk organisation is based on its three lines of defence, which provide a clear division of responsibility between risk-takers and risk management units:

Board of Directors

Managing Director

FIRST LINE OF DEFENCE
Owns and manages risks
- Business operations
- Support units

SECOND LINE OF DEFENCE
Independent measurement, control and reporting
- Risk Control
- Operational Risks and Security
- Compliance

THIRD LINE OF DEFENCE
Oversight and evaluation
- Internal Audit

1.2.1 Board of Directors

The Board of Directors has overall responsibility for risk management and control. The Board defines risk appetite and adopts yearly policy documents that specify the overall principles and limits for risk management. The Audit Committee of the Board of Directors assists the Board in its oversight of risk management, risk reporting and internal controls.

1.2.2 Managing Director

The Managing Director shall ensure that risk management complies with the principles and risk tolerances that the Board has approved. The Managing Director does this by setting guidelines based on the policy documents adopted by the Board. The Managing Director shall also ensure that business operations are adapted to the Bank's expertise and resources and that the Bank has the necessary resources and systems for oversight and monitoring. ALCO – the Asset and Liability Committee – is a decision-making body reporting to the Managing Director that deals with issues concerning financial risks, liquidity, funding and capitalisation.

1.2.3 First line of defence

The first line of defence consists of the Bank's business areas, subsidiaries and Treasury department plus related support units. They are each responsible for the risk that arises in their own operations, which means that risk-taking occurs within established limits and that there are measurement and control processes that follow established guidelines.

1.2.4 Second line of defence

The second line of defence consists of the independent Risk Control, Operational Risks and Security and Compliance departments, which are all subordinate to the Bank's Chief Risk Officer (CRO).

Risk Control is responsible for continuously identifying, measuring, analysing, overseeing and reporting the Bank's financial risks. This includes regular oversight to ensure that the Bank's operations remain within the established risk tolerances and regular reporting of the Bank's financial risks to the Executive Team and the Board. Risk Control also includes the Credit Risk Modelling team, which is responsible for the Bank's internal credit classification system. This responsibility also includes modelling of loan loss provisions in compliance with IFRS 9 as well as regular follow-up of developments in the loan loss provisions for the Bank's loan loss exposures.

Operational Risks and Security is the unit within the Bank that is responsible for analysing and reporting the Group's operational risks. This includes analysing and reporting risks such as information management, data protection and physical security, as well as maintaining internal regulations concerning the unit's area of responsibility and providing back-up to operating units in their management of operational risks.

The Compliance department is responsible for overseeing, controlling and ensuring that the Group maintains good regulatory compliance. The department identifies risks related to deficiencies in compliance, among other things by means of yearly risk analyses in the fields of customer protection, market behaviour, combating money laundering and the financing of terrorism, as well as permit and regulatory issues.

The second line of defence is also responsible for promoting a sound risk culture by providing back-up to business operations in their introduction of processes for maintaining risk management that follows the principles adopted by the Board of Directors and the Managing Director.

1.2.5 Third line of defence

The third line of defence consists of the Internal Audit department, which is directly subordinate to the Board of Directors. Internal Audit is entrusted with evaluating the Group's risk management through independent reviews of processes and systems. The Department reports its observations to the Board.

1.3 RISK MANAGEMENT MODEL

The purpose of the Bank's risk management model is to identify, measure, control and report risks in the Group. The model is designed to meet external regulatory requirements as well as internal requirements and needs, while living up to sound market practices.

The model consists of:

- Internal regulations, approved by the Board and the Managing Director, that establish allocation of responsibilities as well as principles and guidelines for management, measurement, control and reporting of the Group's risks.
- Clear, documented descriptions of processes.
- Systems for measuring, monitoring and controlling risks, adapted to the complexity and scale of operations.
- Regular reporting to the Board and the Executive Team.
- Resources and expertise adapted to operations.
- Incident reporting

The Bank's Asset and Liability Management (ALM) process is aimed at balancing the risks and the returns that arise in the Bank's operations in financial markets. A high risk may jeopardise future income, create a liquidity shortage and threaten the survival of the Bank. It is thus important that the Bank's risk exposure matches its risk appetite, as well as its capacity for managing unexpected losses due to interest rate changes or other external events that are detrimental to the Bank.

The ALM process includes analysis of the structure of interest rate refixing periods and maturities related to assets and liabilities, hedging strategies, capital planning, funding needs and stress tests. The process consists of both static and dynamic scenarios, predefined as well as specific to separate business decisions.

2 Capital management

2.1 CAPITAL ADEQUACY AND BUFFER REQUIREMENTS

The Bank's capital requirements are divided into Pillar 1 requirements, which are the same for all institutions, and Pillar 2 requirements, which are individual for each institution.

According to the Pillar 1 requirements in Article 92 of the Capital Requirements Regulation (CRR), institutions must have a capital base that always fulfils the following requirements in relation to the risk exposure amount (REA):

- A common equity Tier 1 capital ratio of at least 4.5 per cent
- A Tier 1 capital ratio of at least 6 per cent
- A total capital ratio of at least 8 per cent

In addition to the above requirements, banks must also maintain capital for other risks not covered by Pillar 1 regulations. These risks are assessed yearly by means of the "internal capital adequacy assessment process" (ICAAP) and are established or adjusted by the Finnish Financial Supervisory Authority (FSA) through a supervisory review and evaluation process (SREP). Through SREP, national authorities may impose extra capital requirements on banks for these other risks. In the internal assessment based on its situation in 2017, the Bank of Åland estimated its Pillar 2 capital requirement at EUR 10.6 M, which at that time amount to 0.7 per cent of REA. In its evaluation of the Bank's internal capital assessment related to the situation at the end of 2016, the FSA decided on additional capital requirements totalling 1.5 per cent of REA, of which 1.0 per cent of REA is for credit concentration risks and 0.5 per cent is for interest rate risk in the banking book. This is the Bank's Pillar 2 requirement and went into effect starting at the end of the third quarter of 2018. The requirement is valid until FIN-FSA communicates a diverging requirement for the Bank. In addition to these requirements, institutions must have capital buffers against economic downturns, which are established in the Capital Requirements Directive (CRD IV). At the Bank of Åland, these capital buffers consist of a capital conservation buffer amounting to 2.5 per cent of REA plus a countercyclical capital buffer that may vary between 0 and 2.5 per cent of REA. The latter is a "macro-prudential" tool and is determined by the supervisory authority in each country and applied to the relevant lending exposures that are located within this market. The Swedish FSA has imposed a 2.0 per cent countercyclical buffer requirement, which applies to the portion of the Bank's relevant credit risk exposures that occur in Sweden. In September 2018 the Swedish FSA announced that the buffer will be raised to 2.5 per cent, effective from September 19, 2019. So far, FIN-FSA has not decided to activate the countercyclical buffer I Finland as well. On December 31, 2018, the countercyclical buffer at the Bank of Åland amounted to 1.0 per cent. The sum of the two buffers comprises the Bank's combined buffer requirement. The combined buffer requirement must be fulfilled in its entirety by common equity Tier 1 capital. Failure to maintain the combined buffer will result in restrictions on the Bank's ability to distribute dividends from equity capital, in compliance with the dividend distribution restrictions in Article 141 of CRD IV. Unlike larger institutions, the Bank is not included in any buffer requirements for systemically important institutions. However, during the summer of 2018 the FIN-FSA announced a general systemic risk requirement for banks in Finland, partly due to Nordea Bank's move from Sweden to Finland. In the Bank of Åland's case, this consists of a requirement of 1 per cent of REA, which goes into effect during the second quarter of 2019 and is added to the Bank's combined buffer requirement. Starting on January 1, 2018, a risk weight floor of 15 per cent for Finnish mortgage loans was introduced, managed according to the IRB approach and as part of the Pillar 1 requirement. The risk weight floor increases the Bank's capital requirement and thereby lowers its capital adequacy ratio, which should be compared to the above-described minimum requirements.

Table 2.1.1 below presents the countercyclical capital buffer requirements for all countries where the Bank has relevant credit risk exposures, in per cent and as required common equity Tier 1 capital in EUR. Table 2.1.2 shows the Bank's total combined buffer requirements.

Table 2.1.1

Countercyclical capital buffer

	General credit exposures		Capital base requirements			
EUR M	Exposure value – standardised approach	Exposure value – IRB approach	General credit exposures	Total	Capital base requirement weights, %	Countercyclical capital buffer, %
Finland	156.3	2,728.7	49.3	49.3	51	0
Sweden	1,470.6	0.0	45.4	45.4	47	2
Germany	6.9	0.0	0.1	0.1	0	0
Norway	152.2	0.0	1.2	1.2	1	2
Denmark	41.7	0.0	0.3	0.3	0	0
Total	**1,827.7**	**2,728.7**	**96.2**	**96.2**	**100**	

Table 2.1.2

Combined buffer requirements

EUR M	
Total risk exposure amount	1,577.6
Institution-specific countercyclical capital buffer, %	0.97
Institution-specific countercyclical capital buffer, amount	15.3
Capital conservation buffer	39.4
Combined buffer requirement	**54.7**

Table 2.1.3 below summarises the regulatory capital requirements in force at the Bank of Åland.

Table 2.1.3

Regulatory capital requirements

per cent	Minimum capital requirement according to Pillar 1	Capital requirement according to Pillar 2	Of which: Interest rate risk, in the banking book	Of which: Credit concentration risk	Total, combined capital buffers	Of which: Capital conservation buffert	Of which, Counter-cyclical capital buffer	Total capital requirement	Capital position
Common equity Tier 1 capital	4.5	1.5	0.5	1.0	3.5	2.5	1.0	9.5	13.0
Tier 1 capital	6.0	1.5	0.5	1.0	3.5	2.5	1.0	11.0	13.0
Total capital	8.0	1.5	0.5	1.0	3.5	2.5	1.0	13.0	15.4
EUR M									
Common equity Tier 1 capital	71.0	23.7	7.9	15.8	54.7	39.4	15.3	149.4	204.4
Tier 1 capital	94.7	23.7	7.9	15.8	54.7	39.4	15.3	173.0	204.4
Total capital	126.2	23.7	7.9	15.8	54.7	39.4	15.3	204.6	242.4

Taking into account the Pillar 1 capital requirement, the latest estimated Pillar 2 capital requirement and the above combined buffer requirement, the Bank of Åland's common equity Tier 1 capital ratio on December 31, 2018 must amount to 9.5 per cent in order to avoid restrictions on dividends. The corresponding minimums for Tier 1 capital and total capital levels were 11.0 and 13.0 per cent, respectively. At the end of 2018, the Bank's common equity Tier 1 capital ratio amounted to 13.0 (12.9) per cent, which means that the Bank had a common equity Tier 1 capital buffer of 3.5 per cent, or (expressed as common equity Tier 1 capital) EUR 55.0 M. When the above-mentioned systemic risk requirements in Finland go into effect, the minimum requirement for the common equity Tier 1 capital ratio will climb to 10.5 per cent, based on today's situation. The equivalent minimum ratios for Tier 1 and total capital will then amount to 12.0 and 14.0 per cent, respectively. In the Bank's assessment, the hike in the Swedish counter-cyclical buffer requirement from 2.0 to 2.5 per cent will represent a further increase of capital requirements in the range of 0.2 percentage points.

2.2 OWN FUNDS

Own funds are divided into two types: Tier 1 capital (T1) and supplementary capital (T2). Since the Bank has not issued any instruments in the "Other Tier 1 capital" category so far, its entire Tier 1 capital consists of capital in the best category, common equity Tier 1 capital (CET1).

The most important characteristic of common equity Tier 1 capital is that it is freely, continuously and immediately available for covering unforeseen losses arising in operations. Common equity Tier 1 capital consists of share capital in the form of capital instruments as well as related premium reserves that meet the conditions in Articles 28 and 29 of the Capital Requirements Regulation (CRR). CET1 also included retained earnings, other accumulated comprehensive income and other reserves. Retained earnings include the portion of the year's profit that is not planned as a dividend. Permission to include retained earnings in common equity Tier 1 capital is granted by the FSA after independent verification by an external auditor. The instruments that are included in the Bank's CET 1 are perpetual and mainly consist of equity capital in accordance with accounting rules. The financial instruments included in the Bank's CET 1 consists of the Bank's Series A and Series B shares; details concerning these are presented in an appendix below on page 102.

Deductions from CET 1 are made for items that have poorer capacity to absorb losses. Examples of such deductions are the unamortised cost of intangible assets, positive net pension assets, deferred tax assets that are dependent on future profitability and deficits in the form of expected losses exceeding specific credit risk adjustments in the IRB-approved portfolio. Unlike Tier 1 capital, supplementary capital is not as available for covering losses according to the regulations. The Group's supplementary capital consists of subordinated debentures issued to the public, which are specified in the appendix below. Aside from capital instruments plus related premium reserves that meet the requirements of Article 63 of the CRR, supplementary capital includes general credit risk adjustments up to 1.25 per cent of the risk exposure amount calculated according to the standardised approach. Supplementary capital may also include the portion of specific credit risk adjustments that exceed expected losses for the IRB-approved portfolio up to 0.6 per cent of the risk exposure amount calculated according to the IRB approach. The appendix to this section on risk management provides a detailed presentation of the instruments that comprise the supplementary capital items of own funds and their most important characteristics. During 2018 the Bank of Åland issued a subordinated debenture loan of SEK 200 M that is included in supplementary capital. Capital instruments that the Bank has issued accounted for EUR 37.5 M of supplementary capital, compared to EUR 19.7 M one year earlier.

2.3 CAPITAL REQUIREMENTS

During 2018 no changes were made in central approaches for the Bank's capital requirement calculations. The Bank of Åland's capital requirement for credit risks is calculated according to the IRB approach in the Finnish retail lending portfolio ("lending to the public"). For the corporate exposure class, the Bank applies the foundation method (FIRB). IRB has been applied to retail exposures since the first quarter of 2012 and to corporate exposures since the second quarter of 2016. In Sweden and other countries, the capital requirement is calculated entirely using the standardised approach. For all other exposure categories, including equity exposures, the Bank uses the standardised approach to calculate the capital requirement for credit risk.

The Bank applies the exemption for small trading book according to Article 94 of the CRR. It thus estimates no capital requirement for position risks according to the market risk regulations. Instead it applies the credit risk rules to these items to the extent they arise. For counterparty risks on derivatives, the Bank uses the mark-to-market method without regard to netting agreements to calculate the exposure amount. The capital requirement for credit value adjustment risk is calculated according to the standardised approach and applies to all derivatives exposures to institutions that are not cleared by a central counterparty.

Since the second quarter of 2013, the Bank has used the standardised approach in calculating the capital requirement for operational risk. According to the standardised approach, the capital requirement for operational risk is calculated on the basis of disclosures in the financial statements adopted for the latest three financial years. The income indicator is calculated for eight different business lines. Table 2.3.1 below shows how the Bank's total capital requirement for operational risk is calculated and divided among various business lines.

Table 2.3.1

Capital requirement for operational risk		2018	2017
EUR M	Percentage (beta factor)		
Corporate financing	18		
Trading and financial management	18		
Brokerage operations, individual customers	12		
Banking, large customers	15	2.1	1.9
Banking, retail	12	10.3	9.4
Payment and settlement	18	3.6	3.7
Administrative assignments	15		
Asset management	12	1.1	1.2
Total capital requirement, operational risk	**13**	**17.1**	**16.2**

The total of the items that are taken into account when calculating the income indicator is multiplied by the above-mentioned percentage for the respective business area. The income indicator for the financial year is obtained by adding up the income indicators for the three latest years and then dividing by three. This calculation is updated yearly at the end of the first quarter but always refers to the position for the previous full year. The capital requirement for operational risk related to IT-related operations in the Bank's subsidiary Crosskey Banking Solutions is included on the "Payment and settlement" line in the above table. The capital requirement for operational risk was EUR 17.1 M, compared to EUR 16.2 M one year earlier. The increase mainly occurred in the retail banking segment.

Table 2.3.2 below provides an overview of the total risk-weighted exposure amount – according to the available calculation approaches – that comprises the denominator in the risk-based capital requirements that are calculated according to Article 92 of the CRR.

Table 2.3.2

Overview of risk-weighted exposure amounts (excluding transitional and floor rules)	2018	2017	2018
EUR M	Risk-weighted exposure amounts	Risk-weighted exposure amounts	Minimum capital requirements
Credit risk	**1,267.2**	**1,327.2**	**101.4**
Of which standardised approach	737.2	745.9	59.0
Of which foundation IRB approach	299.3	291.7	23.9
Of which advanced IRB approach	230.7	289.6	18.5
Of which the equity related IRB approach as part of the simple risk-weighted approach or the IRB model			
Counterparty credit risk	**4.1**	**8.2**	**0.3**
Of which mark-to-market	4.0	8.0	0.3
Of which original exposure			
Of which standardised approach			
Of which IRB approach			
Of which risk exposure amount for contribution to a central counterparty's default fund			
Of which credit value adjustments	0.0	0.2	0.0
Settlement risk	**0.0**	**0.0**	**0.0**
Securitisation exposures outside trading book (after ceiling)	**0.0**	**0.0**	**0.0**
Of which IRB approach			
Of which formula-based IRB approach			
Of which internal assessment approach (IAA)			
Of which standardised approach			
Market risk	**0.0**	**0.0**	**0.0**
Of which standardised approach			
Of which IRB approach			
Large exposures	**0.0**	**0.0**	**0.0**
Operational risk	**213.3**	**202.5**	**17.1**
Of which basic indicator approach			
Of which standardised approach	213.3	202.5	17.1
Of which advanced measurement approach			
Amounts below thresholds for deductions (subject to 250 per cent risk weighting)			
Floor adjustment			
Total	**1,484.6**	**1,537.9**	**118.8**

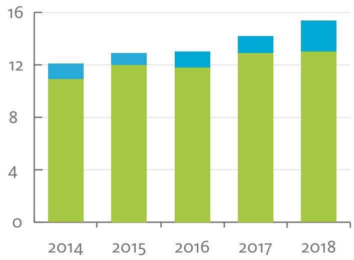
During the year, the Bank of Åland's risk-weighted exposure amount, before adjustments for the risk weight floor for Finnish mortgage loans, decreased from EUR 1,537.9 M to EUR 1,484.6 or by 3 per cent. The capital requirement, expressed as 8 per cent of risk exposure amounts, totalled EUR 118.8 M.

Table 2.3.3 provides a summary of the Group's capital adequacy calculation under Pillar 1.

Table 2.3.3

Capital adequacy	2018	2017
EUR M		
Equity capital according to balance sheet	242.4	233.6
Foreseeable dividend	−10.8	−10.0
Common equity Tier 1 capital before deductions	**231.6**	**223.6**
Intangible assets	−21.0	−15.9
Additional adjustments in value	−0.6	−1.3
Reversal of impairment loss according to IFRS 9 transitional rule	0.6	0.0
Expected losses according to IRB approach beyond recognised losses (deficit)	−6.1	−8.8
Common equity Tier 1 capital	**204.4**	**197.6**
Additional Tier 1 capital	0.0	0.0
Tier 1 capital	**204.4**	**197.6**
Supplementary capital instruments	37.5	19.7
Expected losses according to IRB approach beyond recognised losses (surpluses)	0.4	1.7
Tier 2 (supplementary) capital before deductions	**37.9**	**21.4**
Tier 2 capital	**37.9**	**21.4**
Total capital	**242.4**	**219.0**
Capital requirement for credit risk according to the IRB approach	42.4	46.5
Capital requirement for credit risk according to standardised approach	59.3	60.3
Capital requirement for credit valuation adjustment	0.0	0.0
Capital requirement for operational risk	17.1	16.2
Capital requirement	**118.8**	**123.0**
Addition for risk weight floor for Finnish mortgage loans	7.5	0.0
Addition according to transitional rules for IRB approach	0.0	5.3
Reversal of capital requirement according to transitional rule for IFRS 9	0.0	0.0
Capital requirement including risk weight floor and transitional rule for IFRS 9	**126.2**	**128.3**
Risk exposure amount	1,577.6	1,537.9
of which % comprising credit risk	86.5	86.8
of which % comprising credit-worthiness adjustment risk	0.0	0.0
of which % comprising market risk	0.0	0.0
of which % comprising operational risk	13.5	13.2
Capital ratios including transitional rule for IFRS 9		
Common equity Tier 1 capital ratio, %	13.0	12.9
Tier 1 capital ratio, %	13.0	12.9
Total capital ratio, %	15.4	14.2

Capital ratios during the year
per cent



During 2018, the Bank's common equity Tier 1 capital ratio changed from 12.9 to 13.0 per cent. The total capital ratio improved from 14.2 to 15.4 per cent, mainly due to the issuance during the year of supplementary capital instruments totalling EUR 19.5 M (SEK 200 M). Meanwhile the risk exposure amount increased in 2018 from EUR 1,537.9 M to EUR 1,577.6 M, or by 3 per cent.

Total own funds increased by EUR 23.3 M or by 11 per cent. The increase in the risk exposure amount was mainly due to the application of the risk weight floor for Finnish mortgage loans which – expressed in REA – amounted to EUR 93.4 M at year-end. During the second quarter, the FIN-FSA approved a calibration of the Bank's own model for capital requirement calculation in Finland. The new model resulted in a decrease in regulatory expected losses of EUR 1.1 M and a decrease of the risk exposure amount by EUR 30 M after taking the risk weight floor into account.

The Bank of Åland is applying the transitional rules in Article 473a of the CRR for IFRS 9. As a result, the Bank adds back part of its reserve for expected credit losses to common equity Tier 1 capital by a factor that gradually decreases over five years. During 2018 a factor of 0.95 was used, and during 2019 the factor falls to 0.85. In practice, the expected credit losses that are added back are related to exposures handled according to the standardised approach and are limited in scale. The appendix to this risk section provides specific disclosures of the effects of the transitional rule on the Bank's capital position and leverage ratio.

2.4 LEVERAGE RATIO

The leverage ratio is calculated as the ratio of Tier 1 capital to a specially defined exposure metric according to the CRR. Unlike the capital adequacy calculation, the exposures are not risk-weighted when calculating the ratio. The Bank of Åland reports its ratio quarterly to the FIN-FSA as part of the European Banking Authority's Common Reporting Framework (COREP) and also reports the ratio in note disclosures in its interim reports.

Table 2.4.1 shows the Bank's leverage ratio on December 31, 2018.

Table 2.4.1

Leverage ratio	2018	2017
EUR M		
Tier 1 capital defined according to transitional rules	204.4	197.6
Total exposure metric	5,642.0	5,440.4
of which balance sheet items	5,545.0	5,340.6
of which off-balance sheet items	97.0	99.8
Leverage ratio, %	3.6	3.6

Tier 1 capital includes profit for the period and add-back of expected credit losses amounts according to the transitional rules for IFRS 9. On December 31, 2018, the Bank of Åland's leverage ratio was 3.6 per cent, which was unchanged compared to December 31, 2017.

2.5 INTERNAL CAPITAL ADEQUACY ASSESSMENT AND 2018 STRESS TEST

The purpose of the internal capital adequacy assessment process (ICAAP) is to ensure that the Group is sufficiently capitalised to cover all its risks, enabling it to conduct and develop its operations. In this process, the Bank assesses whether Pillar 1 capital requirements are sufficient and also assesses the capital needed for the risks not covered under Pillar 1. Examples of such risks are concentration risk, pension liability risk and interest rate risk in the banking book.

The 2018 ICAAP, which was related to the situation on December 31, 2017, evaluated the effects of a prolonged negative scenario (EBA adverse scenario) that hurts the Finnish and Swedish export industry and leads to higher unemployment, sharply declining property prices and share prices and continued extremely low market interest rates. Capital planning for a recession – that is, the stress test that was conducted – did not show any capital need to cover operating losses that arise. Nor did the Bank's capital ratios ever fall below the thresholds for dividend distribution restrictions during the planning period, which was three years. The Bank also participated in the FIN-FSA's separate national stress test, which did not result in distribution restrictions for the Bank either.

The identified capital requirement according to ICAAP 2018 amounted to EUR 17.5 M, of which the largest risk areas were interest rate risk in the banking book at EUR 7.5 M, concentration risks in the loan portfolio at EUR 4.8 M and pension debt risk at EUR 2.8 M. The Bank subtracted EUR 6.9 M from its capital requirement, based on IRB approaches for calculating capital requirements in Swedish operations, which showed overestimated capital requirement according to the standardised approach. After this adjustment, the capital requirement for ICAAP 2018 risks totalled EUR 10.6 M, but the Bank's regulatory capital requirement for risks not covered by Pillar 1 consist of the above-described Pillar 2 requirement announced by the FIN-FSA, which partly cover the risk categories the Bank itself assesses in ICAAP.

The significant risks and capital requirement that have been identified in the Group according to the ICAAP conducted on the basis of the situation on December 31, 2017, which was thus valid during 2018, can be seen in Table 2.5.1 below. The common equity Tier 1 capital buffer on December 31, 2017 taking into account Pillar 1 capital requirements was EUR 58.7 M, compared to EUR 48.2 M one year earlier.

Table 2.5.1

Estimated risks, internal capital adequacy assessment

	2017	2016	Change
EUR M			
Internal capital requirement according to ICAAP			
Credit risk in addition to Pillar 1	2.1	1.3	0.8
Credit concentration risk	4.8	4.3	0.5
Interest rate risk in the banking book	7.5	1.2	6.3
Exchange rate risk	0.1	0.1	0.0
Equity risk	0.2	0.2	0.0
Property risk	0.0	0.0	0.0
Operational risks in addition to Pillar 1	0.0	0.0	0.0
Pension liability risk	2.8	1.8	1.0
Business risk	0.0	8.5	–8.5
Liquidity risk	0.0	0.0	0.0
Total internal capital requirement	**17.5**	**17.4**	**0.1**
Adjustment for internal use of IRB in Swedish operations	**–6.9**	**–5.6**	**–1.3**
Total internal capital requirement after adjustment	**10.6**	**11.8**	**–1.2**
Total internal capital requirement and Pillar 1 capital requirement	**138.9**	**137.8**	**1.1**
Total common equity Tier 1 capital buffer	**58.7**	**48.2**	**10.5**

2.6 COMING CHANGES IN CAPITAL REQUIREMENT REGULATIONS

In November 2016 the European Commission proposed a number of updates to the Capital Requirements Regulation and Directive (CRRII and CRDV), which were negotiated during 2018 through tripartite discussions. Final versions of the new regulations are expected to be published in 2019 at the earliest and go into effect two years later.

The proposed update includes a binding 3 per cent minimum requirement for the leverage ratio under Pillar 1, a binding requirement for the net stable funding ratio (NSFR) and levels for total loss-absorbing capacity and minimum requirement of eligible liabilities (TLAC/MREL) for systemically important institutions. The proposed new regulations also include changes to the calculation of capital requirements for market risk and counterparty risk, as well as stricter rules for large exposures. To further stimulate lending to small and medium-sized enterprises (SME), the supporting factor for these exposures is being extended and expanded to also cover exposures exceeding EUR 1.5 M, with a capital requirement-reducing factor of 15 per cent on the excess portion.

For some time, the Basel Committee has been conducting a far-reaching review of current capital adequacy regulations. In December 2017, an extensive update of the capital adequacy regulations was published, entitled "Basel III: Finalising post-crisis reforms". It will be phased in from 2022 onward. The new regulations are expected to be fully phased in by 2027.The Basel Committee's rules will not be automatically binding in the EU,but must first be implemented by means of EU regulations and with new national legislation in member countries by means of directives. Among other things, the new regulations will change the calculation of capital requirements for credit risk according to the standardised approach. They will also change the conditions for certain types of exposures calculated according to the IRB approach. For example, floors will be introduced for the risk parameters PD, LGD and EAD. The regulations will also include new methods for calculating operational risks and credit value adjustment (CVA). Finally, they will introduce an output floor for exposures calculated according to internal models. The level of this new floor has a major effect on how much a bank benefits from using its internal models in calculating capital requirements. The new regulations phase in the floor rule during a 5-year period from 50 per cent up to 72.5 per cent of the capital requirement calculated according to standardised approaches. Parallel with the work of the Basel Committee, during 2018 the European Banking Authority (EBA) completed its project to harmonise banks' calculation of risk according to internal models. This project specifically addresses the definition of default, PD and LGD estimations and the use of credit risk mitigation (CRM) methods. The Bank has begun the task of analysing what effects the updated regulations will have on its capital positions. During the year, it participated in the European Commission's "Call for Advice – Final Basel III Reforms" whose purpose is, by reporting to the EBA, to evaluate the effects of all upcoming regulations in the capital adequacy field.

3 Business risk

Business risk refers to the risk of lower earnings due to deterioration in business conditions. Business risk encompasses competition risk, strategic risk and reputational risk.

Competition risk means a risk of lower income due to increased competition, which may lead to lower volume and/or narrower margins.

Strategic risk refers to the strategy chosen by the Board of Directors and the Managing Director, but also to changes in market conditions for the Bank of Åland's operations, for example in the form of changes in regulations or technological shifts in the financial sector that may affect the ability of the Bank, as a small market player, to carry out profitable banking business. The financial sector is rapidly changing, with new technology enabling new market players to distribute financial services in new, cost-effective ways, thereby eroding the profitability of traditional banks.

Reputational risk refers to a loss of respect and trust among customers, employees and public authorities, for example due to a lack of business ethics or failure to comply with regulations.

4 Credit risk

Credit risk is the risk of losses due to the inability of a customer to fulfil obligations towards the Group and the risk that the collateral provided will not cover the Group's receivables from the customer. All legal entities and physical persons, as well as the public sector, are regarded as counterparties in this context. Exposure refers to the sum of receivables from customers and investments, as well as off-balance sheet obligations. Credit risk also includes credit concentration risk, counterparty risk and country risk.

4.1 Risk appetite

The Bank of Åland mainly serves private individuals with sound finances, often entrepreneurs and business owners, who value personal relationships. Loans are not granted as a stand-alone product, but mainly as part of a long-term customer relationship and to support the Bank's financial investment business. Because of the target group it has selected, the Bank of Åland's credit exposure to individual customer entities can be relatively large in relation to its capital base. As far as possible, loans shall be secured by collateral in the form of real estate or securities and always require that there be stable cash flows that ensure the customer's repayment capacity. The ambition is that over time, the Bank of Åland's loan loss level shall be among the lowest for Nordic banks.

The Bank of Åland's strategic focus is somewhat different in the Åland market than on the Finnish mainland and in Sweden. Given its focus on being a bank for all Åland residents and on actively contributing to the Åland community, it has a larger risk appetite in Åland, among other things through its corporate services.

As a niche bank, the Bank of Åland is selective in its choice of customers, and lending must be of high quality. Quality standards are not set aside for the benefit of higher lending volume or to achieve higher returns.

4.2 Risk management

Overall credit strategy is regulated in a credit policy document adopted by the Board of Directors. The level of acceptable credit risk is also established in a separate financial risk policy and in the individual business strategies of Group companies. Credit risk management is mainly based on formal credit or limit decisions. For credit risk in Treasury operations and counterparty risk, specific counterparty limits are established and are applicable for a maximum of one year.

Credit management assumes that lending decisions will be based on comprehensive knowledge about the customer. This means that the Bank primarily does business with customers active in the regions where the Bank has offices. In the case of corporate loans, the customer should generally have a contact person at the Bank who is familiar with the customer's business and economic sector as well as the risks and collateral related to the loan commitment. Large corporate loans must always be presented to credit committees by a credit analyst who is independent of business operations before a loan is granted. This presentation is valid for a maximum of one year before being updated.

A credit committee makes decisions on credit matters that fall outside the limit of an individual officer. The Credit Committee of the Executive Team includes the Managing Director, the Chief Risk Officer (CRO) and the credit managers, who all have veto rights. The Credit Committee of the Executive Team makes decisions on credit matters up to EUR 10 M and the Bank's Board of Directors makes decisions on credit matters larger than this. Credit matters presented to the Credit Committee of the Executive Team are analysed and endorsed by customer advisors in the business unit responsible for the risk. A Credit Scoring Department that is independent of business operations checks that the analysis has been performed appropriately and according to regulations, ensuring that the credit matter provides a comprehensive and correct picture of the customer's financial situation and future repayment ability and the value of the collateral offered. The Bank of Åland has separately identified lending to "Shipping" and "Other real estate operations" as segments of its loan portfolio that involve heightened credit risk, and the Bank's Board of Directors has therefore set specific limits on lending to these segments.

Credit risks are monitored and analysed by the Group's Risk Control Department, which reports directly to the Managing Director on a monthly basis and to the Board of Directors on a quarterly basis in conjunction with the Group's risk report. The risk report is submitted monthly to the Financial Supervisory Authority (FSA).

At the Bank of Åland, credit risk monitoring and analysis of exposures to private individuals and businesses are based mainly on internal statistical methods, developed in compliance with the capital adequacy rules for internal ratings based (IRB) credit risk classification, as well as the provisions of the IFRS 9 regulation. Exposures in the Bank's lending operations are followed up according to the same methods, even though IRB permission has not yet been formally granted for some portfolios.

4.2.1 Risk classification system for calculating regulatory capital requirements and expected credit losses

The Bank's internal risk classification system is used for calculating expected credit losses (ECL) in compliance with the IFRS 9 regulation and for calculating regulatory capital requirements in the form of unexpected losses (UL) and expected losses (EL) for the Bank's IRB-approved exposures. The estimation of risk parameters for both these purposes is largely similar, but the parameters for the latter purpose include a higher degree of conservatism, since they include various safety margins and are supposed to cover an entire economic cycle.

Both calculations are based on statistics derived from the Bank's own internal data for estimating the probability of default (PD) and the loss given default (LGD) for the Bank's loan customers. For those loan exposures where the Bank has no loss data history of its own, it applies market-based PD values from an external supplier.

The internal risk classification system is the most important cornerstone of the credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for monthly risk monitoring, internal capital management, the calculation of risk-adjusted returns and reporting of credit risk to the Executive Team. The general risk management principles applied for managing risks that have a bearing on both ECL and capital requirements are the same in the Bank. Both ECL and regulatory capital requirements are included in the Bank's reporting to the Executive Team and the Board of Directors and have a strong connection to risk control in the Bank's risk management system. The Bank's operating units also monitor their credit risk based on these key figures on a monthly basis. This reporting leads to analysis of the ratio of expected credit losses to the volume of defaulted exposures (coverage).

Some key concepts in the Bank's IRB model are:

Definition of default – According to the Bank's internal definition, an exposure is considered in default when a payment related to a significant amount is more than 90 days past due. Other situations where the Bank of Åland considers a credit exposure in default are when the Bank honours a bank guarantee, or the counterparty declares bankruptcy or applies for debt restructuring. In addition, the Bank assesses whether there are other reasons why a counterparty should be considered unlikely to pay, which always includes cases where the Bank expands its forbearance measures for a customer. The definition of default for accounting purposes is essentially the same as the regulatory definition of default. According to the IFRS 9 regulation, when a default occurs a receivable is referred to Stage 3. Reporting of developments related to defaulted exposures as described above is part of the Bank's regular reporting of credit risks. The concept of defaulted exposure is synonymous with the concept of an non-performing exposure (NPE). An exposure that is delayed up to and including 90 days is described as performing but past due.

Exposure at default (EAD) – This refers to the exposure amount, including accrued interest, which the Bank has in relation to the customer. Aside from the actual loan debt, EAD also takes into account unutilised portions of loans and limits, using a credit conversion factor (CF). The CF describes the average percentage of utilisation of the unutilised portion of the commitment when the loan defaults. For the time being, the Bank is applying a factor of 100 per cent, which means that unutilised amounts are always taken fully in account in calculating the capital requirement as regards the IRB-approved retail portfolio. For calculating ECL, however, the Bank has produced its own model for estimating the percentage of utilisation at default.

Probability of default (PD) – This is the probability that a customer will default within 12 months. For ECL, the Bank also does a monthly calculation of "lifetime PD", which is compared to an exposure's initial lifetime PD at the time it is granted. Lifetime PD indicates the risk that an exposure will default during the remaining life of the contract. However, the PD used in calculating ECL always refers to 12-month PD calculated for each individual remaining year and must also be adjusted by a forward-looking variable (see below under "Forward-looking information for ECL calculation").

For calculating regulatory capital requirements, an exposure is placed in the Bank's seven-point PD scale for non-defaulted loans, where an established PD class value is used in the calculation. There is an additional category for loans that have defaulted. The Bank's models for estimating the probability of default for retail exposures are based entirely on statistical analysis data that the Bank has stored concerning the repayment histories of its customers. In its model for credit risk among corporate customers, the Bank also uses external scoring data based on key financial ratios of companies and other factors. In compliance with the IFRS 9 regulation, lifetime PD is used to classify an exposure according to the established criteria shown in the table below.

Table 4.2.1 shows how large a percentage of exposures are found within each respective criterion. Exposures with lifetime PD of up to 10 per cent are viewed as "low risk", exposures from 10 up to and including 50 per cent as "medium risk" and exposures from 50 up to 100 per cent as "high risk". Defaulted exposures are always assigned a PD of 100 per cent.

Table 4.2.1

Credit risk

	Dec 31, 2018				Jan 1, 2018
EUR M	Stage 1	Stage 2	Stage 3	Total	Total
Receivables from the public and public sector entities					
Low risk	3,724.6	38.9	0.0	3,763.6	3,672.3
Medium risk	118.2	87.7	0.0	205.9	254.3
High risk	3.7	39.0	0.6	43.3	48.1
Ungraded[1]	1.0	0.0	0.0	1.0	0.0
Defaulted	0.0	0.1	19.1	19.2	12.7
Gross carrying amount	**3,847.5**	**165.7**	**19.7**	**4,033.0**	**3,987.6**
Provision for expected credit loss	−0.9	−1.2	−9.3	−11.3	−12.5
Net carrying amount	**3,846.6**	**164.6**	**10.5**	**4,021.7**	**3,975.1**
Receivables without amounts due	3,832.9	136.9	1.2	3,971.0	3,941.6
Receivables with amounts due <30 days	14.5	23.0	0.4	37.8	25.2
Receivables with amounts due >30 days	0.1	5.9	18.1	24.1	20.8
Gross carrying amount	**3,847.5**	**165.7**	**19.7**	**4,033.0**	**3,987.6**
Unutilised credit lines and guarantees					
Low risk	412.0	0.6	0.0	412.6	398.0
Medium risk	2.5	1.9	0.0	4.3	−9.1
High risk	1.9	0.1	0.0	2.0	0.3
Ungraded[1]	58.8	0.0	0.0	58.8	82.3
Defaulted	0.0	0.0	1.0	1.0	0.1
Gross nominal amount	**475.2**	**2.6**	**1.0**	**478.7**	**471.6**
Provision for expected loss	0.0	0.0	0.0	−0.1	−0.2
Net carrying amount (provision)	**0.0**	**0.0**	**0.0**	**−0.1**	**−0.2**
Debt securities recognised at amortised cost					
Low risk	189.2			189.2	138.9
Medium risk				0.0	
High risk				0.0	
Ungraded				0.0	
Defaulted				0.0	
Gross carrying amount	**189.2**	**0.0**	**0.0**	**189.2**	**138.9**
Provision for expected credit loss	−0.1			−0.1	−0.1
Net carrying amount	**189.1**	**0.0**	**0.0**	**189.1**	**138.8**
Debt securities recognised at fair value via other comprehensive income					
Low risk	556.5			556.5	414.9
Medium risk				0.0	
High risk				0.0	
Ungraded				0.0	
Defaulted				0.0	−0.1
Gross carrying amount	**556.5**	**0.0**	**0.0**	**556.5**	**414.9**
Provision for expected credit loss	−0.2			−0.2	−0.1
Net carrying amount	**556.3**	**0.0**	**0.0**	**556.3**	**414.7**

[1] Instruments for which no probability of default has been established are reported as "ungraded".

During 2018 the overall reserve for expected credit losses (ECL), calculated according to the principles of the IFRS 9 regulation, decreased from EUR 12.9 M to EUR 11.7 M. The total volume in the Bank's balance sheet for which ECL are calculated increased during the year from EUR 4,541 M to EUR 4,779 M. ECL in relation to exposures in the balance sheet decreased from 0.28 per cent to 0.24 per cent. Meanwhile unutilised credit lines and guarantees as described above increased from EUR 472 M to EUR 479 M. Provisions for expected loss on these items decreased from EUR 0.2 M to EUR 0.1 M. Section 4.8 below describes in greater detail how ECL amounts have moved between stages during the year and the effect on year end ECL amounts.

Loss given default (LGD) – Refers to the percentage of total exposure that the Bank expects to lose if a counterparty goes into default. LGD thus describes the safety situation of the commitment that the Bank has entered into with the customer. The Bank estimates LGD using internal data, which are based on historical recoveries from sale of collateral in the retail portfolio that has been taken over. For the corporate portfolio, the Bank uses the foundation LGD method (FIRB), in which the loss percentage is established by regulators. The starting point for so-called regulatory LGD is 45 per cent, which may be lowered with the help of certain collateral accepted by the regulations. Estimated LGD value is also adjusted for economic cycles in order to represent a loss recovery situation during an economic downturn. When calculating regulatory capital requirements, only certain types of collateral are taken into account, while the calculation of ECL takes a larger variety of collateral types into account.

Forward-looking information for ECL calculation – According to IFRS 9, the ECL estimate should be based on a broad range of relevant data, including forecasts of future macroeconomic variables such as changes in Gross Domestic Product (GDP), unemployment, housing prices, interest rates and yields. Since the PD model does not fundamentally take forward-looking information into account, an adjustment is made in estimated 12-month PD on the basis of forward-looking macro information. Each year, the Bank's macro experts devise future scenarios for the next three years: a base scenario, an optimistic scenario compared to the base scenario and a pessimistic scenario compared to the base scenario. These scenarios include forecasts of the above macro variables during the next three years for both Finland and Sweden. A weighting of these scenarios is performed individually each year. The scenarios are currently weighted as follows: base scenario 50 per cent, optimistic scenario 25 per cent and pessimistic scenario 25 per cent. The base scenario that is being used reflects the Bank's future outlook and is closely connected to forecasts of the Bank's performance. For each scenario, the macro model calculates an expected default frequency during the next three years for four different target groups: companies in Finland, private individuals in Finland, companies in Sweden and private individuals in Sweden. To adjust future PD figures, the Bank currently uses the observed association between changes in macro variables and observed default frequencies at the Bank of Åland, measured during the period 2013–2017.

The table below presents the above-described macro variables that the Bank looks at and forecasts for three years. Figures are stated as yearly averages.

Table 4.2.2

Macro variables by scenario

	Finland			Sweden		
Per cent	2018	2019	2020	2018	2019	2020
Real GDP						
Optimistic scenario	2.9	2.6	1.8	3.8	3.1	2.3
Base scenario	2.1	1.6	1.0	2.8	1.9	1.3
Pessimistic scenario	1.4	0.6	0.2	1.9	0.7	0.3
Consumption						
Optimistic scenario	1.8	1.9	1.6	3.5	3.9	3.7
Base scenario	1.4	1.2	0.9	2.6	2.4	2.1
Pessimistic scenario	1.0	0.4	0.2	1.7	0.9	0.5
Unemployment						
Optimistic scenario	7.7	7.2	6.8	6.1	5.8	5.7
Base scenario	8.2	7.8	7.6	6.4	6.2	6.3
Pessimistic scenario	8.5	8.4	8.3	6.6	6.7	6.9
Inflation						
Optimistic scenario	2.0	2.6	3.2	2.3	2.7	2.6
Base scenario	1.4	1.5	1.7	1.9	2.1	2.1
Pessimistic scenario	0.8	0.4	0.2	1.4	1.5	1.5
3-month Euribor/Stibor						
Optimistic scenario	0.3	1.0	1.8	0.0	1.1	2.0
Base scenario	−0.3	0.0	0.3	−0.3	0.2	0.7
Pessimistic scenario	−0.9	−1.0	−1.2	−0.6	−0.7	−0.6

The ECL calculation model is based on PD, LGD and EAD as well as the loan's discount rate. According to IFRS 9, the original effective interest rate of the financial asset should be used as the discount rate. Based on a materiality assessment, the Bank has chosen to use the actual interest rate on the relevant valuation date as the discount rate. This applies both to floating rate and fixed rate loans.

The EAD, PD and LGD models estimate yearly future EAD, PD and LGD figures, which are used in calculating ECL. After future PD, LGD and EAD figures have been calculated and the division into stages has been completed, the actual ECL calculation is done. The Bank's model for determining ECL is a Point in Time model. In determining ECL, the Bank calculates an exposure's one-year ECL and its lifetime ECL, which is applied when an exposure has been deemed to have a significant increase in credit risk. In regulatory contexts, impairment loss amounts are treated as specific credit risk adjustments.

Significant increase in credit risk – According to the IFRS 9 regulation, credit risk exposures are divided into three stages. Stage 1 consists of exposures that are performing without any significant increase in credit risk regarded as having occurred. Exposures that are underperforming and are regarded as having undergone a significant change in credit risk are placed in Stage 2. A significant increase in credit risk is regarded as having occurred if the lifetime PD of the exposure has increased 3 times compared to initial lifetime PD and the absolute change is at least 10 percentage points. The Bank applies the rebuttable presumption of 30 days' delay as a back-stop as provided by the IFRS 9 regulation. In addition, exposures that have been granted forbearance measures are always placed in Stage 2. Exposures in Stage 3 fulfil the Bank of Åland's definition of default, as defined above. By definition, a loan loss provision for Stage 2 or Stage 3 is based on lifetime loan losses, but they differ because some Stage 3 exposures undergo an individual impairment test. For backward transitions to better stages, the Bank applies waiting period. For exposures in Stage 2 it applies a six month period and for loans in Stage 3 it applies a two month waiting period. For exposures with forbearance, the Bank applies a waiting period of 24 months before the exposure can revert to Stage 1, assuming that forbearance measures are no longer in place.

Regulatory EL – The Bank's model for calculating regulatory EL is also based on PD, EAD and LGD models. These are not the same models that are used for calculating ECL. Multiplying PD and LGD by the EAD amount (PD×LGD×EAD) results in the expected loss (EL) expressed in euros. The Bank's model for calculating EL has elements of both Point in Time (LGD) and "through the cycle" approaches (PD) and, to summarise, is based on a full economic cycle including a recession. Since EL is assumed to be known there must also be a deduction for it from the Bank's own funds, to the extent this is not covered by the ECL amount.

Write-off – According to the Bank's guidelines, a receivable is finally written off if bankruptcy has been confirmed or indigence is regarded as probable. In this stage, the exposure is regarded by the Bank as an actual loan loss. The Risk Control department carries out a large-scale yearly evaluation of the risk classification system, and the findings of this evaluation are reported to the Board of Directors. This oversight includes a yearly validation and possibly a follow-up calibration of the risk measurements and models that are applied in risk classification. There is also regular monitoring to ensure that risk is being measured in a reliable, consistent way. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations. The Bank may not make changes in its internal models that have a significant impact on the capital requirement without Financial Supervisory Authority (FIN-FSA) approval. For large corporate customers included in the corporate exposure category, the Bank also performs a qualitative assessment of the customer, to be reported at least yearly and be presented to the Bank's Credit Committee. This qualitative assessment is an important complement to statistical scoring of a corporate customer. Non-performing and weakened loan commitments, as well as trends in special credit risk indicators for lending, are reported monthly to the Managing Director and quarterly to the Board in conjunction with the Group's internal risk report.

4.2.2 Collateral management and credit risk mitigation

Collateral eliminates or reduces the Bank's loss if the borrower cannot fulfil his payment obligations and the Bank terminates its loan to the customer. As a main rule, loans to private individuals and companies are thus made against collateral. This applies, for example, to home mortgage financing to private individuals, loans to real estate companies, loans to private individuals and companies for the purchase of securities as well as various other types of financing. Unsecured loans are primarily granted in the case of small loans to private individuals and only in exceptional cases to companies. In the latter case, as a rule special loan conditions are established that give the Bank greater rights of renegotiation or loan termination.

Under "lending to the public", a majority of all loans have been granted to private individuals and businesses with a home or other property as collateral. A large proportion of such lending also occurs in exchange for the pledging of financial collateral that are largely assigned a market value daily.

The Bank regularly monitors the market values of property and securities that serve as collateral for loans. A follow-up of the market value of residential property used as collateral is performed quarterly, and where a need is demonstrated the Bank engages an external appraiser for re-appraisals.

By applying conservative loan-to-value (LTV) ratios on collateral, the Bank makes allowances for a possible negative price trend for various forms of collateral, for example housing prices and market price changes for financial collateral. As a general rule, a loan may not exceed 70–75 per cent of the market value of residential property used as collateral. The LTV ratio on financial collateral is mainly determined on the basis of the liquidity and credit quality of the financial instrument.

Table 4.2.3 states the quantity of collateral that is taken into account in ECL calculation according to IFRS 9. "Collateral value" refers to the risk-reducing value that is used as a base value in the calculation. For all real estate, deposits and vessels as well as vehicles that are pledged as collateral, market value is used as collateral value while the loan value is used for other types of collateral. The table specifies the overall collateral values in each collateral class.

Table 4.2.3

Pledged collateral, loans and guarantees to the public

EUR M	Collateral value	Percentage	Number of collateral items
Type of collateral			
Residential properties	6,674.4	73.80	19,855
Other properties	609.7	6.70	1,672
Financial collateral	1,260.8	13.90	3,044
Central and local government guarantees	138.1	1.50	5,387
Other collateral	358.3	4.00	712
Total	**9,041.4**	**100.00**	**30,670**

Table 4.2.4 shows receivables with and without collateral. Receivables that are designated as loans without collateral are unsecured loans or receivables for whichthe pledged collateral is not taken into account in Table 4.2.3, for example personal guarantees.

Table 4.2.4

Secured and unsecured receivables			
EUR M	Balance sheet item	Percentage	Number of exposures
Exposures secured by collateral	3,956	98	33,573
Exposures unsecured by collateral	65	2	4,382
Total	**4,022**	**100**	**37,955**

4.3 CREDIT RISK EXPOSURE

This section provides a general description of credit risks and their development during the year and presents specific disclosures about the loss provisions for credit risk exposures and the capital requirements resulting from the Bank's choice of approaches to calculating capital requirements. These specific disclosure requirements are stipulated in Part Eight of the Capital Requirements Regulation (CRR) and in the IFRS 7 regulation.

At the Bank of Åland, credit risk largely consists of receivables from private individuals and non-financial companies. These receivables consist mainly of loans, overdraft facilities and guarantees that have been issued. In normal banking operations and risk management, credit risk also arises as a result of trading in financial instruments within the Bank's Treasury operations. Through management of the Bank's risks, credit risk also arise due to derivatives trading, so-called counterparty risk. Exposure to country risk arises when lending in another country and relates to events that may result in problems with payment transfers, for example. The Bank of Åland's country risk consists mainly of lending in Sweden. Credit risk also exists outside the Bank's balance sheet in the form of unused portions of credit lines, still unutilised loan commitments and unredeemed guarantees. There is also credit risk in the form of the collateral requirements that the Bank imposes on customers that borrow financial securities from the Bank and engage in transactions with Nasdaq derivatives.

Table 4.3.1 below shows the Group's overall credit risk exposure.

Table 4.3.1

Credit risk exposure	2018	2017
EUR M		
Balances with central banks	493	513
Receivables from the public	4,022	3,979
Receivables from credit institutions	80	93
Debt securities eligible for refinancing with central banks	815	634
Other debt securities	0	0
Derivative instruments	15	18
Guarantees	43	40
Unutilised overdraft limits	228	216
Unutilised credit card limits	76	74
Lines of credit	131	142
Other commitments	14	14
Total	**5,919**	**5,722**

During 2018, the overall credit risk exposure of the Group rose at the same pace as the increase in its lending to the public. Lending to the public rose from EUR 3,979 M to EUR 4,022 M, or by more than 1 per cent, during the year. Lending mainly increased in the Swedish home mortgage loan segment. Meanwhile there were also increases in exposures attributable to the Bank's liquidity and portfolio management. For example, credit risk exposure in the form of debt securities eligible for refinancing increased from EUR 634 M to EUR 815 M. A substantial share of bond holdings issued by financial institutions consisted of Nordic covered bonds with very good credit quality. During the year, the Bank's holdings of covered bonds increased from EUR 371 M to EUR 493 M.

Table 4.3.2 shows a breakdown of lending to the public by the Bank's strategic business segments. For corporate loans, the Bank uses the customer's standard industrial classification or SNI code, which is mapped into the Bank's own allocation system for lending to the public. For loans to private individuals, the table shows the purpose for which the specific loan is intended.

Table 4.3.2

Receivables from the public by business segment	2018			
EUR M	Private Banking	Premium Banking	Compass Card	Total
Home mortgage loans	682	1,604	0	2,287
Securities and other investments	240	69	0	309
Business operations	26	86	0	112
Other household purposes	89	112	28	229
Total private individuals	**1,038**	**1,871**	**28**	**2,937**
Shipping	0	59	0	59
Wholesale and retail trade	19	27	0	46
Housing operations	263	38	0	301
Other real estate operations	143	53	0	196
Financial and insurance operations	189	42	0	231
Hotel and restaurant operations	2	27	0	28
Other service operations	45	38	0	84
Agriculture, forestry and fishing	2	9	0	11
Construction	37	20	0	57
Other industry and crafts	4	32	0	37
Total companies	**704**	**346**	**0**	**1,050**
Public sector and non-profit organisations	**13**	**22**	**0**	**35**
Total lending	**1,754**	**2,239**	**28**	**4,022**

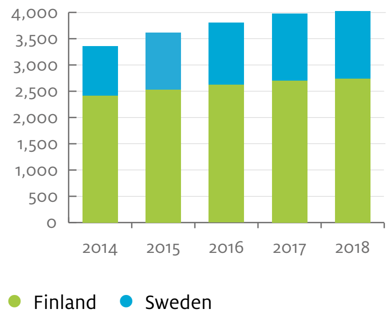
Table 4.3.3 below correspondingly shows a breakdown of the Bank's receivables from the public by the purpose for which the loans are used, and with industrial classifications broken down by countries where the Bank has lending operations.

Table 4.3.3

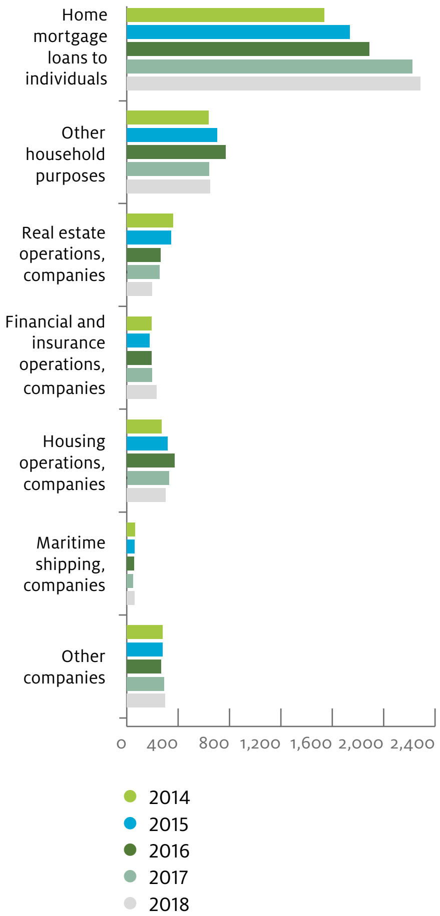
Receivables from the public by country	2018			2017		
EUR M	Finland	Sweden	Total	Finland	Sweden	Total
Home mortgage loans	1,565	722	2,287	1,534	689	2,224
Securities and other investments	270	38	309	266	42	308
Business operations	112	0	112	120	0	120
Other household purposes	149	80	229	144	69	213
Total private individuals	**2,096**	**841**	**2,937**	**2,065**	**800**	**2,865**
Shipping	59	0	59	47	0	48
Wholesale and retail trade	42	3	46	37	4	41
Housing operations	58	243	301	60	266	327
Other real estate operations	109	87	196	125	128	253
Financial and insurance operations	177	53	231	155	43	198
Hotel and restaurant operations	27	1	28	24	2	26
Other service operations	63	21	84	78	16	95
Agriculture. forestry and fishing	11	0	11	10	0	11
Construction	34	23	57	28	15	43
Other industry and crafts	34	3	37	36	5	41
Total companies	**614**	**436**	**1,050**	**601**	**480**	**1,081**
Public sector and non-profit organisations	**35**	**0**	**35**	**32**	**0**	**32**
Total lending	**2,745**	**1,276**	**4,022**	**2,699**	**1,279**	**3,979**

Lending to private individuals accounted for a total of 73 per cent of the Group's receivables from the public, compared to 72 per cent at year-end 2017. The remaining portion, aside from corporate lending, consisted of lending to public sector entities. During 2018, Swedish home mortgage lending rose by EUR 33 M or 5 per cent and was the single segment in the Bank's lending portfolio that increased the most. Lending for other real estate operations in Sweden decreased by EUR 41 M or by 32 per cent and was the single segment that decreased the most. In Finland, lending to other real estate operations fell by EUR 16 M or 13 per cent. Lending to shipping operations rose by EUR 11 M or 23 per cent. Overall corporate lending decreased by EUR 29 M or 3 per cent, while lending to private individuals increased by EUR 72 M or 3 per cent. Lending to the public sector and non-profit organisations increased by EUR 3 M to EUR 35 M or by 9 per cent during the year.

Receivables from the public by country
EUR M



Receivables from the public by economic sector
EUR M



The tables below show the Bank's exposures in the IRB-approved retail portfolio, divided into PD classes. For each PD class, the Bank calculates a class value that is equivalent to the combined annual risk of default for exposures in each risk class.

Table 4.3.4

Retail exposures with property as collateral – Private individuals

	2018					2017				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.04	1	90.5	5.0	5.0	0.04	1	78.0	4.4	4.4
2	0.11	2	221.3	12.3	17.4	0.11	2	216.6	12.2	16.6
3	0.14	3	304.7	17.0	34.4	0.14	3	316.2	17.8	34.5
4	0.21	5	609.4	34.0	68.4	0.21	5	599.2	33.8	68.3
5	0.75	12	447.3	25.0	93.3	0.75	14	440.9	24.9	93.2
6	7.31	51	102.1	5.7	99.0	7.31	65	100.8	5.7	98.8
7	28.75	85	10.8	0.6	99.6	28.75	115	13.9	0.8	99.6
Defaulted	100.00	147	6.6	0.4	100.0	100.00	229	6.5	0.4	100.0
Total			**1,792.7**	**100.0**				**1,772.1**	**100.0**	
Risk classes 1–5			**1,673.2**					**1,650.9**		
Risk classes 1–5			**93.3%**					**93.2%**		

Table 4.3.5

Retail exposures – Small and medium-sized companies*

	2018					2017				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.15	5	3.6	2.4	2.4	0.15	6	4.2	2.8	2.8
2	0.22	5	10.5	7.2	9.6	0.22	6	13.5	9.1	11.9
3	0.79	11	34.3	23.4	33.0	0.79	13	31.5	21.2	33.1
4	2.61	21	60.8	41.4	74.4	2.61	26	61.5	41.4	74.5
5	7.80	38	27.0	18.4	92.8	7.80	49	28.1	18.9	93.4
6	13.31	49	6.5	4.4	97.2	13.31	68	6.6	4.4	97.9
7	53.00	70	3.2	2.2	99.4	53.00	82	2.4	1.6	99.4
Defaulted	100.00	77	0.9	0.6	100.0	100.00	198	0.8	0.6	100.0
Total			**146.8**	**100.0**				**148.4**	**100.0**	
Risk classes 1–5			**136.2**					**138.7**		
Risk classes 1–5			**92.8%**					**93.4%**		

Table 4.3.6

Retail exposures – Other retail exposures

	2018					2017				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.04	2	7.4	2.4	2.4	0.04	2	5.9	2.0	2.0
2	0.11	3	30.6	10.1	12.6	0.11	4	24.0	8.2	10.2
3	0.14	4	51.4	17.0	29.5	0.14	5	41.8	14.3	24.5
4	0.21	6	83.9	27.7	57.3	0.21	8	99.4	33.9	58.4
5	0.75	13	106.9	35.3	92.6	0.75	20	89.8	30.7	89.1
6	7.31	31	13.4	4.4	97.0	7.31	44	23.8	8.1	97.2
7	28.75	65	2.3	0.8	97.7	28.75	79	3.5	1.2	98.4
Defaulted	100.00	36	6.8	2.3	100.0	100.00	89	4.6	1.6	100.0
Total			**302.7**	**100.0**				**293.0**	**100.0**	
Risk classes 1–5			**280.2**					**261.0**		
Risk classes 1–5			**92.6%**					**89.1%**		

* Due to their size, the two exposure classes for small and medium-sized companies have been combined in the table.

The table below shows the Bank's exposures in the IRB-approved corporate portfolio in a similar way.

Table 4.3.7

Corporate exposures – Large companies

	2018					2017				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.50	62	27.1	17.5	17.5	0.50	38	39.7	27.2	27.2
2	1.06	41	89.2	57.6	75.1	1.16	40	60.3	41.4	68.6
3	1.44	69	17.2	11.1	86.2	1.44	83	21.9	15.0	83.7
4	1.80	63	16.9	10.9	97.1	1.80	72	18.9	12.9	96.6
5	5.25	75	4.5	2.9	100.0	5.25	20	2.9	2.0	98.6
6										
7										
Defaulted	0.00		0.0	0.0	100.0	100.00	0	0.0	0.0	98.6
Unclassified	0.00		0.0	0.0	100.0	8.85	146	2.0	1.4	100.0
Total			**155.0**	**100.0**				**145.7**	**49.7**	
Risk classes 1–5			**155.0**					**143.7**		
Risk classes 1–5			**100.0%**					**98.6%**		

Table 4.3.8

Corporate exposures – Small and medium-sized companies

	2018					2017				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.50	52	47.1	14.5	14.5	0.50	45	36.0	11.3	11.3
2	1.06	49	66.1	20.3	34.8	1.06	41	65.1	20.4	31.7
3	1.44	59	112.6	34.6	69.4	1.44	63	102.0	32.0	63.7
4	1.80	65	53.3	16.4	85.8	1.95	70	62.0	19.4	83.2
5	5.25	86	21.2	6.5	92.3	5.25	101	30.5	9.6	92.8
6	21.47	182	16.1	5.0	97.3	21.47	162	6.6	2.1	94.8
7	63.83	114	0.6	0.2	97.4	63.83	150	3.7	1.2	96.0
Defaulted	100.00	0	1.1	0.4	97.8	100.00	0	1.1	0.3	96.3
Unclassified	8.53	115	7.2	2.2	100.0	8.53	109	11.7	3.7	100.0
Total			**325.4**	**100.0**				**318.7**	**100.0**	
Risk classes 1–5			**300.3**					**295.6**		
Risk classes 1–5			**92.3%**					**92.8%**		

Table 4.3.9

IRB-approved corporate exposures – Special lending (slotting method)

	2018				2017			
Risk class	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	50	0.3	5.5	5.5	50	0.0	0.0	0.0
2	70	0.0	0.0	5.5	70	0.3	4.0	4.0
3	90	5.0	94.5	100.0	90	0.0	0.0	4.0
4	115	0.0	0.0	0.0	115	5.0	70.0	74.0
5	250	0.0	0.0	0.0	250	0.0	0.0	74.0
Defaulted	0	0.0	0.0	0.0	0	1.9	26.0	100.0
Total		**5.3**				**7.1**		
Risk classes 1–3			**5.3**				**0.3**	
Risk classes 1–3			**100.0%**				**4.0%**	

Table 4.3.10 below summarises the important metric for the Bank's IRB portfolios.

Table 4.3.10

Exposure class, amounts				
EUR M	Original gross exposures in balance sheet	Original off-balance sheet exposures before CF	Average credit conversion factor, %	Defaulting exposures after CRM and CF
Using own estimates of LGD				
Retail, property as collateral, small and medium-sized companies	104.1	5.5	100	0.1
Retail, property as collateral, private individuals	1,769.2	33.7	100	6.5
Retail, other small and medium-sized companies	31.5	7.3	100	0.8
Other retail exposures	316.7	22.6	100	6.8
Without own estimates of LGD				
Corporate, other large companies	139.4	67.2	26	0.0
Corporate, small and medium-sized companies	330.5	18.5	11	1.1
Corporate, special lending	5.3	0.0	0	0.0

Exposure class, risk parameters							
EUR M	Average PD, (incl. defaulted) %	Number of debtors	Average LGD, %	Average maturity (days)	Risk-weighted exposure amount	Density of risk-weighted exposure amount: Expected loss, %	Value adjustments and provisions
Using own estimates of LGD							
Retail, property as collateral, small and medium-sized companies	4.79	1,048	11.2	2,311	25.4	23	0.0
Retail, property as collateral, private individuals	1.25	20,680	10.3	4,320	166.7	9	1.4
Retail, other small and medium-sized companies	5.96	749	22.4	1,343	8.1	21	0.7
Other retail exposures	3.15	10,299	14.0	1,676	30.5	10	6.2
Without own estimates of LGD							
Corporate, other large companies	1.25	98	27.9	1,383	80.5	52	0.1
Corporate, small and medium-sized companies	3.15	307	35.2	2,444	214.2	66	1.1
Corporate, special lending		2		5,934	4.6	88	0.0

4.4 IRB – ESTIMATED VALUES AND OBSERVED OUTCOMES

The exposure-weighted PD estimate according to class value – including adjustment for economic cycles and safety margins – for all non-defaulted retail exposures that were used in the calculation of capital requirements on December 31, 2017 was 1.20 per cent. For retail exposures with property as collateral, the weighted PD estimate amounted to 0.94 per cent, for small and medium-sized companies and for other retail exposures 4.20 and 1.29 per cent, respectively.

At the end of 2018, the exposure-weighted PD estimate according to class value – including adjustments for economic cycles and safety margins – for all non-defaulting retail exposures was 1.13 per cent. For retail exposures with property as collateral, the weighted PD estimate amounted to 0.89 per cent, for small and medium-sized companies and for other retail exposures 4.48 and 0.92 per cent, respectively.

The exposure-weighted PD estimate for non-defaulted corporate exposures on December 31, 2018 was 2.25 per cent and on December 31, 2017 it was 2.50 per cent. In January 2017, a separate conservative PD estimate was introduced for companies without valid PD classification, which was taken into account in the reported PD estimates on December 31, 2017, but the effect of this change is small since it only concerns a very limited number of companies.

The table below shows actual default outcomes during 2018. The reported default frequencies were calculated at the loan level. Note that these actual outcomes were observed during a period when the macroeconomic situation was better than the average situation to which the cyclical adjustment is made. For corporate exposures and exposures to companies in the retail portfolio, the difference between estimates and observed amounts is larger than for exposures to private individuals, due to greater statistical uncertainty in the estimates because of less data material, which makes it necessary to use larger add-ons to ensure that the estimates are conservative.

Table 4.4.1

Default frequency* in 2018

Exposure class	Actual outcome, %	Estimated value**
Retail, secured by real estate	0.47	0.82
Small and medium-sized companies classified as retail exposure	1.99	4.39
Other retail exposures	1.05	2.05
Total retail exposures	**0.73**	**1.40**
Corporate exposures	**2.67**	**3.67**

*Arithmetic median values

**Estimated on December 31, 2017. Includes cyclical adjustment and safety margins.

Table 4.4.2 shows EAD-weighted average LGD levels on December 31, 2018 in per cent for the respective exposure class where the IRB approach was applied. Estimated levels include safety margins plus a cyclical adjustment of LGD to a recession situation.

Table 4.4.2

Estimated LGD levels (on December 31, 2018)

Exposure class	Non-defaulting, %	Defaulted, %	Total, %
Retail exposures with real estate as collateral*	10.2	24.1	10.3
Small and medium-sized companies classified as retail exposures	14.0	33.4	14.1
Other retail exposures	13.5	36.2	14.0
Total retail exposures	**10.9**	**30.4**	**11.0**
Corporate exposures – Small and medium-sized companies**	35.7	43.4	35.7
Corporate exposures – Large companies**	28.0		28.0
Total corporate exposures**	**33.2**	**43.4**	**33.3**

*According to capital requirements regulations, the average LGD value for exposures with residential property as collateral and without government guarantees may not be lower than 10 per cent.

**Method for calculating LGD determined by authorities.

The exposure-weighted LGD value for all non-defaulting retail exposures on December 31, 2017 was 12.5 per cent. For non-defaulting retail exposures with residential property as collateral, LGD totalled 10.9 per cent, for non-defaulting small and medium-sized companies 17.3 per cent and for other non-defaulting retail exposures 19.6 per cent. The estimated levels fell for each exposure class between December 31, 2017 and December 31, 2018, largely due to implementation of a calibration of the LGD model in the retail portfolio.

Estimated and observed LGD levels for the exposures that defaulted during 2017 are presented in Table 4.4.3. The estimated level is an exposure-weighted average for the defaulted exposures on the reference date, December 31, 2016. When calculating observed LGD, only recoveries from residential property and financial collateral until December 31, 2018 have been taken into account. Observed defaults with unclear recovery status are treated as unrecovered with an observed LGD of 100 per cent, which is a conservative estimate. Because of these factors, the observed LGD level is conservative and will fall over time, since on December 31, 2018 there was remaining unsold collateral for defaults in 2017 and some of the defaults that have unclear recovery status will probably recover.

Table 4.4.3

LGD levels for 2017 defaults

Exposure class	Estimated LGD, %	Observed LGD , %	Number of defaulted loans	EAD, EUR 000
Retail with real estate as collateral, private individuals	17.6	10.3	90	6,610
Small and medium-sized companies classified as retail exposures	25.0	42.6	10	420.0
Other retail exposures	26.6	13.7	81	1,780
Small and medium-sized companies classified as corporate exposures	44.1	15.1	12	3,411
Corporate exposures, large companies	45	100	1	11

4.5 STANDARDISED APPROACH FOR CALCULATION OF CAPITAL REQUIREMENT

In the standardised approach, exposures are divided into various exposure classes depending on the counterparty, collateral or receivable. The exposure figures for the receivables are then multiplied by the risk weight specified in the Capital Requirements Regulation (CRR) for the respective exposure class. Exposures to sovereigns (national governments) in the European Economic Area (EEA) and their respective central banks shall always, provided that they are expressed in the national currency, be assigned a risk weight of 0 per cent and exposures fully or partially covered by collateral in residential property shall be assigned a risk weight of 35 per cent. In compliance with CRR, the Bank bases its risk weight for institutions and covered bonds on external credit rating agencies. For those exposures in the “institutions” class that have no external rating, the risk weight is based on the rating of the national government (sovereign method). During 2018 no changes occurred in this approach that have affected the Bank’s risk exposure amount.

Table 4.5.1 shows how exposure amounts calculated according to the standardised approach are allocated among exposure classes and risk weights.

Table 4.5.1

Standardised approach: Exposure values by exposure classes and risk weights

EUR M	0%	2%	10%	20%	35%	50%	75%	100%	150%	Total
Central governments or central banks	610.2									610.2
Regional governments or local authorities	53.2									53.2
Public sector entities	5.0									5.0
Multilateral development banks	46.7									46.7
International organisations	42.2									42.2
Institutions	22.6	18.1		161.3		70.2				272.2
Corporates								195.2		195.2
Retail							88.7			88.7
Secured by mortgages on immovable property					963.0					963.0
Exposures in default								1.0	2.4	3.3
Items associated with particularly high risk									0.0	0.0
Covered bonds			492.8							492.8
Claims on institutions and corporates with short-term credit assessment										0.0
Collective investment undertakings										0.0
Equity exposures								2.7		2.7
Other exposures	37.5						0.0	44.5		82.0
Total exposure	**817.3**	**18.1**	**492.8**	**161.3**	**963.0**	**70.2**	**88.7**	**243.4**	**2.4**	**2,857.3**

4.6 CREDIT RISK MITIGATION

Credit risk mitigation (CRM) in the calculation of capital requirements refers to measures by which the Bank takes into account approved collateral that lowers the capital requirement for credit risk. The collateral that the Bank of Åland takes into account in calculating the capital requirement are home mortgages, guarantees issued by sovereigns, local authorities and institutions, deposit accounts in the Bank itself and other banks as well as financial collateral. The same principles and collateral management requirements as in the calculation of capital requirements are also applied in calculating provisions for expected credit losses, with collateral helping to decrease the loan loss provision.

The Bank uses the comprehensive method for financial collateral. Approved financial collateral according to capital adequacy regulations is adjusted for volatility using "haircuts" (capital charges) specified by authorities and affects the LGD parameter for the exposure classes where IRB is applied. For loans where the standardised approach is used to calculate capital requirements, the exposure amount for the exposures is instead mitigated before these are risk-weighted. The largest category of this form of credit risk mitigation method consists of equities listed on the Helsinki and Stockholm stock exchanges. The second-largest category consists of fixed income securities issued or intermediated mainly by Nordic credit institutions. The Bank also uses the comprehensive method for financial collateral when calculating exposures to securities loans and thereby adjusts exposure amounts and collateral as specified in the Capital Requirements Regulation.

The residential property used as collateral in credit risk mitigation must meet special requirements set by capital adequacy regulations to be eligible. This includes requiring regular independent appraisals and requiring that the collateral must exceed the receivables by a substantial amount (loan-to-value or LTV ratio). By using guarantees issued by governments and others, by means of so-called unfunded credit protection the Bank may substitute, that is, move all or part of an exposure to a counterparty with better credit quality when calculating capital requirements for credit risk. The foremost providers of unfunded credit protection are the Finnish government and the Åland provincial government. In the Bank's Swedish operations, guarantees by the National Board of Housing, Building and Planning are applied as part of some financing solutions in the form of building loans. The Bank was also granted permission to use guarantees issued by the European Investment Fund, which is a multilateral development bank, for a limited portfolio.

Table 4.6.1 shows the amounts by which the Bank mitigates credit risk using guarantees, financial collateral and residential real estate collateral. Positive values in the guarantee column for an exposure class in the table indicate an inflow to these exposure classes through "substitution" of credit risk from other exposure categories. Negative amounts correspondingly indicate a mitigation of credit risk in an exposure category. The adjustment in market value for financial collateral is the same for both the IRB and standardised approach, and at the same time also for calculating loan loss provisions. Real estate that is used in calculating capital requirements consists exclusively of residential property collateral, while other types of real estate are also taken into account for calculating loan loss provisions. The whole available market value of residential property collateral is taken into account in calculating LGD, while in the standardised approach its collateral value is limited by the loan-to-value ratio: in Finland 70 per cent and in Sweden generally 75 per cent.

Table 4.6.1

Use of eligible credit risk mitigation techniques

EUR M	Original exposure	Guarantees (–)	Net exposure	Securities	Property	Weighted LGD, %
Credit risk, IRB approach						
Retail exposures with property as collateral, private individuals	1,802.9	–12.0	1,790.9	58.6	3,545.8	10.3
Small and medium-sized companies classified as retail	148.4	–1.8	146.5	18.4	237.7	14.1
Other retail exposures	339.3	–37.8	301.5	149.6	30.5	14.0
Corporate exposures	560.9	–11.7	549.2	137.6	109.9	32.9
Total exposure using IRB approach	**2,851.5**	**–63.4**	**2,788.0**	**364.3**	**3,923.8**	**14.9**
Credit risk, standardised approach						
Central governments or central banks	546.7	88.2	634.9			
Regional governments or local authorities	30.6	27.1	57.7			
Public sector entities	5.0	0.0	5.0			
Multilateral development banks	45.2	1.9	47.1			
International organisations	42.2	0.0	42.2			
Institutions	311.6	0.3	311.9	39.8		
Corporates	440.5	–55.2	385.3	135.9		
Retail	177.7	1.2	178.9	50.0		
Secured by mortgages on immovable property	963.8	0.0	963.8	0.0	963.8	
Exposures in default	3.4	0.0	3.4			
Items associated with particularly high risk	0.0	0.0	0.0			
Covered bonds	492.9		492.9			
Claims on institutions and corporates with short-term credit assessment	0.0	0.0	0.0			
Collective investment undertakings	0.0	0.0	0.0			
Equity exposures	2.7	0.0	2.7			
Other exposures	82.0	0.0	82.0			
Total exposure using standardised approach	**3,144.2**	**63.5**	**3,207.7**	**225.7**	**963.8**	
Total exposure	**5,995.7**	**0.0**	**5,995.7**	**590.0**	**4,887.6**	

Table 4.6.1 above shows that the suppliers of credit protection employing credit risk substitution mainly consist of sovereigns (government guarantees) and regional self-government bodies or local authorities (provincial or municipal guarantees).

Table 4.6.2 below shows how the Bank's exposure and risk exposure amounts look when allocated between exposure categories in the standardised approach before and after taking into account CRM and CF for the exposures.

Table 4.6.2

Standardised approach – Exposure amounts and effects of credit risk mitigation

EUR M	Exposure before CF and CRM	Exposure after CF and CRM	Risk exposure amount	Average risk weight, %
Central governments or central banks	546.7	610.2	0.0	0
Regional governments or local authorities	30.6	53.2	0.0	0
Public sector entities	5.0	5.0	0.0	0
Multilateral development banks	45.2	46.7	0.0	0
International organisations	42.2	42.2	0.0	0
Institutions	311.6	272.2	67.7	25
Corporates	440.5	195.2	191.9	98
Retail	177.7	88.7	64.3	72
Secured by mortgages on immovable property	963.8	963.0	315.9	33
Exposures in default	3.4	3.3	4.5	135
Items associated with particularly high risk	0.0	0.0	0.0	150
Covered bonds	492.9	492.8	49.3	10
Claims on institutions and corporates with short-term credit assessment	0.0	0.0	0.0	
Collective investment undertakings	0.0	0.0	0.0	100
Equity exposures	2.7	2.7	2.7	54
Other exposures	82.0	82.0	44.5	26
Total exposure	**3,144.2**	**2,857.3**	**740.8**	**26**

In the corporate exposure class, the exposure amount is mitigated mainly by taking financial collateral into account in the calculation, while in the retail exposure class the exposure is largely mitigated by taking CF into account. In practice, this refers to unutilised portions of credit card limits and the unutilised portion of securities lending in Swedish operations, which can be terminated unconditionally by the Bank.

4.7 BREAKDOWN OF EXPOSURES BY EXPOSURE CLASS AND REGION

Table 4.7.1 summarises the Group's credit risk exposures and risk exposure amounts by exposure class. The EAD amount refers to net exposure after taking certain credit risk mitigation methods described above into account and taking CF into account for off-balance sheet items.

Table 4.7.1

EAD and credit risk exposure amounts	2018				
EUR M	Original exposure	Exposure-value	Risk weight, %	Risk exposure amount	Capital requirement
Credit risk according to IRB approach					
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	109.6	108.9	23	25.4	2.0
Retail with property as collateral (private individuals)	1,802.9	1,792.7	9	166.7	13.3
Retail, other (small and medium-sized companies)	38.8	37.9	21	8.1	0.6
Retail, other	339.3	302.7	10	30.5	2.4
Without own LGD estimates					
Corporate, other large companies	206.6	156.0	52	80.5	6.4
Corporate, small and medium-sized companies	349.0	325.4	66	214.2	17.1
Corporate, special lending	5.3	5.3	88	4.6	0.4
Total exposures according to IRB approach	**2,851.5**	**2,728.7**	**19**	**530.0**	**42.4**
Credit risk according to standardised approach					
Central governments or central banks	546.7	610.2	0	0.0	0.0
Regional governments or local authorities	30.6	53.2	0	0.0	0.0
Public sector entities	5.0	5.0	0	0.0	0.0
Multilateral development banks	45.2	46.7	0	0.0	0.0
International organisations	42.2	42.2	0	0.0	0.0
Institutions	311.6	272.2	25	67.7	5.4
Corporates	440.5	195.2	98	191.9	15.4
Retail	177.7	88.7	72	64.3	5.1
Secured by mortgages on immovable property	963.8	963.0	33	315.9	25.3
Exposures in default	3.4	3.3	135	4.5	0.4
Items associated with particularly high risk	0.0	0.0	150	0.0	0.0
Covered bonds	492.9	492.8	10	49.3	3.9
Collective investment undertakings	0.0	0.0	0	0.0	0.0
Equity exposures	2.7	2.7	100	2.7	0.2
Other exposures	82.0	82.0	54	44.5	3.6
Total exposures according to standardised approach	**3,144.2**	**2,857.3**	**26**	**740.8**	**59.3**
Total risk exposure amount	**5,995.7**	**5,586.0**	**23**	**1,270.8**	**101.7**

EUR M	2017 Original exposure	Exposure-value	Risk weight, %	Risk exposure amount	Capital requirement
Credit risk according to IRB approach					
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	111.3	110.9	29	32.4	2.6
Retail with property as collateral (private individuals)	1,781.9	1,772.1	11	199.7	16.0
Retail, other (small and medium-sized companies)	38.3	37.5	28	10.5	0.8
Retail, other	323.8	293.0	16	47.0	3.8
Without own LGD estimates					
Corporate, other large companies	178.3	145.7	51	74.6	6.0
Corporate, small and medium-sized companies	345.7	318.7	66	211.2	16.9
Corporate, special lending	7.1	7.1	83	5.9	0.5
Total exposures according to IRB approach	**2,786.4**	**2,685.1**	**22**	**581.3**	**46.5**
Credit risk according to standardised approach					
Central governments or central banks	603.1	650.0	0	0.0	0.0
Regional governments or local authorities	7.4	26.5	0	0.0	0.0
Public sector entities	5.1	5.1	0	0.0	0.0
Multilateral development banks	46.0	46.2	0	0.0	0.0
International organisations	22.1	22.1	0	0.0	0.0
Institutions	297.3	255.7	24	62.3	5.0
Corporates	473.4	228.4	98	223.1	17.8
Retail	240.5	82.2	72	59.5	4.8
Secured by mortgages on immovable property	943.9	948.0	33	309.6	24.8
Exposures in default	0.0	0.0	150	0.0	0.0
Items associated with particularly high risk	0.4	0.4	150	0.6	0.0
Covered bonds	371.0	371.0	10	37.1	3.0
Collective investment undertakings	0.0	0.0		0.0	0.0
Equity exposures	0.7	0.7	100	0.7	0.1
Other exposures	68.4	68.4	89	60.5	4.8
Total exposures according to standardised approach	**3,079.2**	**2,704.5**	**28**	**753.5**	**60.3**
Total risk exposure amount	**5,865.6**	**5,389.6**	**25**	**1,334.8**	**106.8**

During 2018, the total risk exposure amount for the Bank's credit risk exposures decreased by EUR 64.0 M (5 per cent), or expressed in capital requirements by EUR 5.1 M. The risk exposure amount of IRB-approved exposures decreased during the year by EUR 51.3 M (9 per cent) or by EUR 4.1 M expressed in capital requirements.

Table 4.7.2 shows the subtraction of regulatory expected loss and the calculation of the additional capital requirement for the risk weight floor for Finnish mortgage loans and a comparison with the now-abolished capital requirement for the Basel 1 floor transitional rule. Expected loss affects capital adequacy assessment, since the shortfall of expected losses decreases common equity Tier 1 capital in the capital base. The estimated expected loss amount is based on the same risk parameters as the capital requirement, which means that improved credit quality decreased the subtraction from own funds. Since common equity Tier 1 capital has already been reduced due to the impact of the recognised impairment loss on equity capital, these are reduced from the amount to be subtracted.

Table 4.7.2

Special IRB-related disclosures	2018	2017	Change, %
EUR M			
Specific credit adjustments attributable to IRB-approved portfolios	9.5	9.3	3
Estimated expected loss (EL) amount according to IRB models	–15.2	–16.4	–7
EL surplus against credit adjustments related to defaulted exposures	–0.4	–1.7	–76
Shortfall subtracted from own funds in capital adequacy assessment (net EL)	**–6.1**	**–8.8**	**–31**
Capital requirement for credit risk with reference to IRB without limits	101.7	106.8	–5
Additional capital requirement for Basel 1 transitional rule		5.3	
Additional capital requirement for risk weight floor for Finnish mortgage loans	7.5		
Fully adjusted capital requirement for credit risk	**109.1**	**112.1**	**–3**

Table 4.7.2 above shows that the amount of the shortfall against individual impairment losses on December 31, 2018 was EUR 6.1 M, compared to EUR 8.8 M at the end of 2017. The total amount of estimated expected losses decreased from EUR 16.4 M to EUR 15.2 M or by 7 per cent. One factor contributing to the decrease in the shortfall against individual impairment losses was the introduction of IFRS 9, which increased the impairment loss amount for IRB-approved exposures. In terms of capital adequacy, there was no effect on the capital base requirements for IRB-approved exposures, since regulatory expected loss continues to exceed impairment losses by a substantial amount.

During 2018, improved credit quality in the Bank's loan portfolio meanwhile had an impact in the form of a decreased capital base requirement, whereas the portfolio increased. This is visible because expected losses as a proportion of exposure value decreased from 0.33 to 0.22 per cent after taking impairment losses into account.

Exposures in default according to exposure value in the IRB-approved portion of the loan portfolio increased during 2018 from EUR 14.9 M to EUR 15.5 M or by 4 per cent, while there was also a shift to better risk classes (increase in risk classes 1 to 5).

The capital requirement for the risk weight floor for Finnish mortgage loans that the Bank set aside in addition to the capital requirement under Pillar 1 amounted to EUR 7.5 M on December 31, 2018. On December 31, 2017, the equivalent to this in practice was the now-abolished capital requirement of EUR 5.3 per cent for the Basel 1 transitional rule.

Table 4.7.3 breaks down the Group's overall credit risk exposures and risk exposure amounts by region.

Table 4.7.3

Breakdown by region: EAD and credit risk exposure amounts	2018					
	Finland		Sweden		Other	
EUR M	Exposure value	Risk exposure amounts	Exposure value	Risk exposure amounts	Exposure value	Risk exposure amounts
Credit risk according to the IRB approach						
Retail with property as collateral (small and medium-sized companies)	108.9	25.4	0.0	0.0	0.0	0.0
Retail with property as collateral (private individuals)	1,792.7	166.7	0.0	0.0	0.0	0.0
Retail, other (small and medium-sized companies)	37.9	8.1	0.0	0.0	0.0	0.0
Retail, other (non small and medium-sized companies)	302.7	30.5	0.0	0.0	0.0	0.0
Corporate – Other large companies	156.0	80.5	0.0	0.0	0.0	0.0
Corporate – Small and medium-sized companies	325.4	214.2	0.0	0.0	0.0	0.0
Corporate – Special lending	5.3	4.6	0.0	0.0	0.0	0.0
Total exposures according to the IRB approach	**2,728.7**	**530.0**	**0.0**	**0.0**	**0.0**	**0.0**
Credit risk according to standardised approach						
Central governments or central banks	454.1	0.0	134.4	0.0	21.7	0.0
Regional governments or local authorities	27.3	0.0	25.9	0.0	0.0	0.0
Public sector entities	0.0	0.0	0.0	0.0	5.0	0.0
Multilateral development banks	6.7	0.0	0.0	0.0	40.0	0.0
International organisations	0.0	0.0	0.0	0.0	42.2	0.0
Institutions	87.3	19.7	75.7	10.8	109.2	37.2
Corporates	12.1	11.1	183.2	180.8	0.0	0.0
Retail	31.2	22.7	57.5	41.6	0.0	0.0
Secured by mortgages on immovable property	11.7	3.1	951.2	312.7	0.0	0.0
Exposures in default	2.3	3.4	1.1	1.1	0.0	0.0
Items associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0
Covered bonds	28.3	2.8	263.7	26.4	200.8	20.1
Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	2.7	2.7	0.0	0.0	0.0	0.0
Other exposures	68.1	39.7	13.9	4.8	0.0	0.0
Total exposures according to standardised approach	**731.8**	**105.3**	**1,706.6**	**578.1**	**418.9**	**57.3**
Total risk exposure amount	**3,460.5**	**635.4**	**1,706.6**	**578.1**	**418.9**	**57.3**

EUR M	2017					
	Finland		Sweden		Other	
	Exposure value	Risk exposure amounts	Exposure value	Risk exposure amounts	Exposure value	Risk exposure amounts
Credit risk according to the IRB approach						
Retail with property as collateral (small and medium-sized companies)	110.9	32.4	0.0	0.0	0.0	0.0
Retail with property as collateral (private individuals)	1,772.1	199.7	0.0	0.0	0.0	0.0
Retail, other (small and medium-sized companies)	37.5	10.5	0.0	0.0	0.0	0.0
Retail, other (non small and medium-sized companies)	293.0	47.0	0.0	0.0	0.0	0.0
Corporate – Other large companies	145.7	74.6	0.0	0.0	0.0	0.0
Corporate – Small and medium-sized companies	318.7	211.2	0.0	0.0	0.0	0.0
Corporate – Special lending	7.1	5.9	0.0	0.0	0.0	0.0
Total exposures according to the IRB approach	**2,685.0**	**581.3**	**0.0**	**0.0**	**0.0**	**0.0**
Credit risk according to standardised approach						
Central governments or central banks	514.3	0.0	89.6	0.0	46.2	0.0
Regional governments or local authorities	26.5	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	0.0	0.0	0.0	5.1	0.0
Multilateral development banks	5.2	0.0	0.0	0.0	41.0	0.0
International organisations	0.0	0.0	0.0	0.0	22.1	0.0
Institutions	67.5	13.4	81.0	14.7	107.0	34.3
Corporates	15.8	13.8	212.6	209.2	0.0	0.0
Retail	34.3	24.9	47.9	34.7	0.0	0.0
Secured by mortgages on immovable property	12.6	3.3	935.4	306.3	0.0	0.0
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0
Items associated with particularly high risk	0.4	0.5	0.0	0.1	0.0	0.0
Covered bonds	24.4	2.4	166.2	16.6	180.4	18.0
Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.7	0.7	0.0	0.0	0.0	0.0
Other exposures	64.1	56.3	4.3	4.3	0.0	0.0
Total exposures according to standardised approach	**765.6**	**115.3**	**1,537.0**	**585.9**	**402.0**	**52.3**
Total risk exposure amount	**3,450.6**	**696.6**	**1,537.0**	**585.9**	**402.0**	**52.3**

4.8 DEFAULTED RECEIVABLES AND RECEIVABLES PAST DUE

Defaulted receivables, which were thus reported as being in Stage 3 in compliance with the IFRS regulation, were at a higher level at the end of 2018 than at the beginning of the year. The carrying amount for receivables that were reported in Stage 3, before taking accounting provisions into consideration, amounted to EUR 20.2 M. Of this, EUR 1.0 M was related to unutilised credit lines and guarantees. The opening balance of receivables in the balance sheet that were reported in Stage 3 on January 1, 2018 was EUR 16.7 M. Other receivables past due consist of performing receivables that are overdue but do not yet meet the criteria for the Bank's definition of default. Most of the receivables reported in Stage 2 consisted of receivables that were or had been overdue for more than 30 days, taking into account the waiting period. Stage 2 also includes those receivables that have been granted forbearance measures and are not in default.

Forbearance measures are applied by the Bank for loan commitments where customers have obvious financial problems and mean that an adjustment of the loan terms must be made in order to manage the customer's repayment ability. Formally, a forbearance measure is a concession to a customer that the Bank would not have made if the customer had not experienced or was not close to experiencing financial difficulties. Clear signs of obvious financial problems are that the customer does not follow his or her repayment plan, but is instead repeatedly late with payments. There may also be cases where the customer informs his or her advisor at the Bank of circumstances that imply that the loan terms need to be adjusted in order to correct a long-term weakening of repayment ability. Examples of such adjustments are that the Bank can consider lowering the margin, postponing a repayment and/or significantly extending the repayment period for the loan. In order for an exposure to be deemed no longer subject to forbearance measures, the loan must be performing in accordance with the requirements specified by external regulations. It is also necessary for the customer advisor to have conducted a financial analysis which confirms that there are no longer financial difficulties.

Table 4.8.1 below shows a breakdown of the Bank's non-performing receivables by region. The receivables include unutilised lines of credit and guarantees.

Table 4.8.1

Recognised gross values for receivables from the public

EUR M	Receivables in Stage 3	Receivables in Stages 1 and 2	Stage 3 as % of total	Provision for future loan losses (ECL)	Of which receivables in Stage 3	Net values
Finland	19.7	3,071.0	0.64	−11.1	−9.3	3,101.8
Sweden	1.0	1,420.0	0.07	−0.3	0.0	1,421.3
Other	0.0	0.0		0.0	0.0	0.0
Total	**20.7**	**4,491.0**	**0.47**	**−11.4**	**−9.3**	**4,523.1**

Table 4.8.2 below shows a breakdown of gross values for receivables past due, according to the number of days overdue and the IFRS9 regulation's division into stages. Also recognised in Stage 3 are receivables that fulfil the definition of default on the basis of the number of days overdue (90 days).

Table 4.8.2

Receivables from the public and public sector entities	2018				2017
EUR M					
Days due	Stage 1	Stage 2	Stage 3	Total	Total
<30 days	14.5	23.0	0.4	37.8	25.2
>30 days	0.1	5.9	18.1	24.1	20.8
Total	**14.5**	**28.9**	**18.5**	**61.9**	**45.9**

Table 4.8.3 shows a breakdown of the reserve for expected credit losses by economic sectors and intended uses. "Coverage" in the table refers to the percentage of reserve for expected credit losses for exposures in Stage 3, which mainly consists of defaulted receivables. The reserve for expected credit losses also includes unutilised credit lines and guarantees, while the allocation by stages only refers to balance sheet items.

Table 4.8.3

Credit risk by portfolio — 2018

EUR M	Reserve for expected credit losses (ECL)	Of which Stage 3	Coverage, %	Stage 3 (defaulted)	Stage 2	Stage 1	Total	Off-balance sheet items
Home loans	4.2	3.6	37	10.1	82.5	2,194.7	2,287.4	28.4
Securities and other investments	0.3	0.2	87	0.3	5.6	302.9	308.7	58.6
Business operations	2.0	1.9	81	2.3	10.9	99.1	112.4	4.2
Other household purposes	2.7	2.0	47	4.3	8.4	216.1	228.6	101.9
Total private individuals	**9.2**	**7.8**	**46**	**17.0**	**107.4**	**2,812.8**	**2,937.1**	**193.1**
Shipping	0.1	0.0	0	0.0	5.2	53.5	58.7	47.9
Wholesale and retail trade	0.4	0.3	50	0.7	1.6	43.7	45.9	9.7
Housing operations	0.0	0.0	8	0.0	9.0	292.1	301.2	7.3
Other real estate operations	0.4	0.3	78	0.4	19.2	176.7	196.3	11.4
Financial and insurance operations	0.2	0.0	0	0.0	3.9	226.9	230.8	122.9
Hotel and restaurant operations	0.0	0.0	1	0.0	6.0	22.5	28.5	2.5
Other service operations	0.8	0.8	95	0.8	4.4	78.3	83.6	27.8
Agriculture, forestry and fishing	0.0	0.0	0	0.0	2.4	8.7	11.1	1.6
Construction	0.1	0.1	16	0.6	0.9	55.7	57.2	29.0
Other industry and crafts	0.2	0.0	0	0.1	2.2	34.6	36.8	11.0
Total companies	**2.2**	**1.5**	**58**	**2.7**	**54.7**	**992.7**	**1,050.0**	**271.1**
Public sector and non-profit organisations	0.0	0.0	0	0	3.7	30.8	34.5	7.8
Total lending	**11.4**	**9.3**	**47**	**19.7**	**165.8**	**3,836.2**	**4,021.6**	**472.1**

2017

EUR M	Reserve for expected credit losses (ECL)	Of which Stage 3	Coverage, %	Stage 3 (defaulted)	Stage 2	Stage 1	Total	Off-balance sheet items
Home loans	4.4	2.8	40	7.0	85.6	2,131.1	2,223.7	36.3
Securities and other investments	0.2	0.1	51	0.1	1.7	306.5	308.3	4.7
Business operations	1.0	0.8	40	2.0	7.5	110.8	120.3	50.1
Other household purposes	2.9	1.4	41	3.5	8.0	201.4	212.9	102.0
Total private individuals	**8.3**	**5.1**	**40**	**12.7**	**102.8**	**2,749.9**	**2,865.3**	**193.1**
Shipping	0.1	0.0	71	0.0	6.1	41.5	47.6	31.4
Wholesale and retail trade	0.4	0.3	77	0.4	1.8	38.5	40.8	9.7
Housing operations	0.1	0.0	9	0.1	1.3	325.2	326.6	18.8
Other real estate operations	2.3	2.0	92	2.2	12.7	238.3	253.2	23.3
Financial and insurance operations	0.1	0.0	100	0.0	28.1	169.4	197.5	111.6
Hotel and restaurant operations	0.0	0.0	1	0.0	5.2	20.6	25.8	2.6
Other service operations	0.8	0.6	65	1.0	5.0	88.9	94.9	20.0
Agriculture, forestry and fishing	0.0	0.0	0	0.0	0.0	10.6	10.6	1.0
Construction	0.2	0.1	39	0.3	3.6	39.3	43.2	9.1
Other industry and crafts	0.1	0.0	0	0.0	4.3	36.6	40.9	10.8
Total companies	**4.1**	**3.1**	**77**	**4.0**	**68.0**	**1,008.9**	**1,081.0**	**238.4**
Public sector and non-profit organisations	0.0	0.0	0	0.0	0.5	31.5	32.0	9.2
Total lending	**12.7**	**8.2**	**49**	**16.7**	**171.3**	**3,790.3**	**3,978.2**	**440.7**

Table 4.8.4 below shows how future credit losses were transferred between different stages during the year.

Table 4.8.4

Provisions for expected losses

	2018 (IFRS 9)				2017 (IAS 39)		
EUR M	Stage 1	Stage 2	Stage 3	Total	Individual	Group	Total
Receivables from the public and public sector entities							
Opening balance	**1.5**	**1.1**	**9.9**	**12.5**	**10.8**	**1.8**	**12.6**
Increases due to issuances and acquisitions	0.3	0.0	0.2	0.5	0.0	0.0	0.0
Decrease due to removal from balance sheet	−0.1	−0.1	−0.3	−0.6	0.0	0.0	0.0
Decrease due to write-offs	0.0	0.0	−2.1	−2.1	−4.4	0.0	−4.4
Transfer to Stage 1	0.5	−0.5	0.0	0.0	0.0	0.0	0.0
Transfer to Stage 2	−0.2	0.7	0.7	1.1	0.0	0.0	0.0
Transfer to Stage 3	0.0	−0.7	0.7	0.0	0.0	0.0	0.0
Net changes due to changed credit risk	−0.4	0.8	1.3	1.6	2.1	0.1	0.0
Net changes due to changed estimation method[1]	−0.6	0.0	0.1	−0.6	0.0	0.0	0.0
Exchange rate differences and other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing balance	**0.9**	**1.2**	**9.3**	**11.3**	**8.5**	**1.9**	**10.4**
Transitional effects that arose in connection with transition to IFRS 9	0.0	0.0	0.0	0.0	4.0	−1.9	2.1
Opening balance, January 1, 2018	**0.0**	**0.0**	**0.0**	**0.0**	**12.5**	**0.0**	**12.5**
Unutilised lines of credit and guarantees							
Opening balance	**0.1**	**0.0**	**0.1**	**0.2**			**0.0**
Increases due to issuances and acquisitions	0.1	0.1	0.0	0.1			0.0
Decrease due to removal from balance sheet	−0.1	−0.1	−0.2	−0.3			0.0
Decrease due to impairment losses	0.0	0.0	0.0	0.0			0.0
Transfer to Stage 1	0.0	0.0	0.0	0.0			0.0
Transfer to Stage 2	0.0	0.0	0.0	0.0			0.0
Transfer to Stage 3	0.0	0.0	0.0	0.0			0.0
Net changes due to changed credit risk	0.0	0.0	0.0	0.0			0.0
Net changes due to changed estimation method[1]	−0.1	0.0	0.0	−0.1			0.0
Exchange rate differences and other adjustments	0.0	0.0	0.0	0.0			0.0
Closing balance	**0.0**	**0.0**	**0.0**	**0.1**			**0.0**
Transitional effects that arose in connection with transition to IFRS 9	0.0	0.0	0.0	0.0			0.2
Opening balance, January 1, 2018	**0.0**	**0.0**	**0.0**	**0.0**			**0.2**
Debt instruments recognised at amortised cost							
Opening balance	**0.1**	**0.0**	**0.0**	**0.1**			**0.0**
Increases due to issuances and acquisitions	0.0	0.0	0.0	0.0			0.0
Decrease due to removal from balance sheet	0.0	0.0	0.0	0.0			0.0
Decrease due to write-offs	0.0	0.0	0.0	0.0			0.0
Transfer to Stage 1	0.0	0.0	0.0	0.0			0.0
Transfer to Stage 2	0.0	0.0	0.0	0.0			0.0
Transfer to Stage 3	0.0	0.0	0.0	0.0			0.0
Net changes due to changed credit risk	0.0	0.0	0.0	0.0			0.0
Net changes due to changed estimation method[1]	0.0	0.0	0.0	0.0			0.0
Exchange rate differences and other adjustments	0.0	0.0	0.0	0.0			0.0
Closing balance	**0.1**	**0.0**	**0.0**	**0.1**			**0.0**

[1] Refers to the effect of certain changes in the model that were made during the year.

4.9 CREDIT CONCENTRATION RISK

Risk concentrations in lending to the public arise, for example, when the loan portfolio includes concentrations of lending to certain individual customers or customer entities, economic sectors, regions or countries. The Bank manages concentration risk in its loan portfolio by setting limits on individual counterparties and certain economic sectors. Banks are subject to legal limits on concentrations in relation to individual customers or customer entities. Large exposures are defined in capital adequacy regulations as customers and customer entities whose total exposure is 10 per cent or more of the Bank's acceptable capital. In calculating the exposure amount, all of a customer's commitments inside and outside the balance sheet must be included in their full amount. This exposure may not exceed 25 per cent of the capital base, after taking into account CRM-approved collateral. If the limit is exceeded, this must be reported immediately to the FIN-FSA.

The Bank's corporate lending includes a sector-specific concentration risk in the form of lending to real estate operations. This concentration specifically consists of lending to housing operations and lending to other real estate operations in Sweden. Lending to real estate operations in Sweden totals 76 per cent of corporate lending. However, during 2018, lending to Swedish real estate operations fell by EUR 64 M or 16 per cent (13 per cent expressed in Swedish kronor). Lending specifically to other real estate operations fell from EUR 128 M to EUR 87 M (29 per cent expressed in Swedish kronor).

Every year the Bank examines the need for extra capital for concentration risk in its internal capital assessment, both for sectoral concentration risk and concentration among individual customers, since this form of risk is not included in and covered by Pillar 1 capital requirement regulations. The FSA has a standardised method for estimating the capital needs of banks for loan concentration risk. Based on this model, the FSA may impose extra capital base requirements on banks under Pillar 2.

4.10 CREDIT RISK AND COUNTERPARTY RISK IN TREASURY OPERATIONS

In the Group's Treasury operations, credit risk arise from holdings of financial instruments as part of regular portfolio management and risk management. These instruments mainly comprise bonds that the Bank holds in its liquidity portfolio and largely consist of covered bonds and sovereign bonds as well as securities issued by multilateral development banks. The Bank's limit regulations specify how large a part of these investments may consist of exposures to different sectors, for example central banks, public sector entities and institutions.

Counterparty risks also arise in the Bank's Treasury operations when the Bank enters into derivative contracts with various counterparties. This counterparty credit risk in the Bank's derivative operations is managed through netting agreements concluded with counterparties in accordance with the International Swaps and Derivatives Association (ISDA) standard. Receivables and liabilities covered under the same agreement are thus offset against each other. To further manage risk, the Bank enters into Credit Support Annex (CSA) agreements with counterparties, which regulate the posting and receiving of collateral.

The central banks, financial institutions and multilateral development banks that the Group collaborates with must have good creditworthiness to be able to support the Group's continued long-term development as well as to minimise credit risk. Exposure to various counterparties is limited by an internal set of regulations that is adopted by the Board of Directors. The limit is specifically set for the counterparty in question and restricts what type of agreement may be entered into after a decision by the Credit Committee. Before the limit is determined, the counterparty's key financial ratios and assumed credit risk in the credit market are analysed. The Group's aggregate exposure to these counterparties is reported monthly in its risk report. The Risk Control department regularly monitors limit utilisation in the Group's operations and reports divergences to the Managing Director and Internal Auditing.

Table 4.10.1 below presents the Group's exposures in its Treasury operations, allocated according to the credit quality steps in the Capital Requirements Regulation applicable to the exposure category for the instrument.

Table 4.10.1

Credit risk exposure in the Group's Treasury operations

EUR M

Credit quality steps	Bonds issued by sovereigns and state-guaranteed counterparties	Balances with central banks	Covered bonds	Miscellaneous unsecured bonds	Overnight deposits	Cheque account	Derivatives *	Total
1	151.3	493.5	440.3	90.8	0.0	66.0	6.5	1,248.3
2	5.0	0.0	0.0	69.4	0.0	4.8	0.2	79.4
3	0.0	0.0	0.0	0.0	0.0	5.3	0.0	5.3
Unrated	0.0	0.0	52.6	8.5	0.0	0.0	1.4	62.5
Total	**156.3**	**493.5**	**492.9**	**168.6**	**0.0**	**76.1**	**8.1**	**1,395.5**

*According to market values that are positive for the Bank after taking netting agreements and collateral into account.

Table 4.10.1 above shows that most of the Group's exposures in its Treasury operations are attributable to holdings of government bonds and deposits with central banks. As for bonds issued by other entities, they consist mostly of covered bonds in the highest rating class. None of the Group's bond holdings consists of subordinated or securitised structures. Derivative exposures to other financial institutions occur exclusively within the framework of currency and interest rate risk management. At year-end, none of the Bank's bond holdings was classified as held for trading.

Table 4.10.2 below shows how exposure values after credit risk mitigation measures are allocated by credit quality steps in the "Institutional exposure" and "Covered bonds" exposure classes, where external credit ratings are used in calculating the capital requirement.

Table 4.10.2

Exposure values that have been risk-weighted on the basis of an external credit rating

EUR M

Credit quality steps	Institutional exposures	Covered bonds
1	163.2	439.7
2	74.3	0.0
3	5.3	0.0
Sovereign method	29.3	52.6
Total	**272.2**	**492.8**

Table 4.10.3 below shows how overall credit risk exposure in Treasury operations was allocated by region. The table shows that investments are almost exclusively attributable to entities domiciled in the European Economic Area (EEA). The Nordic countries account for 64 per cent of total exposure in the table.

Table 4.10.3

Credit risk exposure in the Bank's Treasury operations by region

EUR M	Exposure	As % of total
European Union	1,171.4	84
Non-EU Nordic countries	152.6	11
Other European countries	0.4	0
North America	71.0	5
Rest of the world	0.1	0
Total	**1,395.5**	

Table 4.10.4 shows a breakdown of the Group's total derivative exposures by risk type and how collateral is used to reduce the amount of exposure. "Positive gross amount" refers to the sum of the contracts that have a positive market value from the Bank's standpoint. The exposure amount has then been calculated according to the mark-to-market method in the Capital Requirements Regulation, Article 274, which also takes into account the nominal amount and thus makes allowances for an exposure that may be larger than today's market value in case of default.

Table 4.10.4

Derivates exposures

EUR M	Nominal amount	Positive gross amount	Exposure amount (gross)	Collateral received*	Exposure amount (net)	Risk exposure amount	Capital requirement
Fixed income	1,107.8	14.6	20.6	0.8	19.8	1.6	0.1
Currency	383.2	0.8	4.6	0.0	4.6	2.4	0.2
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1,491.0**	**15.3**	**25.2**	**0.8**	**24.4**	**4.0**	**0.3**

*Collateral received consists entirely of cash and cash equivalents deposited in an account at the Bank.

In addition to the above capital requirement, there is also a capital requirement for credit value adjustment (CVA) risk related to non-standardised derivative contracts that are not cleared through a central counterparty.

Each quarter, the Bank calculates accounting credit and debit value adjustment (CVA/DVA) risk for all derivatives contracts. To the extent CVA exceeds DVA, the Bank recognises a cost for credit value adjustment risk in the income statement. To the extent that DVA exceeds CVA, the previously recognised provision for CVA is reduced.

5 Liquidity risk

Liquidity risk consists of refinancing risk and market liquidity risk. Refinancing risk is the risk of not being able to fulfil payment obligations on the maturity date without a substantial increase in the cost of obtaining the means of payment. Market liquidity risk refers to the risk of not being able to sell positions at expected market prices, in situations where the market is not liquid enough or is not functioning due to disruptions.

5.1 Risk appetite

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio, survival horizon and how large the percentage of covered bonds issued may be in relation to the available collateral.

In order to manage liquidity risks, the Bank has designed a framework consisting of a number of components:

5.2 Risk management

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio, survival horizon and how large the percentage of covered bonds issued may be in relation to the available collateral.

In order to manage liquidity risks, the Bank has designed a framework consisting of a number of components:

- Limits that ensure compliance with the Bank's risk appetite and risk tolerance.
- Continuous follow-up and analysis of the Bank's future liquidity needs, both short- and long-term.
- A well-diversified funding structure, both from the standpoint of financial instruments and maturity perspectives.
- A portfolio of home mortgage loans whose quality is of such a nature as to maintain the Bank's borrowing using covered bonds even in a stressed scenario.
- A well-developed investor base.
- A liquidity reserve with high-quality assets that safeguard access to liquidity during a lengthy period of limited access to capital market borrowing.

Liquidity risks are monitored and analysed by the Group's Risk Control department, which reports directly to the Managing Director on a monthly basis and to the Board of Directors on a quarterly basis in conjunction with the Group's risk report. The risk report is submitted monthly to the Financial Supervisory Authority (FSA).

5.3 MEASURING LIQUIDITY RISK

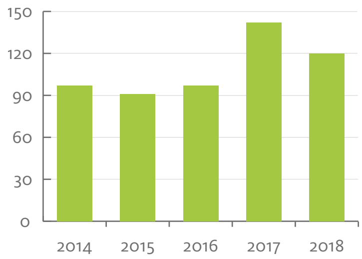
The balance sheet of the Bank and its maturity structure are an important parameter when calculating and analysing the Bank's liquidity risk. Based on the balance sheet, future cash flows are forecasted. These are an important tool in managing and planning liquidity risks and borrowing requirements.

Table 5.3.1

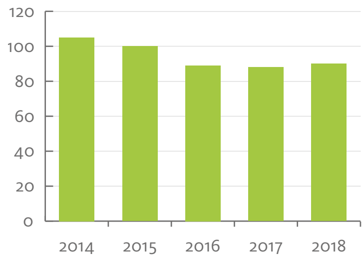
Remaining maturity				2018					
	Undiscounted contractual cash flows								
EUR M	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	507								507
Debt securities eligible for refinancing with central banks		39	50	43	598	73		12	815
Receivables from credit institutions	80								80
Receivables from the public and public sector entities	195	141	152	301	1,518	665	1,060	–10	4,022
Shares and participations								3	3
Derivative instruments		1	1		9	4			15
Intangible assets								22	22
Tangible assets								22	22
Other assets								71	71
Total	**782**	**181**	**203**	**344**	**2,125**	**742**	**1,060**	**120**	**5,558**
Liabilities									
Liabilities to credit institutions	86	20	10	4	130				250
Liabilities to the public	3,104	120	18	48	14				3,304
Debt securities issued		171	134	88	1,191			4	1,588
Derivative instruments		1			4	3			8
Other liabilities								118	118
Subordinated liabilities		2		8			37		47
Equity capital								242	242
Total	**3,190**	**314**	**162**	**148**	**1,339**	**3**	**37**	**364**	**5,558**

				2017					
	Undiscounted contractual cash flows								
EUR M	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	524								524
Debt securities eligible for refinancing with central banks		25	48	38	424	87		11	634
Receivables from credit institutions	93								93
Receivables from the public and public sector entities	196	175	171	305	1,504	599	1,026	2	3,979
Shares and participations								1	1
Derivative instruments		4	1	1	4	7	1		18
Intangible assets								17	17
Tangible assets								24	24
Other assets								63	63
Total	**813**	**205**	**220**	**344**	**1,932**	**694**	**1,027**	**119**	**5,352**
Liabilities									
Liabilities to credit institutions	58	18			130				206
Liabilities to the public	2,749	277	17	79	26				3,148
Debt securities issued		100	97	172	882	347		3	1,600
Derivative instruments		4	7	1	1	7	1		22
Other liabilities								110	110
Subordinated liabilities		2		3	10		17		33
Equity capital								234	234
Total	**2,808**	**401**	**120**	**256**	**1,050**	**354**	**18**	**347**	**5,352**

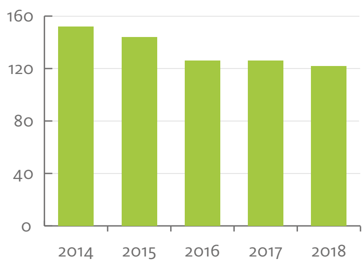
Liquidity coverage ratio
per cent



Core funding ratio
per cent



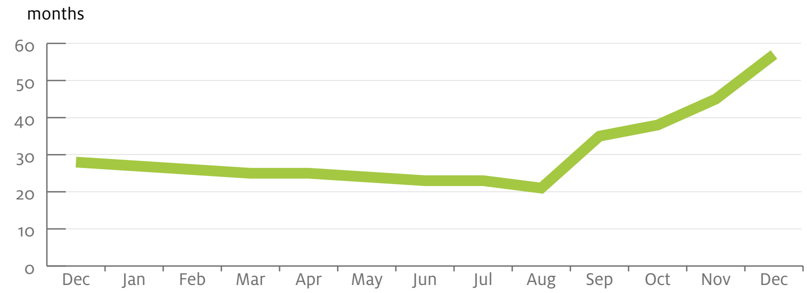
Loan/deposit ratio
per cent



5.3.1 Survival horizon

One of the Bank of Åland's internal metrics for liquidity is the "survival horizon", defined as the period of positive accumulated cash flows. The survival horizon shows how long the Bank will remain viable during long periods of stress in capital markets, when access to new funding from ordinarily available funding sources would be limited or completely closed. In this calculation, demand deposits are assumed to be a substantially stable source of funding.

Survival horizon, December 2017–December 2018



5.3.2 Liquidity coverage ratio, net stable funding ratio and core funding ratio

As a supplement to the analysis of future cash flows, the Bank uses a number of financial ratios such as the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the core funding ratio, a measure of what percentage of receivables from the public is funded by customer deposits and covered bonds.

Table 5.3.2

Financial ratios, liquidity risk

Financial ratio	Definition
Liquidity coverage ratio – LCR	Liquid assets /(Cash inflows – cash outflows)
Net stable funding ratio – NSFR	Available stable funding/ Required stable funding
Core funding ratio	Receivables from the public/(deposits from the public, certificates of deposit, index bonds and subordinated debentures issued to the public plus covered bonds issued)
Loan/deposit ratio	Receivables from the public/ Deposits from the public

Table 5.3.3

Financial ratios, liquidity risk	2018	2017
Per cent		
LCR	120	142
NSFR	113	110
Core funding ratio	90	88
Loan/Deposit ratio	122	124

The Bank's goal is to exceed by an ample margin the minimum LCR and NSFR (100 per cent) when the new regulations are introduced.

Table 5.3.4

Liquidity coverage ratio (LCR)	2018	2017
EUR M		
Liquid assets, level 1	942	908
Liquid assets, level 2	111	18
Total liquid assets	**1,053**	**926**
Deposits from the public	971	827
Market borrowing	29	15
Other cash outflows	23	25
Total cash outflows	**1,023**	**867**
Inflows from lending to non-financial customers falling due for payment	71	108
Other cash inflows	76	109
Total cash inflows	**147**	**217**
Net cash outflows	**876**	**650**
Liquidity coverage ratio (LCR), %	**120**	**142**
Liquidity coverage ratio (LCR), %, EUR	170	206
Liquidity coverage ratio (LCR), %, SEK	61	65

5.4 LIQUIDITY RESERVE

The purpose of the liquidity reserve is to decrease the Bank's liquidity risk. At times of limited or non-existent opportunities to borrow money in the external capital market, the liquidity reserve shall serve as an alternative source of liquidity. This places demands on the quality of its assets. These assets must be cash invested in accounts with central banks or other well-reputed banks with a good credit rating or securities of such credit quality that they are eligible for refinancing with central banks. To safeguard the good quality of the Bank of Åland's liquidity reserve, these investments are regulated by the Board of Directors. The size of the liquidity reserve must be sufficient to maintain the targeted survival horizon as well as the liquidity coverage ratio.

Table 5.4.1

Liquidity reserve	2018	2017
EUR M		
Cash and deposits with central banks	507	524
Debt securities issued by sovereigns and public authorities	158	132
Covered bonds (ratings of AA– or higher)	471	343
Holdings of own covered bonds	0	0
Holdings of own unsecured bonds	0	0
Accounts with other banks	36	67
Receivables from credit institutions <3 days	0	0
Debt securities issued by financial companies	24	0
Debt securities issued by non-financial companies	0	0
Total	**1,195**	**1,066**
Of which LCR-qualified	1,053	926

5.5 CONTINGENCY PLAN FOR LIQUIDITY RISK

The Bank of Åland has a conservative view of liquidity risks. The Group has a contingency plan that includes a concrete action plan for management of liquidity risks and encompasses strategies for covering several different emergency situations.

5.6 FUNDING STRATEGY

The Bank of Åland endeavours to achieve a stable funding structure based on stable deposits from the public and covered bonds. The Bank's long-term target is for customer deposits (demand and time deposits) to account for more than 50 per cent of funding, excluding equity capital. Another long-term target is that the core funding ratio, defined as receivables from the public as a percentage of deposits from the public, including certificates of deposit, index bonds and subordinated debentures issued to the public, plus covered bonds issued, shall not exceed 100 per cent. The Bank of Åland's lending must therefore not be dependent on unsecured capital market borrowing or short-term funding sources for its funding. Funding sources must be diversified and the Bank intends not to be dependent on individual depositors, investors, funding instruments or market segments.

5.6.1 Funding sources

Aside from equity capital, the Bank of Åland's funding sources consist mainly of deposits from the public, covered bonds and unsecured bonds, certificates of deposit and short- and long-term borrowing from credit institutions. Deposits and covered bonds dominate the funding structure and comprise about 90 per cent of it. Unsecured funding is used in order to control the percentage of total available collateral that may be utilised and to have a more diversified funding structure.

The Bank of Åland uses several different borrowing programmes, both in euros and in Swedish kronor. The most important ones are a Finnish debt programme with a framework amount of EUR 2 billion under which the Bank issues covered bonds and unsecured bonds and a commercial paper programme in Swedish kronor for issuing short-term debt instruments.

At year-end 2018, the nominal amount of covered bonds outstanding was EUR 1,114 M. During 2018, SEK 500 M and EUR 150 M in covered bonds in the Finnish collateral pool fell due for payment. The nominal amount of unsecured bonds outstanding totalled EUR 350 M at the end of 2018. During 2018, EUR 250 M in unsecured bonds were issued.

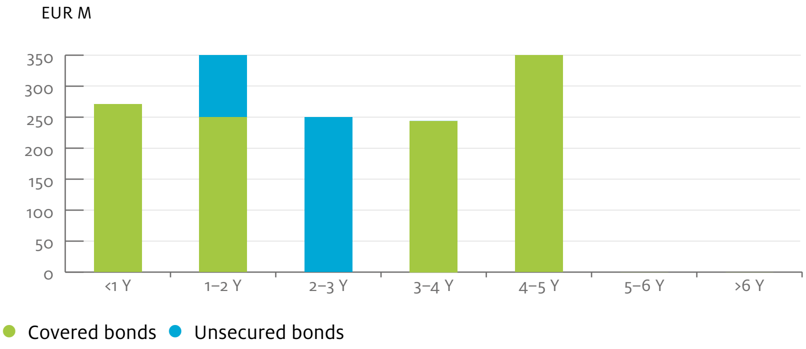
At present, the Bank has a well-diversified maturity structure. On December 31, 2018, the average maturity for the Bank's external debt was 2.7 years. Total capital market borrowing outstanding at the end of 2018 can be seen in the table below.

Table 5.6.1

Capital market borrowings outstanding

EUR M	Nominal amount in local currencY	Nominal amount in EUR	Average maturity, years
Covered bonds			
EUR	700,000,000	700,000,000	2.8
SEK	4,250,000,000	414,440,067	2.5
Unsecured bonds			
EUR	350,000,000	350,000,000	2.3
Certificates of deposit and deposit accounts			
EUR	27,500,000	27,500,000	0.2
SEK	1,230,000,000	119,943,831	0.2
Total short-term capital market borrowings		**147,443,831**	**0.2**
Total capital market borrowings		**1,611,883,898**	**2.4**

Maturity structure, debt instruments issued



5.6.2 Investor base

The Bank's Treasury Department is responsible for building up a stable investor base that purchases bonds issued by the Bank. The investor base must be well-diversified, with investors from different geographic areas and different markets. To achieve this, the Bank has built up relationships with debt investors and banks in Finland, Sweden and Central Europe. Access to short-term funding has been secured through agreements and arrangements with a number of counterparties. This persistent work with investors has resulted in good demand for the Bank's bond issues, giving the Bank easier access to funding, smoother implementation of bond issues and lower funding costs.

5.7 MORTGAGE BANKING OPERATIONS

The Bank of Åland has two separate collateral pools, Cover Pool FIN consisting of Finnish home mortgage loans and Cover Pool SWE consisting or Swedish home mortgage loans.

The Finnish cover pool included a total of EUR 1,097 M in collateral at the end of 2018. Backed by collateral registered in Cover Pool FIN, the Bank issued a total of EUR 700 M in covered bonds. The Finnish collateral pool included over-collaterisation of 56.7 per cent on December 31, 2018.

The Swedish collateral pool included collateral totalling SEK 6,815 M. Backed by collateral registered in Cover Pool SWE, the Bank had issued a total of SEK 4,250 M in covered bonds by December 31, 2018. The Swedish collateral pool included over-collaterisation of 60.4 per cent at the end of 2018.

Appraisal of real estate occurs in compliance with the Act on Mortgage Credit Banks of July 16, 2010/688, Chapter 4, Section 14, in other words in compliance with sound real estate appraisal practices and, if required, using an impartial and independent real estate appraiser.

The Bank of Åland's mortgage banking operations are regulated by limits established by the Board of Directors on the percentage of total available collateral that may be utilised, the percentage of total borrowing that may consist of covered bonds and the percentage of the balance sheet total that may consist of funding via covered bonds. The structure of the Bank's two covered bond collateral pools on December 31 can be seen in the tables below.

Collateral Pool Finland – Cover Pool FIN

Assets included

EUR M	
Loans	950
Substitute collateral	147
Other	0
Total	**1,097**

Type of collateral

EUR M	Loan volume	Loan volume, %
Single-family homes and flats	948	99.8
Multi-family homes	2	0.2
Commercial properties		0.0
Agriculture and forestry		0.0
Public sector		0.0
Total	**950**	**100.0**

Key figures

Number of loans	12,065
Number of borrowers	7,293
Average loan volume, EUR K	80
Over-collateralisation, nominal, %	56.7
Weighted loan-to-value ratio, %	54.7
Foreign exchange risk*	0

* All foreign exchange risk is hedged against euros.

Loan-to-value ratio

EUR M	–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70%–	Total
Loan volume	11	29	58	109	142	202	246	153	950
Loan volume, %	1.2	3.1	6.1	11.5	14.9	21.3	25.9	16.1	100

Seasoning

EUR M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	71	61	135	276	407	950
Loan volume, %	7.5	6.4	14.2	29.1	42.8	100

Issues outstanding, EUR

EUR M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS0999478372	100	3.12.2013	3.6.2019	1,550	Fixed
XS1238023813	250	26.5.2015	26.5.2020	0,375	Fixed
XS0876678391	100	30.1.2013	30.1.2023	2,750	Fixed
XS1496878742	250	29.9.2016	29.9.2023	0,000	Fixed

Maturity, issues outstanding

EUR M	2019	2020	2021	2022	2023	2024–2028	2029–	Total
Total	100	250	0	0	350	0	0	700
Total, %	14.3	35.7	0.0	0.0	50.0	0.0	0.0	100

Regional distribution

EUR M	Loan volume	Loan volume, %
Helsinki region, southern Finland	441	46
Tampere region, central Finland	114	12
Turku region, western Finland	132	14
Åland islands, Finland	191	20
Other regions	72	8
Total	**950**	**100**

Credit quality, payment delays

EUR M	31–60 D	61–90 D	90 D–	Total
Loan volume	1.7	0.0	0.0	2
Loan volume, %	0.0	0.0	0.0	0

Collateral Pool Sweden – Cover Pool SWE

Assets included

SEK M	
Loans	6,815
Substitute collateral	0
Other	0
Total	**6,815**

Type of collateral

SEK M	Loan volume	Loan volume, %
Single-family homes and tenant-owned cooperative flats	6,815	100.0
Multi-family homes and cooperative housing associations	0	0.0
Agriculture and forestry	0	0.0
Public sector	0	0.0
Commercial properties	0	0.0
Total	**6,815**	**100.0**

Key figures

Number of loans	2,584
Number of borrowers	1,702
Average loan volume, SEK K	2,668
Over-collateralisation, nominal, %	60.4
Weighted loan-to-value ratio, %	56.9
Foreign exchange risk*	0

* All foreign exchange risk is hedged against euros.

Loan-to-value ratio

SEK M	–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70%–	Total
Loan volume	15	132	288	559	1,421	1,255	2,019	1,126	6,815
Loan volume, %	0.2	1.9	4.2	8.2	20.9	18.4	29.6	16.5	100.0

Seasoning

SEK M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	1,223	1,807	1,455	1,677	653	6,815
Loan volume, %	15	25	21	33	6	100

Issues outstanding, SEK

SEK M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS1077864905	1 000	23.6.2014	25.3.2019	0,373	Floating
XS1155041004	750	16.12.2014	16.12.2019	0,278	Floating
SE0010598474	2 500	22.11.2017	22.11.2022	0,297	Floating

Maturity, issues outstanding

SEK M	2019	2020	2021	2022	2023	2024–2028	2029–	Total
Total	1,750	0	0	2,500	0	0	0	4,250
Total, %	41	0	0	59	0	0	0	100

Regional distribution

SEK M	Loan volume	Loan volume, %
Stockholm County	4,897	72
Skåne County (Greater Malmö)	733	11
Västra Götaland County (Greater Gothenburg)	764	11
Other regions	421	6
Total	**6,815**	**100**

Credit quality, payment delays

SEK M	31–60 D	61–90 D	90 D–	Total
Loan volume	0.0	0.0	0.0	0
Loan volume, %	0.0	0.0	0.0	0

5.8 CREDIT RATING

During the summer of 2018, the credit rating agency Standard & Poor's Global Ratings revised its outlook on the Bank of Åland from stable to positive. The Bank now has a credit rating of BBB with a positive outlook for its long-term borrowing and a credit rating of A-2 with a positive outlook for its short-term borrowing.

The starting point for Standard & Poor's credit rating of a Finnish or Swedish bank is A–. Five different areas may then raise or lower the credit rating.

1. Business position: lowers the Bank of Åland's rating by two steps, mainly because the Bank of Åland is a niche bank with concentration risk in Finland and Sweden.
2. Capital & Earnings: raises the rating by one step thanks to a strong equity/assets ratio and capital ratio.
3. Risk Position: lowers the rating by one step due to concentration risk in the loan portfolio, mainly geographic concentration in Finland and Sweden, but to some extent also other concentration risks.
4. Liquidity & Funding: neither raises nor lowers the rating, but the Bank of Åland comes out well in this regard due to its strong deposit base.
5. Support: Since the Bank of Åland is not deemed systemically important in Finland, the Bank's rating is not raised due to government or other support.

Standard & Poor's has assigned its highest possible credit rating, AAA with a stable outlook, to the Bank of Åland's covered bonds.

5.9 ENCUMBERED ASSETS

Encumbered assets predominantly consist of home mortgage loans that are used as collateral for the Bank of Åland's covered bond issues outstanding.

The size of encumbered assets for covered bonds is based on the level of over-collateralisation that the credit rating agency Standard & Poor's requires of the Bank of Åland to ensure that the bonds are assigned a credit rating of AAA.

In addition to home mortgage loans, the Bank of Åland has provided collateral for its own liabilities, payment systems, brokerage operations and clearing in the form of government securities and bonds, mainly to central banks and credit institutions.

Table 5.9.1 below shows the Bank of Åland's encumbered assets on December 31, 2018:

Table 5.9.1

Disclosures on encumbered assets	2018			2017		
EUR M	Encumbered assets, carrying amount	Unencumbered assets, carrying amount	Total assets, carrying amount	Encumbered assets, carrying amount	Unencumbered assets, carrying amount	Total assets, carrying amount
Interest-bearing securities	141	674	815	162	472	634
Receivables from the public	1,615	2,407	4,022	1,989	1,989	3,979
Other assets	26	561	587	33	584	617
Non-encumberable assets		134	134		123	123
Total	**1,782**	**3,776**	**5,558**	**2,186**	**3,169**	**5,352**
Per cent of total assets	**32**	**68**	**100**	**41**	**59**	**100**

5.10 LIQUIDITY RISK REGULATIONS

Regulatory authorities have adopted rules for liquidity risk that cover both short-term and structural liquidity under stressed conditions.

According to the liquidity coverage ratio (LCR) requirement, banks must have liquid assets of very high quality equivalent to at least the net cash outflow for 30 days under stressed conditions, that is, at least 100 per cent.

According to the net stable funding ratio (NSFR), which measures structural liquidity, banks must fund their illiquid assets with stable funding. The NSFR must also amount to 100 per cent.

The LCR metric was introduced gradually during 2015–2018, while the NSFR metric is expected to be introduced in 2021.

6 Market risk

Market risk is the risk of losses due to price changes and risk factors in financial markets. Market risk includes interest rate risk, foreign exchange risk and equity risk.

6.1 RISK APPETITE

Structural risks related to interest rate and foreign exchange risk arise as part of banking operations. The Bank of Åland tries to take advantage of the positive earnings opportunities that exist regarding interest rate risk, while its ambition is to sharply limit the existing downside risks. No strategic foreign exchange risk is taken. The Bank of Åland does no trading for its own account.

6.2 RISK MANAGEMENT

The Bank's Board of Directors decides on the Bank of Åland's risk appetite and establishes limits on interest rate risk, foreign exchange risk and equity risk. The Bank of Åland's market risks are low and primarily of a structural nature. They are managed by the Bank's Treasury Department in compliance with the principles established by the Bank's Board of Directors.

Market risks in the Group are monitored and analysed by the Risk Control Department, which reports directly to the Managing Director on a monthly basis and to the Board of Directors on a quarterly basis in conjunction with the Group's risk report. The risk report is sent to the FSA on a monthly basis.

6.3 INTEREST RATE RISK

Interest rate risk refers both to the risk of decreased net interest income (net interest income risk) and the risk of unfavourable changes in the value of the Bank's assets and liabilities when market interest rates change (value change risk).

Interest rate risks arise mainly due to differences in the interest rate refixing periods and repricing dates between interest-bearing assets and liabilities. Table 6.3.1 shows assets and liabilities that fall due for a new interest rate refixing during each respective time interval, assuming that demand deposits fall due on Day 1.

Table 6.3.1

Interest rate refixing periods for assets and liabilities				2018		
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Cash and deposits with central banks	507	0	0	0	0	507
Debt securities eligible for refinancing with central banks	421	40	10	292	52	815
Receivables from credit institutions	80	0	0	0	0	80
Receivables from the public and public sector entities	2,155	606	936	240	86	4,022
Total interest-bearing assets	**3,162**	**646**	**946**	**532**	**138**	**5,424**
Liabilities						
Liabilities to credit institutions	107	10	4	130	0	250
Liabilities from the public and public sector entities	3,223	18	48	14	0	3,304
Debt securities issued	593	134	15	847	0	1,588
Subordinated liabilities	22	0	8	0	17	47
Total interest-bearing liabilities	**3,944**	**162**	**74**	**992**	**17**	**5,189**
Off-balance sheet items	**–725**	**41**	**–10**	**788**	**–94**	
Difference between assets and liabilities	**–1,507**	**524**	**862**	**328**	**27**	

				2017		
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Receivables from credit institutions and central banks	606	0	0	0	0	606
Debt securities eligible for refinancing with central banks	293	7	10	237	87	634
Receivables from the public and public sector entities	2,286	543	852	218	80	3,979
Total interest-bearing assets	**3,185**	**550**	**862**	**455**	**167**	**5,219**
Liabilities						
Liabilities to credit institutions	70	6	0	130	0	206
Liabilities from the public and public sector entities	3,026	16	80	22	4	3,148
Debt securities issued	685	46	172	350	347	1,600
Subordinated liabilities	2		3	10	17	33
Total interest-bearing liabilities	**3,783**	**68**	**255**	**512**	**368**	**4,987**
Off-balance sheet items	**–494**	**–56**	**5**	**308**	**230**	
Difference between assets and liabilities	**–1,092**	**426**	**612**	**251**	**29**	

Volume that falls due for interest rate refixing in each time interval.

The Bank of Åland measures interest rate risk by means of sensitivity analyses of net interest income and the value of interest-bearing assets and liabilities in scenarios where the yield curve is stressed in different ways. Net interest income risk is measured as the sensitivity of net interest income during the next twelve months, assuming a constant balance sheet. Economic value of equity, EVE, is measured as sensitivity in the estimated present value of all existing interest-bearing items. For those assets, liabilities and derivatives that are carried at market value in keeping with applicable accounting principles, the effect is divided into direct impact on the income statement and impact via other comprehensive income (effect on recognised equity capital). When calculating both net interest income risk and economic value of equity, non-maturity deposits, NMDs, are assigned an interest-fixing period in the model.

Table 6.3.2 shows the sensitivity of net interest income and the sensitivity of the present value of interest-bearing assets and liabilities in case of a parallel shift in the yield curve upward and downward by 1 percentage point. The model that the Bank uses to calculate net interest income risk was changed during 2018. Figures for net interest income risk in 2018 are thus not comparable with figures for 2017. The calculation shows that the Bank's net interest income would benefit from an interest rate hike, while an interest rate cut would have a marginal impact on net interest income. The economic value of equity, in the table refers to the present value of all interest-bearing assets and liabilities, regardless of whether items are recognised at fair value in the consolidated balance sheet according to the applicable accounting principles. The model that the Bank uses to calculate economic value of equity, was changed during 2018 in such a way as to take floors into account, among other things. Figures for economic value of equity, in 2018 are thus not comparable with figures for 2017.

Table 6.3.2

Parallel shift in the yield curve	2018		2017	
EUR M	Basis points		Basis points	
	+100	−100	+100	−100
Net interest income risk	10.7	1.3	8.0	−0.4
EUR	7.6	−1.1	8.3	−3.1
SEK	3.1	2.5	−0.3	2.7
Value change risk	0.5	22.7	6.4	−10.2
EUR	−3.7	21.3	2.4	−5.1
SEK	4.6	0.3	3.6	−4.7

6.4 FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of unfavourable results due to changes in the exchange rates of currencies that the Bank is exposed to.

The Bank's operations occur mainly in its two base currencies, euros and Swedish kronor, but a limited proportion of its lending and deposits occurs in other currencies, creating a certain foreign exchange risk. This risk is primarily managed with matching, but also using currency swaps and forward contracts. At year-end 2018, the Bank's foreign exchange exposure was EUR 0.7 M (2017: EUR 0.5 M).

The Bank also has a structural foreign exchange risk in Swedish kronor, since the Bank's financial accounts are prepared in euros while the functional reporting currency of its Swedish branch is Swedish kronor. Structural foreign exchange risk exposure arises due to accrued profits/losses in the branch as well as the branch's endowment capital in Swedish kronor. This structural foreign exchange risk is hedged using currency forward contracts.

6.5 EQUITY RISK

Equity risk is the risk of decrease in value due to price changes in the stock market.

Since the Bank does not carry out any trading in equities for its own account, equity risk is very limited. The Bank's exposure to equities consists, among other things, of the equity-related option portion of repurchased structured products. At year-end 2018, the Bank had no exposure (2017: EUR 0.3 M).

The Bank is also exposed to equity risk through its strategic investments in Åland-based companies. Decisions on strategic investments are made by the Managing Director and/or the Board of Directors. At year-end 2018, strategic holdings totalled EUR 2.5 M (2017: EUR 0.5 M).

7 Operational risk

Operational risk is defined as the probability of direct or indirect losses due to inappropriate or faulty internal processes, human errors, systemic errors or external events in the Group's surroundings.

7.1 RISK APPETITE

Operational risks occur in all operations. It is thus neither possible nor optimal to eliminate them entirely. The Bank of Åland endeavours to minimise expenses caused by operational risks through effective risk management. The Bank seeks clarity regarding risk appetite and tolerance levels by defining in its internal regulations what is considered a low, reasonable, high and unacceptable yearly net loss due to operational risks that materialise (incidents).

7.2 RISK MANAGEMENT

Operational risk management is an independent element of risk management. The objective is to ensure that significant operational risks are identified, that the management of operational risks is organised in a way that is satisfactory in relation to the nature and the scope of the operations, that adequate procedures for information management and information security are applied, that the probability of unforeseen losses or threats to the Group's reputation is minimised and that the Board of Directors and management are informed of the operational risks associated with the Group's operations. Adequate operational risk management is important to ensure trust in the Bank's operations, especially from a customer standpoint.

The Operational Risks unit is responsible for analysing and reporting the Group's operational risks and for maintaining internal regulations related to operational risks.

Operational risks in the Group's most important processes are self-evaluated yearly. This evaluation estimates the probability and consequences of a loss event, as well as trends and existing risk management. The Risk unit analyses the risks on the basis of the evaluations that have been conducted and reports these to the Executive Team.

Incident reporting is part of mapping current operational risks. The Risk unit analyses the incidents and compiles reports to the affected bodies and the Group's Executive Team.

The Group has introduced a standardised approval process for new products and services, which is aimed at identifying and resolving any risks prior to launch.

The Group has contingency plans for emergency conditions as well as continuity plans for all business units, in order to maintain operations and limit losses in the event of various kinds of operational disruptions.

At the Group level, insurance policies have been obtained to cover directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage.

Mapping of own funds to the balance sheet	2018	2017	
EUR M			Line reference in capital base
Assets			
Intangible assets	21.6	17.3	
of which: Goodwill and other intangible assets (net of related tax liabilities)	−21.0	−15.9	8
Deferred tax assets	5.4	5.1	
of which: reliant on future profitability except those that arise due to temporary differences	0.0	0.0	10
Defined benefit pension assets	0.0	0.0	
of which: defined benefit pension assets (in addition to related obligations, net of related tax liabilities)	0.0	0.0	15
Liabilities			
Deferred tax liabilities	27.9	25.2	
of which: reliant on future profitability except those that arise due to temporary differences			10
Defined benefit pension obligations	5.6	5.6	
of which: defined benefit pension assets (net of related tax liabilities)			15
Subordinated liabilities	46.9	33.0	
of which: Additional Tier 1 capital instruments and related share premium accounts			30
of which: Qualifying items referred to in Article 484 (4)			33 and 47
of which: Direct and indirect own holdings in the Bank's additional Tier 1 capital instruments			37
of which: Supplementary capital instruments and related share premium accounts	37.5	19.7	46
of which: Qualifying items referred to in Article 484 (5)			47
of which: Direct and indirect own holdings in the Bank's supplementary capital instruments	0.0	0.0	52
Equity capital			
Share capital	42.0	41.9	1
of which: Share capital (net of direct and indirect holdings of own shares)	42.0	41.9	1 and 16
Share premium account	32.7	32.7	
of which: Equity instruments and related share premium accounts	32.7	32.7	1
Other reserves	52.2	52.1	
of which: Statutory reserve	25.1	25.1	1
of which: Unrestricted equity reserve	27.1	26.9	1
Other reserves	−0.6	1.2	
of which: Other comprehensive income	−0.6	1.2	3
of which: Fair value reserves related to gains or losses on cash flow hedges	0.0	0.0	11
Retained earnings	116.0	105.7	
of which: Profit for the period	22.9	20.7	5a
of which: Retained earnings	93.1	85.0	

	Disclosures about capital base	2018	2017	
EUR M				Regulation (EU) No 575/2013 Article reference
	Common equity Tier 1 capital: Instruments and reserves			
1	Capital instruments and related share premium accounts	126.9	126.7	26.1, 27,28,29
	of which: share capital	42.0	41.9	EBA list 26.3
	of which: share premium account	32.7	32.7	EBA list 26.3
	of which: other funds	52.2	52.1	EBA list 26.3
2	Retained earnings	93.1	85.0	26.1 C
3	Accumulated other comprehensive income (and other reserves)	−0.6	1.2	26.1
3a	Provisions for general risks in banking operations			26.1 f
4	Amount of qualifying items referred to in Article 484.3 and related share premium accounts subject to phase-out from common equity Tier 1 capital			486.2
5	Minority interests (amount allowed in consolidated common equity Tier 1 capital)	0.0	0.0	84
5a	Interim profit, net of foreseeable expenses and dividends that have been verified by persons who have an independent position	12.1	10.7	26.2
6	**Common equity Tier 1 capital before regulatory adjustments**	**231.5**	**223.6**	**Total of lines 1–5a**

		2018	2017	
	Common equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	−0.6	−1.3	24, 105
8	Intangible assets (net of related tax liabilities) (negative amount)	−21.0	−15.9	36.1 b, 37
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38.3 are met) (negative amount)	0.0	0.0	36.1 c, 38
11	Fair value reserves related to gains or losses on cash flow hedges	0.0	0.0	33.1 a
12	Negative amounts resulting from calculation of expected loss amounts	−5.5	−8.8	36.1 d, 40, 159
13	Any increase in equity capital that result from securitised assets (negative amount)			32,1
14	Gains or losses on liabilities measured at fair value resulting from changes in the institution's own credit risk			33.1 b
15	Defined benefit pension fund assets	0.0	0.0	36.1 e, 41
16	An institution's direct and indirect holdings of own CET1 capital capital instruments	0.0	0.0	36.1 f, 42
17	Direct, indirect and synthetic holdings of CET1 capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)			36.1 g, 44
18	The institution's direct, indirect and synthetic holdings of CET1 capital instruments of financial sector entities in which the institution does not have significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)			36.1 h, 43, 45, 46, 49.2, 49.3, 79
19	The institution's direct, indirect and synthetic holdings of CET1 capital instruments in financial sector entities where the institution has a significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)			36.1 I, 43, 45, 47,48.1 b, 49.1-49.3, 79
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a risk weight of 1,250% when the institutions opts for the deduction alternative			36.1 k
20b	*of which: qualifying holdings outside the financial sector (negative amount)*			36.1 k ii, 243.1b, 244.1 b, 258
20c	*of which: securitisation positions (negative amount)*			36.1 k ii, 243.1 b, 244.1 b, 258
20d	*of which: free deliveries (negative amount)*			36.1 k iii, 379.3
21	Deferred tax assets arising from temporary differences (amounts above the 10% threshold, net of related tax liability when the conditions in Article 38.3 are met) (negative amount)			36.1 c, 38
22	Amount exceeding the 15% threshold) (negative amounts)			48.1
23	*of which: the institution's direct and indirect holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment in these entities*			36.1 i, 48.1 b
24	Empty set in the EU			
25	*of which: deferred tax assets arising from temporary differences*			36.1 c, 38, 48.1 a
25a	Losses for the current financial year (negative amount)			36.1 a
25b	Foreseeable taxes related to common equity Tier 1 items (negative amount)			36.1 l
27	Qualifying additional CET1 deductions that exceed the institution's additional Tier 1 capital (negative amount)			36.1 j
28	**Total regulatory adjustments in CET1 capital**	**−27.1**	**−26.0**	**Total of lines 7–20a, 21, 22 and 25a–27**
29	**CET1 capital**	**204.4**	**197.6**	**Line 6 minus line 28**

		2018	2017	
	Additional Tier 1 capital: instruments			
30	Capital instruments and related share premium accounts			51, 52
31	*of which: classified as equity capital under applicable accounting standards*			
32	*of which: classified as liabilities under applicable accounting standards*			
33	Amount of qualifying items referred to in Article 484.4 and related share premium accounts subject to phase-out of additional Tier I capital			486.3
34	Qualifying Tier I capital included in consolidated additional core capital (including minority interests not included in line 5) issued by subsidiaries and held by third parties			85, 86
35	*of which: instruments issued by subsidiaries and subject to phase-out*			486.3
36	**Additional Tier I capital before regulatory adjustments**	**0.0**	**0.0**	**Total of lines 30, 33 and 34**
	Additional Tier I capital: regulatory adjustments			
37	An institution's direct and indirect holdings of own additional Tier 1 capital instruments (negative amount)			52.1 b, 56 a, 57
38	Direct, indirect and synthetic holdings of additional Tier 1 capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)			56 b, 58
39	Direct, indirect and synthetic holdings of additional Tier I capital instruments of financial sector entities where the institution has no significant investment (amounts above 10% threshold net of eligible short positions) (negative amount)			56 c, 59, 60, 79
40	Direct, indirect and synthetic holdings of additional Tier I capital instruments in entities in the financial sector where the institution has a significant investment (amounts above 10% threshold net of eligible short positions) (negative amount)			56 d, 59, 79
41	Empty set in the EU			
42	Deductions from qualified supplementary capital that exceeds the institution's supplementary capital (negative amount)			56 e
43	**Total regulatory adjustments to additional Tier 1 capital**	**0.0**	**0.0**	**Total of lines 37–42**
44	**Additional Tier 1 capital before regulatory adjustments**	**0.0**	**0.0**	**Line 36 minus line 43**
45	**Tier 1 capital (Tier I capital = common equity Tier 1 capital + additional Tier I capital)**	**204.4**	**197.6**	**Total of lines 29 and 44**
	Tier 2 (supplementary) capital: Instruments and provisions			
46	Capital instruments and related share premium accounts	37.5	19.7	62, 63
47	Amount of qualifying items referred to in Article 484.5 and related share premium accounts subject to phase-out from supplementary capital			486.4
48	Qualifying Tier 1 capital included in consolidated supplementary capital (including minority interests and additional Tier I capital instruments not part of line 5 or 34) issued by subsidiaries and held by third parties			87, 88
49	*of which: instruments issued by subsidiaries subject to phase-out*			486.4
50	Credit risk adjustments	0.4	1.7	62 c and d
51	**Tier 2 capital before regulatory adjustments**	**37.9**	**21.4**	
	Tier 2 capital: regulatory adjustments			
52	An institution's direct and indirect holdings of own Tier 2 capital instruments and subordinated loans (negative amount)	0.0	0.0	63 b i, 66 a, 67
53	Holdings of supplementary capital instruments and subordinated loans of financial sector entities where the institution has no significant investment (amounts above 10% threshold, net of eligible short positions) (negative amount)			66 b, 68
54	Direct and indirect holdings of Tier 2 capital instruments and subordinated loans of financial sector entities where the institution has no significant investment (amounts above 10% threshold, net of eligible short positions (negative amount)			66 c, 69, 70, 79
55	An institution's direct and indirect holdings of supplementary capital instruments			66 d, 69, 79
56	Empty set in the EU			
57	**Total regulatory adjustments of Tier 2 capital**	**0.0**	**0.0**	**Total of lines 52–56**
58	**Tier 2 capital**	**37.9**	**21.4**	**Line 51 minus line57**
59	**Total capital (Tier 1 capital + Tier 2 capital)**	**242.4**	**219.0**	**Total of lines 45 och 58**
60	**Total risk-weighted assets**	**1,577.6**	**1,537.9**	

		2018	2017	
	Capital ratios and buffers			
61	Common equity 1 capital (as a percentage of total risk-weighted exposure amount), %	13.0	12.9	92.2 a
62	Tier I capital (as a percentage of total risk-weighted exposure amount), %	13.0	12.9	92.2 b
63	Total capital (as a percentage of total risk-weighted exposure amount), %	15.4	14.2	92.2 c
64	Institution-specific buffer requirements (requirements for Tier I capital according to Article 92.1 a) plus capital conservation buffer, countercyclical buffer and systemic risk buffer requirements, plus systemically important institution buffer, expressed as a percentage of the total risk-weighted exposure amount), %	8.0	7.9	Capital Requirements Regulation 128, 129, 130, 131, 133
65	*of which: capital conservation buffer requirement, %*	2.5	2.5	
66	*of which: countercyclical buffer requirement, %*	1.0	0.9	
67a	*of which: global systemically important institution or other systemically important institution buffer, %*			
68	Common equity Tier 1 capital available to meet buffers (as percentage of risk-weighted exposure amount), %	8.5	8.4	Capital Requirements Regulation 128
	Amounts below thresholds for deduction (before risk weighing)			
72	Direct and indirect holdings of financial sector entities in which the institution has no significant investment (amounts below 10% threshold net of eligible short positions)			36.1 h, 46, 45, 56 c, 59, 60, 66 c, 69, 70
73	The institution's direct and indirect holdings of financial sector entities in which the institution has a significant investment (amounts below 10% threshold net of eligible short positions)			36.1 i, 45, 48
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amounts below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met)			36.1 c, 38, 48
	Applicable caps on inclusion of provisions in supplementary capital			
76	Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the standardised approach (before application of the cap)	0.0	0.0	62
77	Cap on inclusion of credit risk adjustments in Tier 2 capital under the standardised approach	9.3	9.5	62
78	Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the IRB approach (before application of the cap)	0.4	1.7	62
79	Cap for inclusion of credit risk adjustments in Tier 2 capital according to the IRB approach	3.2	3.5	62
	Capital instruments subject to phase-out arrangements (only applicable between January 1, 2014 and January 1, 2022)			
80	Current cap on Tier I capital instruments subject to phase-out arrangements			484.3, 486.2 and 486.5
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)			484.3, 486.2 and 486.5
82	Current cap on additional CET1 capital instruments subject to phase-out arrangements			484.4, 486.3 and 486.5
83	Amount excluded from additional Tier I capital due to cap (excess over cap after redemptions and maturities)			484.4, 486.3 and 486.5
84	Current cap on Tier 2 capital market instruments subject to phase-out arrangements			484.5, 486.4 and 486.5
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)			484.5, 486.4 and 486.5

Main features of capital instruments – Common equity Tier 1 capital instruments			
1	Issuer	Bank of Åland Plc	Bank of Åland Plc
2	Unique identifier code	FI0009001127	FI0009000103
3	Governing laws of the instrument	Finnish law	Finnish law
	Regulatory treatment		
4	Transitional rules according to Capital Requirement Regulation (CRR)	CET1 capital	CET1 capital
5	Post-transitional CRR rules	CET1 capital	CET1 capital
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	Solo and consolidated
7	Type of instrument	Share capital according to CRR 575/2013 Art. 28	Share capital according to CRR 575/2013 Art. 28
8	Amount recognised in regulatory capital	EUR 28.9 M	EUR 13.1 M
9	Nominal amount of instrument	EUR 28.9 M	EUR 13.1 M
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Equity capital	Equity capital
11	Original issuance date	N/A	N/A
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, conditional call dates and redemption amount	N/A	N/A
16	Subsequent call date, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	N/A	N/A
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or obligatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non-cumulative or cumulative	N/A	N/A
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, type of instrument to which conversion is made	N/A	N/A
29	If convertible, issuer of the instrument to which conversion is made	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If write-down is temporary, write-up mechanism	N/A	N/A
35	Position in prioritisation hierarchy for liquidation, instrument next in line	Tier 2 (supplementary) capital instruments	Tier 2 (supplementary) capital instruments
36	Non-compliant transition features	No	No
37	If Yes, specify non-compliant features	N/A	N/A

N/A = The question is not applicable to the instrument

Main features of capital instruments – Supplementary capital instruments

1	Issuer	Bank of Åland Plc.	Bank of Åland Plc	Bank of Åland Plc	Bank of Åland Plc	Bank of Åland Plc
2	Unique identifier code	FI4000097068	FI4000153747	FI4000210299	FI4000266580	SE0011116037
3	Governing laws of the instrument	Finnish law	Finnish law	Finnish law	Finnish law	Finnish law
	Regulatory treatment					
4	Transitional rules according to Capital Requirement Regulation (CRR)	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
5	Post-transitional CRR rules	Unacceptable	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Type of instrument	Tier 2 capital instruments according to CRR 575/2013 Art. 484	Tier 2 capital instruments according to CRR 575/2013 Art. 63	Tier 2 capital instruments according to CRR 575/2013 Art. 63	Tier 2 capital instruments according to CRR 575/2013 Art. 63	Tier 2 capital instruments according to CRR 575/2013 Art. 63
8	Amount recognised in regulatory capital	EUR 1.0 M	EUR 8.6 M	EUR 6.2 M	EUR 2.3 M	EUR 19.5 M
9	Nominal amount of instrument	EUR 8.3 M	EUR 8.6 M	EUR 6.2 M	EUR 2.3 M	SEK 200 M/ EUR 19.5 M
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100% of nominal amount	100% of nominal amount	100% of nominal amount	100% of nominal amount	100% of nominal amount
10	Accounting classification	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost
11	Original issuance date	June 6, 2014	May 25, 2015	June 13, 2016	June 19, 2017	May 15, 2018
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	Aug 9, 2019	May 25, 2035	Aug 12, 2036	August 18, 2037	May 15, 2038
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, conditional call dates and redemption amount	N/A	June 26, 2020	August 12, 2021	August 18, 2022	May 15, 2023
16	Subsequent call date, if applicable	N/A	Yearly on interest payment date after first redemption date	Yearly on interest payment date after first redemption date	Yearly on interest payment date after first redemption date	Yearly on interest payment date after first redemption date
	Coupons/dividends					
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Floating
18	Coupon rate and any related index	3.00%	3.75%	3.75%	3.75%	3-mo Stibor +2.40%
19	Existence of a dividend stopper	N/A	N/A	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Non-cumulative or cumulative	N/A	N/A	N/A	N/A	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, type of instrument to which conversion is made	N/A	N/A	N/A	N/A	N/A
29	If convertible, issuer of the instrument to which conver-sion is made	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent
32	If write-down, full or partial	N/A	25%	50%	50%	50%
33	If write-down, permanent or temporary	N/A	Permanent	Permanent	Permanent	Permanent
34	If write-down is temporary, write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in prioritisation hierarchy for liquidation, instrument next in line	Senior debts	Senior debts	Senior debts	Senior debts	Senior debts
36	Non-compliant transition features	No	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

N/A = The question is not applicable to the instrument

Leverage ratio		2018	2017
EUR M			
	Summary reconciliation of accounting assets and leverage ratio exposures		
1	Total assets as per published financial statements	5,556.4	5,352.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429.13 of Regulation (EU) No 575/2013)		
4	Adjustments for derivative instruments	9.0	13.8
5	Adjustments for securities financing transactions (SFTs)		
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	97.0	99.8
EU–6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429.7 of Regulation (EU) No 575/2013)		
EU–6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429.14 of Regulation (EU) No 575/2013)		
7	Other adjustments	–26.5	–24.6
8	**Total leverage ratio exposure**	**5,635.9**	**5,441.4**
	Leverage ratio common disclosure		
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	5,541.0	5,330.0
2	(Asset amounts deducted in determining Tier 1 capital)	–26.5	–24.6
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**5,514.6**	**5,305.3**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	15.3	21.4
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	9.8	14.6
EU–5a	Exposure determined under original exposure method		
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–0.8	–0.7
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of lines 4 to 10)**	**24.4**	**35.3**
	Securities financing transaction (SFT) exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets		
EU–14a	Derogation (exemption) for SFTs: Counterparty credit risk exposure in accordance with Article 429b.4 and 222 of Regulation (EU) No 575/2013		
15	Agent transaction exposures		
EU–15a	(Exempted CCP leg of client-cleared SFT exposure)		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0.0**	**0.0**

			2017
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	493.2	485.5
18	(Adjustments for conversion to credit equivalent amounts)	–396.2	–385.7
19	Other off-balance sheet exposures (sum of lines 17 to 18)	97.0	99.8
	Exempted exposures in accordance with CRR Article 429.7 and 14 (on and off balance sheet)		
EU–19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429.7 of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU–19b	(Exposures exempted in accordance with Article 429.14 of Regulation (EU) No 575/2013 (on and off balance sheet))		
	Capital and total exposures		
20	Tier 1 capital	204.4	197.6
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU–19a and EU–19b)**	**5,635.9**	**5,440.4**
22	**Leverage ratio**	**3.6**	**3.6**

UDisclosures about the transitional rule for IFRS 9 in compliance with CRR, Article 473a		2018
EUR M		
	Available capital (amount)	
1	Common equity Tier 1 (CET1) capital	204.4
2	CET1 capital if transitional regulations for IFRS 9 or analogous expected risk losses had not been applied	203.8
3	Tier 1 capital	204.4
4	Tier 1 capital if transitional regulations for IFRS 9 or analogous expected risk losses had not been applied	203.8
5	Total capital	242.3
6	Total capital if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	241.7
	Risk-weighted assets (amount)	
7	Total risk-weighted assets	1,577.6
8	Total risk-weighted assets if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	1,577.7
	Capital ratios	
9	CET1 capital (as a percentage of risk exposure amount)	13.0
10	CET1 capital (as a percentage of risk exposure amount) if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	12.9
11	Tier 1 capital (as a percentage of risk exposure amount)	13.0
12	Tier 1 capital (as a percentage of risk exposure amount) if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	12.9
13	Total capital (as a percentage of risk exposure amount)	15.4
14	Total capital (as a percentage of risk exposure amount) if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	15.3
	Leverage ratio	
15	Total exposure measure for leverage ratio	5,440.4
16	Leverage ratio, %	3.6
17	Leverage ratio if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied, %	3.6

Photographer: Staffan Sundström

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OTHER NOTES

Notes to the consolidated financial statements

(EUR K)

G1. Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc is a commercial bank with a total of 11 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd, the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium-sized banks.

The Head Office of the Parent Company has the following registered address:

Bank of Åland Plc
Nygatan 2
AX-22100 Mariehamn
Åland, Finland

A copy of the consolidated financial statements can be obtained from the Head Office or from the Bank's website *www.alandsbanken.fi*.

The shares of the Bank of Åland Plc are traded on the Nasdaq Helsinki Oy (Helsinki Stock Exchange).

The consolidated financial statements for the financial year ending on December 31, 2018 were approved by the Board of Directors on March 1, 2019 and will be submitted to the 2019 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

G2. Accounting principles

1. Basis for the report

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. In addition, when preparing the notes to the consolidated financial statements, Finnish company and accounting legislation has also been applied. The consolidated financial statements are presented in thousands of euros (EUR K) unless otherwise stated. The consolidated financial statements have been prepared according to original cost, if not otherwise stated in the accounting principles.

Tables show rounded-off figures on all individual lines, but this means that the rounded-off figures do not always add up to the correct total.

2. Changes in accounting principles

The essential accounting principles used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ending December 31, 2018, except for the forward-looking application of IFRS 9, "Financial instruments" starting on January 1, 2018.

Derivatives are recognised together with related accrued interest starting on January 1, 2018. Historical figures for comparative periods have been restated.

ESSENTIAL ACCOUNTING PRINCIPLES

Starting on January 1, 2018, the international accounting standard known as IFRS 9, "Financial instruments", has replaced the standard known as IAS 39, "Financial instruments: Recognition and Measurement". IFRS 9 includes a new model for classification and measurement of financial instruments, a forward-looking "expected loss" impairment model and simplified conditions for hedge accounting. The new rules about hedge accounting include simplifications of effectiveness testing and a broadening of the range of permitted hedging instruments and hedged items. Instead of applying IFRS 9 to hedge accounting, the Bank of Åland has chosen to continue applying the rules in IAS 39.

The financial asset categories contained in IAS 39 are being replaced by three categories, with measurement taking place either at amortised cost, fair value reported via "Other comprehensive income" or fair value reported via the income statement ("profit and loss"). The classification into these three categories is based on a company's business model for the various holdings and the characteristics of the cash flows that result from the assets ("solely payments of principal and interest" or SPPI test). At the Bank of Åland, as for liquidity exposures it concerns two different portfolios with different purposes: one for the purpose of holding financial assets to collect their contractual cash flows (measured at amortised cost) and another for the purpose of both holding financial assets to collect their contractual cash flows and selling these financial assets (measured at fair value under "Other comprehensive income"). In addition, there is a portfolio for lending exposures, which is held for the purpose of collecting their contractual cash flows. All these portfolios pass the SPPI test. Investments in equity instruments do not pass the SPPI test and the Bank of Åland has chosen to classify these at fair value via other comprehensive income.

As for the portions concerning financial liabilities, most of the principles coincide with the earlier IAS 39 rules, except for financial liabilities that are voluntarily measured at fair value according to the "fair value option" (FVO). For these liabilities, the change in value will be divided between changes attributable to own credit risk and changes in a benchmark interest rate. Changes in fair value due to changes in own credit risk are reported under other comprehensive income.

Fixed interest loans have been reclassified from fair value option (FVO) to amortised cost, which upon the transition to IFRS 9 has an effect of EUR 1,156 K that is recognised directly under equity capital. Starting on January 1, 2018, hedge accounting is being applied to these loans (fair value hedging). The transition to IFRS 9 had a negative effect of EUR 3,096 K on equity capital, which consisted of:

- A reduction equivalent to EUR 2,417 K related to implementation of the expected loss principle
- A reduction equivalent to EUR 1,445 K related to reclassifications of fixed interest loans

• An increase equivalent to EUR 772 K related to deferred tax

For a complete accounting of the transition effects from IAS 39 to IFRS 9, see Note G3.

COMING CHANGES IN REGULATIONS

IFRS 16, “Leases” (which will be applied for accounting periods beginning January 1, 2019 or later): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 removes the requirement that lessees must distinguish between finance and operational leases and requires lessees to report a “right-of-use” asset and a lease liability for most leases in the balance sheet. In the income statement, rent expenses are replaced by depreciation of the assets and interest expenses for the lease liability. This accounting model resembles the current treatment of finance leases according to IAS 17. The Bank of Åland has chosen to apply the exemption found in IFRS 16, under which leases running for 12 months or less or leases of low-value assets will be recognised as expenses in the income statement. The lessor’s accounting is essentially equivalent to the current treatment according to IAS 17.

The Bank of Åland is applying the modified retrospective approach, which means that the cumulative effect of the transition to IFRS 16 will be recognised as an adjustment to the opening balance of equity on January 1, 2019. No comparative figures will be restated. The most significant identified effect is that the Bank of Åland will need to report new assets and liabilities for its operational leases related to banking and office premises. Lease liabilities are initially being calculated upon the transition to IFRS 16 at the present value of remaining lease payments discounted using the incremental borrowing rate on the introductory date of January 1, 2019. Right-of-use assets will initially be recognised at an amount equal to the lease liability. See the table below.

Transition to IFRS 16

Upon the transition to IFRS 16, the Bank of Åland increased its right-of-use assets by EUR 14,336 K, bringing to EUR 15,490 K its lease liabilities on January 1, 2019.

Lease liabilities are initially being calculated upon the transition to IFRS 16 at the present value of remaining lease payments, discounted using the incremental borrowing rate on the introductory date of January 1, 2019. The weighted average interest rate being used is about 3 per cent.

	Jan 1, 2019
EUR K	
Operational lease commitment included in the financial report on December 31, 2018 according to Note G43	7,024
Discounted by the incremental borrowing rate	6,176
Finance lease liabilities, December 31, 2018	1,541
Exemptions:	
Short-term leases	–178
Leases of low-value assets	–29
Utilisation of extension and termination options	8,366
Lease liabilities on January 1, 2019	**15,876**

IFRIC 23, “Uncertainty over Income Tax Treatments”: This interpretation deals with how uncertainty regarding income tax amounts should be reported, for example how to report an existing deferred tax asset when the amount has been appealed and a discussion with a tax authority is under way. IAS 12, “Income Taxes” deals with reporting and measuring deferred tax assets and liabilities, but not how uncertainties regarding amounts should be treated. According to the International Accounting Standards Board (IASB), application will occur starting on January 1, 2019. The interpretation is not expected to have any impact on the Bank of Åland’s financial reports..

3. Presentation of financial reports

Financial statements consist of a balance sheet, an income statement, a statement of comprehensive income, a statement of changes in equity capital, a cash flow statement and notes. Their purpose is to provide information about the position, financial performance and cash flows of a company that is useful in making economic decisions. Financial statements also present the results of the management team’s administration of the resources entrusted to them.

The Group publishes an interim report for each quarter as well as a complete annual report.

4. Principles of consolidation

The consolidated financial statements are prepared in compliance with IFRS 10, “Consildated financial statements” and include the Parent Company, the Bank of Åland Plc – including its Swedish branch, Ålandsbanken Abp (Finland), svensk filial – and all subsidiaries that the Parent Company controls. The Group controls a company when it is exposed to, or has rights to, variable returns from its holding in the company and has the ability to affect those returns through its influence on the company. When assessing whether a controlling interest exists, potential voting rights are considered as well as whether de facto control exists. The consolidation of subsidiaries occurs from the date when control is achieved to the divestment date.

In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment which is transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. In case of an acquisition where the payment which is transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. In the consolidated financial statements at the end of 2017 or 2018, there was no goodwill in companies where the Group was deemed to have a controlling influence, or in subsidiaries where it has significant holdings without decision-making rights.

Transaction expenditures – except for those attributable to the issuance of equity instruments or debt instruments – are recognised directly in the income statement. The portions of equity capital and profit for the accounting period in subsidiaries that are attributable to non-controlling interests are split off and shown as separate items in the consolidated income statement and balance sheet. Losses attributable to non-controlling interests are allocated even in those cases where non-controlling interests will be negative.

Changes in percentages of ownership in a subsidiary where a controlling influence is retained are recognised as a transaction in equity capital. The difference between payment received and non-controlling interests’ proportion of acquired net assets is recognised under “Retained earnings”. Changes where a controlling influence ceases, gains or losses as well as items in other comprehensive income – except any re-measurements of defined benefit pension plans – are recognised in the income statement. Remaining holdings are carried at fair value and the change in value is recognised in the income statement.

The consolidated financial statements include those associated companies in which the Bank of Åland Group owns 20–50 per cent of the voting power or otherwise has significant influence. When consolidating associated companies, the equity method of accounting has been used. The equity method means that the carrying amount of the shares in the consolidated financial statements is equivalent to the Group's proportion of the associated company's equity capital and Group goodwill and any other remaining consolidated surplus and deficit values, adjusted for any impairment losses. The Group's proportion of the income in associated companies and any proportion of other comprehensive income are recognised on separate lines in the consolidated income statement and the consolidated statement of other comprehensive income, respectively. When the Group's proportion of an associated company's losses equals or exceeds its holding in the associated company, including any receivables without collateral, the Group recognises no further losses, unless the Group has assumed legal or informal obligations or made payments on behalf of the associated company.

Joint operations are joint arrangements in which the Bank of Åland and one or more business partners are entitled to all economic benefits related to an operation's assets and obligations for its liabilities. Mutual property and housing companies have been classified as joint operations. The Group recognises assets, liabilities, income and expenses based on its proportion of these. The Group has no joint ventures. All intra-Group receivables, liabilities, income and expenses – including dividends and unrealised intra-Group profits – have been eliminated in the consolidated financial statements. Unrealised gains arising from transactions with associated companies are eliminated to an extent equivalent to the Group's proportion of ownership in the company, but only to the extent that there is no impairment.

5. Items in foreign currencies

The consolidated financial statements are prepared in euros (EUR), which is the reporting and functional currency of the Parent Company, Bank of Åland Plc. The functional currency of an operation is determined on the basis of the economic environment where the operation is carried out. The functional currency of the Group's operations outside Finland may diverge from the Group's reporting and functional currency. A foreign currency is defined as a currency other than the Group's functional currency. Income and expenses in foreign currencies are translated to the functional currency of Group companies and branches on the transaction date. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing on the closing day. Translation differences from equity instruments and debt instruments measured at fair value via other comprehensive income – as well as translation differences from hedging of net assets in foreign operations and fair value changes in related currency derivative instruments after taxes, to the extent that the hedge is effective – are recognised in "Other comprehensive income". Non-monetary items that are recognised at fair value are translated according to the exchange rate when fair value was established. Other non-monetary items have been translated at the exchange rate on the transaction date.

In the consolidated financial statements, the income statements, other comprehensive income items and cash flow statements of operations outside Finland are translated to euros according to the average exchange rates for the report period. The translation of balance sheet items to euros is performed using the exchange rates on the balance sheet date. The translation differences that arise when translating operations outside Finland are recognised separately in "Other comprehensive income" and are accumulated in a separate component in equity capital known as the translation reserve. When controlling interest ceases, the accumulated translation differences attributable to these operations are realised, at which time they are reclassified from the translation reserve in equity capital to the income statement.

6. Recognition of assets and liabilities in the balance sheet

The purchase and sale of shares, money and capital market instruments and derivatives in the spot market are recognised on the transaction date. Other financial assets and liabilities are normally recognised on the settlement date. Financial assets are removed from the balance sheet when the contractual rights to the cash flows that are attributable to the asset cease or when all risks and rewards associated with the asset are transferred to another party. A financial liability is removed from the balance sheet when the obligation ceases or is cancelled.

In case of a business acquisition, the acquired business is recognised in the consolidated accounts from the acquisition date. The acquisition date is the date when control over the acquired unit begins. The acquisition date may differ from the date when the transaction is legally confirmed. Assets and liabilities are removed from the balance sheet when controlling influence ceases.

Financial assets and liabilities are offset and recognised as a net amount or to simultaneously sell the asset and settle the liability. Further disclosures about offsetting of financial assets and liabilities are provided in Note G45.

The principles for recognition of assets and liabilities in the balance sheet are of special importance, for example, in the recognition of repurchase transactions, loans for the purchase of securities and leases. See the separate sections on these items below.

7. Classification of financial assets and liabilities

For purposes of measurement, in compliance with the provisions of IFRS 9, all financial assets and liabilities are classified in the following three categories:

1. Amortised cost
   - Investments held to maturity
   - Loans and other receivables
   - Other financial assets and liabilities
2. Fair value via income statement ("profit and loss")
   - Held for trading
3. Fair value via other comprehensive income
   - Investments held to collect cash flows and available for sale
   - Equity instruments not held for trading

The allocation among these three categories is done on the basis of the Bank of Åland's business model for the various holdings and the qualities of the cash flows that the assets create. The choice of the Bank of Åland's business model reflects how groups of financial assets are jointly managed in order to achieve a certain purpose, for example to obtain cash flows and sell assets. Different groups of assets may have different business models. Classification in the balance sheet is independent of the measurement category. Different measurement principles may thus be applied to assets and liabilities that are recognised on the same line of the balance sheet. An allocation of the categories of financial assets and liabilities that are recognised in the balance sheet in terms of measurement category is provided in Note G16.

Most of the items in the consolidated balance sheet are financial instruments. A financial instrument is any form of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. Financial instruments are classified in the balance sheet on different lines depending on who the counterparty is, for example the public or a credit institution. If the financial instrument has no specific counterparty, or when it is quoted in a market, these financial instruments are classified in the balance sheet as various types of securities. Financial liabilities where the creditor has a lower priority than others are classified in the balance sheet as "Subordinated liabilities".

A derivative is a financial instrument characterised by changes in its value due to changes in such variables as exchange rates, interest rates or share prices in an underlying asset, while little or no initial net investment is required. The contract is settled at a future date. Derivatives are recognised on their own lines in the balance sheet, together with contractually accrued interest, either as an asset or a liability depending on whether the contract has a positive or negative fair value.

Financial assets are recognised in the balance sheet on the transaction date when the purchase contract is signed, aside from contracts in the "loan receivables" measurement category, which are recognised on the payment date. The derecognition of financial assets occurs when the right to receive cash flows has expired or has essentially been transferred to another party. Financial liabilities are derecognised from the balance sheet when the liability ends because the contract has been fulfilled or cancelled.

On the first recognition date, all financial assets and liabilities are recognised at fair value. For assets and liabilities at fair value via the income statement, transaction costs are directly recognised in the income statement on the acquisition date. For other financial instruments, transaction expenses according to the effective interest method are included in cost.

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT AMORTISED COST

Recognised in the category "investments held to maturity" are interest-bearing financial assets that the Group intends and is able to hold until maturity. The decision to hold an investment to maturity is made on the purchase date. Investments recognised at amortised cost are impairment tested according to the model for expected loan losses.

Loans and accounts receivable are recognised at amortised cost, which means the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the purchase date. Loans and receivables are impairment tested according to the model for expected loan losses. Loans and accounts receivable that are defined as belonging to Stage 3 undergo impairment testing regularly and individually for each receivable. Impairment losses are recognised in the balance sheet at their net amounts, after subtracting probable and actual loan losses.

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE VIA THE INCOME STATEMENT

Financial assets and liabilities are recognised at fair value via the income statement if they are not recognised at amortised cost or fair value via other comprehensive income. These assets and liabilities consist of derivative instruments that are not subject to hedge accounting.

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE VIA OTHER COMPREHENSIVE INCOME

Recognised in this measurement category are debt instruments as well as shares and participations that are neither being held for active trading nor held to maturity. Debt instruments are initially recognised at cost in the balance sheet and are later measured at fair value. The change in value is recognised under other comprehensive income, minus deferred tax. Upon divestment or impairment loss, the portion of accumulated income previously recognised under other comprehensive income is transferred to the income statement. Impairment testing of financial assets in this measurement category is performed according to the model based on expected loan losses. Divestments are recognised under "Net income from financial assets measured via other comprehensive income" and impairment losses under "Net income from financial items". Interest attributable to this measurement category is recognised in the income statement under "Net interest income".

OTHER FINANCIAL ASSETS AND LIABILITIES

On the date of purchase, other financial assets and liabilities are recognised in the balance sheet at cost and subsequently at amortised cost.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The provisions of IFRS 9 only allow reclassification of certain financial assets and only when a change of business model occurs. Reclassification of financial liabilities is not allowed.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a combined financial instrument that also includes a host contract that is not a derivative, with the effect that some of the hybrid instrument's cash flows vary in a way similar to the cash flows from a stand-alone derivative. An embedded derivative is separate from the host contract and is recognised separately among "Derivative instruments" in the balance sheet when its financial features are not closely related to those of the host contract, provided that the combined financial instrument is not recognised at fair value via the income statement.

HEDGE ACCOUNTING

Upon the transition to IFRS 9, fixed-interest loans were reclassified from the fair value option (FVO) to amortised cost. After the transition, hedge accounting is applied with regard to the interest component in the agreement for these loans (fair value hedging).

8. Principles for recognising financial assets and liabilities at fair value

Fair value is defined as the price at which an asset could be sold or a liability transferred in a normal transaction between independent market players.

The fair value of financial instruments that are traded in an active market is equal to the current market price. Such a market is regarded as active when listed prices are easily and regularly available in a regulated market, trading location, reliable news service or the equivalent, and where the price information received can easily be verified through regularly occurring transactions. As a rule, the current market price is equivalent to the current purchase price of financial assets or the current sale price of financial liabilities. The current market price of groups of financial instruments that are managed on the basis of the Bank's net exposure to market risk equals the current market price that would be received or paid if the net position were divested.

In the case of financial assets for which reliable market price information is not available, fair value is determined with the help of valuation models. The valuation models that are used are based on incoming data that in all essential respects can be verified through market observations, for example market interest rates and share prices. As needed, an adjustment is made for other variables that a market player is expected to take into account in pricing.

The valuation techniques used are analysis of discounted cash flows, measurement with reference to financial instruments that are essentially similar and measurement with reference to recently completed transactions in the same financial instruments. When using measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible, estimates are required in order to obtain fair value.

Day 1 gains or losses, that is, differences between transaction price and value according to a measurement model that arise on the first recognition date, are recognised in the income statement only in cases where the measurement model is based only on observable market data. Otherwise the difference is accrued over the lifetime of the financial instrument.

DEBT SECURITIES

Debt securities issued by sovereigns, as well as covered bonds and corporate bonds, are valued with the help of current market prices. In exceptional cases, corporate bonds may be measured using valuation techniques based on market yields for equivalent maturities, adjusting for credit and liquidity risk.

EQUITY INSTRUMENTS

All equity instruments are initially recognised at fair value. Subsequent changes in fair value as well as gains and losses at divestment are recognised under ”Other comprehensive income”, since the Bank of Åland has made an irrevocable choice to classify equity instruments not held for trading in this measurement category. This choice is made investment by investment. Shares listed in an active market are valued at market price. When measuring unlisted shares and participations, the choice of valuation model is determined by what is deemed suitable for that particular instrument. Holdings in unlisted shares mainly consist of shares with a connection to the Bank’s business, such as fintech collaborations, and holdings in Åland companies. As a rule, such holdings are valued at the Bank’s proportion of net asset value in the company, which is regarded as constituting a reasonable estimate of fair value.

DERIVATIVES

Derivatives that are traded in an active market are valued at market price. Most of the Group’s derivative contracts, among them interest rate swaps and various types of linear currency derivatives, are measured using valuation models based on market interest rates and other market prices. Valuation of non-linear derivative contracts that are not actively traded is also based on a reasonable estimate of market-based incoming data, for example volatility.

9. Impairment losses on loans and accounts receivable

Impairment losses on loans and accounts receivable are determined according to a model based on “expected credit loss” (ECL). This is based on changes in the credit risk of financial assets and consists of a three-stage model. Stage 1 consists of exposures that are performing without significantly higher credit risk being regarded as having occurred. Those exposures that under-perform and are regarded as having a significant change in credit risk are placed in Stage 2. In addition, exposures that have been granted forbearance measures are always placed in Stage 2. Exposures in Stage 3 fulfil the Group’s default definition, in which an exposure is regarded as in default when a payment related to a significant amount is more than 90 days late. Other situations where the Group regards a credit exposure as in default is when the Bank honours a bank guarantee, the counterparty files for bankruptcy or it applies for debt restructuring. In addition, the Group assesses whether a counterparty should be regarded for other reasons as incapable of paying, which always includes cases where the Bank expands its forbearance measures on behalf of the customer.

By definition, a loan loss provision for Stage 2 or Stage 3 is based on lifetime loan losses, but they differ since Stage 3 exposures always undergo an individual impairment test. For backward transitions to better stages, the Bank applies cooling off periods. For exposures in Stage 2 it applies a six month period and for loans in Stage 3 it applies a two month cooling off period. For exposures with forbearance, the Bank applies a cooling off period of 24 months before the exposure can revert to Stage 1, assuming that forbearance measures are no longer in place. The impairment loss model requires reporting of one year’s expected loss from the initial date of recognition, and in case of a significant increase in credit risk, the impairment loss amount must be equivalent to the credit losses that are expected to arise during the remaining lifetime. A significant increase in credit risk is defined as a significant increase in the probability of a suspension of payment since the first reporting date. The Group assesses a significantly increased credit risk on the basis of a calculation of a relative change in probability of default (PD) for the remaining maturity of three times and an absolute change of at least 10 percentage points.

For all exposures, the Group applies a credit rating model for calculating expected loan losses. These calculations are based on internally developed models (probability of default = PD, loss given default = LGD and expected exposure at default = EAD), which take into account both historical data and probability-weighted forward-looking scenarios. A 12-month probability of default (PD) indicates the probability that a given commitment will default within 12 months, while a lifetime PD (for the remaining maturity) is equivalent to the probability that a given commitment will default during the entire remaining maturity of the financial asset. The PD model is based on historical data, the conditions that exist on the reporting date and future economic conditions that affect credit risk. Loss given default (LGD) is stated per commitment and is an estimate of the expected loss that the Group will incur assuming that the commitment defaults. The Group’s LGD model is based on historical data. Exposure at default ((EAD) refers to an estimated credit exposure at a future default date, taking into account expected changes in the credit exposure on the balance sheet date. The Group’s EAD model takes into account such factors as current contractual terms, assumptions about the honouring of guarantees, expected utilisation of credit limits and irrevocable off-balance sheet obligations.

The level of provisions is based on a broad range of relevant information from incoming data, assumptions and assessments by the Executive Team. The following points may have an especially large influence on the level of provisions: establishment of a significant increase in credit risk, forecasts of future macroeconomic scenarios and calculation methodology for both the expected loan loss within the coming 12 months and expected lifetime loan losses.

Provisions for loan losses on financial assets that are measured at amortised cost are made in the balance sheet as a reduction in the recognised gross carrying amount of the asset. Provisions for guarantees issued and unutilised credit lines are recognised as liabilities. Impairment losses on loans and accounts receivable as well as realised loan losses are recognised in the income statement under “Net impairment loss on financial assets”. Repayments of previously realised loan losses and recoveries of probable loan losses are recognised as income under “Net impairment loss on financial assets”.

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

Hedge accounting at fair value can be applied to individual assets and liabilities as well as to portfolios of financial instruments in order to protect the Group from undesirable effects on income due to changes in the market prices of recognised assets or liabilities. When hedging fair value, both the hedging instrument – the derivative – and the hedged risk in the hedged instrument at fair value are recognised in the income statement under “Net gains and losses on financial items at fair value”. One requirement to apply hedge accounting is that the hedge has been formally identified and documented. The hedge’s effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

CASH FLOW HEDGING
Cash flow hedging can be applied to individual assets and liabilities for the purpose of protecting the Group against undesirable effects on earnings due to changes in interest and exchange rates. Derivatives that comprise hedging instruments in cash flow hedging are recognised at fair value in the balance sheet. To the extent that the change in the value of the hedging instrument is effective, it is recognised in the hedging reserve under "Other comprehensive income". Any ineffective portion is recognised in the income statement under "Net gains and losses on financial items at fair value". The amount recognised in "Other comprehensive income" is transferred to the income statement upon the maturity of the issued debt security issued that has been hedged by cash flow hedging. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS
Hedges of net investments in foreign operations are applied to protect the Group from translation differences that arise when operations in a functional currency other than the presentation currency are translated. Derivatives that comprise hedging instruments in hedges of net investments in foreign operations are recognised in "Other comprehensive income".

Any ineffective portion is recognised in the income statement under "Net gains and losses on financial items at fair value". If a foreign operation is divested, the gain or loss that arises on the hedging instrument is reclassified from "Other comprehensive income" and recognised in the income statement. One prerequisite for applying hedge accounting is that the hedge is formally identified and documented. Its effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

11. Intangible assets
Intangible assets consist of IT systems produced for the Group's own use, externally procured systems and acquired contracts.

CAPITALISATION OF PRODUCTION FOR OWN USE
If the computer system that is produced will probably generate future income or reduce expenses to an extent that exceeds its cost, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement. Expenses for preliminary studies and research are recognised as an expense in the income statement.

AMORTISATION
Capitalised development expenses are normally amortised on a straight-line basis during 5–7 years. Amortisation begins when the computer system is ready for use.

Computer systems developed in-house	5–7 years
External computer systems	5–7 years
Acquired contract	10 years
Other intangible assets	3–5 years

EXTERNALLY PROCURED IT SYSTEMS
External computer systems are recognised in the balance sheet at cost minus accumulated amortisation and impairment losses.

ACQUIRED CONTRACTS
"Acquired contracts" refers to expenditures for rights to future cash flows and is recognised in the balance sheet at cost minus accumulated amortisation and impairment losses.

IMPAIRMENT LOSS
Assets are reviewed yearly to determine if there is any indication of impairment. If such an indication arises, the recoverable amount is determined as the asset's sale price or value in use, whichever is higher. Not yet completed development work is tested yearly for impairment, regardless of whether indications of loss of value have occurred. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. A previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

GOODWILL
Goodwill corresponds to the share of cost that exceeds the fair value of assets purchased and liabilities taken over. Goodwill is not amortised but is tested yearly – or more often if a need exists – for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement. There was no goodwill in the consolidated financial statements at the end of 2017 or 2018.

12. Tangible assets

INVESTMENT PROPERTIES
Investment properties are held in order to earn rental income or value appreciation, or for both purposes. Investment properties consist of direct holdings as well as indirect holdings via property and housing companies. Investment properties are recognised separately according to the cost method in the balance sheet under tangible assets at cost less accumulated depreciation and impairment losses. In the income statement, "Net income from investment properties" is shown on a separate line under "Other income". The properties have been appraised by a licensed estate agent.

PROPERTIES FOR THE GROUP'S OWN USE
Properties for the Group's own use consist of direct holdings as well as indirect holdings via property and housing companies. Properties for the Group's own use are recognised in the balance sheet at cost less accumulated depreciation and impairment losses.

OTHER TANGIBLE ASSETS
Other tangible assets consist of machinery and equipment, vehicles, renovations of rented premises and an art collection. Other tangible assets are carried in the balance sheet at cost minus accumulated depreciation and impairment losses. Any divestment gains/losses and disposals are recognised in income/expenses.

DEPRECIATION
Depreciation or amortisation is based on the expected economic service life of the assets. All depreciation/amortisation is on a straight-line basis.

Buildings	40 years
Technical equipment in buildings	12 years
Renovation in rented premises	5–10 years
Machinery and equipment	4–10 years

Land is not depreciated.

IMPAIRMENT LOSSES

Assets are reviewed yearly to determine if there is any indication of impairment. If such an indication arises, the recoverable amount is determined as the asset's sale price or value in use, whichever is higher. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. With the exception of goodwill, a previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

13. Provisions

A provision is recognised when the Group has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made. The provision is calculated at the present value of estimated outflow. Provisions are tested on each closing day and adjusted as needed, so that they correspond to the current estimate of the value of obligations.

Provisions are recognised for restructurings. Restructuring refers to extensive organisational changes, for example where employees receive severance pay for early termination or offices are closed. For a provision to be recognised, a restructuring plan must have been adopted and announced, so that it has created a well-grounded expectation among those affected that the company will implement the restructuring.

Provisions to the restructuring reserve related to other expenses are recognised in the balance sheet when the Group has adopted a detailed formal restructuring plan and the restructuring has either begun or been publicly announced.

Provisions related to litigation costs are recognised when the Group has identified the existing obligation and determined the probable outflow of resources that will be required in the event of a settlement.

Onerous contracts are recognised when the expected economic benefits received from a contract are lower than the unavoidable costs of meeting the obligations of the contract.

A contingent liability is recognised when there is a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Group, or when there is an obligation that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required or it cannot be estimated in a sufficiently reliable way. A contingent liability is not recognised as a provision in the balance sheet. Instead disclosures on contingent liabilities are provided in the notes to the Group's financial reports.

14. Leases

In compliance with IAS 17, leases are classified as finance leases and operating leases. The categorisation is made at the commencement of each lease. A finance lease transfers from the lessor to the lessee substantially all the economic risks and rewards incidental to ownership of an asset. Assets leased from other parties under finance leases are recognised at commencement of the lease as "Tangible assets" and the corresponding financial lease liability among "Other liabilities". Assets are recognised at the commencement of the lease at an amount equal to the fair value of the leased asset or a lower present value of minimum lease payments. Depreciation is calculated based on useful economic life or a shorter lease period. Interest on a lease liability is recognised under "Interest expenses" according to the effective interest method.

When the lessor bears the economic risks and rewards, the lease is classified as an operating lease. Assets leased under operating leases are recognised as "Tangible assets" and lease payments for these leases are recognised on a straight-line basis in the income statement as rental expenses over the lease term.

Most of the Group's leases are operating leases.

Impairment losses are recognised on the basis of individual judgements of the need.

15. Revenue

IFRS 15, "Revenue from contracts with customers", means that the Group must recognise revenue in an amount that reflects the compensation that the Group expects to be entitled to receive in exchange for providing goods or services to a customer.

NET INTEREST INCOME

Interest income and expenses on financial instruments are calculated according to the effective interest method. This method recognises the income and expenses of the instruments evenly in relation to amounts outstanding during the period until the maturity date. This calculation includes fees paid or received by the contractual parties that are part of effective interest, transaction costs and all other surpluses and deficits.

NET COMMISSION INCOME

Income and expenses for various types of services are recognised in the income statement as "Commission income" and "Commission expenses", respectively. Reported as "Commission income" are brokerage commissions, various forms of asset management fees, payment intermediation commissions and debit card fees. Individual origination fees for loans and credit line commissions totalling substantial amounts are accrued over the life of the loan and are included in net interest income. Commission expenses are transaction-dependent and are directly related to commission income.

Commission income and expenses are recognised when the service is performed. For commissions that concern more than one year, only the portion related to the accounting period is recognised.

NET INCOME FROM FINANCIAL ITEMS

Realised and unrealised gains and losses from financial instruments carried at fair value via the income statement ("profit and loss") are recognised via the income statement, along with the ineffective portion in hedge accounting.

Recognised under "Net income from foreign exchange dealing" are gains and losses on currency exchange activity as well as exchange rate differences that arise from translation of assets and liabilities to euros.

Realised changes in the value of assets that are measured under other comprehensive income are recognised as "Net income from financial assets measured via other comprehensive income". Unrealised changes in value from assets measured under other comprehensive income include expected credit losses and modification results.

IT INCOME

Annual licence income for IT systems is recognised as income on a straight-line basis during the respective year to which it is attributable. Systems sales with significant adaptations are administered as long-term projects. Systems licence income from long-term projects is recognised as revenue based on degree of completion, when this can be reliably determined. The degree of completion is determined separately for each project as the share of work completed on the balance sheet date compared to the estimated total number of working hours for the project. If it is probable that total expenditures will exceed total income for the project, the expected loss is immediately recognised as an expense.

OTHER INCOME

Dividends on shares and participations as well as dividends on assets measured at fair value via the income statement are among the items recognised as "Other operating income". Also recognised here are capital gains from the divestment of non-current assets and rental revenue from investment properties. Rental revenue is recognised on a straight-line basis in the income statement in accordance with the terms of the lease.

16. Employee benefits

PENSION LIABILITIES

Post-retirement employee benefits consist of defined contribution and defined benefit plans. The plans recognised as defined contribution are those benefit plans under which the Group pays agreed fees to an external legal entity and then has no legal or informal obligation to pay additional fees if the legal entity lacks the assets to fulfil its obligation to the employee. Premiums paid to defined contribution plans are recognised continuously in the income statement as a staff cost. Other plans for post-employment benefits are recognised as defined benefit plans.

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via a pension fund (Ålandsbanken Abps Pensionsstiftelse r.s., a so-called A Fund defined benefit plan). Pension coverage for employees in Sweden follows the so-called BTP1 plan, which is defined contribution. A few previously agreed defined benefit BTP2 plans still exist.

A defined benefit pension solution pays a pension based on salary and length of employment, which means that the employer bears essentially all risks in fulfilling the pension obligation. For a majority of its defined benefit pension plans, the Group has set aside managed assets in pension funds or various kinds. Plan assets minus plan obligations in defined benefit pension plans are recognised in the balance sheet as a net asset. Actuarial gains and losses on pension obligations as well as returns that exceed the estimated returns on plan assets are recognised in "Other comprehensive income".

Recognised pension expense related to defined benefit plans consists of the net amount of the following items, which are all included in staff costs:

- Pension rights earned during the year, that is, the year's portion of the estimated final total pension disbursement. The calculation of pension rights earned is based on an estimated final salary and is subject to actuarial assumptions.
- Interest expense for the year, since the present value of the pension liability has increased as the period until its disbursement has decreased. To calculate the year's interest expense, the Bank uses the current swap interest rate (interest rate on January 1) for a maturity equivalent to the remaining time until disbursement of the pension liability.
- Estimated return (interest rate) on plan assets. Interest on plan assets is recognised in the income statement by applying the same interest rate used when setting the year's interest expense. The calculation of expenses and obligations related to the Group's defined benefit plans involve a number of judgements and assumptions that may have a significant effect on the amounts recognised.

Changes or curtailments in a defined benefit plan are recognised at the earlier of the following dates: when the change or curtailment in the plan occurs or when the company recognises related restructuring expenses and severance pay. Changes/curtailments are recognised directly in profit for the year.

17. Share-based payment

In its compensation policy document, the Group has made it possible for portions of its compensation to employees to be settled through its own shares, which are recognised as share-based payment. The fair value of the shares is calculated on the distribution date and allocated over the vesting period, while the corresponding increase in equity capital is recognised. The expense is based on the fair value of the shares on the distribution date. The fair value of the shares is calculated on the distribution date on the basis of their quoted market price. An assessment of how many shares employees will earn is carried out when calculating the recognised expense of share-based payment in accordance with the terms and conditions in the Group's compensation policy (for example continued employment). At the end of each report period, the Executive Team re-assesses its judgement about how many shares will be earned.

18. Income tax

Income tax in the income statement includes current taxes for the Group based on taxable income for the year, together with tax adjustments for prior years plus changes in deferred (imputed) taxes. Tax expense is recognised in the income statement as an expense, except for items recognised in other comprehensive income, in which case the tax effect is also recognised as part of other comprehensive income. A deferred tax asset or liability has been established for temporary differences between the value of assets and liabilities for tax purposes and their carrying amount, by using tax rates applicable to future periods. Deferred tax liabilities and tax assets are calculated according to the tax rates expected to apply when the tax materialises (a law has been adopted but has not yet gone into effect). A deferred tax asset is recognised to the extent it is probable that future taxable income will arise against which the temporary difference can be utilised.

19. Non-current assets held for sale and discontinued operations

A non-current asset or a disposal group is classified as held for sale if its carrying amount will be largely recovered through a sale and not through use. The asset or disposal group must be available for immediate sale in its present condition and based on normal conditions. It must be highly probable that the sale will occur. A completed sale is expected to be recognised within one year. An independent business unit or a significant operation within a geographic area, or a subsidiary acquired exclusively with a view to resale, are also recognised as discontinued operations.

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. There were no non-current assets held for sale at the end of 2017 or 2018.

20. Operating segments

The Group reports operating segments in compliance with IFRS 8, which means that the segment report reflects the information that the Group's Executive Team receives. The Managing Director of the Group has been identified as the chief operating decision maker. The Group reports its various business areas as operating segments. A business area is a group of departments and companies that provide products or services that have risks and rewards that diverge from other business areas. Intra-Group transactions take place at market prices.

21. Cash and cash equivalents

"Cash and cash equivalents" refers to cash and deposits in the Finnish and Swedish central banks that may be used freely. "Deposits" refers to funds that are available at any time. This means that all cash and cash equivalents are immediately usable. Cash and cash equivalents in the cash flow statement are defined in compliance with IAS 7 and do not coincide with what the Group regards as cash and cash equivalents.

22. Significant judgements and estimation uncertainty

Preparation of financial statements in compliance with IFRSs requires the Executive Team to make judgements and estimates that affect the application of accounting principles and the recognised amounts of assets and liabilities, income and expenses as well as disclosures about commitments. Although these judgements and estimates are based on the best knowledge of the Executive Team about current events and measures at the time of the judgement, the actual outcome may diverge from these judgements and estimates. Significant accounting judgements that were made when applying the Group's accounting principles were primarily related to impairment losses on loans and receivables. The sources of uncertainty which may lead to substantial adjustments in the following year's financial reports are described below.

MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

Loans and accounts receivable that are defined as belonging in Stage 3 undergo impairment testing regularly and individually for each receivable. Exposures that are subject to individual testing are identified on the basis of background data covering customers with defaulting commitments or commitments that will probably default during a given quarter. If necessary, the receivable is written down to its estimated recoverable value. This estimated recoverable value is based on an assessment of the counterparty's financial repayment ability and assumptions about the sale value of any collateral.

For those concentrations that do not need an impairment loss, according to an individual assessment, impairment losses are recognised using a model based on expected credit loss (ECL). The model, which consists of three stages, focuses on changes in the credit risk of financial assets. An assessment by the Executive Team may be required, especially concerning information that affects the calculation of expected loan losses such as earlier events, current circumstances and reasonable, verifiable forecasts of future economic conditions that may affect future expected cash flows. For further information, see Note G13.

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets. For further information, see Note G42.

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

To determine the fair value of financial instruments, judgements are made that may have a significant impact on the recognised amounts. The judgements referred to include the choice of measurement techniques, judgements on whether markets are active and on what market parameters can be observed. When employing measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible the Executive Team is required to make estimates in order to determine fair value.

If the fair value of financial instruments cannot be obtained from quotations in an active market, they are calculated with the aid of various measurement techniques, including mathematical models. The Executive Team assesses what market quotations are most suitable and what mathematical models shall be applied in the Group. For further information, see Note G17.

APPRAISAL OF INVESTMENT PROPERTIES AND PROPERTIES FOR OWN USE

The Executive Team carries out a yearly review of the values of investment properties and properties for the Group's own use to determine whether there is any indication of impairment. If such an indication occurs, the recoverable amount is determined as the higher of the sales price and the value in use of the asset. An impairment loss is then recognised in the income statement if the carrying amount exceeds the recoverable amount. Estimates of the values of the assets are made by independent outside appraisers. For further information, see Note G26.

MEASUREMENT OF DEFERRED TAX

A deferred tax asset is recognised for identified taxable losses to the extent that it is probable that future taxable income will arise. The Executive Team regularly assesses when deferred tax should be recognised in the consolidated financial statements, based on expected future earnings performance. On every closing day, an assessment is made as to whether recognising a deferred tax is justified, based on the size of expected future taxable income. For further information, see Note G29.

SHARE-BASED PAYMENT

When calculating the recognised expense of share-based payment in accordance with the Group's compensation policy, the Executive Team estimates how many shares will be allocated to employees. The expense is based on the fair value of the shares at the moment they are distributed. For further information, see Note G11.

G3. Transition to IFRS 9

IAS 39 reported as of December 31, 2017

Transitional effects that have arisen concerning classification and measurement of financial instruments in connection with the transition to IFRS 9.

	Fair value via other comprehensive income	Fair value via income statement			Amortised cost			
EUR M	Assets available for sale	Held for trading	Hedge accouting	Other	Investments held to maturity	Loans and other accounts receivable	Other	Total carrying amount
Assets								
Cash and cash equivalents						523,801		523,801
Debt securities eligible for refinancing with central banks	414,739		70,233	9,925	138,892			633,789
Receivables from credit institutions						92,984		92,984
Receivables from the public and public sector entities			55,889	32,234		3,890,519		3,978,642
Shares and participations	531							531
Derivative instruments		6,818	14,551	54				21,424
Accrued interest income							8,642	8,642
Receivables on mutual fund settlement proceeds							8,958	8,958
Total	**415,270**	**6,818**	**140,673**	**42,213**	**138,892**	**4,507,304**	**17,601**	**5,268,772**
Liabilities								
Liabilities to credit institutions							206,392	206,392
Liabilities to the public							3,148,117	3,148,117
Debt securities issued			754,777				844,741	1,599,518
Derivative instruments		6,501	14,899	1,162				22,562
Subordinated liabilities			7,794				25,209	33,003
Provisions							1,031	1,031
Accrued interest expenses							5,921	5,921
Liabilities on mutual fund settlement proceeds							19,330	19,330
Total		**6,501**	**777,470**	**1,162**			**4,250,740**	**5,035,873**

IFRS 9 restated as of January 1, 2018

		Fair value via other comprehensive income		Fair value via income statement			Amortised cost				
EUR M	Restatement due to IFRS 9	Investments held to maturity and available for sale	Hedge accouting	Held for trading	Hedge accouting	Equity instruments	Investments held to maturity	Loans and other accounts receivable	Hedge accouting	Other	Total carrying amount
Assets											
Cash and cash equivalents								523,801			523,801
Debt securities eligible for refinancing with central banks	−56	414,739	70,233	9,925			138,836				633,733
Receivables from credit institutions								92,984			92,984
Receivables from the public and public sector entities	−3,572							3,888,404	86,667		3,975,071
Shares and participations						531					531
Derivative instruments				6,818	14,605						21,424
Accrued interest income										8,642	8,642
Receivables on mutual fund settlement proceeds										8,958	8,958
Total	**−3,628**	**414,739**	**70,233**	**16,743**	**14,605**	**531**	**138,836**	**4,505,190**	**86,667**	**17,601**	**5,265,144**
Liabilities											
Liabilities to credit institutions										206,392	206,392
Liabilities to the public										3,148,117	3,148,117
Debt securities issued									754,777	844,741	1,599,518
Derivative instruments				6,501	16,061						22,562
Subordinated liabilities									7,794	25,209	33,003
Provisions	243									1,273	1,273
Accrued interest expenses										5,921	5,921
Liabilities on mutual fund settlement proceeds										19,330	19,330
Total	**243**			**6,501**	**16,061**				**762,572**	**4,250,983**	**5,036,116**

G4. Segment report	2018						
	Private Banking	Premium Banking	Asset Management	IT	Corporate and other	Eliminations	Total
Net interest income	24,567	26,410	7	−58	3,608	−9	54,526
Net commission income	28,102	11,868	9,966	−64	463	217	50,554
Net income from financial items carried at fair value	2,031	454	−12	−37	2,764	−18	5,181
IT income	0	0	0	32,456	0	−16,090	16,366
Other income	106	228	153	516	1,494	−1,483	1,014
Total income	**54,806**	**38,960**	**10,115**	**32,814**	**8,330**	**−17,383**	**127,641**
Staff costs	−10,435	−6,506	−4,908	−16,144	−19,077	0	−57,070
Other expenses	−6,179	−4,711	−2,200	−11,683	−23,111	14,451	−33,434
Depreciation/amortisation and impairment losses on intangible and tangible assets	−233	−403	−27	−3,056	−5,381	1,794	−7,306
Internal allocation of expenses	−20,425	−17,097	−1,567	0	39,089	0	0
Total expenses	**−37,273**	**−28,718**	**−8,702**	**−30,883**	**−8,480**	**16,244**	**−97,811**
Profit before impairment losses	**17,533**	**10,242**	**1,413**	**1,930**	**−150**	**−1,139**	**29,830**
Impairment losses on loans and other commitments	132	−383	0	0	−590	0	−841
Net operating profit	**17,665**	**9,860**	**1,413**	**1,930**	**−740**	**−1,139**	**28,990**
Income taxes	−3,635	−2,019	−278	−353	227	0	−6,058
Non-controlling interests	0	0	0	0	0	0	0
Profit for the period attributable to shareholders in Bank of Åland Plc	**14,030**	**7,840**	**1,135**	**1,577**	**−513**	**−1,139**	**22,931**
Net commission income							
Deposits	72	446	0	0	294	0	813
Lending	608	2,368	0	0	8	0	2,984
Payment intermediation	619	2,911	0	0	3,320	0	6,850
Mutual fund commissions	8,029	3,778	41,217	0	626	−12,388	41,263
Asset management commissions	10,609	628	1,824	0	−7	−1,790	11,264
Securities brokerage	11,145	516	0	0	49	0	11,711
Other commissions	577	2,650	0	0	489	−64	3,653
Total commission income	**31,658**	**13,299**	**43,041**	**0**	**4,780**	**−14,242**	**78,537**
Commission expenses	−3,556	−1,431	−33,075	−64	−4,317	14,459	−27,983
Total net commission income	**28,102**	**11,868**	**9,966**	**−64**	**463**	**217**	**50,554**
Business volume, December 31							
Receivables from the public and public sector entities	1,738,756	2,280,362	0	0	24,869	−22,333	4,021,654
Deposits from the public	1,717,162	1,550,799	13,011	0	44,647	−22,073	3,303,546
Actively managed assets	3,107,455	325,361	5,177,112	0	1,115	−3,433,931	5,177,112
Risk exposure amount	625,082	645,388	44,671	42,722	219,723	0	1,577,587
Shareholders' portion of equity capital	74,988	91,322	6,736	13,898	55,426	0	242,370
Financial ratios etc.							
Return on equity (ROE), %	18.0	8.7	17.9	12.2	−1.1		9.8
Expense/income ratio	0.68	0.74	0.86	0.94	1.02		0.77

	2017						
	Private Banking	Premium Banking	Asset Management	IT	Corporate and other	Eliminations	Total
Net interest income	26,508	24,721	10	−86	4,755	−8	55,901
Net commission income	28,219	11,750	9,776	−86	−131	191	49,719
Net income from financial items carried at fair value	765	621	56	−57	1,721	5	3,110
IT income	0	0	0	33,272	0	−15,627	17,646
Other income	151	40	6	477	1,726	−769	1,631
Total income	**55,642**	**37,131**	**9,848**	**33,519**	**8,072**	**−16,207**	**128,006**
Staff costs	−11,103	−6,983	−4,920	−16,271	−20,551	0	−59,827
Other expenses	−5,387	−4,324	−1,848	−12,483	−22,464	13,634	−32,872
Depreciation/amortisation and impairment losses on intangible and tangible assets	−233	−654	−10	−3,391	−4,410	1,573	−7,125
Internal allocation of expenses	−19,697	−17,299	−1,362	0	38,357	0	0
Total expenses	**−36,419**	**−29,259**	**−8,141**	**−32,145**	**−9,068**	**15,207**	**−99,825**
Profit before impairment losses	**19,224**	**7,872**	**1,707**	**1,374**	**−996**	**−1,000**	**28,181**
Impairment losses on loans and other commitments	88	−2,252	0	0	18	0	−2,146
Net operating profit	**19,312**	**5,620**	**1,707**	**1,374**	**−978**	**−1,000**	**26,036**
Income taxes	−3,959	−1,152	−351	−267	398	0	−5,330
Non-controlling interests	0	0	0	−1	0	0	−1
Profit for the period attributable to shareholders in Bank of Åland Plc	**15,353**	**4,468**	**1,357**	**1,106**	**−580**	**−1,000**	**20,704**
Net commission income							
Deposits	71	434	0	0	282	0	788
Lending	926	2,542	0	0	0	−2	3,467
Payment intermediation	628	2,915	0	0	2,828	0	6,371
Mutual fund commissions	8,765	3,648	32,302	0	520	−11,833	33,402
Asset management commissions	10,306	671	2,153	0	−22	−2,065	11,043
Securities brokerage	11,185	504	−23	0	37	0	11,703
Other commissions	488	2,491	0	0	480	−72	3,387
Total commission income	**32,370**	**13,205**	**34,433**	**0**	**4,125**	**−13,973**	**70,161**
Commission expenses	−4,152	−1,456	−24,657	−86	−4,256	14,164	−20,442
Total net commission income	**28,219**	**11,750**	**9,776**	**−86**	**−131**	**191**	**49,719**
Business volume, December 31							
Receivables from the public and public sector entities	1,788,629	2,181,452	0	0	30,205	−21,643	3,978,642
Deposits from the public	1,663,859	1,466,360	1,458	0	25,334	−8,896	3,148,117
Actively managed assets	3,081,124	339,887	5,736,521	0	54	−3,421,065	5,736,521
Risk exposure amount	653,029	620,233	11,373	44,343	208,739	0	1,537,718
Shareholders' portion of equity capital	73,345	86,439	1,589	11,118	61,133	0	233,623
Financial ratios etc.							
Return on equity after taxes (ROE), %	20.8	5.1	81.3	10.0	−1.0		9.1
Expense/income ratio	0.65	0.79	0.83	0.96	1.12		0.78

The Bank of Åland Group reports operating segments in compliance with IFRS 8, which means that operating segments reflect the information that the Group's Executive Team receives.

"Private Banking" encompasses Private Banking operations in Åland, on the Finnish mainland and in Sweden. "Premium Banking" encompasses operations in all customer segments excluding private banking in Åland, on the Finnish mainland and in Sweden. "Asset Management" encompasses Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab, Ålandsbanken Fonder II Ab and the Bank's institutional sales organisation. "IT" encompasses the subsidiary Crosskey Banking Solutions Ab Ltd including S-Crosskey Ab. "Corporate and Other" encompasses all central corporate units in the Group, including Treasury and the subsidiary Ab Compass Card Oy Ltd.

Historical figures have been restated, since the model for dividing all offices into Premium and Private Banking has been developed.

G5. Product areas

	2018					
	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	8,253	45,058	0	−58	1,273	54,526
Net commission income	5,762	3,496	41,265	−64	94	50,554
Net income from financial items carried at fair value	2,492	0	0	−37	2,726	5,181
IT income	0	0	0	16,366	0	16,366
Other income	0	0	0	516	498	1,014
Total income	**16,508**	**48,554**	**41,265**	**16,724**	**4,590**	**127,641**

	2017					
	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	8,607	44,611	19	−86	2,751	55,901
Net commission income	5,106	3,555	41,701	−86	−557	49,719
Net income from financial items carried at fair value	1,412	0	0	−57	1,754	3,110
IT income	0	0	0	17,646	0	17,646
Other income	0	0	0	169	1,462	1,631
Total income	**15,125**	**48,165**	**41,720**	**17,585**	**5,411**	**128,006**

Daily banking services included net interest income from all deposit accounts, i.e. also savings accounts, time deposits and cash accounts connected to securities accounts, net commission income from deposits, cashier and payment intermediate services, cards, the Premium concept, bank safety deposit boxes etc. plus income from exchanging currencies. This includes all income from Ab Compass Card Oy Ltd.

Financing services consisted of net interest income from all lending products, i.e. also securities account loans, as well as lending commissions and guarantee commissions.

Investment services included income from discretionary asset management, advisory asset management, fund management, securities brokerage and structured products. Income from deposit accounts and loans that may be part of a customer's asset management were reported under daily banking services and financing services, respectively.

IT services included the operations of Crosskey Banking Solutions Ab Ltd.

G6. Geographic distribution

	2018			2017		
	Finland	Sweden	Total	Finland	Sweden	Total
Net interest income	33,908	20,617	54,526	33,428	22,473	55,901
Net commission income	39,820	10,734	50,554	39,177	10,542	49,719
Net income from financial items carried at fair value	3,533	1,648	5,181	2,331	779	3,110
IT income	15,110	1,257	16,366	15,917	1,729	17,646
Other income	810	204	1,014	1,358	274	1,631
Total income	**93,181**	**34,460**	**127,641**	**92,210**	**35,796**	**128,006**
Staff costs	−42,986	−14,084	−57,070	−42,925	−16,902	−59,827
Other expenses	−18,992	−14,443	−33,434	−17,338	−15,534	−32,872
Depreciation/amortisation	−5,839	−1,467	−7,306	−5,982	−1,143	−7,125
Total expenses	**−67,817**	**−29,994**	**−97,811**	**−66,245**	**−33,580**	**−99,825**
Profit before impairment losses	**25,364**	**4,466**	**29,830**	**25,965**	**2,216**	**28,181**
Impairment losses on loans and other commitments	−858	18	−841	−2,149	3	−2,146
Net operating profit	**24,506**	**4,484**	**28,990**	**23,816**	**2,220**	**26,036**
Income taxes	−5,121	−937	−6,058	−4,876	−454	−5,330
Non-controlling interests	0	0	0	−1	0	−1
Profit for the period attributable to shareholders in Bank of Åland Plc	**19,384**	**3,547**	**22,931**	**18,939**	**1,765**	**20,704**
Business volume, December 31						
Receivables from the public and public sector entities	2,743,015	1,278,639	4,021,654	2,698,455	1,280,187	3,978,642
Deposits from the public	2,351,085	952,461	3,303,546	2,320,561	827,556	3,148,117
Actively managed assets	2,994,579	2,182,534	5,177,112	3,245,634	2,490,887	5,736,521
Risk exposure amount	1,021,470	556,116	1,577,587	943,034	594,683	1,537,718
Allocated equity capital	194,361	48,009	242,370	189,591	44,032	233,623
Financial ratios etc.						
Return on equity (ROE), %	10.5	7.0	9.8	10.0	6.4	9.1
Expense/income ratio	0.73	0.87	0.77	0.73	0.90	0.78

G7. Net interest income	2018			2017		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Receivables from credit institutions and central banks	561,220	−909	−0.16	652,253	−1,044	−0.16
of which negative interest [1]		−1,147			−1,309	
Receivables from the public and public sector entities	3,981,795	61,888	1.55	3,903,735	63,741	1.63
of which negative interest [1]		−55			−25	
Debt securities	688,480	679	0.10	574,043	518	0.09
Interest-bearing assets	**5,231,495**	**61,657**	**1.18**	**5,130,030**	**63,215**	**1.23**
Derivative instruments	18,186	644		19,362	953	
Other assets	139,651	4		156,528	4	
Total assets	**5,389,331**	**62,305**		**5,305,920**	**64,172**	
of which negative interest [1]		−1,202			−1,334	
Liabilities to credit institutions and central banks	214,942	−510	−0.24	220,506	−472	−0.21
of which negative interest [1]		−584			−527	
Liabilities to the public	3,131,828	3,283	0.10	3,123,881	3,767	0.12
of which negative interest [1]		−376			−68	
Debt securities issued	1,605,055	2,761	0.17	1,524,329	2,949	0.19
varav negativa räntor [1]		−486			−393	
Subordinated liabilities	41,466	1,201	2.90	35,380	994	2.81
Interest-bearing liabilities	**4,993,292**	**6,735**	**0.13**	**4,904,096**	**7,238**	**0.15**
Derivative instruments	17,697	986		27,423	952	
Other liabilities	144,053	58		147,566	82	
Total liabilities	**5,155,042**	**7,780**		**5,079,086**	**8,271**	
Total equity capital	234,289			226,834		
Total liabilities and equity capital	**5,389,331**			**5,305,920**		
of which negative interest [1]		−1,446			−988	
Net interest income		**54,526**			**55,901**	
Interest margin			1.04			1.08
Investment margin			1.01			1.05

Interest from derivative instruments is recognised together with the item that they hedge within the framework of hedge accounting (fair value hedging and cash flow hedging) and the fair value option.

Interest margin is interest on interest-bearing assets divided by the average balance of liabilities. Average balance is calculated as the average of 13 end-of-month figures.

Investment margin is net interest income divided by the balance sheet total.

[1] Negative interest income from financial investments is recognised in the above note as interest income, while negative interest received for liabilities is recognised as interest expenses. In the income statement, negative interest income is recognised as interest expenses, while negative interest received is recognised as interest income.

G8. Net commission income	2018	2017
Deposits	813	788
Lending	2,984	3,467
Payment intermediation	6,850	6,371
Mutual fund commissions	41,263	33,402
Asset management commissions	11,264	11,043
Securities brokerage	11,711	11,703
Insurance commissions	253	63
Legal services	821	847
Guarantee commissions	512	473
Other commissions	2,066	2,004
Total commission income	**78,537**	**70,161**
Payment commission expenses	−4,024	−3,768
Mutual fund commission expenses	−20,562	−12,702
Asset management commission expenses	−941	−737
Securities brokerage commission expenses	−1,793	−2,400
Other commission expenses	−663	−835
Total commission expenses	**−27,983**	**−20,442**
Net commission income	**50,554**	**49,719**

G9. Net income from financial items carried at fair value	2018			2017		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement (“profit and loss”)						
Debt securities	0	−106	−106	0	−158	−158
Shares and participations	0	0	0	57	0	57
Derivative instruments	104	−108	−5	−41	960	919
Loan receivables [1]	0	0	0	0	−1,329	−1,329
Valuation category fair value via the income statement (“profit and loss”)	**104**	**−214**	**−110**	**16**	**−527**	**−511**
Hedge accounting						
of which hedging instruments	8	17	25	364	−7,026	−6,662
of which hedged item	0	414	414	0	7,292	7,292
Hedge accounting	**8**	**431**	**439**	**364**	**266**	**630**
Net income from foreign exchange dealing	**3,741**	**341**	**4,082**	**1,506**	**1,498**	**3,004**
Net income from financial assets measured via other comprehensive income [2]	**856**	**−86**	**770**	**−12**	**−2**	**−14**
Total	**4,709**	**472**	**5,181**	**1,874**	**1,236**	**3,110**

[1] Fixed interest loans, which were previously recognised within the fair value option, have been reclassified due to the transition to IFRS 9 and are recognised starting on January 1, 2018 as part of fair value hedging.

[2] Unrealised income for 2018 related to ”Net income from financial assets measured via other comprehensive income” includes expected credit losses of EUR 63 K.

G10. Other income	2018	2017
Income from equity capital investments	1	177
Net income from investment properties	84	−40
Rental income on properties	64	77
Miscellaneous income	808	1,348
Total	**957**	**1,563**
Specification of net income from investment properties		
Rental income	11	11
Capital gains	107	0
Impairment losses	0	−19
Other expenses	−33	−31
Total	**84**	**−40**

G11. Staff costs			2018			2017
Salaries and fees			44,076			45,619
Compensation in the form of shares in Bank of Åland Plc			163			129
Pension expenses			7,808			8,267
Other social security expenses			5,023			5,814
Total			**57,070**			**59,827**
of which variable staff costs			2,097			1,947
of which staff outplacement expenses			608			1,941

Variable staff costs and staff outplacement expenses are reported including social insurance fees.

Salaries and fees		
Boards of Directors	381	382
Senior executives	2,437	2,498
Others	41,421	42,867
Total	**44,239**	**45,747**

"Boards of Directors" refers to all Board members of Group companies. "Senior executives" refers to the Group's Executive Team and to the Managing Director and Deputy Managing Directors of subsidiaries.

Salaries and fees to senior executives		
Salaries and fees	2,339	2,422
Share-based payment	98	77
Total	**2,437**	**2,498**
Pension expenses		
Senior executives	62	67
Managing Director	408	377
Others	7,337	7,823
Total	**7,808**	**8,267**
Pension expenses		
Defined benefit plan	913	881
Defined contribution plan	6,895	7,385
Total	**7,808**	**8,267**

	Men	Women	Total	Men	Women	Total
Number of employees						
Åland	225	230	455	227	209	436
Finnish Mainland	72	97	169	80	101	181
Sweden	96	60	156	104	69	173
Total	**393**	**387**	**780**	**411**	**379**	**790**

Hours worked, recalculated to full-time equivalent positions		
Bank of Åland Plc	429	432
Crosskey Banking Solutions Ab Ltd	228	229
Ab Compass Card Oy Ltd	9	9
Ålandsbanken Fondbolag Ab	25	22
Total number of positions, recalculated from hours worked	**690**	**691**

	Men	Women	Men	Women
Gender breakdown, per cent				
Board of Directors	71	29	75	25
Senior executives	83	17	82	18

"Board of Directors" refers to the Board of the Bank of Åland Plc.

	2018				2017			
	Managing Director	Senior executives	Risk-takers	Others	Managing Director	Senior executives	Risk-takers	Others
Total compensation								
Fixed compensation earned	296	1,784	10,499	29,928	305	1,834	12,325	29,685
Provisions for pensions	62	408	1,949	5,388	67	377	2,360	5,463
Variable compensation earned	77	282	1,294	79	96	263	1,214	24
Total	**436**	**2,475**	**13,742**	**35,395**	**468**	**2,474**	**15,899**	**35,173**
of which postponed variable compensation	31	49	196	0	38	23	186	0
of which variable compensation paid	46	234	1,098	79	58	240	1,029	24
Number of persons who received only fixed compensation	0	5	73	737	0	7	109	746
Number of persons who received both fixed and variable compensation	1	7	64	47	1	8	62	16
Total	**1**	**12**	**137**	**784**	**1**	**15**	**171**	**762**
Postponed variable compensation, January 1	216	613	776	0	178	614	808	0
Variable compensation postponed during the year	31	49	196	0	38	23	186	0
Disbursed during the year	−37	−122	−152	0	0	−27	−45	0
Adjusted during the year	0	−9	3	0	0	3	−172	0
Postponed variable compensation, December 31	**211**	**531**	**823**	**0**	**216**	**613**	**776**	**0**

	2018	2017
2015–2016 share savings programmes		
2015 programme		
Recognised expense related to payment in the form of shares in the Bank of Åland Plc	151	213
Recognised expense for social security fees related to share-based portion	6	13
2016 programme		
Recognised expense related to payment in the form of shares in the Bank of Åland Plc	183	187
Recognised expense for social security fees related to share-based portion	7	9
Total recognised expense	**347**	**422**

CONDITIONS AND COMPENSATION

General

The Bank's compensation system shall be compatible with the Group's corporate strategy, goals and values, as well as being compatible with and promoting good, effective risk management. The compensation system shall be constructed in such a way that it does not counteract the long-term interests of the Group. An analysis is carried out to determine how the compensation system affects the financial risks that the Bank is subjected to and the management of these risks. There shall be a suitable balance between fixed and variable compensation. The Group's total compensation for a single earning period shall not build up and reward risks that may jeopardise the long-term interests of the Group.

The Bank has an earnings-based compensation system including the Managing Director and the rest of the Executive Team. There are also separate earnings-based compensation systems for employees in the Group's business areas. Earnings-based compensation for a single individual may not exceed an amount equivalent to 12 monthly salaries per financial year.

Board of Directors

The fees of the Board members are established by the General Meeting. During the period from the 2018 Annual General Meeting to the end of the 2019 Annual General Meeting, the members of the Board receive an annual fee as well as a fee for each Board and Committee meeting attended. The Chairman of the Board receives an annual fee of EUR 30,000, and the Deputy Chairman receives an annual fee of EUR 28,000. Other Board members each receive an annual fee of EUR 26,000. In addition, Board members are paid a meeting fee for each Board meeting they attend. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members per meeting attended. Each member of a Board committee is paid EUR 750 per committee meeting attended. The chairman of each respective committee receives a meeting fee of EUR 1,000 per committee meeting attended. The members of the Bank's Board of Directors are not included in share-based compensation systems.

Managing Director

The Managing Director receives a monthly salary of EUR 24,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2018, the Managing Director was paid compensation totalling EUR 405,116 including fringe benefits and variable compensation. Of the variable compensation paid in 2018, EUR 47,060 was paid in cash and EUR 48,120 in Bank shares, in compliance with external regulations.

He will receive a pension in accordance with the Finnish national pension system. He is not entitled to a supplementary pension in addition to the statutory public pension. The notice period in case of resignation initiated by the Managing Director is nine (9) months. During this notice period, he will receive a regular monthly salary. According to his employment contract, the Managing Director is entitled to severance pay totalling nine (9) months' salary in case of dismissal by the Bank. Upon resignation, the Managing Director is not entitled to any other compensation.

Senior executives

Compensation to other members of the Executive Team is paid as a fixed individual monthly salary plus generally applicable employment benefits at the Bank. The other members of the Executive Team are not covered by any supplementary pension arrangement. Due to a divergent pension system in Sweden, the Bank has obtained defined contribution-based supplementary pension insurance for members of the Executive Team residing in Sweden, with a retirement age of 65.

Disclosures concerning earnings-based (variable) compensation and share-based compensation systems

Earnings-based compensation for risk-takers[1] is paid in its entirety when the compensation is set, if the actual compensation sum for a single individual amounts to a maximum of EUR 50,000. If the compensation exceeds EUR 50,000, disbursal of at least 40 per cent of earnings-based compensation shall be postponed by at least three years (vesting period). If the earnings-based compensation for an individual amounts to an especially large percentage of total fixed and earnings-based compensation, the disbursal of at least 60 per cent of the earnings-based compensation is postponed in a similar way. Since the Bank of Åland Plc is a listed company, at least 50 per cent of the earnings-based compensation is paid in the Bank's shares. Since Ålandsbanken Fondbolag Ab is a fund management company, at least 50 per cent of variable compensation to risk-takers must be paid in fund units. The allocated shares/fund units must be held for at least 12 months (deferral period) before the recipient of the compensation may have access to them. The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual. The Bank is entitled to abstain from disbursing postponed earning-based compensation if the Group's financial position has substantially deteriorated.

Share savings programmes

Since 2015 the Bank of Åland has had two ongoing share savings programmes that encompass all Group employees. The programmes consist of share-based payment that is delayed by 3 years. The share-based payment is allocated in the form of performance rights (future shares in the Bank of Åland Plc) for those participants who still have their share savings in a specially designated custody account at the close of the share savings programme. The objective of the programme is to further strengthen employee motivation, participation and long-term affinity with the Group by offering all employees the opportunity to obtain shares in the Bank on favourable terms. In September 2018 the Bank of Åland issued new Series B shares to fulfil its obligations as part of the first share savings programme that began in 2015.

For information on the number of shares connected to variable compensation programmes, see the section entitled "Facts on Bank of Åland shares".

[1] "Risk-takers" in the Bank's compensation policy documents refers to staff members who are regarded as having a significant impact on the Bank's risk profile. The Bank has established qualitative and quantitative criteria for the purpose of identifying those employees who have a significant impact on the Bank's risk profile.

G12. Other expenses	2018	2017
IT expenses (excluding market data)	10,943	12,546
Rents	3,924	4,070
Other costs of premises and property	1,293	1,501
Marketing expenses	2,167	2,071
Market data	2,336	2,206
Staff-related expenses	2,132	2,407
Travel expenses	1,214	1,347
Purchased services	2,223	2,330
Guarantee fee [1]	4	21
Stability fee	2,552	859
Other expenses	6,961	6,533
Production for own use	−2,314	−3,019
Total	**33,434**	**32,872**

[1] "Guarantee fee" includes the deposit guarantee fee and the fee for the investor compensation fund.

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,042	1,519
Paid by old deposit guarantee fund	−1,042	−1,519
Stability fee	2,552	1,391
Refund of banking taxes paid in prior years		−532
Administration fee	30	31
Total	**2,582**	**890**

Based on the 2018 fee level, the Bank has prepaid deposit guarantee fees for about 15 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	358	338
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	13	19
Tax matters		50
Other	139	61
Total	**510**	**467**

These amounts include value-added tax (VAT).

G13. Impairment losses on financial assets	2018 (IFRS 9)					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Receivables from the public and public sector entities	9,181	−8,255	−2,084	2,427	−306	963
Off-balance sheet obligations	187	−365	0	0	0	−177
Debt securities	91	−36	0	0	0	55
Total expected loan losses	**9,460**	**−8,656**	**−2,084**	**2,427**	**−306**	**841**
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	240	−177				63
Total expected loan losses via other comprehensive income	**240**	**−177**	**0**	**0**	**0**	**63**

Expected credit (loan) losses via other comprehensive income are recognised in the income statement under "Net gains and losses from financial items at fair value".

	2017 (IAS 39)							
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual loss	Net provision in the period for receivables assessed by group	Other provisions	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations								
Receivables from the public and public sector entities	2,584	−529	−4,354	4,929	−569	82	3	2,146
Off-balance sheet obligations	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Total expected loan losses	**2,584**	**−529**	**−4,354**	**4,929**	**−569**	**82**	**3**	**2,146**

	2018 (IFRS 9)				2017 (IAS 39)		
	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total
Change in impairment loss reserve							
Reserve on January 1	12,479	243	56	12,778	10,763	1,819	12,581
New and increased individual impairment losses	9,181	187	91	9,460	2,584	82	2,666
Recovered from earlier provisions	−8,255	−365	−36	−8,656	−529		−529
Utilised for actual losses	−2,084	0	0	−2,084	−4,354		−4,354
Exchange rate differences	−12	−1		−13	0		0
Reserve on December 31	**11,308**	**65**	**111**	**11,485**	**8,464**	**1,901**	**10,365**
Transitional effects that arose in connection with the transition to IFRS 9					4,016	−1,901	2,115
Starting balance, January 1, 2018					**12,479**	**0**	**12,479**

	2018	2017
Receivables with forbearance measures		
Receivables from the public and public sector entities		
Receivables without defaulted amounts and receivables with defaulted amounted <30 days	26,856	26,006
Receivables with defaulted amounts <30 days	1,047	685
Defaulted receivables	1,232	2,826
Gross carrying amount	**29,135**	**29,517**

"Receivables with forbearance measures" refers to loan receivables for which the Bank has granted the borrower concessions because of his/her obviously worsened financial situation, in order to avoid problems with the borrower's repayment capacity and thereby maximise the repayment of the outstanding receivable. Concessions may include adjusted loan conditions, such as postponed principal repayments, a reduced interest margin or an extended repayment period, or refinancing, which may mean that a loan has been fully repaid close to its original due date and in connection with this has been replaced with a new loan. The carrying amount refers to gross exposures and includes not only restructured loans but also other loans in a customer entity.

G14. Income taxes	2018	2017
Income statement		
Taxes related to prior years	−23	−20
Current taxes	2,686	1,325
Changes in deferred taxes	3,395	4,025
Total	**6,058**	**5,330**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	0.4	0.5
Swedish tax rate 22%	0.5	0,0
Taxes related to prior years, %	−0.1	0.0
Other, %	0.0	0.0
Effective tax rate, %	**20.9**	**20.5**
Other comprehensive income		
Current taxes	434	224
Changes in deferred taxes	−343	−163
Total	**90**	**61**

G15. Earnings per share	2018	2017
Profit for the period attributable to shareholders	**22,931**	**20,704**
Average number of shares before dilution	15,452,680	15,329,878
Average dilution effect	78,215	112,111
Average number of shares after dilution	15,530,895	15,441,989
Earnings per share, EUR	**1.48**	**1.35**
Earnings per share after dilution, EUR	**1.48**	**1.34**

When calculating earnings per share, the average number of shares is calculated as a weighted average of shares outstanding during the period.

Notes to the consolidated balance sheet

G16. Classification of financial assets and liabilities	2018							
	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost			
	Held for trading	Hedge accounting	Hedge accounting[1]	Other	Hedge accounting[1]	Other	Total carrying amount	Fair value
Cash and deposits with central banks						506,897	506,897	506,897
Debt certificates eligible for refinancing with central banks			69,711	556,294		189,090	815,095	815,757
Receivables from credit institutions						80,202	80,202	80,202
Receivables from the public and public sector entities					99,992	3,921,662	4,021,654	4,035,304
Shares and participations				2,564			2,564	2,564
Shares and participations in associated companies						153	153	153
Derivative instruments	2,341	13,007					15,347	15,347
Accrued interest income						9,003	9,003	9,003
Receivables on mutual fund settlement proceeds						35,316	35,316	35,316
Total financial assets	**2,341**	**13,007**	**69,711**	**558,857**	**99,992**	**4,742,322**	**5,486,230**	**5,500,542**
Non-financial assets							71,561	
Total assets							**5,557,791**	

	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost			
2018	Held for trading	Hedge accounting	Hedge accounting[1]	Other	Hedge accounting[1]	Other	Total carrying amount	Fair value
Liabilities to credit institutions						250,334	250,334	250,334
Liabilities to the public						3,303,546	3,303,546	3,303,918
Debt securities issued					950,456	637,432	1,587,888	1,593,802
Derivative instruments	2,295	5,815					8,110	8,110
Subordinated liabilities					2,187	44,708	46,895	53,485
Accrued interest expenses						6,213	6,213	6,213
Liabilities on mutual fund settlement proceeds						15,948	15,948	15,948
Total financial liabilities	**2,295**	**5,815**			**952,643**	**4,258,180**	**5,218,934**	**5,231,811**
Non-financial liabilities							96,473	
Total liabilities							**5,315,407**	

[1] The interest component in the contract is subject to hedge accounting.

	Carried at fair value in income statement, divided into								
2017	Held for trading	Other	Hedge accounting	Financial assets available for sale	Investments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash and deposits with central banks						523,801		523,801	523,801
Debt certificates eligible for refinancing with central banks		9,925	70,233	414,739	138,892			633,789	634,313
Receivables from credit institutions						92,984		92,984	92,984
Receivables from the public and public sector entities		32,234	55,889			3,890,519		3,978,642	4,021,505
Shares and participations				531				531	531
Shares and participations in associated companies							119	119	119
Derivative instruments	6,735	44	14,644					21,424	21,424
Accrued interest income							9,443	9,443	9,443
Receivables on mutual fund settlement proceeds							8,938	8,938	8,938
Total financial assets	**6,735**	**42,203**	**140,766**	**415,270**	**138,892**	**4,507,304**	**18,500**	**5,269,672**	**5,313,059**
Non-financial assets								82,714	
Total assets								**5,352,386**	
Liabilities to credit institutions							206,392	206,392	206,604
Liabilities to the public							3,148,117	3,148,117	3,141,761
Debt securities issued			754,777				844,741	1,599,518	1,608,494
Derivative instruments	6,242	1,337	14,983					22,562	22,562
Subordinated liabilities			7,794				25,209	33,003	34,498
Accrued interest expenses							5,921	5,921	5,921
Liabilities on mutual fund settlement proceeds							19,330	19,330	19,330
Total financial liabilities	**6,242**	**1,337**	**777,554**	**0**	**0**	**0**	**4,249,710**	**5,034,843**	**5,039,170**
Non-financial liabilities								83,908	
Total liabilities								**5,118,751**	

G17. Measurement of financial assets and liabilities carried at fair value		2018		
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	626,005			626,005
Receivables from the public and public sector entities		99,992		99,992
Shares and participations	21	4	2,538	2,564
Derivative instruments		15,347		15,347
Total financial liabilities carried at fair value	**626,026**	**115,343**	**2,538**	**743,907**
Debt securities issued		953,456		953,456
Derivative instruments	0	8,110		8,110
Subordinated liabilities		2,187		2,187
Total financial liabilities carried at fair value	**0**	**963,754**	**0**	**963,754**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and deposits with central banks	506,897		506,897		506,897
Debt securities eligible for refinancing with central banks	189,090		189,752		189,752
Receivables from credit institutions	80,202		80,202		80,202
Shares in associated companies	153			153	153
Receivables from the public and public sector entities	3,921,662		3,935,312		3,935,312
Total financial assets at amortised cost	**4,698,004**	**0**	**4,712,163**	**153**	**4,712,316**
Liabilities					
Liabilities to credit institutions	250,334		250,334		250,334
Liabilities to the public	3,303,546		3,303,918		3,303,918
Debt securities issued	1,587,888		640,346		640,346
Subordinated liabilities	46,895		51,298		51,298
Total financial liabilities at amortised cost	**5,188,662**	**0**	**4,245,896**	**0**	**4,245,896**

		2017		
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	494,897			494,897
Receivables from the public and public sector entities		88,123		88,123
Shares and participations	23	4	504	531
Derivative instruments	0	21,424		21,424
Total financial liabilities carried at fair value	**494,920**	**109,551**	**504**	**604,975**
Debt securities issued		754,777		754,777
Derivative instruments	0	22,562		22,562
Subordinated liabilities		7,794		7,794
Total financial liabilities carried at fair value	**0**	**785,134**	**0**	**785,134**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and deposits with central banks	523,801		523,801		523,801
Debt securities eligible for refinancing with central banks	138,892		139,417		139,417
Receivables from credit institutions	92,984		92,984		92,984
Shares in associated companies	119			119	119
Receivables from the public and public sector entities	3,890,519		3,933,382		3,933,382
Total financial assets at amortised cost	**4,646,316**	**0**	**4,689,584**	**119**	**4,689,704**
Liabilities					
Liabilities to credit institutions	206,392		206,604		206,604
Liabilities to the public	3,148,117		3,141,761		3,141,761
Debt securities issued	844,741		853,717		853,717
Subordinated liabilities	25,209		26,812		26,812
Total financial liabilities at amortised cost	**4,224,458**	**0**	**4,228,894**	**0**	**4,228,894**

Level 1	Instruments with quoted market prices
Level 2	Measurement techniques based on observable market data
Level 3	Measurement techniques based on non-observable market data

	2018	2017
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	504	486
New purchases	2,135	
Divested/reached maturity during the year	−130	−4
Unrealised change in value in the income statement		−2
Unrealised foreign exchange valuation	11	
Change in value recognised in other comprehensive income	19	24
Carrying amount on December 31	**2,538**	**504**

No transfer between Level 1 and 2 has occurred.

Financial instruments for which there is price information that is easily available and that represent actual and frequently occurring transactions are measured at current market price. For financial assets, the current purchase price is used. For financial liabilities, the current sale price is used. The current market price of groups of financial instruments that are managed on the basis of the Bank's net exposure to market risk equals the current market price that would be received or paid if the net position were divested.

In the case of financial assets for which reliable market price information is not available, fair value is determined with the help of measurement models. Such models may, for example, be based on price comparisons, present value estimates or option valuation theory, depending on the nature of the instrument. The models use incoming data in the form of market prices and other variables that are deemed to influence pricing. The models and incoming data on which the measurements are based are validated regularly to ensure that they are consistent with market practices and generally accepted financial theory.

THE MEASUREMENT HIERARCHY

Financial instruments that are measured according to quoted prices in an active market for identical assets/liabilities are categorised as Level 1. Financial instruments that are measured using measurement models that are, in all essential respects, based on market data are categorised as Level 2. Financial instruments that are measured with the help of models based on incoming data that cannot be verified with external market information are categorised in Level 3. These assets essentially consist of unlisted shares. Such equity capital holdings for which the Bank of Åland, on the initial recognition date or upon transition to IFRS, has made an irrevocable choice to recognise subsequent changes in fair value under other comprehensive income.

In the above tables, financial instruments measured at fair value have been classified with regard to how they have been measured and the degree of market data used in this measurement on closing day. If the classification on closing day has changed, compared to the classification at the end of the previous year, the instrument has been moved between the levels in the table. During 2018, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

G18. Assets and liabilities by currency

2018	EUR	SEK	USD	Others	Total
Cash and cash equivalents	412,136	94,523	52	187	506,897
Debt securities eligible for refinancing with central banks	501,315	286,998	21,748	5,034	815,095
Receivables from credit institutions	25,512	32,539	12,775	9,377	80,202
Receivables from the public	2,717,182	1,280,158	24,313	0	4,021,654
Derivative instruments	14,583	750	2	13	15,347
Other items not allocated by currency	118,596				118,596
Total assets	**3,789,323**	**1,694,968**	**58,890**	**14,610**	**5,557,791**
Liabilities to credit institutions	178,779	71,553	0	1	250,334
Liabilities to the public	2,206,804	1,003,099	61,697	31,946	3,303,546
Debt securities issued	1,051,819	536,069	0	0	1,587,888
Derivative instruments	7,357	747	5	2	8,110
Subordinated liabilities	27,392	19,503	0	0	46,895
Other items not allocated by currency, including equity capital	361,018				361,018
Total liabilities and equity capital	**3,833,169**	**1,630,971**	**61,702**	**31,949**	**5,557,791**
Other assets and liabilities allocated by currency as well as off-balance sheet items		64,024	−2,800	−17,410	
Net position in currencies (EUR)		−26	−13	71	32

2017	EUR	SEK	USD	Others	Total
Cash and cash equivalents	473,487	50,095	46	174	523,801
Debt securities eligible for refinancing with central banks	476,837	136,269	20,683	0	633,789
Receivables from credit institutions	16,207	31,065	15,790	29,923	92,984
Receivables from the public	2,671,666	1,282,144	24,832	0	3,978,642
Derivative instruments	17,501	3,917	0	6	21,424
Other items not allocated by currency	101,746				101,746
Total assets	**3,757,443**	**1,503,489**	**61,351**	**30,103**	**5,352,386**
Liabilities to credit institutions	141,219	63,106	458	1,608	206,392
Liabilities to the public	2,154,753	892,807	65,554	35,003	3,148,117
Debt securities issued	962,952	636,566	0	0	1,599,518
Derivative instruments	11,359	11,168	1	35	22,562
Subordinated liabilities	33,003	0	0	0	33,003
Other items not allocated by currency, including equity capital	342,794				342,794
Total liabilities and equity capital	**3,646,081**	**1,603,647**	**66,014**	**36,646**	**5,352,386**
Other assets and liabilities allocated by currency as well as off-balance sheet items		−100,135	−4,701	−6,563	
Net position in currencies (EUR)		−22	39	21	38

G19. Holdings of debt securities

	2018		
	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks			
Holdings at fair value via other comprehensive income			
Government bonds	21,834	21,748	0
Covered mortgage bonds	363,695	368,791	89
Debt securities issued by credit institutions	179,204	181,352	101
Other debt securities	53,256	54,113	10
Holdings at amortised cost			
Government bonds	15,363	16,004	1
Covered mortgage bonds	119,941	122,471	34
Debt securities issued by credit institutions	31,326	31,649	69
Other debt securities	19,000	18,966	8
Total	**803,620**	**815,095**	**311**

	2017	
	Nominal amount	Carrying amount
Debt securities eligible for refinancing with central banks		
Assets held for trading		
Covered mortgage bonds	45,200	45,506
Debt securities issued by credit institutions	29,800	31,585
Other debt securities	3,000	3,067
Holdings available for sale		
Government bonds	58,525	54,400
Covered mortgage bonds	227,476	230,993
Debt securities issued by credit institutions	122,106	124,271
Other debt securities	5,000	5,074
Assets held until maturity		
Government bonds	5,587	6,437
Covered mortgage bonds	91,800	93,241
Debt securities issued by credit institutions	19,611	20,245
Other debt securities	19,000	18,970
Total	**627,106**	**633,789**

The entire holding consists of publicly listed debt securities.

G20. Receivables from credit institutions	2018				2017		
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Total
Finnish credit institutions	2,377	0	0	2,377	9,023	0	9,023
Foreign banks and credit institutions	77,825	0	0	77,825	83,961	0	83,961
Total	**80,202**	**0**	**0**	**80,202**	**92,984**	**0**	**92,984**

G21. Receivables from the public and public sector entities	2018			2017		
	Gross carrying amount	Provision for expected loss (IFRS 9)	Net carrying amount	Gross carrying amount	Provision for expected loss (IAS 39)	Net carrying amount
Companies	589,730	−1,939	587,792	573,047	−3,347	569,699
Public sector entities	747	−1	746	1,524	0	1,524
Households	2,013,104	−8,737	2,004,367	1,984,419	−6,751	1,977,668
Household interest organisations	11,749	−1	11,747	11,939	0	11,939
Outside Finland	1,417,633	−630	1,417,003	1,418,078	−266	1,417,812
Total	**4,032,963**	**−11,308**	**4,021,654**	**3,989,007**	**−10,364**	**3,978,642**
of which subordinated receivables			1,594			2,481

G22. Shares and participations	2018	2017
Listed	21	23
Unlisted	2,542	508
Total shares and participations	**2,564**	**531**

The entire holding is classified as financial assets at fair value via other comprehensive income.

G23. Shares in associated companies	2018	2017
Carrying amount on January 1	119	58
Share of profit for the year	57	68
Acquisitions	20	
Dividends	−44	−8
Carrying amount on December 31	**153**	**119**

The following associated companies were consolidated according to the equity method of accounting on December 31, 2018:

	Registered office	Ownership, %
Mäklarhuset Åland Ab	Mariehamn	29

Combined financial information about these associated companies:

	2018	2017
Assets	724	747
Liabilities	198	266
Sales	1,249	1,329
Profit for the year	196	274

G24. Derivative instruments				2018			2017		
	Nominal amount/maturity								
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	0	33,525	21,610	55,135	2,272	2,547	93,941	1,742	2,997
Interest rate futures	0	0	0	0	0	0	0	0	0
Interest rate options – purchased	0	0	0	0	0	0	0	0	0
Currency-related contracts									
Currency forward contracts	383,163	0	0	383,163	767	756	491,996	3,919	3,554
Equity-related contracts									
Equity options – purchased	0	0	0	0	0	0	4,505	1,211	0
Equity options – written	0	0	0	0	0	0	4,030	0	1,112
Other derivative contracts	0	0	0	0	0	0	8,062	0	0
Total	**383,163**	**33,525**	**21,610**	**438,298**	**3,039**	**3,303**	**602,534**	**6,872**	**7,663**
Derivatives for fair value hedge									
Interest-related contracts									
Interest rate swaps	104,660	869,627	78,421	1,052,708	12,309	4,807	770,905	14,551	7,248
Total	**104,660**	**869,627**	**78,421**	**1,052,708**	**12,309**	**4,807**	**770,905**	**14,551**	**7,248**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	0	0	0	0	0	0	50,793	0	7,210
Total	**0**	**0**	**0**	**0**	**0**	**0**	**50,793**	**0**	**7,210**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	0	0	0	0	0	0	54,501	0	441
Total	**0**	**0**	**0**	**0**	**0**	**0**	**54,501**	**0**	**441**
Total derivative instruments	**487,823**	**903,152**	**100,031**	**1,491,005**	**15,347**	**8,110**	**1,478,734**	**21,424**	**22,562**
of which cleared	104,660	899,839	97,001	1,101,500	13,007	7,030	854,941	14,688	9,712

Starting on January 1, 2018, derivatives are recognised together with their associated accrued interest. Comparative historical figures have been restated.

G25. Intangible assets	2018				
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	24,530	20,128	30	646	45,334
Cost of intangible assets added	2,314	357	0	5,700	8,370
Divestments and disposals	–2,029	–326	0	–11	–2,367
Exchange rate effect	–109	–88	0	0	–197
Cost on December 31	**24,705**	**20,071**	**30**	**6,334**	**51,141**
Accumulated amortisation and impairment losses on January 1	–12,300	–15,720	–30	–11	–28,062
Divestments and disposals	2,029	326	0	11	2,367
Amortisation for the year	–2,711	–1,069	0	–165	–3,946
Exchange rate effect	21	60	0	0	82
Accumulated amortisation and impairment losses on December 31	**–12,961**	**–16,402**	**–30**	**–165**	**–29,559**
Residual value on December 31	**11,744**	**3,669**	**0**	**6,169**	**21,582**

”Other intangible assets” include acquired contracts.

	2017				
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	21,592	18,882	30	11	40,516
Cost of intangible assets added	3,015	1,322	0	634	4,971
Exchange rate effect	−77	−75	0	0	−153
Cost on December 31	**24,530**	**20,128**	**30**	**646**	**45,334**
Accumulated amortisation and impairment losses on January 1	−10,026	−14,843	−30	−11	−24,911
Amortisation for the year	−2,288	−921	0	0	−3,209
Exchange rate effect	14	44	0	0	58
Accumulated amortisation and impairment losses on December 31	**−12,300**	**−15,720**	**−30**	**−11**	**−28,062**
Residual value on December 31	**12,229**	**4,409**	**0**	**634**	**17,272**

Reclassifications have been made between the various categories, which has affected historical data.

G26. Tangible assets	2018			2017		
Investment properties			315			323
Properties for own use			16,699			17,852
Other tangible assets			5,516			6,108
Total			**22,530**			**24,283**
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	994	35,727	36,390	1,021	36,019	35,811
New acquisitions	0	192	1,487	0	703	2,018
Impairment losses	0	−2	0	0	0	0
Divestments and disposals	−510	−62	−2,026	−27	−963	−1,125
Transfers between items	0	0	0	0	−30	0
Exchange rate effect	0	−2	−423	0	−1	−314
Cost on December 31	**484**	**35,854**	**35,428**	**994**	**35,727**	**36,390**
Accumulated depreciation on January 1	−671	−17,876	−30,282	−678	−17,264	−29,325
Depreciation for the year	0	−1,347	−2,012	0	−1,467	−2,294
Impairment losses for the year	0	−2	0	−19	−118	0
Divestments and disposals	501	69	1,980	27	972	1,034
Exchange rate effects	0	0	401	0	0	303
Accumulated depreciation on December 31	**−169**	**−19,155**	**−29,912**	**−671**	**−17,876**	**−30,282**
Carrying amount	**315**	**16,699**	**5,516**	**323**	**17,852**	**6,108**
of which buildings	0	14,721		0	15,869	
of which land and water	0	1,825		0	1,825	
of which shares in real estate companies	315	153		323	158	

The carrying amount of investment properties was the same as their market value.

G27. Deferred tax assets and liabilities	2018	2017
Deferred tax assets		
Taxable losses	20	0
Provisions	25	206
Cash flow hedge	0	11
Fair value hedge	289	0
Hedging of net investment in foreign operations	0	88
Intangible assets	3,072	3,358
Debt securities issued	0	1
Pension liabilities	1,115	1,108
Impairment losses	481	
Other	358	332
Financial assets measured via other comprehensive income		
Debt securities	68	
Share and participations	0	4
Total deferred tax assets	**5,428**	**5,109**
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	24,797	21,438
Fair value option and hedging	0	154
Intangible assets	1,379	1,391
Tangible assets	1,711	1,767
Financial assets measured via other comprehensive income		
Debt securities available for sale		465
Total deferred tax liabilities	**27,887**	**25,214**
Net deferred taxes	**–22,459**	**–20,105**

	2018					
	Dec 31, 2017	Transitional effect, IFRS 9	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2018
Changes in deferred taxes, 2018						
Taxable losses	0		20			20
Provisions	206		–181			25
Cash flow hedge	11			–11		0
Fair value hedging		289				289
Hedging of net investment in foreign operations	88			–88		0
Intangible assets	1,967		–197		–77	1,693
Debt securities issued	1		–1			0
Pension liabilities	1,108		91	–74	–9	1,115
Impairment losses		481				481
Untaxed reserves	–21,438		–3,359			–24,797
Fair value option and hedge	–154	2	151			0
Tangible assets	–1,767		56			–1,711
Debt securities measured via other comprehensive income	–465			533		68
Shares and participations measured via other comprehensive income	4			–4		0
Other	332		26			358
Total	**–20,105**	**772**	**–3,396**	**356**	**–86**	**–22,459**

	2017				
	Dec 31, 2016	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2017
Changes in deferred taxes, 2017					
Taxable losses	0	0			0
Provisions	35	171			206
Cash flow hedge	45		−33		11
Hedging of net investment in foreign operations	191		−103		88
Intangible assets	2,274	−226		−81	1,967
Debt securities issued	12	−10			1
Pension liabilities	731	57	328	−8	1,108
Untaxed reserves	−17,213	−4,225			−21,438
Fair value hedge	−308	154			−154
Tangible assets	−1,823	56			−1,767
Debt securities available for sale	−444		−22		−465
Shares and participations available for sale	10		−6		4
Other	336	−4			332
Total	**−16,154**	**−4,027**	**164**	**−88**	**−20,105**

	2018	2017
Tax loss carry-forwards and their expiration year		
2028	20	0

G28. Other assets	2018	2017
Payment intermediation receivables	1,451	1,526
Receivables on mutual fund settlement proceeds	35,316	21,364
Accounts receivable	5,273	6,313
Other	2,386	2,989
Total	**44,426**	**32,192**

G29. Accrued income and prepayments	2018	2017
Accrued interest income	9,003	9,423
Other accrued income	8,508	8,729
Other prepaid expenses	3,487	3,423
Total	**20,997**	**21,574**

G30. Liabilities to credit institutions	2018			2017		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		130,340	130,340
Finnish credit institutions	19,412	6,100	25,512	1,887	5,000	6,887
Foreign banks and credit institutions	65,218	29,264	94,482	56,546	12,619	69,165
Total	**84,630**	**165,704**	**250,334**	**58,433**	**147,959**	**206,392**

G31. Liabilities to the public	2018	2017
Companies	932,683	967,163
Public sector entities	63,944	100,605
Households	1,153,968	1,069,116
Household interest organisations	49,584	51,121
Outside Finland	1,103,366	960,112
Total	**3,303,546**	**3,148,117**

G32. Debt securities issued	2018		2017	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Certificates of deposit	121,344	121,364	158,472	158,477
of which at amortised cost	121,344	121,364	158,472	158,477
Covered bonds	1,111,440	1,116,687	1,328,537	1,331,581
of which at amortised cost	414,440	416,129	580,744	582,798
of which for fair value hedge	697,000	703,557	697,000	698,014
of which for cash flow hedge	0	0	50,793	50,770
Unsecured bonds	350,000	349,837	100,000	99,878
of which at amortised cost	100,000	99,938	100,000	99,878
of which for fair value hedge	250,000	249,899	0	0
Index bonds (structured products)	0	0	9,587	9,582
of which at amortised cost			3,588	3,595
of which for fair value hedge			5,999	5,987
Total	**1,582,784**	**1,587,888**	**1,596,597**	**1,599,518**

”Fair value hedge” refers to hedge accounting of the interest component in the debt security.

G33. Other liabilities	2018	2017
Payment transfer liabilities	19,357	19,944
Liabilities on mutual fund settlement proceeds	15,948	19,330
Trade payables	3,462	3,279
Lease liability	1,541	2,097
Acquired contract	5,000	
Other	11,645	5,239
Total	**56,952**	**49,889**

G34. Provisions	2018				2017		
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on December 31 of the previous year	251	0	779	1,031	175	0	175
Transitional effect, IFRS 9		243		243			0
Provisions made during the year	84	187	0	271	419	1,395	1,815
Amounts utilised	−296	0	−604	−901	−342	−600	−942
Unutilised amounts recovered	0	−365	−54	−419	2	0	2
Exchange rate changes	−3	−1	−31	−35	−3	−17	−20
Provisions on December 31	**36**	**65**	**89**	**191**	**251**	**779**	**1,031**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. ”Provision for off-balance sheet obligations” refers to expected credit losses related to guarantees issued and unutilised credit lines. ”Other provisions” consist of severance pay.

G35. Accrued expenses and prepaid income	2018	2017
Accrued interest expenses	6,213	5,921
Other accrued expenses	18,545	20,260
Pension liabilities	5,614	5,576
Prepaid income	905	1,155
Total	**31,277**	**32,912**

G36. Subordinated liabilities	2018			2017		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2013	0	0	0	3,377	3,398	0
Debenture loan 1/2014	2,185	2,187	0	4,262	4,288	0
Debenture loan 2/2014	8,275	8,275	1,002	8,275	8,275	2,656
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,503	19,391	19,503	0	0	0
Total	**47,005**	**46,895**	**37,547**	**32,956**	**33,003**	**19,698**
of which for fair value hedge	2,185	2,187	0	7,639	7,686	0

	Interest rate:	Repayment:
Debenture loan 1/2014	2.30% fixed interest	February 3, 2019
Debenture loan 2/2014	3.00% fixed interest	August 9, 2019
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Debenture loan 1/2016	3.75% fixed interest	August 12, 2036
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037
Debenture loan 1/2018	3-month Stibor + 2.40%	May 15, 2038

Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2015, 1/2016, 1/2017 and 1/2018 were issued with write-down clauses. In the event that the Bank of Åland's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 25 per cent (debenture loan 1/2015) and 50 per cent (debenture loans 1/2016, 1/2017 and 1/2018).

G37. Specification of changes in equity capital	2018	2017
Change in equity capital		
Equity capital on January 1	41,949	41,674
Share-based payment, share savings programme	0	57
Share-based payment, incentive programme	25	218
Equity capital on December 31	**41,974**	**41,949**
Change in hedge reserve		
Hedge reserve on January 1	−45	−178
Unrealised changes in value during the year	45	133
Hedge reserve on December 31	**0**	**−45**
Change in fair value reserve		
Fair value reserve on January 1	1,846	1,736
Transitional effect, IFRS 9	98	
Divested or reached maturity during the year	−479	−244
Impairment loss in the income statement	50	1
Unrealised change in market value for remaining and new holdings	−1,638	352
Fair value reserve on December 31	**−124**	**1,846**
Change in translation differences		
Translation differences on January 1	−579	−366
Change in translation differences attributable to branches	−2,177	−1 696
Change in translation differences due to subsidiaries	228	186
Change in translation differences related to hedging of net investment in foreign operations	2,088	1 308
Other changes	36	−11
Translation differences on December 31	**−404**	**−579**

	2018	2017
Change in paid-up unrestricted equity capital fund		
Paid-up unrestricted equity capital fund on January 1	26,926	25 982
Share-based payment, share savings programme	0	326
Share-based payment, incentive programme	149	618
Paid-up unrestricted equity fund on December 31	**27,075**	**26 926**
Retained earnings		
Retained earnings on December 31 of previous year	105,660	95,086
Transitional effect, IFRS 9	−3,194	
Shareholders' portion of profit for the accounting period	22,931	20,704
Dividend paid	−10,041	−9,201
Re-measurement of defined benefit pension plans	296	−1,307
Share savings programmes	334	400
Övrigt	−4	−22
Retained earnings on December 31	**115,984**	**105,660**

Items under "Equity capital"

"Share premium account" includes amounts that were paid at the time of new share issues for shares in addition to their nominal value before September 1, 2006.

"Reserve fund" includes components transferred from equity capital in compliance with the Articles of Association or a decision of a General Meeting.

"Hedging reserve" comprises the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred.

"Fair value reserve" includes the accumulated net change in the fair value of debt instruments and equity instruments measured at fair value via other comprehensive income until the asset is de-recognised from the statement of financial position. For debt instruments, realised gains and losses are shown in case of divestment in the income statement. Upon divestment of an equity instrument, the re-measurement amount of the instrument is transferred to retained earnings without affecting either income or other comprehensive income.

On December 31, 2018, there were no holdings of "Own shares".

"Translation differences" comprises all exchange rate differences that arise when translating financial reports from foreign operations that have drawn up their financial reports in a currency other than the currency in which the Group's financial reports are presented.

"Unrestricted equity capital fund" comprises amounts that were paid at the time of new share issues for shares in addition to their nominal value starting on September 1, 2006.

G38. Group structure

The Bank of Åland Plc has three subsidiaries that were essential to the Group in 2018 and 2017. The Bank of Åland Plc holds a majority of the voting power in all subsidiaries. A list of all Group companies is presented in Note P39.

	Registered office	Field of operations	Ownership, %
Subsidiary			
Ålandsbanken Fondbolag Ab	Finland/Mariehamn	Mutual fund management	100
Ålandsbanken Fonder Ab	Finland/Helsinki	Mutual fund management	100
Ålandsbanken Fonder II Ab	Finland/Helsinki	Mutual fund management	100
Crosskey Banking Solutions Ab Ltd	Finland/Mariehamn	Information technology	100
S-Crosskey Ab	Finland/Mariehamn	Information technology	60
Ab Compass Card Oy Ltd	Finland/Mariehamn	Issuance of credit and debit cards	100

The Bank of Åland has no holdings of structured entities.

Shares in associated companies

The Group has one associated company that is essential to the Group, which have been consolidated according to the equity method of accounting. For further information on shares in associated companies, see Note G23.

Holdings in real estate companies

The Group holds participations in one property for its own use and ten investment properties, of which some are consolidated as follows.

	Business identity code	Consolidation	Ownership, %
Properties for own use			
Fastighets Ab Godbycenter	0200423-2	Joint operation	11
Investment properties			
Fastighets Ab Nymars	0427316-1	Joint operation	30
Fastighets Ab Västernäs City	0524820-8	Joint operation	50
Fastighets Ab Horsklint	0771072-6	Equity method	20

During 2018, the holding in Fastighets Ab Sittkoffska Gården was sold.

Fastighets Ab Godbycenter, Fastighets Ab Nymars and Fastighets Ab Västernäs City are mutual associations and, in compliance with IFRS 11, have thus been reported as "joint operations".

G39. Actively managed assets

	2018	2017
Mutual fund management	2,539,331	3,138,849
Discretionary asset management	1,529,600	1,697,884
Advisory asset management	1,108,181	899,788
Total	**5,177,112**	**5,736,521**
Of which own funds in discretionary and advisory asset management	336,761	432,456

G40. Assets pledged

	2018	2017
Collateral pledged for own liabilities		
Receivables from credit institutions	6,060	8,259
Government securities and bonds	115,505	141,425
Receivables from the public	1,614,798	1,989,354
Other	3,280	3,225
Total assets pledged for own liabilities	**1,739,643**	**2,142,263**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. "Lending to the public" that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. "Other assets pledged for own liabilities" refers mainly to endowment insurance.

	2018	2017
Other assets pledged		
Government securities and bonds	25,223	20,950
Other	16,521	22,301
Total other assets pledged	**41,743**	**43,251**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability is at the free disposal of the Bank.

G41. Off-balance sheet obligations	2018	2017
Guarantees	43,351	39,562
Unutilised overdraft limits	228,269	215,562
Unutilised credit card limits	75,945	74,126
Unutilised credit facilities	131,177	142,353
Other commitments	14,494	13,897
Total	**493,236**	**485,500**

G42. Pension liabilities

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via the pension fund known as Ålandsbanken Abps Pensionsstiftelse (a defined benefit plan). Ålandsbanken Abps Pensionsstiftelse has been closed to new participants since June 30, 1991. Persons covered by this fund are entitled to retire at age 63–65 depending on their year of birth. The full retirement pension comprises 60 per cent of pensionable salary, which is calculated according to the same principles as in the national pension system. A family pension comprises 30–60 per cent depending on whether the surviving spouse is alone or has one or more children.

According to the Finnish collective bargaining agreement in the financial services sector, employees are partially entitled to pensions at a lower age than stipulated today by general legislation. The employer is required to provide vested pension benefits in the collective agreement for the financial services sector, which was confirmed during 2017 by a Labour Court ruling.

Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit. Starting on May 1, 2013, new employees are covered by a new defined contribution supplementary pension plan known as BTP1. The BTP plan is secured through the insurance company SPP. In Sweden, the retirement pension is payable from age 65 and the guaranteed amount consists of 10 per cent of pensionable salary below 7.5 annually indexed “income base amounts” and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 16 years and in Sweden 22 years.

	2018	2017
Carrying amount in the income statement		
Current service costs	292	206
Effects of curtailments and settlements	0	0
Interest expenses	113	80
Administrative expenses	109	103
Expenses (–)/revenue (+) recognised in the income statement	**514**	**389**
Restatement of defined benefit pension plans in “Other comprehensive income”		
Actuarial gain (+)/loss (-), demographic assumptions	0	0
Actuarial gain (+)/loss (–), financial assumptions	1,086	–485
Actuarial gain (+)/loss (–), experience-based	–190	–1,621
Actuarial gain (+)/loss (–) on plan assets	–526	473
Other comprehensive income	**370**	**–1,633**
Total	**–144**	**–2,022**
Carrying amount in the balance sheet		
Pension obligations	27,422	28,473
Fair value of plan assets	21,808	22,896
Net pension assets (+)/pension liabilities (–)	**–5,614**	**–5,576**
Net pension assets (+)/pension liabilities (–) in Finland	–4,021	–4,442
Net pension assets (+)/pension liabilities (–) in Sweden	–1,593	–1,134
	–5,614	**–5,576**

	2018	2017
Net change in pension assets		
January 1	−5,576	−3,655
Income	−514	−389
Other comprehensive income	370	−1,633
Premium payments	61	69
Exchange rate effects	45	32
On December 31	**−5,614**	**−5,576**
Pension obligations		
January 1	28,473	26,618
Current service costs	292	206
Interest expenses	547	504
Benefits paid	−828	−838
Exchange rate effect	−168	−124
Actuarial gains (−)/losses (+)	−896	2,107
Pension obligations on December 31	**27,421**	**28,473**
Plan assets		
January 1	22,896	22,963
Interest income	434	426
Premium payments	61	69
Benefits paid	−828	−841
Actuarial gains (−)/losses (+)	−526	475
Exchange rate effects	−121	−93
Administrative expenses	−109	−103
Plan assets on December 31	**21,808**	**22,896**
Breakdown of plan assets		
Listed shares and participations	5,324	6,149
Listed mutual fund units	4,215	4,781
Listed interest-bearing securities	7,738	7,378
Properties	2,374	2,467
Other plan assets	2,156	2,121
Total plan assets	**21,808**	**22,896**

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 18 K (18), bonds worth EUR 635 K (664) and bank accounts worth EUR 1,246 K (3,241).

	Outcome, 2018	Forecast, 2019
Future cash flows		
Benefits paid	61	58

	2018		2017	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	1.95	2.85	1.75	3.25
Increase in salary expenses	1.60	3.00	1.80	3.00
Pension index increase	1.90	2.00	2.10	2.00

Sensitivity of defined benefit obligations to changes in significant assumptions

	Change in assumptions, %	Increase in assumption	Decrease in assumption
Sensitivity analysis, net present value of pension obligation: increase (+)/decrease (−)			
Discount rate	0.5	−2,214	2,515
Expected increase in salaries	0.5	214	−204
Expected increase in pensions	0.5	2,207	−1,975

The sensitivity analysis is based on a change in one assumption, while all other assumptions remain constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method is used as when calculating the pension liabilities recognised in the balance sheet. The sensitivity analysis for the defined benefit plan in Sweden has been calculated using a discount rate and an expected pay increase.

The Bank is exposed to a number of risks because of its defined benefit plans. The most significant risks are described below.

ASSET VOLATILITY:

Pension liabilities are calculated with the help of a discount rate based on corporate bonds with good credit ratings. If plan assets generate returns worse than the discount rate, this will cause a deficit. Plan assets include a sizeable percentage of equities, which in the long term are expected to provide a higher return than the discount rate, while providing higher volatility and risk in the short term. Because of the long-term nature of pension liabilities, the Bank believes that a continued high percentage of equities is suitable for managing the plans in an effective way.

CHANGES IN BOND YIELDS:

In case the yields on corporate bonds fall, this leads to an increase in pension obligations. Partly offsetting this is the fact that the value of the bonds that are included in plan assets will increase.

INFLATION RISK:

Pension obligations are connected to inflation. Higher inflation will lead to increased pension obligations. Plan assets are not affected by inflation to any great extent, which means that if inflation increases, this will lead to an increased deficit in pension plans.

LIFE EXPECTANCY:

Pension plans generate pensions that extend through the lifetimes of employees. This means that if life expectancy increases, pension obligations will increase.

G43. Lease liabilities and rental obligations	2018	2017
Operating leases		
under 1 year	3,944	4,713
1–5 years	3,080	7,000
over 5 years	0	0
Total	**7,024**	**11,713**
Finance leases, present value		
under 1 year	537	556
1–5 years	1,003	1,541
over 5 years	0	0
Total	**1,541**	**2,097**
Finance leases, minimum rents		
under 1 year	578	614
1–5 years	1,036	1,614
over 5 years	0	0
Total	**1,614**	**2,228**
Interest expenses	73	131
Machinery and equipment, recognised value	1,434	1,995

Operating leases consist of rental obligations. Rental obligations mainly include business premises with fixed-period agreements of up to ten years.

The rent level is generally tied to an index and is adjusted as specified in the lease.

The Group has financial leases on IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers and servers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a predetermined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 1,030 K excluding value-added tax.

G44. Disclosures about related parties	2018			2017		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets						
Receivables from the public and public sector entities	3,794	6,722	237	3 207	6 814	8 280
Other assets		1			17	
Accrued income and prepayments		67			66	
Total	**3,794**	**6,789**	**237**	**3 207**	**6 897**	**8 280**
Liabilities						
Liabilities to the public	1,962	2,922	441	1 410	4 087	302
Subordinated liabilities		630			660	
Accrued expenses and prepaid income		12				
Total	**1,962**	**3,564**	**441**	**1 410**	**4 747**	**302**
Income and expenses						
Interest income	31	157	20	32	144	131
Interest expenses	–1	–23	0	0	–25	0
Commission income	0	71	1	0	45	4
Other income		9			17	
Other expenses		1			1	
Total	**31**	**215**	**21**	**32**	**182**	**135**

The Bank of Åland Group consists of the parent company, the Bank of Åland Plc (Ålandsbanken Abp), the subsidiaries that are consolidated in the Group, associated companies, the Executive Team and other related companies. “Board and Executive Team” includes the Managing Director, individuals on the Board of Directors and other members of the Executive Team, as well as their close family members. ”Related parties” includes companies or persons with significant influence. ”Related companies” also refers to companies in which an individual belonging to the Executive Team or a close family member of such an individual has significant influence. ”Related parties” include the pension fund Ålandsbanken Abp:s Pensionsstiftelse r.s.

Loans to employees are granted on commercial terms. ”On commercial terms” means that loans, guarantees, collateral or financing occur on the same terms and according to the same assessments applied to the Bank of Åland’s customers in general. The employee interest rate is used for loans to employees. The employee interest rate is set by the Executive Team and amounted to 0.45 (0.45) per cent on December 31, 2018.

All transactions with related parties have occurred on commercial terms, aside from loans to the Executive Team, which in Finland have been granted at the employee interest rate.

For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P33.

For disclosures on Group structure, see Note P39.

	2018	2017
Compensation to senior executives		
Short-term compensation [1]	1,879	1 847
Compensation in case of termination [2]	0	1 073
Total	**1,879**	**2 920**

”Senior executives” refers to the Executive Team including the Managing Director.

[1] Includes salary, benefits and variable compensation paid (both in cash and share-based).

[2] Includes salary during notice period, severance pay, pension expenses and any benefits.

G45. Offsetting of financial assets and liabilities

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Financial assets and liabilities that are subject to offsetting, netting agreements or similar agreements				
Gross amount	15,347	38,901	21,424	55,327
Offset amounts				
Total	**15,347**	**38,901**	**21,424**	**55,327**
Related amounts not offset				
Financial instruments, netting agreements	–7,391	–7,391	–11,066	–11,066
Financial instruments, collateral		–14,334		–10,840
Cash, collateral		–14,992	–730	–24,831
Total amounts not offset	**–7,391**	**–36,717**	**–11,796**	**–46,737**
Net amount	**7,956**	**2,184**	**9,627**	**8,590**

Starting on January 1, 2018, derivatives are recognised together with their associated accrued interest. Comparative historical figures have been restated.

The tables report financial instruments that were offset in the balance sheet in compliance with IAS 32 and those that were covered by legally binding master netting agreements or similar agreements not qualified for netting. The financial instruments consisted of derivatives, repurchase agreements (repos) and reverse repos, securities deposits and securities loans. Collateral consisted of financial instruments or cash received or paid for transactions covered by legally binding netting agreements or similar agreements, which allow netting of obligations to counterparties in case of default. The value of the collateral was limited to the related amount recognised in the balance sheet, so the excess value of collateral is not included. Amounts not offset in the balance sheet are presented as a reduction in the carrying amount of financial assets or liabilities in order to recognise the net exposure of the asset and liability.

G46.Important events after the close of the accounting period

During 2019, Ab Compass Card Oy Ltd will be merged with Bank of Åland Plc.

Parent Company income statement

(EUR K)

Parent Company	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Interest income		63,273	64,957
Interest expenses		−9,968	−10,556
Net interest income	P2	**53,305**	**54,401**
Commission income		35,764	48,206
Commission expenses		−6,336	−8,383
Net commission income	P3	**29,428**	**39,822**
Net income from financial items carried at fair value	P4	5,983	3,847
Income from equity capital investments	P5	2,295	1,985
Other income	P6	12,223	3,544
Total income		**103,232**	**103,600**
Staff costs	P7	−35,362	−38,424
Other expenses	P8	−36,775	−33,343
Depreciation/amortisation and impairment losses on tangible and intangible assets	P18, P19	−8,507	−8,206
Total expenses		**−80,644**	**−79,973**
Profit before loan losses		**22,589**	**23,627**
Expected loan losses from financial assets recognised at amortised cost	P9	−361	−2,163
Expected loan losses from other financial assets and impairment losses	P9	−55	
Net operating profit		**22,173**	**21,463**
Appropriations		−16,684	−21,200
Income taxes	P10	−1,290	−239
Net profit for the accounting period		**4,198**	**24**

Parent Company balance sheet

(EUR K)

Parent Company	Note	Dec 31, 2018	Jan 1, 2018	Dec 31, 2017
Assets				
Cash and deposits with central banks		506,897	523,801	523,801
Debt securities eligible for refinancing with central banks	P13	815,095	633,733	633,789
Receivables from credit institutions	P14	79,933	92,897	92,897
Receivables from the public and public sector entities	P15	4,016,108	3,967,458	3,970,774
Shares and participations	P16	2,563	531	531
Shares and participations in associated companies	P16	20	0	0
Shares and participations in Group companies	P16	11,837	11,837	11,837
Derivative instruments[1]	P17	15,347	21,424	21,424
Intangible assets	P18	29,088	27,856	27,856
Tangible assets	P19	15,132	16,303	16,303
Other assets	P20	45,814	26,438	26,438
Accrued income and prepayments[1]	P21	26,842	19,641	19,641
Deferred tax assets	P22	933	1,144	420
Total assets		**5,565,611**	**5,343,063**	**5,345,710**
Liabilities				
Liabilities to credit institutions	P23	250,254	206,306	206,306
Liabilities to the public	P24	3,325,680	3,157,061	3,157,061
Debt securities issued	P25	1,587,888	1,599,511	1,599,511
Derivative instruments[1]	P17	8,110	22,562	22,562
Other liabilities	P26	54,821	47,047	47,047
Provisions	P27	194	1,283	1,031
Accrued expenses and prepaid income[1]	P28	24,547	17,541	17,541
Subordinated liabilities	P29	46,895	33,003	33,003
Deferred tax liabilities	P22	0	465	465
Total liabilities		**5,298,388**	**5,084,780**	**5,084,527**
Appropriations				
General loan loss reserve		123,538	106,854	106,854
Total appropriations		**123,538**	**106,854**	**106,854**
Equity capital				
Share capital		41,974	41,949	41,949
Share premium account		32,736	32,736	32,736
Reserve fund		25,129	25,129	25,129
Hedging reserve		0	45	−45
Fair value reserve		−124	1,943	1,846
Translation differences		−1,342	−1,292	−1,292
Unrestricted equity capital fund		27,271	27,122	27,122
Retained earnings		18,040	23,886	26,883
Total equity capital		**143,684**	**151,430**	**154,328**
Total liabilities and equity capital		**5,565,611**	**5,343,063**	**5,345,710**
Off-balance sheet obligations	P37			
Obligations to a third party on behalf of customers				
Guarantees		45,354	45,100	45,100
Irrevocable commitments given on behalf of customers		380,532	380,315	380,315

[1] Derivatives are reported starting on January 1, 2018 together with related accrued interest. Historical figures for comparative figures have been restated.

The January 1, 2018 column is restated to account for the effects of IFRS 9 (EUR −2,899 K change in equity capital).

Parent Company statement of changes in equity capital

(EUR K)

Parent Company	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Unrestricted equity capital fund	Retained earnings	Total
Dec 31, 2016	**41,674**	**32,736**	**25,129**	**−178**	**1,736**	**−1,085**	**26,178**	**36,082**	**162,273**
Profit for the year								24	24
Change in fair value				133	109				242
Translation difference						−207			−207
Dividend paid								−9,201	−9,201
Incentive programme	218						618	−22	813
Share savings programme	57						326		383
Dec 31, 2017	**41,949**	**32,736**	**25,129**	**−45**	**1,846**	**−1,292**	**27,122**	**26,883**	**154,328**
Transition to IFRS 9					98			−2,996	−2,899
Jan 1, 2018	**41,949**	**32,736**	**25,129**	**−45**	**1,943**	**−1,292**	**27,122**	**23,886**	**151,430**
Profit for the year								4,198	4,198
Change in fair value				45	−2,068			2	−2,021
Translation difference						−51			−51
Dividend paid								−10,041	−10,041
Incentive programme	25						149	−5	169
Dec 31, 2018	**41,974**	**32,736**	**25,129**	**0**	**−124**	**−1,342**	**27,271**	**18,040**	**143,684**

For further data, see Note P40 and the section entitled “Facts on Bank of Åland shares”.

Parent Company cash flow statement

(EUR K)

Parent Company	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Cash flow from operating activities		
Net operating profit	22,173	21,463
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	8,507	8,206
Impairment losses on loans and other commitments	599	2,050
Unrealised changes in value	–1,212	–1,999
Accrued surpluses/deficits on debt securities and bonds issued	4,174	5,028
Income from investing activities	–107	–1
Dividends from associated companies and subsidiaries	–2,294	–1,808
Income taxes paid	–119	–1,696
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–186,968	–134,131
Receivables from credit institutions	9,933	100,227
Receivables from the public and public sector entities	–95,531	–208,355
Other assets	–51,044	–12,120
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	63,666	4,234
Liabilities to the public and public sector entities	201,786	145,986
Debt securities issued	–55,343	–13,232
Other liabilities	–2,476	–52,128
Total cash flow from operating activities	**–84,256**	**–138,276**
Cash flow from investing activities		
Investment in shares and participations	–2,000	0
Divestment of shares and participations	104	1
Investment in shares of associated companies and subsidiaries	–20	0
Dividends received from associated companies and subsidiaries	2,294	1,808
Investment in tangible assets	–2,088	–588
Divestment of tangible assets	168	110
Investment in intangible assets	–7,089	–5,188
Total cash flow from investing activities	**–8,632**	**–3,858**
Cash flow from financing activities		
Issue, share savings programme/option rights	174	1,219
Increase in long-term borrowings from banks	249,111	99,850
Decrease in long-term borrowings from banks	0	–85,634
Increase in covered bonds issued	0	255,297
Decrease in covered bonds issued	–198,237	–102,246
Increase in subordinated debentures	19,335	2,119
Decrease in subordinated debentures	–5,454	–8,375
Dividend paid	–10,041	–9,201
Total cash flow from financial activities	**54,888**	**153,028**
Cash and cash equivalents at beginning of year	584,573	576,546
Cash flow from operating activities	–84,256	–138,276
Cash flow from investing activities	–8,632	–3,858
Cash flow from financing activities	54,888	153,028
Exchange rate differences in cash and cash equivalents	–3,710	–2,867
Cash and cash equivalents at end of year	**542,863**	**584,573**
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	483,353	523,801
Claims repayable on demand from credit institutions	59,511	60,772
Total	**542,863**	**584,573**

"Cash and cash equivalents" refers to cash, cheque account with the Bank of Finland, claims repayable on demand from credit institutions as well as other claims on credit institutions and debt securities with an original remaining maturity of less than three months as well as claims on public sector entities that are not lending. "Investing activities" refers to payments related to tangible and intangible assets as well as holdings of shares and participations aside from shares intended for trading. "Financing activities" refers to items among equity capital and liabilities that fund operating activities. The analysis was prepared according to the indirect method.

"Operating activities" included interest received of EUR 63,756 K (63,254), interest paid of EUR 9,808 K (11,226) and dividend income received of EUR 1 K (177).

Photographer: Daniel Eriksson

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Notes to the Parent Company financial statements

(EUR K)

P1. Parent Company accounting principles

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervisory Authority. The financial statements of the Bank of Åland Plc have been prepared in compliance with Finnish accounting standards (FAS). The Parent Company's financial statements are presented in thousands of euros (EUR K), unless otherwise stated.

Goodwill

Goodwill is amortised over 10 years.

Appropriations

Voluntary provisions that the Bank of Åland has made based on Section 46 of the Finnish Business Income Tax Act are recognised under "Appropriations".

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2018	2017
Receivables from credit institutions	822	791
of which negative interest [1]	584	527
Receivables from the public	61,046	62,299
Of which negative interest [1]	376	68
Debt securities	757	911
of which negative debt securities [1]	486	393
Derivative instruments	644	953
Other interest income	4	4
Total interest income	**63,273**	**64,957**
Liabilities to credit institutions	1,221	1,358
of which negative interest [1]	1,147	1,309
Liabilities to the public	3,713	3,860
of which negative interest [1]	55	25
Debt securities issued	2,847	3,393
Subordinated liabilities	1,201	994
Derivative instruments	986	952
Total interest expenses	**9,968**	**10,556**
Net interest income	**53,305**	**54,401**

Interest income received from Group companies was EUR 238 K (232).

Interest expenses paid to Group companies was EUR 0 K (0).

Interest from derivative instruments is recognised together with the item that they hedge within the framework of hedge accounting (fair value hedge and cash flow hedge) and the fair value option.

[1] Negative interest income from investments is recognised as interest expenses, while negative interest received for liabilities is recognised as interest income.

P3. Net commission income	2018	2017
Deposits	813	788
Lending	2,984	3,469
Payment intermediation	4,818	4,429
Mutual fund commissions	458	13,315
Asset management commissions	11,264	11,043
Securities brokerage	11,711	11,703
Insurance commissions	253	63
Legal services	821	847
Guarantee commissions	563	545
Other commissions	2,080	2,004
Total commission income	**35,764**	**48,206**
Payment intermediation commission expenses	−2,935	−2,335
Mutual fund commission expenses	0	−4
Asset management commission expenses	−946	−2,810
Securities brokerage commission expenses	−1,793	−2,400
Other commission expenses	−662	−834
Total commission expenses	**−6,336**	**−8,383**
Net commission income	**29,428**	**39,822**

P4. Net income from financial items carried at fair value

	2018			2017		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Debt securities	0	–106	–106	0	–158	–158
Shares and participations	0	0	0	57	0	57
Derivative instruments	104	–108	–5	–50	960	910
Loan receivables [1]	0	0	0	0	–558	–558
Valuation category fair value via the income statement ("profit and loss")	**104**	**–214**	**–110**	**7**	**245**	**252**
Hedge accounting						
of which hedging instruments	8	17	25	364	–7,026	–6,662
of which hedged item	0	1,170	1,170	0	7,292	7,292
Hedge accounting	**8**	**1,188**	**1,195**	**364**	**266**	**630**
Net income from foreign exchange dealing	**3,803**	**324**	**4,127**	**1,489**	**1,490**	**2,979**
Net income from financial assets measured via other comprehensive income	**856**	**–86**	**770**	**–12**	**–2**	**–14**
Total	**4,770**	**1,212**	**5,983**	**1,848**	**1,999**	**3,847**

[1] Fixed interest loans, which were previously recognised within the fair value option, have been reclassified due to the transition to IFRS 9 and are recognised starting on January 1, 2018 as part of fair value hedging.

P5. Income from equity capital instruments

	2018	2017
Financial assets available for sale	1	177
Associated companies	44	8
Group companies	2,250	1,800
Total	**2,295**	**1,985**

P6. Other income

	2018	2017
Rental income on properties	64	77
Intra-Group services	10,952	2,051
Miscellaneous income	1,207	1,416
Total	**12,223**	**3,544**
Net income from investment properties		
Rental income	11	11
Capital gains	107	0
Impairment losses	0	–19
Other expenses	–33	–31
Total	**84**	**–40**

P7. Staff costs

	2018	2017
Salaries and fees	27,045	28,781
Compensation in the form of shares in Bank of Åland Plc	163	129
Pension expenses	4,727	5,328
Other social security expenses	3,426	4,185
Total	**35,362**	**38,424**
Number of employees		
Permanent full-time employees	404	399
Permanent part-time employees	41	37
Temporary employees	52	68
Total	**497**	**504**

P8. Other expenses	2018	2017
IT expenses (excluding information services)	14,920	14,823
Rents	2,719	2,851
Other costs of premises and property	999	1,340
Marketing expenses	2,462	2,549
Informational services	1,887	1,953
Staff-related expenses	1,290	1,453
Travel expenses	722	811
Purchased services	2,188	2,292
Guarantee fee[1]	4	21
Stability fee	2,552	859
Other expenses	7,031	4,799
Production for own use	0	−408
Total	**36,775**	**33,343**

[1] "Guarantee fee" includes the deposit guarantee fee and the fee for the investor compensation fund.

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,042	1,519
Paid by old deposit guarantee fund	−1,042	−1,519
Stability fee	2,552	1,391
Refund of banking taxes paid in prior years	0	−532
Administration fee	30	31
Total	**2,582**	**890**

Based on the 2018 fee level, the Bank has prepaid deposit guarantee fees for about 15 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	231	216
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	6	19
Tax matters	0	5
Other	83	61
Total	**320**	**301**

These amounts include value-added tax (VAT).

P9. Expected credit (loan) losses	2018 (IFRS 9)					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Receivables from the public and public sector entities	7,373	−6,832	−1,929	2,096	−165	542
Off-balance sheet obligations	182	−363	0	0	0	−182
Debt securities	91	−36	0	0	0	55
Total expected loan losses	**7,645**	**−7,231**	**−1,929**	**2,096**	**−165**	**416**
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	240	−177				63
Total	**240**	**−177**	**0**	**0**	**0**	**63**

	2017 (IAS 39)							
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual loss	Net provision in the period for receivables assessed by group	Other provisions	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations								
Receivables from the public and public sector entities	2,584	−529	−4,354	4,593	−124	−9	3	2,163
Off-balance sheet obligations	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Total expected loan losses	**2,584**	**−529**	**−4,354**	**4,593**	**−124**	**−9**	**3**	**2,163**

	2018 (IFRS 9)				2017 (IAS 39)		
	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total
Change in impairment loss reserve							
Reserve on January 1	11,194	252	56	11,502	10,763	869	11,632
New and increased individual impairment losses	7,373	182	91	7,645	2,584	−9	2,574
Recovered from earlier provisions	−6,832	−363	−36	−7,231	−529		−529
Utilised for actual losses	−1,929	0	0	−1,929	−4,354		−4,354
Exchange rate differences	−12	−1		−13	0		0
Reserve on December 31	**9,793**	**70**	**111**	**9,974**	**8,464**	**860**	**9,324**
Transitional effects that arose in connection with the transition to IFRS 9					2,730	−860	1,870
Starting balance, January 1, 2018					**11,194**	**0**	**11,194**

P10. Income taxes	2018	2017
Income statement		
Taxes related to prior years	−23	−13
Current taxes	1,140	422
Changes in deferred taxes	173	−171
Total	**1,290**	**239**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	1.5	70.0
Swedish tax rate 22%	2.6	0.0
Taxes related to prior years, %	−0.6	0.7
Other, %	0.0	0.0
Effective tax rate, %	**23.5**	**90.7**

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014.

Notes to the balance sheet

P11. Fair values and carrying amounts of financial assets and liabilities and fair value levels	2018		2017	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash	506,897	506,897	523,801	523,801
Debt securities eligible for refinancing with central banks	815,095	815,757	633,789	634,313
Receivables from credit institutions	79,933	79,933	92,897	92,897
Receivables from the public and public sector entities	4,016,108	4,029,681	3,970,774	4,005,317
Shares and participations	2,563	2,563	531	531
Shares and participations in associated companies	20	20	0	0
Shares in subsidiaries	11,837	11,837	11,837	11,837
Derivative instruments	15,347	15,347	21,424	21,424
Total financial assets	**5,447,801**	**5,462,035**	**5,255,052**	**5,290,119**
Liabilities to credit institutions	250,254	250,254	206,306	206,518
Liabilities to the public	3,303,546	3,303,918	3,157,061	3,150,706
Debt securities issued	1,587,888	1,593,802	1,599,511	1,608,487
Derivative instruments	8,110	8,110	22,562	22,562
Subordinated liabilities	46,895	53,485	33,003	34,498
Total financial liabilities	**5,196,693**	**5,209,570**	**5,018,443**	**5,022,770**

	2018			
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	626,005			626,005
Receivables from the public and public sector entities		99,992		99,992
Shares and participations	21	4	2,538	2,563
Derivative instruments		15,347		15,347
Total	**626,026**	**115,343**	**2,538**	**743,907**
Liabilities to the public				
Debt securities issued		953,456		953,456
Derivative instruments	0	8,110		8,110
Subordinated liabilities		2,187		2,187
Total	0	**963,754**	**0**	**963,754**

	2017			
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	494,897			494,897
Receivables from the public and public sector entities		74,176		74,176
Shares and participations	23	4	504	531
Derivative instruments	0	21,424		21,424
Total	**494,920**	**95,604**	**504**	**591,027**
Liabilities				
Debt securities issued		704,755		704,755
Derivative instruments	0	22,562		22,562
Subordinated liabilities		7,794		7,794
Total	0	**735,111**	**0**	**735,111**

Level 1	Instruments with quoted market prices.
Level 2	Measurement techniques based on observable market data.
Level 3	Measurement techniques based on non-observable market data.

	2018	2017
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	504	486
New purchases	2,135	0
Divested/reached maturity during the year	−130	−4
Unrealised change in value in the income statement	0	−2
Unrealised foreign exchange valuation	11	
Change in value recognised in other comprehensive income	19	24
Carrying amount on December 31	**2,538**	**504**

No transfer occurred between Level 1 and Level 2.

P12. Assets and liabilities by currency

2018	EUR	SEK	USD	Others	Total
Cash and cash equivalents	412,136	94,523	52	187	506,897
Debt securities eligible for refinancing with central banks	501,315	286,998	21,748	5,034	815,095
Receivables from credit institutions	25,243	32,539	12,775	9,377	79,933
Receivables from the public	2,711,637	1,280,158	24,313	0	4,016,108
Derivative instruments	14,583	750	2	13	15,347
Other items not allocated by currency	132,230				132,230
Total assets	**3,797,143**	**1,694,968**	**58,890**	**14,610**	**5,565,611**
Liabilities to credit institutions	178,700	71,553	0	1	250,254
Liabilities to the public	2,222,819	1,009,217	61,697	31,946	3,325,680
Debt securities issued	1,051,819	536,069	0	0	1,587,888
Derivative instruments	7,357	747	5	2	8,110
Subordinated liabilities	27,392	19,503	0	0	46,895
Other items not allocated by currency, including equity capital	346,784				346,784
Total liabilities and equity capital	**3,834,870**	**1,637,089**	**61,702**	**31,949**	**5,565,611**
Other assets and liabilities allocated by currency as well as off-balance sheet items		57,906	−2,800	−17,410	
Net position in currencies (EUR)		−26	−13	71	32

2017	EUR	SEK	USD	Others	Total
Cash and cash equivalents	473,487	50,095	46	174	523,801
Debt securities eligible for refinancing with central banks	476,837	136,269	20,683	0	633,789
Receivables from credit institutions	16,157	31,027	15,790	29,923	92,897
Receivables from the public	2,663,798	1,282,144	24,832	0	3,970,773
Derivative instruments	17,501	3,917	0	6	21,424
Other items not allocated by currency	103,026				103,026
Total assets	**3,750,804**	**1,503,452**	**61,351**	**30,103**	**5,345,710**
Liabilities to credit institutions	141,133	63,106	458	1,608	206,306
Liabilities to the public	2,163,697	892,807	65,554	35,003	3,157,061
Debt securities issued	962,945	636,566	0	0	1,599,511
Derivative instruments	11,359	11,168	1	35	22,562
Subordinated liabilities	33,003	0	0	0	33,003
Other items not allocated by currency, including equity capital	327,267				327,267
Total liabilities and equity capital	**3,639,404**	**1,603,647**	**66,014**	**36,646**	**5,345,710**
Other assets and liabilities allocated by currency as well as off-balance sheet items		−100,163	−4,701	−6,563	
Net position in currencies (EUR)		−22	39	21	38

P13. Holdings of debt securities

2018	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks			
Holdings at fair value via other comprehensive income			
Government bonds	21,834	21,748	0
Covered mortgage bonds	363,695	368,791	89
Debt securities issued by credit institutions	179,204	181,352	101
Other debt securities	53,256	54,113	10
Holdings at amortised cost			
Government bonds	15,363	16,004	1
Covered mortgage bonds	119,941	122,471	34
Debt securities issued by credit institutions	31,326	31,649	69
Other debt securities	19,000	18,966	8
Total	**803,620**	**815,095**	**311**

The entire holding consists of publicly listed debt securities.

	2017	
	Nominal amount	Carrying amount
Debt securities eligible for refinancing with central banks		
Assets held for trading		
Covered mortgage bonds	45,200	45,506
Debt securities issued by credit institutions	29,800	31,585
Other debt securities	3,000	3,067
Holdings available for sale		
Government bonds	58,525	54,400
Covered mortgage bonds	227,476	230,993
Debt securities issued by credit institutions	122,106	124,271
Other debt securities	5,000	5,074
Assets held until maturity		
Government bonds	5,587	6,437
Covered mortgage bonds	91,800	93,241
Debt securities issued by credit institutions	19,611	20,245
Other debt securities	19,000	18,970
Total	**627,106**	**633,789**

The entire holding consists of publicly listed debt securities.

P14.Receivables from credit institutions	2018				2017		
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Total
Finnish credit institutions	2,357	0	0	2,357	8,973	0	8,973
Foreign banks and credit institutions	77,576	0	0	77,576	83,924	0	83,924
Total	**79,933**	**0**	**0**	**79,933**	**92,897**	**0**	**92,897**

P15. Receivables from the public and public sector entities	2018			2017		
	Gross carrying amount	Provision for expected loss (IFRS 9)	Net carrying amount	Gross carrying amount	Provision for expected loss (IAS 39)	Net carrying amount
Companies	612,063	–1,971	610,092	594,689	–3,347	591,341
Public sector entities	747	–1	746	1,524	0	1,524
Households	1,983,710	–7,190	1,976,520	1,953,867	–5,710	1,948,158
Household interest organisations	11,749	–1	11,747	11,939	0	11,939
Outside Finland	1,417,633	–630	1,417,003	1,418,078	–266	1,417,812
Total	**4,025,902**	**–9,793**	**4,016,108**	**3,980,097**	**–9,323**	**3,970,774**
of which subordinated receivables			1,594			2,481

P16. Shares and participations	2018	2017
Holdings recognised at fair value via other comprehensive income		
Listed	21	23
Unlisted	2,542	508
Total	**2,563**	**531**
Shares and participations in associated companies	20	0
Shares and participations in Group companies	11,837	11,837
Total shares and participations	**14,400**	**12,367**

P17. Derivative instruments

	Nominal amount/maturity			2018			2017		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	0	33,525	21,610	55,135	2,272	2,547	93,941	1,742	2,997
Interest rate futures	0	0	0	0	0	0	0	0	0
Interest rate options – purchased	0	0	0	0	0	0	0	0	0
Currency-related contracts									
Currency forward contracts	383,163	0	0	383,163	767	756	491,996	3,919	3,554
Equity-related contracts									
Equity options – purchased	0	0	0	0	0	0	4,505	1,211	0
Equity options – written	0	0	0	0	0	0	4,030	0	1,112
Other derivative contracts	0	0	0	0	0	0	8,062	0	0
Total	**383,163**	**33,525**	**21,610**	**438,298**	**3,039**	**3,303**	**602,534**	**6,872**	**7,663**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	104,660	869,627	78,421	1,052,708	12,309	4,807	770,905	14,551	7,248
Total	**104,660**	**869,627**	**78,421**	**1,052,708**	**12,309**	**4,807**	**770,905**	**14,551**	**7,248**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	0	0	0	0	0	0	50,793	0	7,210
Total	**0**	**0**	**0**	**0**	**0**	**0**	**50,793**	**0**	**7,210**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	0	0	0	0	0	0	54,501	0	441
Total	**0**	**0**	**0**	**0**	**0**	**0**	**54,501**	**0**	**441**
Total derivative instruments	**487,823**	**903,152**	**100,031**	**1,491,005**	**15,347**	**8,110**	**1,478,734**	**21,424**	**22,562**
of which cleared	104,660	899,839	97,001	1,101,500	13,007	7,030	854,941	14,688	9,712

Starting on January 1, 2018, derivatives are recognised together with their associated accrued interest. Comparative historical figures have been restated.

P18. Intangible assets

2018	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	1,462	29,642	31,934	634	63,671
Cost of intangible assets added	0	3,178	0	5,700	8,877
Divestments and disposals	0	−98	0	0	−98
Exchange rate effects	−14	−250	−739	0	−1,002
Cost on December 31	**1,448**	**32,472**	**31,195**	**6,334**	**71,448**
Accumulated amortisation and impairment losses on January 1	−104	−17,007	−18,703	0	−35,815
Divestments and disposals	0	98	0	0	98
Amortisation for the year	−207	−2,615	−4,233	−165	−7,221
Exchange rate effects	1	131	446	0	578
Accumulated amortisation and impairment losses on December 31	**−310**	**−19,394**	**−22,490**	**−165**	**−42,360**
Residual value on December 31	**1,137**	**13,077**	**8,705**	**6,169**	**29,088**

	2017				
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	1,064	25,927	32,496	522	60,009
Cost of intangible assets added	405	3,876	0	1,269	5,550
Transfers between items	0	0	0	–1,156	–1,156
Exchange rate effects	–7	–162	–562	0	–731
Cost on December 31	**1,462**	**29,642**	**31,934**	**634**	**63,671**
Accumulated amortisation and impairment losses on January 1	0	–14,913	–14,680	0	–29,592
Amortisation for the year	–105	–2,187	–4,347	0	–6,639
Exchange rate effects	1	92	323	0	416
Accumulated amortisation and impairment losses on December 31	**–104**	**–17,007**	**–18,703**	**0**	**–35,815**
Residual value on December 31	**1,357**	**12,634**	**13,230**	**634**	**27 856**

In the note, amounts for “Renovation in rented premises” have been reclassified from intangible to tangible assets, also for 2017.
”Other intangible assets” include acquired contracts.

P19. Tangible assets		2018			2017	
Investment properties			411			411
Properties for own use			12,951			13,886
Other tangible assets			1,770			2,005
Total			**15,132**			**16,303**
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	1,082	20,756	17,541	1,109	20,522	18,507
New acquisitions	0	0	141	0	69	367
Impairment losses	0	–2	0	0	0	0
Divestments and disposals	–501	–40	–1,955	–27	–959	–1,063
Transfer between items	0	0	0	0	1,126	0
Exchange rate effects	0	–2	–359	0	–1	–270
Cost on December 31	**581**	**20,712**	**15,368**	**1,082**	**20,756**	**17,541**
Accumulated depreciation on January 1	–671	–12,159	–15,535	–678	–11,989	–16,374
Depreciation for the year	0	–933	–352	0	–1,011	–438
Impairment losses for the year	0	–2	0	–19	–118	0
Divestments and disposals	501	42	1,944	27	960	1,014
Exchange rate effects	0	0	346	0	0	262
Accumulated depreciation on December 31	**–169**	**–13,051**	**–13,598**	**–671**	**–12,159**	**–15,535**
Revaluations on January 1		5,289			5,289	
Accumulated revaluations on December 31		**5,289**			**5,289**	
Carrying amount	**411**	**12,951**	**1,770**	**411**	**13,886**	**2,005**
of which buildings	0	12,712		0	13,647	
of which land and water	0	139		0	139	
of which shares in property companies	411	100		411	100	

The carrying amount for investment properties is the same as market value.
In the note, amounts for “Renovation in rented premises” have been reclassified from intangible to tangible assets, also for 2017.

P20. Other assets	2018	2017
Payment intermediation receivables	1,451	1,526
Receivables on mutual fund settlement proceeds	35,316	21,364
Accounts receivable	884	594
Other	8,163	2,955
Total	**45,814**	**26,438**

P21. Accrued income and prepayments	2018	2017
Accrued interest income	9,018	9,440
Other accrued income	14,282	8,083
Prepaid taxes	725	454
Other prepaid expenses	2,817	1,664
Total	**26,842**	**19,641**

P22. Deferred tax assets and liabilities	2018	2017
Deferred tax assets		
Provisions	25	206
Cash flow hedge	0	11
Fair value hedge	289	0
Hedging of net investment in foreign operations	0	88
Unused tax depreciation	100	103
Impairment losses	433	0
Debt securities measured via other comprehensive income	68	0
Shares and participations measured via other comprehensive income	0	4
Other	18	7
Total deferred tax assets	**933**	**420**
Deferred tax liabilities		
Financial assets measured via other comprehensive income		
Debt securities	0	465
Total deferred tax liabilities	**0**	**465**
Net deferred taxes	**933**	**−46**

Accumulated appropriations included a deferred tax liability of EUR 24,708 K (21,371).

	2018				
	Dec 31, 2017	Transitional effect, IFRS 9	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2018
Changes in deferred taxes					
Provisions	206		−181		25
Unused tax depreciation	103		−3		100
Other	7			11	18
Cash flow hedge	11			−11	0
Fair value hedge		289			289
Hedging of net investment in foreign operations	88			−88	0
Debt securities measured via other comprehensive income	−465			533	68
Shares and participations measured via other comprehensive income	4			−4	0
Impairment losses		433			433
Total	**−46**	**722**	**−184**	**441**	**933**

		2017		
	Dec 31, 2016	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2017
Changes in deferred taxes				
Provisions	35	171		206
Unused tax depreciation	103			103
Other	7			7
Cash flow hedge	45		–33	11
Hedging of net investment in foreign operations	191		–103	88
Debt securities available for sale	–444		–22	–465
Shares and participations available for sale	10		–6	4
Total	**–53**	**171**	**–164**	**–46**

P23. Liabilities to credit institutions	2018			2017		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		130,340	130,340
Finnish credit institutions	19,332	6,100	25,432	1,801	5,000	6,801
Foreign banks and credit institutions	65,218	29,264	94,482	56,546	12,619	69,165
Total	**84,550**	**165,704**	**250,254**	**58,347**	**147,959**	**206,306**

P24. Liabilities to the public	2018	2017
Companies	954,817	976,107
Public sector entities	63,944	100,605
Households	1,153,968	1,069,116
Household interest organisations	49,584	51,121
Outside Finland	1,103,366	960,112
Total	**3,325,680**	**3,157,061**

P25. Debt securities issued	2018		2017	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	121,344	121,364	158,472	158,477
of which at amortised cost	121,344	121,364	158,472	158,477
Covered bonds	1,111,440	1,116,687	1,328,537	1,331,581
of which at amortised cost	414,440	416,129	580,744	582,798
Of which fair value hedge	697,000	703,557	697,000	698,014
of which for cash flow hedge	0	0	50,793	50,770
Unsecured bonds	350,000	349,837	100,000	99,878
of which at amortised cost	100,000	99,938	100,000	99,878
Of which fair value hedge	250,000	249,899	0	0
Index bonds (structured products)	0	0	9,587	9,575
of which at amortised cost			3,588	3,588
Of which fair value hedge			5,999	5,987
Total	**1,582,784**	**1,587,888**	**1,596,597**	**1,599,511**

"Fair value hedge" refers to hedge accounting of the interest component in the debt security.

P26. Other liabilities	2018	2017
Payment transfer liabilities	19,357	19,927
Claims on securities settlement proceeds	15,948	19,330
Trade payables	1,551	1,845
Acquired contracts	5,000	
Other	12,966	5,945
Total	**54,821**	**47,047**

P27. Provisions	2018				2017		
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on January 1	251	0	779	1,031	175	0	175
Provisions on December 31 of the previous year		252		252			0
Transitional effect, IFRS 9	71	182	0	253	419	1,395	1,815
Amounts utilised	−285	0	−604	−890	−342	−600	−942
Unutilised amounts recovered	0	−369	−54	−417	2	0	2
Exchange rate changes	−3	−1	−31	−35	−3	−17	−20
Provisions on December 31	34	70	89	194	251	779	1,031

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. “Provision for off-balance sheet obligations” refers to expected credit losses related to guarantees issued and unutilised credit lines. “Other provisions” consist of severance pay.

P28. Accrued expenses and prepaid income	2018	2017
Accrued interest expenses	6,213	5,921
Other accrued expenses	10,719	10,471
Accrued taxes	1,715	0
Prepaid income	5,899	1,150
Total	**24,547**	**17,541**

P29. Subordinated liabilities	2018			2017		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2013	0	0	0	3,377	3,398	0
Debenture loan 1/2014	2,185	2,187	0	4,262	4,288	0
Debenture loan 2/2014	8,275	8,275	1,002	8,275	8,275	2,656
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,503	19,391	19,503	0	0	0
Total	**47,005**	**46,895**	**37,547**	**32,956**	**33,003**	**19,698**
Of which market value hedge	2,185	2,187	0	7,639	7,686	0

	Interest rate:	Repayment:
Debenture loan 1/2014	2.30% fixed interest	February 3, 2019
Debenture loan 2/2014	3.00% fixed interest	August 9, 2019
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Debenture loan 1/2016	3.75% fixed interest	August 12, 2036
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037
Debenture loan 1/2018	3-month Stibor +2.40%	May 15, 2038

Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank’s other obligations.

Debenture loans 1/2015, 1/2016, 1/2017 and 1/2018 were issued with write-down clauses. In the event that the Bank of Åland’s common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 25 per cent (debenture loan 1/2015) and 50 per cent (debenture loans 1/2016, 1/2017 and 1/2018), respectively.

P30. Maturity breakdown of assets and liabilities	2018								
	Undiscounted contractual cash flows								
	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Financial assets									
Cash and receivable from central banks	506,897								506,897
Debt securities eligible for refinancing with central banks		38,900	49,734	43,332	598,201	73,453		11,475	815,095
Receivables from credit institutions	79,933								79,933
Receivables from the public and public sector entities	197,497	131,782	151,868	300,696	1,518,019	664,909	1,059,531	-8,194	4,016,108
Shares and participations								14,420	14,420
Derivative instruments		753	533	2	9,016	5,043			15,347
Intangible assets								29,088	29,088
Tangible assets								15,132	15,132
Other assets								73,590	73,590
Total financial assets	**784,327**	**171,435**	**202,135**	**344,030**	**2,125,235**	**743,405**	**1,059,531**	**135,512**	**5,565,611**
Liabilities									
Liabilities to credit institutions	86,244	20,182	9,888	3,600	130,340				250,254
Liabilities to the public	3,125,364	119,833	18,395	47,928	14,160				3,325,680
Debt securities issued		170,652	133,580	87,764	1,190,788			5,104	1,587,888
Derivative instruments		753			4,375	2,982			8,110
Other liabilities								79,563	79,563
Subordinated liabilities		2,187		8,275			36,433		46,895
Equity capital and reserves								267,222	267,222
Total	**3,211,608**	**313,607**	**161,863**	**147,567**	**1,339,663**	**2,982**	**36,433**	**351,889**	**5,565,611**

	2017								
	Undiscounted contractual cash flows								
	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Financial assets									
Cash and receivable from central banks	523,801								523,801
Debt securities eligible for refinancing with central banks		25,179	47,736	38,343	424,461	87,232		10,837	633,789
Receivables from credit institutions	92,897								92,897
Receivables from the public and public sector entities	188,152	175,475	171,457	305,064	1,503,959	599,442	1,025,880	1,345	3,970,774
Shares and participations								12,368	12,368
Derivative instruments		3,634	1,019	798	4,065	7,187	1,077		21 424
Intangible assets								27,856	27,856
Tangible assets								16,303	16,303
Other assets								46,498	46,498
Total financial assets	**804,850**	**205,033**	**220,422**	**344,368**	**1,933,318**	**695,333**	**1,027,178**	**115,207**	**5,345,710**
Liabilities									
Liabilities to credit institutions	58,347	17,619			130,340				206,306
Liabilities to the public	2,758,302	276,759	16,527	79,454	26,019				3,157,061
Debt securities issued		99,797	96,557	172,154	881,744	347,000		2,259	1,599,511
Derivative instruments		3,866	7,807	1,161	1,208	7,180	1,340		22,562
Other liabilities								67,132	66,085
Subordinated liabilities		2,185		3,377	10,460		16,981		33,003
Equity capital and reserves								261,182	261,182
Total	**2,816,649**	**400,226**	**120,891**	**256,146**	**1,049,771**	**354,180**	**18,321**	**330,573**	**5,345,710**

P31. Claims on Group companies	2018	2017
Receivables from the public	22,349	21 643
Other assets	211	395
Accrued income and prepayments	16,523	3 027
Total	**39,083**	**25 064**

P32. Liabilities to Group companies	2018	2017
Liabilities to the public	22,175	8,896
Other liabilities	2,755	1,474
Accrued expenses and prepaid income	7,662	1,577
Total	**32,592**	**11,946**

Notes concerning staff, Board of Directors and Executive Team

P33. Salaries/fees paid to the Board of Directors and Executive Team		
	2018	2017
Lampi, Nils	54	55
Taxell, Christoffer	42	42
Ceder, Åsa	43	43
Karlsson, Anders Å	43	45
Persson, Göran	37	37
Valassi, Ulrika	45	47
Woivalin, Dan-Erik [1]	12	37
Wiklöf, Anders	37	37
Board members	312	343
Managing Director	405	357
Other members of the Executive Team	1,474	1,490

The amount includes the value of fringe benefits. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director are based on customary terms of employment.

[1] Resigned as Board member at the 2018 Annual General Meeting.

P34. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc

See the Board of Directors and Executive Team sections.

P35. Financial transactions with related parties

See Note G44 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P36. Assets pledged	2018	2017
Assets pledged for own liabilities		
Receivables from credit institutions	6,060	8,259
Government securities and bonds	115,505	141,425
Receivables from the public	1,614,798	1,989,354
Other	3,280	3,225
Total assets pledged for own liabilities	**1,739,643**	**2,142,263**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. “Lending to the public” that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. “Other assets pledged for own liabilities” refers mainly to endowment insurance.

	2018	2017
Other assets pledged		
Government securities and bonds	25,223	20,950
Other	16,521	22,301
Total other assets pledged	**41,743**	**43,251**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability are at the free disposal of the Bank.

P37. Off-balance sheet obligations	2018	2017
Guarantees	45,354	45,100
Unutilised overdraft limits	244,279	233,345
Unutilised credit card limits	5,075	4,618
Unutilised credit lines	131,177	142,353
Other commitments	14,494	13,897
Total	**440,380**	**439,313**
Guarantees for subsidiaries	2,003	5,538
Unutilised overdraft limits for subsidiaries	16,011	17,783

P38. Rental obligations	2018	2017
Rental payments due		
Under 1 year	2,519	2,567
More than 1 and less than 5 years	2,270	4,511
Total	4,789	**7,078**

Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

Other notes

P39. Subsidiaries and associated companies		2018	
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
Ab Compass Card Oy Ltd	Mariehamn	100	8,491
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2,505
S-Crosskey Ab	Mariehamn	60	
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
Ålandsbanken Fonder Ab	Mariehamn	100	
Ålandsbanken Fonder II Ab	Mariehamn	100	
Total			**11,837**
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	29	20
Total			**20**
Housing and real estate companies			
Properties for the Group's own use			
FAB Godby Center	Finström	11	100
Total			**100**
Investment properties			
FAB Horsklint	Kökar	20	12
FAB Nymars	Sottunga	30	30
FAB Västernäs City	Mariehamn	50	300
Total			**342**

P40. Distributable profit	2018	2017
Retained earnings	18,040	26,883
Unrestricted equity capital fund	27,271	27,122
Capitalised development expenditures	−1,137	−1,357
Total	**44,174**	**52,648**

Proposed allocation of profit

According to the financial statements, distributable profit – after subtracting capitalised development expenses – including the unrestricted equity capital fund is EUR 44,174,266.58, of which the profit for the financial year is EUR 4,198,427.34. No significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable profit of the Bank of Åland Plc, EUR 44,174,266.58, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2018, a dividend of EUR 0.70 per share,

totalling	10,830,179.50
To be carried forward as retained earnings	33,344,087.08

Mariehamn, March 1, 2019

Nils Lampi,
Chairman

Christoffer Taxell,
Deputy Chairman

Åsa Ceder

Anders Å Karlsson

Göran Persson

Ulrika Valassi

Anders Wiklöf

Peter Wiklöf,
Managing Director

Auditors' note

A report on the audit performed has been issued today.

Helsinki, March 1, 2019

Marcus Tötterman
KHT

Mari Suomela
KHT

Daniel Haglund
HT

Auditors' Report

This document is an English translation of the auditors' report in the Swedish language. Only the auditors' report in the Swedish language is legally binding.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the year ended December 31, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of changes in equity capital, cash flow statement and notes.

In our opinion

– the consolidated financial statements give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice, are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the Group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and understanding, the non-audit services that we have provided to the parent company and Group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note G 12 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was any evidence of management bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTERS – HOW THESE MATTERS WERE ADDRESSED IN THE AUDIT

Valuation of receivables from the public and public sector entities (Accounting Principles and Notes G3, G13, G21, P9, P15)

— Receivables from the public and public sector entities amounted to 4,022 million euros as at December 31, 2018. This comprises approximately 72 per cent of the Group's total assets.
— The Bank of Åland has applied IFRS 9 Financial Instruments to recognition of impairment losses on receivables as from January 1, 2018. The adoption resulted in shift from the calculation of impairment on an individual and collective basis to that of the expected credit loss calculated using models under IFRS 9.
— Calculation of expected credit losses involves assumptions, estimates and management judgment. For example, in respect of the probability and amount of the expected credit losses as well as determining the significant increases in credit risk.
— Due to the significance of the carrying amount involved, adoption of IFRS 9, complexity of the accounting methods used for measurement purposes and management judgement involved, receivables from the public and public sector entities are addressed as a key audit matter.

How the areas in question have been taken into account in the audit:

— We have reviewed and assessed the principles and controls applied for lending regarding approval, recognition and monitoring of loans and receivables. In addition, we have assessed the credit risk monitoring and impairment recognition principles applied. We utilised data analysis in our audit focusing on the lending process and loans.

— As regards adoption of IFRS 9, we assessed the models and the key assumptions for calculating expected credit losses as well as tested the controls related to the calculation process for expected credit losses. Our audit procedures included an analysis of the most significant individual impairments recognised during the financial period. Our IFRS and special instrument specialists were involved in the audit.
— Furthermore, we considered the appropriateness of the notes provided by the Bank of Åland in respect of loans and other receivables and expected credit losses, including the notes related to the IFRS 9 transition.

Net commission income and IT income (Accounting Principles and Notes G8 and P3)

– The assets managed by the Bank of Åland entitles to fee and commission income on the grounds of the agreements entered into with customers and the cooperation parties. The Group also derives IT income based on customer agreements. Commissions and IT income are a significant item in the Group's income statement.
— The calculation of commissions and IT income comprises manual phases and the determination of the commission amount and revenue recognition may involve management judgement.
— Due to the significance of the income amount and the judgement involved, net commission and IT income are considered a key audit matter.

How the areas in question have been taken into account in the audit:

— We assessed the methods used by the Bank of Åland for calculation of mutual fund and asset management commissions and IT income.
— Our review regarding the accounting of mutual fund and asset management commissions and IT income focused on controls in the billing and fee calculation processes. Our audit procedures involved an assessment of the functionality and effectiveness of these controls.
— Our audit procedures included testing of commission calculations on a sample basis, as well as an assessment of the underlying related agreements and fund statutes where fees have been defined. We utilised data analysis in our analysis of the charged fees.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the Group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the Group's internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the parent company or the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were appointed as auditors by the Annual General Meeting in 2013, and our appointment represents a total period of uninterrupted engagement of 6 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report. We have obtained the report of the Board of Directors and the Annual Report prior to the date of this auditors' report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 1, 2019

Marcus Tötterman
Authorised Public Accountant, KHT

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Mari Suomela
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Authorised Public Accountant, HT

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Corporate Governance Statement

Photo: Shutterstock

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2018.

Finnish Corporate Governance Code

The Finnish Corporate Governance Code ("the Code"), which is available on the website *www.cgfinland.fi*, is intended to be followed by companies listed on the Nasdaq OMX Helsinki ("Helsinki Stock Exchange"). The current Code went into effect on January 1, 2016 and replaced the previous Finnish Corporate Governance Code from 2010. The Code is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Mariehamn, Finland. The Bank is subject to the Finnish Companies Act and the Bank's Articles of Association as well as applying the Code. The Corporate Governance Statement has been prepared in compliance with the Code's reporting instructions and according to the Finnish Securities Market Act, Chapter 7, Section 7.

In applying the Code, the Bank departs from Recommendation 15, "Appointment of members to committees", since the Bank's Compensation Committee includes one co-opted member who is not a member of the Bank's Board of Directors. The co-opted member is also Chairman of the Committee. The purpose of this departure is to broaden the Compensation Committee's experience and expertise base on compensation matters. The need for outside expertise is assessed separately before each appointment date.

Board of Directors

COMPOSITION OF THE BOARD

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting (AGM). The Board's term of office ends at the closing of the next AGM after the election. The Board shall consist of at least five and at most eight members. During 2018, the Board consisted of seven members after Dan-Erik Woivalin resign as a Board member at the Annual General Meeting on April 5, 2018. The Managing Director may not be a member of the Board.

PRESENTATION OF BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

Composition of the Board, 2018

Name, main occupation and education	Year of birth Board members since what year Place of residence	Board members' shareholdings in the Bank on December 31, 2018 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies.
Nils Lampi, Chairman CEO, Wiklöf Holding Ab Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland	Series A shares: 500 Series B shares: 3,467
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland	Series A shares: 0 Series B shares: 1,833
Åsa Ceder Master of Science in Economics Actuary	Born 1965 Member since 2016 Mariehamn, Åland	Series A shares: 0 Series B shares: 0
Anders Å Karlsson Business owner Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland	Series A shares: 3,000 Series B shares: 1,500
Göran Persson Studies at Örebro University	Born 1949 Member since 2015 Flen, Sweden	Series A shares: 0 Series B shares: 30,000
Ulrika Valassi Business owner Master of Business Administration	Born 1967 Member since 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Anders Wiklöf Business owner Doctor of Economics (honorary) Commercial Counsellor	Born 1946 Member since 2006 Mariehamn, Åland	Series A shares: 1,768,534 Series B shares: 1,332,961
Dan-Erik Woivalin CEO, Ålands Ömsesidiga Försäkringsbolag Master of Laws Attorney at Law	Born 1959 Member from 2013 until April 5, 2018 Mariehamn, Åland	Series A shares: 0 Series B shares: 0

The Board's assessment of the independence of its members in relation to the Bank and major shareholders

In the assessment of the Board of Directors, the Chairman of the Board and all other Board members are independent of the Bank.

Christoffer Taxell, Anders Å Karlsson and Ulrika Valassi are also independent in relation to major shareholders. Nils Lampi, Chairman of the Board, is deemed to be dependent in relation to a major shareholder since he is CEO of Wiklöf Holding, which is a major shareholder in the Bank. Åsa Ceder is deemed to be dependent in relation to a major shareholder since during 2018 she was CEO of the pension insurance company Försäkringsaktiebolaget Pensions-Alandia, part of Alandia Försäkring, which is a major shareholder in the Bank. Göran Persson is deemed to be dependent in relation to a major shareholder in the Bank due to his position as a Board member of Wiklöf Holding Ab, which is a major shareholder in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank.

The work of the Board

The Board of Directors oversees the administration of the Bank's affairs and is responsible for ensuring that its operations are appropriately organised. The Board is also responsible for overall policy and strategy issues and for ensuring that risk oversight is sufficient and that management systems are working. The duties of the Board also include appointing and, if necessary, dismissing the Managing Director, his deputy and other members of the Executive Team, as well as deciding their salary benefits and other employment conditions. The Board shall constitute a quorum when more than half its members are present.

The Board has established Group-wide internal Rules of Procedure for its work. These Rules of Procedure, which are evaluated annually and revised as needed, mainly regulate the division of labour between the Board, the Managing Director and other members of the Executive Team.

The Board of Directors, which meets after being convened by the Chairman of the Board, regularly discusses the economic situation in the financial markets. Supported by the Managing Director's recurrent reports on operational activities, the Board monitors the strategy, financial outcomes and overall long-term objectives of the Bank's operations. Beyond this, the Board deals with other matters raised in compliance with the Annual Accounts Act, the Articles of Association and other regulations that affect the Bank's operations and administration, as well as matters referred by individual Board members and by the Executive Team.

Evaluation of the work of the Board

The Board of Directors conducts a yearly internal evaluation of its performance and its work. The evaluation includes a questionnaire in which each Board member assesses the work of the Board during the year. The Chairman of the Board also has individual conversations with each Board member. Led by the Chairman of the Board, the evaluation is also discussed and dealt with at a subsequent Board meeting, and decisions are made on actions to be taken as a result of the evaluation.

Board meetings

During 2018, the Board held 16 (16) meetings. The Board members' average attendance was 96 (95) per cent. During 2018, each Board member attended Board and committee meetings as follows:

Attendance at Board meetings, 2018

Board member	Board meetings Total number: 16 Number until 2018 AGM: 4
Nils Lampi	16/16
Christoffer Taxell	16/16
Åsa Ceder	16/16
Anders Å Karlsson	16/16
Göran Persson	14/16
Ulrika Valassi	16/16
Anders Wiklöf	14/16
Dan-Erik Woivalin	4/4

Diversity principles

The Bank of Åland seeks a good balance in the allocation of Board members, with an equal allocation between the genders. Both genders shall thus be represented in the proposal that is presented on the occasion of each nomination as a new Board member.

The committees of the Board

NOMINATION COMMITTEE

The main duty of the Nomination Committee is to prepare proposals before the AGM regarding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

Rules on how the Nomination Committee is appointed were established by the 2015 AGM. The Nomination Committee consists of four members: the Chairman of the Board and representatives of the three largest shareholders in the Bank in terms of voting power on November 1 of each year. If the Chairman of the Board represents any of the above shareholders, or in case a shareholder abstains from participating in the Nomination Committee, the right of membership is transferred to the next largest shareholder. The representative of the largest shareholder in terms of voting power is Chairman of the Nomination Committee.

The Nomination Committee consists of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Roger Lönnberg, representing the insurance company Alandia Försäkring; and Dan-Erik Woivalin, representing Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is Chairman of the Nomination Committee.

During 2018 the Nomination Committee met 3 (1) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Nomination Committee meetings, 2018

Member	Nomination Committee meetings Total number: 3 Number until 2018 AGM: 3
Nils Lampi	3/3
Anders Wiklöf, *Chairman of the Committee*	3/3
Roger Lönnberg	3/3
Dan-Erik Woivalin	3/3

AUDIT COMMITTEE

The Board of Directors, which appoints the members of the Audit Committee, has established its duties in Rules of Procedure. The Audit Committee assists the Board, among other things, in fulfilling its duties in overseeing the internal control and risk management systems, reporting, the audit process and observance of laws and regulation. In addition, before the AGM the Audit Committee prepares proposals for the election of auditors and their fees. The Chairman of the Audit Committee reports regularly to the Board about the work and observations of the Committee.

The Audit Committee consists of Nils Lampi, Chairman of the Board; and Board members Åsa Ceder, Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. During 2018 the Audit Committee met 8 (9) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Audit Committee meetings, 2018

Member	Audit Committee meetings Total number: 8 Number until 2018 AGM: 3
Nils Lampi	8/8
Åsa Ceder	8/8
Anders Å Karlsson	8/8
Ulrika Valassi, *Chairman of the Committee*	8/8

COMPENSATION COMMITTEE

The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

The Compensation Committee consists of Nils Lampi, Chairman of the Board; Board member Christoffer Taxell and former Board member Agneta Karlsson as a co-opted member and Chairman of the Committee.

During 2018 the Compensation Committee met 3 (3) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Compensation Committee meetings, 2018

Member	Audit Committee meetings Total number: 3 Number until 2018 AGM: 1
Nils Lampi	3/3
Christoffer Taxell	3/3
Agneta Karlsson, *Chairman of the Committee*	3/3

Managing Director

Since 2008 the Managing Director of the Bank has been Peter Wiklöf, Master of Laws (born 1966). The Managing Director's shareholdings in the Bank can be seen in the table to the right.

Among other things, the Managing Director is responsible for the day-to-day administration of the Bank and for ensuring that this is managed in compliance with law, the Articles of Association, other regulations and the instructions and directions of the Board. In addition, the Managing Director is responsible for ensuring that the decisions of the Board are implemented. The Managing Director reports regularly to the Board.

The Managing Director is appointed and dismissed by the Board of Directors. His employment conditions are established in a written contract that is approved by the Board.

The Group's Executive Team – other members

The Board appoints the other members of the Group-wide Executive Team.

The other members of the Executive Team advise the Managing Director, and the Executive Team deals with all major Bank-wide issues.

The Executive Team consists of the heads of the Bank's business areas and corporate units.

Their shareholdings in the Bank can see seen in the table to the right.

During 2018 the Executive Team met on 13 (12) occasions.

DISCLOSURES ABOUT EXECUTIVE TEAM MEMBERS, INCLUDING THE MANAGING DIRECTOR, AND THEIR SHAREHOLDINGS IN THE BANK

The Group-wide Executive Team, 2018

Composition of the Executive Team and its members' areas of responsibility	Education Year of birth Executive Team member since what year	Shareholdings in the Bank on December 31, 2018 (direct ownership or via companies which the person controls). There are no shareholdings in other Bank of Åland Group companies.
Peter Wiklöf Managing Director, Chief Executive Chairman of the Executive Team	Master of Laws Born 1966 Member since 2008	Series A shares: 500 Series B shares: 21,412
Jan-Gunnar Eurell Chief Financial Officer Deputy Managing Director	Bachelor of Science (Economics) Master of Business Administration Born 1959 Member since 2011	Series A shares: 0 Series B shares: 24,164
Tove Erikslund Chief Administrative Officer	Master of Business Administration Born 1967 Member since 2006	Series A shares: 0 Series B shares: 3,732
Magnus Johansson Director, Sweden Business Area	Bachelor of Science (Economics) Born 1972 Member since 2017	Series A shares: 0 Series B shares: 14,198
Mikael Mörn Director, Åland Business Area	Associate of Arts in Commerce Born 1965 Member since 2017	Series A shares: 0 Series B shares: 2,871
Juhana Rauthovi Chief Risk & Compliance Officer	Licentiate in Laws, M.Sc. (Econ.), M.Sc. (Tech.) Master in International Management Born 1975 Member since 2012	Series A shares: 0 Series B shares: 8,774
Anne-Maria Salonius Director, Finnish Mainland Business Area	Master of Laws Attorney at Law Born 1964 Member since 2010	Series A shares: 0 Series B shares: 3,627

EVALUATION OF THE WORK OF THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

The Board of Directors, led by the Chairman of the Board, evaluates the work of the Managing Director and the rest of the Executive Team yearly. The Managing Director and other members of the Executive Team do not attend this evaluation.

Internal controls and risk management systems related to the financial reporting process

GENERAL

Internal controls and risk management in the financial reporting process are an integral element of operational systems and daily routines. To achieve this integration, the Group employs clear and easily accessible internal instructions. In developing new systems, products, services and/or routines, internal controls are taken into account.

The organisation has clearly defined responsibilities and powers as well as clear reporting mechanisms.

FINANCIAL REPORTING PROCESS

The fundamental principles of internal controls in the financial reporting process are a clear allocation of roles as well as instructions and an understanding of how financial results are achieved.

The Group's reporting is compiled centrally by Group Finance. This department is responsible for the consolidated accounts and the consolidated financial statements, accounting principles, policy documents and instructions, financial control systems, tax analysis, reporting to regulatory authorities and publication of financial information. The respective subsidiaries are responsible for ensuring that their accounts meet the Group's standards, and they report monthly to their company's management and Group Finance.

The Internal Auditing Department assists the external auditors with the examination of financial information in accordance with an audit plan drawn up in advance. Internal Auditing is an independent unit and works on behalf of the Board of Directors.

External auditors examine the Group's interim reports, half-year financial report, Annual Report and Corporate Governance Statement and submit an auditors' report to the Audit Committee and to the Group's Board of Directors.

The Group's Executive Team deals with the Group's internal financial reporting every month and with the interim reports, half-year financial report or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examining the quarterly financial reports, the half-year financial report and the annual financial statements, as well as dealing with the observations of the external and internal auditors.

The Board of Directors deals with interim reports, the half-year financial report or the Annual Report every quarter and receives the Group's internal financial reporting every month. The Board also examines the auditors' reports, audit plans and conclusions of the external auditors concerning interim reports, the half-year financial report and the Annual Report. The Board's Audit Committee meets with the external auditors quarterly.

RISK MANAGEMENT

The Group's ambition is to pursue its operations with reasonable and carefully considered risks. Its profitability directly depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the Group's reputation as well as contribute to higher profitability and shareholder value.

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses receivables from private individuals, companies, institutions and the public sector. These receivables mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring, compliance with regulations, portfolio analysis and the loan granting process. This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Management. The Risk Office is also responsible for informational and corporate security in the Group.

The corporate unit also ensures that risks and risk management live up to the Bank's risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. The Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the regulations and instructions of the Finnish Financial Supervisory Authority and legislation, the main foundations of the Group's risk management are the European Union's Capital Requirements Directive and Regulation, which are based on the regulations of the Basel Committee. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the "Capital and risk management report" section of the Group's Annual Report.

LENDING STRUCTURE

At the Bank, the Premium Banking and Private Banking units are responsible for their respective loans via mandates. Those employees who work with lending have personal loan granting limits for those customers that they are responsible for. In Åland there is also a corporate lending unit. Customer and loan responsibility rests with the head of the unit along with those responsible for employees according to the above-mentioned structure. If larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units due to their size. The largest commitments are decided by the Bank's Board of Directors.

COMPLIANCE

Monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance Department, with a focus on customer protection, behaviour in the market, combating money laundering and the financing of terrorism as well as permitting and regulatory matters. The Compliance Department regularly reports its observations to the Bank's Executive Team and Board of Directors.

Internal Auditing

The Internal Auditing Department is an independent department that reports directly to the Board of Directors.

The purpose of internal auditing work is to provide the Board and the Executive Team with objective and independent assessments of operational activities, operational business and management processes and the Group's risk management, governance and controls.

Internal Auditing reports regularly to the Board, the Audit Committee and the Executive Team. The Board adopts a yearly plan for internal auditing work.

Special decision making procedure concerning related party transactions

Decisions on loans to related parties who are entitled to the employee interest rate are made by the Bank's Board of Directors.

Insider administration

In their capacities as an investment firm and a fund management company, respectively, the Bank of Åland and its subsidiary Ålandsbanken Fondbolag maintain insider registers of persons who are classified as insiders in the respective companies in accordance with the Act on Investment Services or the Act on Mutual Funds. The holdings of these insiders in listed Finnish securities are public information. Their holdings are updated automatically in the insider registers. Holdings of insiders at Ålandsbanken Fondbolag in that company's mutual funds are also public information.

Starting on July 3, 2016, when the European Union's Market Abuse Regulation entered into force, the Bank – in its capacity as a listed company – only maintains project-specific insider lists. These project-specific insider lists are established immediately when information that the Bank deems insider information arises. Persons included on project-specific insider lists are prohibited from trading in the Bank's financial instruments as long as they are included on such a list. The Bank does not maintain any permanent insider list, or any list of persons who participate in the preparation of interim reports and annual accounts. According to the EU's Market Abuse Regulation, persons discharging managerial responsibilities at the Bank and persons closely associated with them are obligated to immediately report their transactions in the Bank's financial instruments. The Bank publishes stock exchange releases on these transactions.

In accordance with the EU's Market Abuse Regulation and the insider regulations of the Helsinki Stock Exchange, the Bank of Åland Group has introduced a trading restriction, under which persons in management positions as well as all Group employees may not trade in the Bank's financial instruments during a 30-day period before and including the publication date of the Bank's financial reports. The trading restriction also includes minors for whom persons in management positions or Group employees are guardians, as well as organisations in which people in management positions or Group employees have a controlling influence.

The Bank has a silent period of at least 14 days prior to the publication of an interim report or year-end report.

For employees who participate in providing investment services, the Bank also applies Group-wide trading restrictions that are based on the trading rules established by such professional organisations as Finance Finland, the Swedish Securities Dealers Association and the Swedish Investment Fund Association.

The Bank's Legal Affairs Department regularly monitors information reported to the insider register and insider lists, as well as information about people in management positions and their related parties. The Bank's Compliance Department regularly monitors employee compliance with the trade restrictions in force.

Auditors

According to its Articles of Association, the Bank shall have at least three auditors and the necessary number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest AGM in 2018 re-elected Marcus Tötterman and Mari Suomela, Authorised Public Accountants (CGR), and Daniel Haglund, Authorised Public Accountant (GR), as auditors. The auditing firm of KPMG Oy Ab was re-elected as deputy auditor.

During 2018, Group companies paid a total of EUR 357,895 (337,711) including value-added tax for auditing fees. In addition, they paid EUR 151,750 (129,736) including VAT for consulting assignments performed by KPMG Oy Ab.

Compensation to the Board, Managing Director and other Executive Team members

The Bank's compensation statement, including its compensation report for 2018, has been published in Swedish and Finnish on the Bank's website, *www.alandsbanken.fi*.

Board of Directors

Nils Lampi

CHAIRMAN

CEO, Wiklöf Holding Ab
Bachelor of Economic Sciences
Born 1948
Chairman of the Board since 2013
Board member since 2013

Christoffer Taxell

DEPUTY CHAIRMAN

Master of Laws
Born 1948
Deputy Chairman of the Board since 2013
Board member since 2013

Åsa Ceder

Master of Science in Economics
Actuary
Born 1965
Board member since 2016

Anders Å Karlsson

Business owner
Bachelor of Commerce
Born 1959
Board member since 2012

Göran Persson

Born 1949
Board member since 2015

Ulrika Valassi

Business owner
Master of Business Administration
Born 1967
Board member since 2015

Anders Wiklöf

Business owner
Doctor of Economics (honorary), Commercial Counsellor
Born 1946
Board member since 2006

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website *www.alandsbanken.fi*

Executive Team

Peter Wiklöf

Managing Director. Chief Executive
Master of Laws
Born 1966
Chairman and member of the Executive Team since 2008

Jan-Gunnar Eurell

Chief Financial Officer. Deputy Managing Director
Master of Business Administration, Bachelor of Science (Economics)
Born 1959
Member of the Executive Team since 2011

Tove Erikslund

Chief Administrative Officer
Master of Business Administration
Born 1967
Member of the Executive Team since 2006

Magnus Johansson

Director, Sweden Business Area
Bachelor of Science (Economics)
Born 1972
Member of the Executive Team since 2017

Mikael Mörn

Director, Åland Business Area
Associate of Arts in Commerce
Born 1965
Member of the Executive Team since 2017

Juhana Rauthovi

Chief Risk & Compliance Officer
Licentiate in Laws, MSc (Econ), MSc (Tech),
Master in International Management
Born 1975
Member of the Executive Team since 2012

Anne-Maria Salonius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws
Born 1964
Member of the Executive Team since 2010

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website *www.alandsbanken.fi*

Definitions

ACTIVELY MANAGED ASSETS
Managed assets in the Bank's own mutual funds plus securities custodial accounts with discretionary and advisory asset management agreements.

ALTERNATIVE PERFORMANCE MEASURES
Alternative performance measures are financial metrics of historical or future earnings developments, financial position or cash flow that have not been defined in applicable accounting regulations (IFRSs) or capital requirements regulations (CRD/CRR).

The Bank of Åland uses alternative performance measures when they are relevant in order to monitor and describe the Bank's financial situation, to facilitate comparability between periods and to provide additional usable information to the readers of its financial reports.

These measures are not necessarily comparable to similar financial metrics that are presented by other companies.

CAPITAL COVER RATIO
Own funds divided by risk exposure amount.

COMMON EQUITY TIER 1 (CET1) CAPITAL
Equity capital excluding proposed dividend, deferred tax and intangible assets and certain other adjustments according to the European Union's Capital Requirements Regulation No. 575/2013 (CRR).

COMMON EQUITY TIER 1 (CET1) CAPITAL RATIO
Common equity Tier 1 (CET1) capital divided by risk exposure amount. Replaces "core Tier 1 capital" concept.

CORE FUNDING RATIO
Receivables from the public divided by deposits including certificates of deposit, index bonds and debentures issued to the public plus covered bonds issued.

EARNINGS PER SHARE
Shareholders' portion of earnings for the period divided by average number of shares.

EQUITY/ASSETS RATIO
Equity capital as a percentage of balance sheet total.

EQUITY CAPITAL PER SHARE
Shareholders' portion of equity capital divided by number of shares less own shares on closing day.

EXPECTED CREDIT LOSS (ECL)
The present value of expected future credit (loan) losses on financial assets. ECL is a product of PD, LGD and exposure at default.

EXPENSE/INCOME RATIO
Total expenses divided by total income.

GROSS EQUITY/ASSETS RATIO
Tier 1 capital divided by balance sheet total plus certain off-balance sheet items recalculated using conversion factors defined in the standardised approach.

GROSS RECEIVABLES FROM THE PUBLIC IN STAGE 3, %
Gross receivables from the public in Stage 3, divided by receivables from the public before provisions for impairment losses.

INVESTMENT MARGIN
Net interest income as percentage of average balance sheet total.

LEVEL OF PROVISIONS FOR RECEIVABLES FROM THE PUBLIC IN STAGE 3
Provisions for impairment losses in Stage 3 as a percentage of gross receivables from the public in Stage 3.

LIQUIDITY COVERAGE RATIO (LCR)
High-quality liquid assets as a percentage of estimated net liquidity outflow during a 30-day period.

LOAN/DEPOSIT RATIO
Receivables from the public divided by deposits from the public.

LOAN LOSS LEVEL
Net impairment losses on loan portfolio and other commitments in receivables from the public divided by receivables from the public at the beginning of the period.

LOSS GIVEN DEFAULT (LGD)
LGD specifies the percentage of loss in an exposure, in the event of a default.

NET STABLE FUNDING RATIO (NSFR)
Available stable funding as a percentage of necessary stable funding.

OWN FUNDS (REPLACES CAPITAL BASE CONCEPT)
Total of Tier 1 capital and Tier 2 (supplementary) capital.

PAYOUT RATIO
Dividend per share as a percentage of earnings per share.

PROBABILITY OF DEFAULT (PD)
The probability that a counterparty or a contract will default within 12 months.

RETURN ON EQUITY AFTER TAXES (ROE)
Profit for the report period attributable to shareholders divided by average shareholders' portion of equity capital.

RISK EXPOSURE AMOUNT
Assets and off-balance sheet commitments, risk-weighted according to capital adequacy regulations for credit risk and market risk. Operational risks are calculated and expressed as risk exposure.

TIER 1 CAPITAL
Common equity Tier 1 (CET1) capital including certain loss-absorbing subordinated debentures ("additional Tier 1 capital").

TIER 2 (SUPPLEMENTARY) CAPITAL
Mainly subordinated debentures that do not meet requirements to be included as additional Tier 1 capital.

* Average of 13 end-of-month figures.

Stock exchange releases, 2018

JANUARY

January 3, 2018	Managers' transactions (Ålandsbaronen Ab)
January 3, 2018	Managers' transactions (Wiklöf Holding Ab)

FEBRUARY

February 13, 2018	Year-end Report for the period January–December 2017
February 19, 2018	Managers' transactions (Eurell)
February 19, 2018	CORRECTION: Managers' transaction (Eurell)
February 22, 2018	Managers' transactions (Eurell)
February 22, 2018	Managers' transactions (Taxell)
February 26, 2018	Managers' transactions (Lampi)

MARCH

March 2, 2018	Managers' transactions (Eurell)
March 5, 2018	Managers' transactions (Eurell)
March 5, 2018	Managers' transactions (Eurell)
March 6, 2018	Managers' transactions (Eurell)
March 6, 2018	The 2017 Annual Report of the Bank of Åland Plc
March 6, 2018	Targeted issue of Series B shares for implementation of incentive programme
March 12, 2018	Notice to convene the Annual General Meeting
March 14, 2018	Managers' transactions (Lampi)
March 15, 2018	Managers' transactions (Wiklöf Holding Ab)
March 16, 2018	Managers' transactions (Eurell)
March 16, 2018	Managers' transactions (Eurell)
March 19, 2018	Managers' transactions (Baven AB)
March 29, 2018	Managers' transactions (Eurell)
March 29, 2018	Managers' transactions (Erikslund-Henriksson)
March 29, 2018	Managers' transactions (Johansson)
March 29, 2018	Managers' transactions (Wikköf)
March 29, 2018	Managers' transactions (Rauthovi)

APRIL

April 3, 2018	Managers' transactions (Salonius)
April 5, 2018	Decisions at the 2018 Annual General Meeting of the Bank of Åland Plc
April 5, 2018	Targeted issue of Series B shares for implementation of incentive programme
April 23, 2018	Managers' transactions (Wiklöf)
April 25, 2018	Interim Report for the period January–March 2018
April 27, 2018	Managers' transactions (Eurell)
April 27, 2018	Managers' transactions (Wiklöf)
April 30, 2018	Managers' transactions (Lampi)

MAY

May 7, 2018	Managers' transactions (November Sierra Ab)
May 7, 2018	Managers' transactions (Mike Bravo Ab)
May 7, 2018	Managers' transactions (Wiklöf Holding Ab)
May 7, 2018	Disclosure of change in shareholdings pursuant to Chapter 9, Section 10 of the Securities Markets Act
May 16, 2018	Notification of an application for the admission of a security to trading in a regulated market
May 23, 2018	Managers' transactions (Mörn)

JUNE

June 11, 2018	Managers' transactions (Lampi)

JULY

July 20, 2018	Half-Year Financial Report for the period January–June 2018
July 26, 2018	Standard & Poor's raises outlook of Bank of Åland Plc

SEPTEMBER

September 3, 2018	Change in the number of Series B shares and votes in the Bank of Åland
September 5, 2018	Managers' transactions (Mörn)
September 5, 2018	Managers' transactions (Rauthovi)
September 5, 2018	Managers' transactions (Eurell)
September 6, 2018	Managers' transactions (Salonius)
September 6, 2018	Managers' transactions (Erikslund)
September 7, 2018	Managers' transactions (Wiklöf)
September 7, 2018	Managers' transactions (Johansson)
September 13, 2018	Notification of an application for the admission of a security to trading in a regulated market
September 18, 2018	Bank of Åland Plc to lower prime rate
September 21, 2018	Financial information and Annual General Meeting, 2019

OCTOBER

October 23, 2018	Interim Report for the period January–September 2018

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