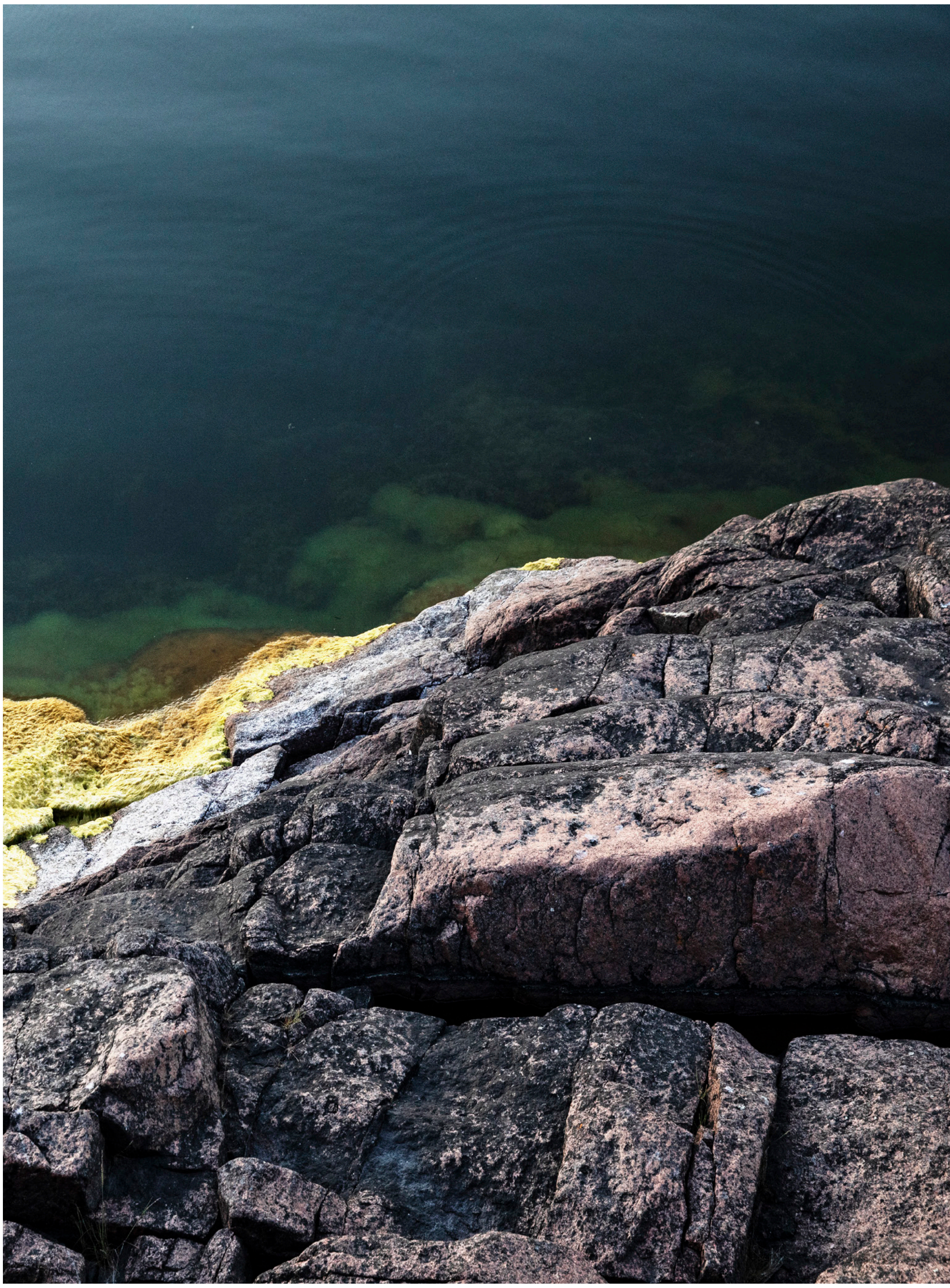
Capital and risk management report 2021

Bank of Åland Plc



ÅLANDSBANKEN

Table of contents

List of tables

Report concerning risk management and capital adequacy

The Bank of Åland (Ålandsbanken) was founded in 1919 and has been listed on the Helsinki Stock Exchange (now the Nasdaq Helsinki Oy) since 1942. The Bank's registered office is in Mariehamn, Åland. In addition to its banking operations in the Åland Islands, the Bank also carries out operations on the Finnish mainland (6 offices) and in Sweden (3 offices). Two subsidiaries, Ålandsbanken Fondbolag Ab and Crosskey Banking Solutions Ab, whose operations are connected in various ways to banking operations, belong to the Bank of Åland Group.

1. Introduction

In the Bank of Åland's report concerning risk management and capital adequacy (Pillar 3 report), 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 Crosskey Banking Solutions Ab Ltd and Ålandsbanken Fondbolag Ab. Ålandsbanken Fondbolag Ab is 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, 2021, unless otherwise stated. Comparative figures refer to the preceding year-end.

The Bank of Åland follows the guidelines of the European Banking Authority (EBA) on the disclosure requirements in Part Eight of the 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 Section 8.7 of the Regulation and Guidelines 2/2016 of the Finnish Financial Supervisory Authority (FIN-FSA).

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.

2. The Board's risk management statement and a brief risk declaration

The Bank aims at achieving operations with reasonable and carefully considered risks. The Bank's risk profile is described in more detail in Chapter 3. The Bank's risk management framework is established by the Board of Directors.

The Bank's earnings and capital adequacy are mainly affected by the performance of the fixed income and stock markets, business volumes, deposit and lending margins, the structure of the balance sheet, impairment losses and cost-effectiveness. New regulatory requirements, new technical solutions plus the actions of new and old competitors also have a significant impact. Sudden occurrences of operational or credit risks may give rise to fluctuations in earnings from banking operations. Business risks in the form of new operating conditions are managed through diversification of revenue sources and other measures.

Credit risk accounts for 89 per cent of the total risk exposure amount (REA) and thus constitutes the bank's largest risk area. Credit risks are limited by means of a comprehensive risk management framework that applies to all levels of decision-making in connection with lending, as well as by means of risk limits. Low risk is achieved, among other things, through responsible lending to customers with good repayment capacity that the Bank has good knowledge of. This is supplemented with good collateral.

Mortgage loans, which are usually associated with low risk, are the Bank's largest lending segment. At the end of 2021, mortgage operations accounted for 65 per cent of total lending. The Bank's credit exposures are generally characterised by low risk, which is confirmed by the results of regular stress tests and low historical loan loss levels. The total loan loss level for 2021 was 0.12 per cent. The historical average for the period 2000–2021 was 0.08 per cent. The Bank is authorised to use an internal risk classification system for calculating capital requirements for credit exposures in Finland. The effects of the COVID-19 pandemic on credit quality have so far been small. However, the long-term effects of the pandemic may be difficult to predict and may occur with some delay, which is why at the end of 2021 the bank continued to hold a special impairment provision of financial assets in response to this uncertainty.

From a Pillar 1 perspective, operational risk is the Bank's second largest risk area and accounts for approximately 11 per cent of the total risk exposure amount. The Bank's risk appetite for operational risk is generally low, that is, such risks must be prevented and limited to what is financially justified.

No operational risk shall pose a threat to operations that are subject to permits or threaten consumer protection for Bank of Åland customers. The ongoing COVID-19 pandemic has affected the Bank's operations as well as its customers and employees. The pandemic has been taken into account in risk mapping and continuity planning. Measures have also been taken to protect the Bank's customers, for example, in customer premises.

To ensure sufficient capitalisation in relation to operational risks, one of the Bank's long-term financial targets is that the common equity Tier 1 (CET1) capital ratio shall exceed FIN-FSA's minimum requirement by 1.75 to 3.0 percentage points. This reflects the Bank's conservative view of risk. The CET1 ratio was 12.1 per cent at the end of 2021, exceeding the minimum requirement by 4.5 percentage points. The total capital ratio was 15.4 per cent, and the leverage ratio was 4.3 per cent. The leverage ratio exceeded the adjusted minimum requirement under Article 429a (7) by approximately 3.3 per cent (excluding central bank exposures). The leverage ratio requirement was implemented when CRR2 went into effect.

To ensure access to liquidity even during periods of disruption in the financial system, the bank maintains a liquidity reserve, whose size and composition must ensure that internal limits and regulatory requirements are met. In addition, the Bank's borrowing must be characterised by a well-diversified instrument and maturity structure. Liquidity risk is limited both by regulatory requirements, such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and by the Bank's internal metric for its survival horizon, which shows the number of days of a positive liquidity position taking into account all future cash flows in the balance sheet. The Bank's liquidity position was strong throughout 2021. All Group key ratios exceeded both internal and regulatory requirements. Capital and liquidity stress tests were conducted to identify and analyse the potential impact of dramatic but possible external changes. The stress tests confirm that the Bank's financial position and risk profile provide sufficient resilience to handle difficult economic conditions.

The Bank's risk appetite for market risk is low. This is expressed by means of an extensive limit structure which, among other things, limits net interest income risk and value change risk in the event of unfavourable interest rate changes. The Bank does not engage in trading for its own account.

Climate risk is an emerging risk that will become more and more important. At the same time, the expectations of supervisory authorities are becoming increasingly clear. The Bank has begun the task of identifying significant climate risks in its business model and integrating these as a natural element of risk management.

The Bank submits a Corporate Governance Statement in conjunction with the Report of the Directors in the Annual Report. In the Corporate Governance Statement, the Bank provides an account of its compensation system and thereby fulfils the disclosure requirements in Article 450 of the CRR.

In accordance with Article 431 (3) of the CRR, the Bank's Board of Directors has adopted a formal policy document to ensure compliance with the disclosure requirements of the Regulation. By approving this policy document and the Bank's Pillar 3 information each year, the Board ensures that the information provided in this section is satisfactory and gives market participants a comprehensive picture of the Bank's risk profile.

THE BOARD'S STATEMENT

The Bank of Åland's Board of Directors has approved this risk declaration and confirms that the Bank has sufficient arrangements in place to ensure an adequate and appropriate risk management system, taking into account the risk profile and business strategy of its operations.

Table 2.1

EU KM1, Key metrics template	2021	2020	2019	2018	2017
EUR M					
Available own funds (amounts)					
Common equity Tier 1 (CET1) capital	239	239	212	204	198
Tier 1 capital	268	239	212	204	198
Total capital	305	276	249	242	219
Risk-weighted exposure amounts					
Total risk-weighted exposure amount	1,976	1,671	1,583	1,578	1,538
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common equity Tier 1 ratio, %	12.1	14.3	13.4	13	12.9
Tier 1 ratio, %	13.6	14.3	13.4	13	12.9
Total capital ratio, %	15.4	16.5	15.8	15.4	14.2
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
Additional own funds requirements to address risks other than the risk of excessive leverage, %	1.0	1.5	1.5	1.5	1.5
of which: to be made up of CET1 capital (percentage points)	0.56	1.5	1.5	1.5	1.5
of which: to be made up of Tier 1 capital (percentage points)	0.75	1.5	1.5	1.5	1.5
Total SREP own funds requirements, %	9.0	9.5	9.5	9.5	9.5
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer, %	2.5	2.5	2.5	2.5	2.5
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State, %					
Institution-specific countercyclical capital buffer, %	0.0	0.0	1.2	1.0	0.9
Systemic risk buffer, %	0.0	0.0	1.0	1.0	0.9
Global systemically important institution buffer, %					
Other systemically important institution buffer, %					

Combined buffer requirement, %	2.5	2.5	4.7	3.5	3.8
Overall capital requirements, %	11.5	12.0	14.2	13.0	13.3
CET1 available after meeting the total SREP own funds requirements, %	5.1	7.3	4.2	5.0	4.6
Leverage ratio					
Total exposure measure	6,273	5,625	5,663	5,636	5,440
Leverage ratio, %	4.3	4.2	3.7	3.6	3.6
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
Additional own funds requirements to address the risk of excessive leverage, % *of which: to be made up of CET1 capital (percentage points)*					
Total SREP leverage ratio requirements, %					
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
Leverage ratio buffer requirement, %					
Overall leverage ratio requirement, %					
Liquidity coverage ratio					
Total high-quality liquid assets (HQLA) (Weighted value – average)	1,265	1,118	1,013	1,053	926
Cash outflows - Total weighted value	945	811	853	1,023	867
Cash inflows - Total weighted value	112	108	123	147	217
Total net cash outflows (adjusted value)	833	703	730	876	650
Liquidity coverage ratio, %	152	159	139	120	142
Net stable funding ratio					
Total available stable funding	4,700	4,109	3,975	3,873	3,689
Total required stable funding	4,328	3,868	3,448	3,435	3,368
NSFR ratio, %	109	106	115	113	110

3. Risks in the Bank's operations

3.1 RISK PROFILE AND RISK APPETITE

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. Consequently, its main risks consist of business risk, credit risk, liquidity risk, market risk and operational risk. The size of these risks is adapted to the risk-bearing ability of the Bank. This means that the Bank shall be able to cover losses related to these risks with its own funds (capital base) and earnings. 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.

3.1.1 Business risk

Business risk arises naturally in all business operations and is unavoidable. The Bank of Åland shall focus its operations on markets and products with which it has worked previously and is familiar with. New markets and products may be introduced on a limited scale and then, if so desired, may be gradually expanded.

3.1.2 Credit risk

The Bank of Åland's lending is primarily aimed at customers in the Bank's prioritised target group, that is, private individuals in Åland, on the Finnish mainland and in Sweden with solid finances, often entrepreneurs and business owners, who value personal relationships. On the Finnish mainland and in Sweden, the range of customers is geographically limited to the major urban areas where the Bank is established. As a rule, loans are not provided as a stand-alone product, but are part of a long-term customer relationship, often to support the Bank's financial investment business. In Åland, there is an additional Corporate Services business, which is part of the Bank's somewhat different strategic direction in which it serves as a bank for all Åland residents and contributes actively to the Åland community. Through strategic partnerships, there has been an increase in the mortgage loan portfolio in Sweden during 2021. According to plans, this portfolio will be transferred to Borgo during 2022.

Because of the target group it has selected, the Bank of Åland's credit exposure to individual customer entities can be relatively large. In order to limit its concentration risks, the Bank prefers that only in exceptional cases should credit exposures to individual customer entities be larger

Risk profile by risk category

Risk type	Risk profile	Risk management
Business risk	The Bank's business risk is generally low. Costs due to changes in regulations and shifts in technology may affect the profitability of the Bank of Åland to a greater extent than that of other banks, since the Bank is a small market player.	The Board and Executive Team, as well as their respective committees, work continuously to identify and find suitable measures to manage business risk. Among other things, the Bank has entered into various partnerships in order to diversify its sources of income and achieve cost allocation.
Credit risk	The Bank of Åland's prioritised customer category is private individuals in Åland, on the Finnish mainland and in Sweden with solid finances and, except in Åland, geographically limited to major urban areas. In Åland there is also a Corporate Services unit.	The Board establishes the framework for lending and credit risk management. The size and risk level determines the lending decision level, where the Board is the highest level. Credit risk in day-to-day operations is managed on the basis of good knowledge of customers as well as analysis of their repayment capacity and the collateral they provide. For corporate loan portfolio exposures, the Bank also carries out a yearly presentation analysing the customer. Credit risk is also managed through the use of limits established by the Board. For example, maximum exposure to certain economic sectors and counterparties is limited. Counterparties (primarily financial institutions) are managed through an evaluation process that primarily focuses on the institution's credit rating and other relevant key figures.
Liquidity risk	Liquidity risk is a dynamic risk that may change rapidly. Since the Bank of Åland is a small market player, these changes may greatly affect its access to liquidity.	The Board establishes the framework of liquidity management and liquidity risk management. Day-to-day liquidity management occurs in the Treasury unit. Liquidity risk is managed primarily by means of a well-diversified borrowing structure and a liquidity reserve containing high-quality assets. Liquidity risk is also managed through the use of limits established by the Board.
Market risk	Interest rate risk in the banking book is structural in nature and small in size. Foreign exchange risk is primarily of a structural nature and mainly occurs in Swedish kronor via the Bank's Swedish branch.	The Board establishes the framework of market risk management. Day-to-day market risk management occurs in the Treasury unit. Interest rate risks are managed by using limits for interest rate risk as well as value change risk, and through the use of derivatives. Foreign exchange risks are limited primarily by matching and through limits.
Operational risk	The Bank's operational risks shall relate to its business operations, and risks shall be avoided and limited to what is financially justified. The Bank's risk appetite for business-critical products, services and IT solutions is low. No operational risk shall pose a threat to operations that are subject to permits or threaten consumer protection for Bank of Åland customers.	The Board establishes the framework of operational risk management. Day-to-day operational risk management occurs primarily in business operations. Operational risks are managed through yearly self-evaluations, updated continuity plans, continuity drills, incident reporting, maintenance of internal regulations and internal training courses

than EUR 10 M. Cash flows that ensure the customer's repayment capacity are a fundamental requirement for all lending. The customer shall also provide the necessary collateral for the loan. Residential real estate and securities are the most common forms of collateral. Loans with collateral that has a high risk of change in value and is less liquid, for example vessels and commercial real estate, have been limited.

The ambition is that over time, the Bank of Åland's loan loss level shall be among the lowest for Nordic banks. Of the Bank's geographic home markets, due to the corporate services business the loan portfolio in Åland has a somewhat higher credit risk than the loan portfolios on the Finnish mainland and in Sweden.

As part of its liquidity management, the Bank of Åland only does business with well-known counterparties and/or those with investment grade credit ratings in the Nordic region and in economically stable countries.

3.1.3 Liquidity risk

In order to ensure access to liquidity even during periods without external borrowing opportunities, the Bank shall have a liquidity reserve plus a well-diversified instrument and maturity structure in its borrowing.

The Bank of Åland endeavours not to be dependent on sources of funding for its lending other than customer deposits and covered bonds. Non-covered capital market funding may be used when the price situation in the market makes it appropriate.

3.1.4 Market risk

Structural risks related to interets rate risk (net interest income risk and economic value of equity risk) 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, while its ambition is to sharply limit the existing downside risks. The Group has a structural foreign exchange risk in Swedish kronor due to its operations in Sweden. Equity risk refers to the risk of decrease in value due to price changes in the stock market. The Bank of Åland does no trading for its own account.

3.1.5 Operational risk

Operational risks occur in all operations. It is thus neither possible nor optimal to eliminate them entirely. The Bank of Åland endeavours to minimise operational risks through yearly self-evaluations, updated continuity plans, continuity drills, incident reporting, maintenance of internal regulations and internal training courses.

3.2 RISK ORGANISATION

Board of Directors

Managing Director

FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
Owns and manages risks	Independent measurement, control and reporting	Oversight and evaluation
• Business operations • Support units	• Risk Control • Operational Risks and Security • Compliance	• Internal Audit

3.2.1 Board of Directors

The Board of Directors has overall responsibility for risk management and control. The Board defines the risk appetite of the Bank's operations and adopts yearly policy documents that specify the overall principles for risk management as well as restrictions in the form of limits that operations shall stay within. Compliance with risk management principles and risk positions are monitored regularly. Limit positions and risk indicators are reported to the Board at least quarterly. The Board also approves essential methods and models that are used to measure the Bank's risks.

The Audit Committee of the Board of Directors assists the Board in its oversight of risk management, methods and models for risk measurement, risk reporting and internal controls. The Committee met a total of 10 times during 2021..

3.2.2 Managing Director and other members of the Executive Team

The Managing Director is appointed by the Board. 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 sufficient resources and systems for oversight and monitoring.

The Board of Directors appoints the other members of the Group-wide Executive Team. These members consist of the heads of the Bank's business areas and corporate units; they serve as advisors to the Managing Director. The Managing Director and the other members of the Executive Team regularly receive reports on the Bank's limit positions and risk indicators.

Matters related to certain types of financial risks are handled by committees consisting of Executive Team members and other persons appointed by the Managing Director. The Bank's Asset and Liability Committee (ALCO) is a decision-making body reporting to the Managing Director that deals with issues concerning financial risks, liquidity, funding and capital allocation. The Credit Committee of the Executive Team makes lending decisions for the Bank on large loan commitments according to approved credit limits.

3.2.3 The three lines of defence

In order to create a strong risk culture that permeates the entire organisation, the risk organisation at the Bank of Åland is based on the three lines of defence, which have a clear allocation of responsibility between risk-takers and oversight units :

First line of defence

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

Second line of defence

The second line of defence consists of the independent Risk Control, Operational Risks and Security and Compliance departments, which all report 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, the Board and regulatory authorities. Risk Control is responsible for coordinating internal asset and liquidity evaluations and analyses the impact of stress tests on capital adequacy and liquidity positions. Risk Control is also responsible for coordinating and updating the Bank's recovery plan and for monitoring and reporting on the recovery plan's indicators.

Risk Control also includes the Credit Risk Modelling team, which is responsible for the Bank's internal credit risk classification system. This responsibility also includes modelling of loan loss provisions in compliance with the IFRS 9 regulation as well as periodic follow-up of developments in the loan loss provisions for the Bank's credit risk 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 and setting standards for 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.

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.

3.3 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
- Resources and expertise adapted to operations
- Regular reporting to the Board and the Executive Team
- 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 repricing periods and maturities related to assets and liabilities, risk 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.

4. Capital management

4.1 THE CONSOLIDATED SITUATION

Table 4.4.1 shows subsidiaries and associated companies that are included, or not included, in the consolidated situation in the capital adequacy analysis.

4.2 CAPITAL ADEQUACY AND CAPITAL REQUIREMENTS

The size of the Bank's capital requirement is stipulated in the Capital Requirements Regulation (CRR) and in the Capital Requirements Directive (CRD). The capital needs of banks are formulated in the regulations on capital requirements stating how much capital the banks need to maintain in relation to the risks found in their operations. These capital requirements are divided into Pillar 1 requirements, Pillar 2 requirements and combined buffer requirements. In addition to binding capital requirements, there is Pillar 2 guidance. Pillar 1 requirements are the same for all institutions, and Pillar 2 requirements are set individually for each institution by a regulatory authority. FIN-FSA has not established any Pillar 2 guidance for the Bank.
According to the Pillar 1 requirements in Article 92 of the CRR, institutions must have a capital base (own funds) that always fulfils the following requirements in relation to the risk exposure amount (REA):

- A common equity Tier 1 (CET1) 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

The Pillar 2 capital requirements are calculated by evaluating other risks that are not covered by Pillar 1 regulations. The Bank assesses the capital requirements for these risks yearly by means of the "internal capital adequacy assessment process" (ICAAP). The requirements are then established or adjusted by FIN-FSA through a supervisory review and evaluation process (SREP). Through SREP, national authorities may impose extra capital requirements on banks for these other risks. Three fourths of the Pillar 2 requirement must be covered by Tier 1 capital, of which three fourths CET1 capital.

In the internal assessment based on its situation in 2020, the Bank of Åland estimated its own ICAAP internal capital requirement beyond Pillar 1 according to ICAAP at EUR 17.3 M, which at that time amounted to 1.0 per cent of the risk exposure amount (REA). In its latest SREP concerning the Bank's situation at the end of 2020, FIN-FSA decided on additional capital requirements totalling 1.0 per cent. This is the Bank's Pillar 2 requirement and went into effect starting at the end of the third quarter of 2021. The requirement is valid for a maximum of three years, until September 30, 2024, or until FIN-FSA communicates a diverging requirement for the Bank.

In addition to the above-described requirements, institutions must also maintain capital in the form of combined buffer requirements against economic downturns. These combined buffer requirements are established in the Capital Requirements Directive (CRD).

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 and a systemic risk buffer. The latter two have been changed to 0 per cent from 1.2 per cent and 1 per cent of REA, respectively, as part of relief measures related to COVID-19.

The capital conservation buffer is the same for all institutions. The countercyclical capital buffer may vary between 0 and 2.5 per cent of REA. This buffer 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 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 the CRD. Unlike larger institutions, the Bank is not included in any buffer requirements for systemically important institutions.

Table 4.2.1 presents the countercyclical capital buffer requirements for all countries where the Bank has relevant credit risk exposures.

Table 4.2.2 shows the Bank's countercyclical buffer requirements.

Table 4.2.3 summarises the regulatory capital requirements in force at the Bank of Åland and the Bank's capital position at year-end in the form of reported capital adequacy ratios.

Table 4.1.1

EU LI3, The consolidated situation

Companies included in the consolidated situation	Legal entity identifier	Share-holding, %	Consolidation method for financial reporting	Consolidation method for capital adequacy	Company description
Ålandsbanken Abp	7437006WYM821IJ3MN73	Parent Company			Credit institution
Ålandsbanken Fondbolag Ab	743700YOXKOQ7F6FS364	100	Full consolidation	Full consolidation	Mutual fund company
Ålandsbanken Fonder Ab	FI29025068	100	Full consolidation	Full consolidation	Fund management
Ålandsbanken Fonder II Ab	FI29536474	100	Full consolidation	Full consolidation	Fund management
Ålandsbanken Fonder III Ab	FI31694295	100	Full consolidation	Full consolidation	Fund management
Ålandsbanken Fonder IV Ab	FI32500982	100	Full consolidation	Full consolidation	Fund management
Ålandsbanken Fonder V Ab	FI32483772	100	Full consolidation	Full consolidation	Fund management
Ålandsbanken Fonder VI Ab	FI32483801	100	Full consolidation	Full consolidation	Fund management
Crosskey Banking Solutions Ab Ltd	FI19066720	100	Full consolidation	Full consolidation	IT company
S-Crosskey Ab	FI20085355	60	Full consolidation	Full consolidation	IT company

Companies not included in the consolidated situation	Legal entity identifier	Share-holding, %	Consolidation method for financial reporting	Consolidation method for capital adequacy	Company description
Alandia Holding	743700SNGHXYGSS31J86	28	Equity method	No consolidation	Holding company
Mäklarhuset Åland Ab	FI25870117	29	Equity method	No consolidation	Estate agents
IISÅ Holdco AB	SE5592179203	25	Equity method	No consolidation	Holding company
Borgo AB	54930030QWENGUD8ZR59	10	Equity method	No consolidation	Mortgage lending
Borgo AB	54930030QWENGUD8ZR59	23	Equity method	No consolidation	Mortgage lending
FAB Godby Center	FI02004232	11	Equity method	No consolidation	Real estate company
FAB Horsklint	FI07710726	20	Equity method	No consolidation	Real estate company
FAB Nymars	FI4273161	30	Equity method	No consolidation	Real estate company

Table 4.2.1

EU CCyB1, Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures			Own fund requirements				
EUR M	Exposure value under the standardised approach	Exposure value under the IRB approach	Total exposure value	Relevant credit risk exposures – Credit risk	Total	Risk-weighted exposure amounts	Own fund requirements weights, %	Counter-cyclical capital buffer, %
Finland	219.3	2,839.9	3,059.2	52.6	52.6	657.2	42.1	0.0
Sweden	2,002.3	0.0	2,002.3	70.4	70.4	880.3	56.4	0.0
Norway	121.1	0.0	121.1	1.1	1.1	13.5	0.9	1.0
Canada	42.9	0.0	42.9	0.3	0.3	4.3	0.3	0.0
Denmark	24.3	0.0	24.3	0.3	0.3	4.2	0.3	0.0
Germany	8.0	0.0	8.0	0.1	0.1	1.6	0.1	0.0
Total	**2,417.8**	**2,839.9**	**5,257.7**	**124.9**	**124.9**	**1,561.0**	**100.0**	**0.0**

Table 4.2.4 shows the Bank's long-term return target as well as minimum capital adequacy requirements according to the CRR. The table shows all outcomes and the gap between targets and regulatory requirements for capital adequacy.

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, 2021 must amount to at least 7.6 per cent in order to avoid restrictions on dividends. The corresponding minimums for Tier 1 capital and total capital levels were 9.3 and 11.5 per cent, respectively.

At the end of 2021, the Bank's common equity Tier 1 capital ratio amounted to 12.1 (14.3) per cent, which means that the Bank had a common equity Tier 1 capital buffer of 4.5 (5.8) per cent, or (expressed as common equity Tier 1 capital) EUR 89.3 (96.5) M. Compared to the preceding year, the Bank's minimum capital requirement decreased by a total of 0.5 percentage points. The decrease was due to a reduction in the buffer requirement, according to a Pillar 2 assessment, from 1.5 to 1.0 per cent during the year, but the minimum requirement for the CET1 ratio decreased by 0.9 percentage points, since a smaller proportion of the Pillar 2 requirement now needs to be covered by CET1 capital than previously.

4.3 OWN FUNDS

Own funds are divided into two types: Tier 1 capital (T1) and supplementary capital (T2). Compared to 2020, when the Bank's entire Tier 1 capital consisted of common equity Tier 1 capital (CET1), the Bank optimised its own funds during 2021. Own funds currently also include instruments issued by the Bank in the additional Tier 1 (AT1) category. Common equity Tier 1 capital comprises the most permanent form of capital and, put simply, is equivalent to equity capital according to the balance sheet after certain statutory adjustments.

Common equity Tier 1 capital specifically consists of share capital in the form of capital instruments as well as related share premium reserves that meet the conditions in Articles 28 and 29 of the CRR. CET1 also included retained earnings, other accumulated comprehensive income and other reserves. According to Article 26, point 2 of the CRR, retained earnings may only be included with prior permission from FIN-FSA, unless an Annual General Meeting has decided the year's earnings. The specific financial instruments included in the Bank of Åland's year-end CET1 consist of the Bank's Series A and Series B shares. Details concerning these instruments are presented in an appendix below.

Deductions from CET1 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.

Compared to 2020, the Bank's CET1 increased by a total of EUR 0.4 M or 0.2 per cent to EUR 239.0 M. During the year, equity capital according to the balance sheet changed in the amount of profit for the period, EUR 39.8 M; other comprehensive income, EUR 1.9 M; the issuance of new shares as part of the incentive programme, EUR 0.4 M;

Table 4.2.2

EU CCyB2, Amount of institution-specific countercyclical capital buffer	
EUR M	
Total risk exposure amount	1,976.2
Institution-specific countercyclical capital buffer, %	0.01
Institution-specific countercyclical capital buffer, amount	0.2

Table 4.2.3

Regulatory capital requirements

Per cent	Minimum capital requirement according to Pillar 1	Capital requirement according to Pillar 2	Total combined capital buffers	Of which: Capital conservation buffer	Of which:	Of which: Systemic risk buffer	Total capital requirement	Capital position	Buffer
Common equity Tier 1 capital	4.5	0.6	2.5	2.5	0.0	0.0	7.6	12.1	4.5
Tier 1 capital	6.0	0.8	2.5	2.5	0.0	0.0	9.3	13.6	4.3
Total capital	8.0	1.0	2.5	2.5	0.0	0.0	11.5	15.4	3.9
EUR M									
Common equity Tier 1 capital	88.9	11.1	49.6	49.4	0.2	0.0	149.6	239.0	89.3
Tier 1 capital	118.6	14.8	49.6	49.4	0.2	0.0	183.0	268.4	85.4
Total capital	158.1	19.8	49.6	49.4	0.2	0.0	227.4	304.8	77.4

Table 4.2.4

Long-term return target and regulatory capital adequacy requirements

	Long-term return target	Regulatory capital adequacy requirements	Outcome	Difference compared to target or requirement
Return on equity after taxes (ROE), %	15.0		14.0	−1.0
Common equity Tier 1 capital ratio, %		7.6	12.1	4.5
Tier 1 capital ratio, %		9.3	13.6	4.3
Total capital ratio, %		11.5	15.4	3.9

and dividends related to Tier 1 capital instruments, EUR -0.8 M. On December 31, 2021, equity capital amounted to EUR 302.5 M.

Due to the coronavirus pandemic, the authorities have introduced a number of relief measures related to capital adequacy calculation. One of these concerns impairment losses in compliance with IFRS 9 for Stage 1 and Stage 2 loans. These may be restored in their entirely to own funds during 2020-2021 and are then phased out. This amount totalled EUR 0.5 M on December 31, 2021. In addition, there is a relief measure for certain intangible assets, which may also be restored to own funds. This amount totalled EUR 6.5 M on December 31, 2021.

The Bank of Åland is applying the transitional rules in Article 473a of the CRR for IFRS9. 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. In practice, the impairment losses that are added back are attributable to exposures handled according to the standardised approach.

The appendix provides specific disclosures of the effects on the transitional rule on the Bank's capital position and leverage ratio.

During 2021, for the first time the Bank of Åland issued additional Tier 1 (AT1) instruments, totalling SEK 300 M (EUR 29.4 M). These are perpetual financial instruments, with the possibility of early redemption after five years. For financial reporting purposes, the instruments are regarded as equity capital, since such instruments do not include any requirement that the Bank of Åland shall pay the principal amount or interest to the holders. The Bank treats payments on AT1 instruments as dividends. The appendix provides a presentation of the AT1 instruments.

Unlike common equity Tier 1 capital, supplementary capital is not equally available for covering losses according to the regulations. The Group's supplementary capital consists of Tier 2 instruments issued to the public, which are specified in the appendix.

Supplementary capital may also include those expected losses that exceed reported impairment losses for the IRB-approved portfolio up to 0.6 per cent of the risk exposure amount calculated according to the IRB approach. There were no loan losses to add back during 2021. The appendix provides a presentation of the instruments that comprise the supplementary capital items of own funds and their most important characteristics. Tier 2 instruments that the Bank has issued accounted for EUR 36.4 M of supplementary capital. Also included was EUR 0 M in the form of expected losses according to IRB in addition to credit risk adjustments. Overall supplementary capital amounted to EUR 36.4 M, which was unchanged compared to year-end 2020. In December, for the first time the Bank of Åland issued green Tier 2 (T2) supplementary capital instruments, totalling SEK 150 M. This instrument has a 20-year maturity, with a possibility of early redemption after five years. The proceeds of the instrument will be used forfinancing and refinancing wind power projects and mortgage loans with high energy performance ratings.

4.4 CAPITAL REQUIREMENTS

During 2021 a few minor changes were made in the choice of method for the Bank's capital requirement calculations due to the enactment of CRR2.

The Bank of Åland's capital requirement for credit risks is calculated according to the IRB approach in the Finnish retail lending portfolio. For the corporate exposure class, the Bank applies the foundation method (F-IRB). 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 has only a small trading book, which mostly consists of equity-related instruments. These positions always arise as a result of trading on behalf of customers, and the Bank carries out no trading for its own account. The Bank applies the small trading book exemption 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 calculate the exposure value of counterparty risks on derivatives, the Bank switched during 2021 from the mark-to-market method to the original exposure method in compliance with Article 282 of CCR. This change was made because the application of the mark-to-market method ended when the new CRR2 went into effect. 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 specified in the regulations. Table 4.4.1 below shows how the Bank's total capital requirement for operational risk is calculated and divided among various business lines.

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 percentage-weighted income statement items. The capital requirement is obtained by adding up the income indicators for the three latest years and then dividing by three. The capital requirement for operational risk concerning IT-related operations in the Bank's subsidiary Crosskey Banking Solutions is included on the "Payment and settlement" line in the table. The capital requirement for operational risk was EUR 17.8 M, compared to EUR 18.2 M at the end of 2020. The decrease mainly occurred in the retail banking segment during 2021.

Table 4.4.2 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.

During the year, the Bank of Åland's risk-weighted exposure amount increased from EUR 1,671 M to EUR 1,976 M or by 18 per cent. The capital requirement (Pillar 1), expressed as 8 per cent of the risk exposure amount, totalled EUR 158 M, compared to EUR 134 M at the end of 2020.

Table 4.4.3 summarises the Group's capital adequacy calculation under Pillar 1, with a comparison to the situation at the end of 2020. The Appendix provides a capital adequacy analysis compiled at a detailed level in accordance with Article 4 of Commission Implementing Regulation (EU)1423/2013.

During 2021, the Bank's common equity Tier 1 capital ratio changed from 14.3 to 12.1 per cent. The total capital ratio decreased from 16.5 to 15.4 per cent. The decrease in the ratio occurred because the Bank's risk exposure amount rose sharply, by EUR 305 M or by 18 per cent, while total own funds did not increase at the same pace. Total own funds increased by EUR 29.3 M or by 11 per cent to EUR 304.8 M.

The capital requirement for the risk weight floor for Finnish mortgage loans, which the Bank set aside in addition to the capital requirement according to Article 458 of CRR on December 31, 2020 was abolished at the beginning of 2021 in compliance with a decision by FIN-FSA (EUR -8.7 M). During the year the default definition and IRB-related additional capital requirement were set at 26.5 per cent of REA for IRB-related portfolios in Finland until IRB models based on the new regulations are approved by FIN-FSA.

Table 4.4.1

Capital requirements for operational risks		2021	2020
EUR M	Percentage share		
Banking, corporate	15	1.7	1.8
Banking, retail	12	10.9	11.7
Payment and settlement	18	3.7	3.5
Asset management	12	1.5	1.3
Total capital requirements, operational risk		**17.8**	**18.2**

Table 4.4.2

EU OV1, Overview of risk-weighted exposure amounts	2021	2020	2021
EUR M	Risk-weighted exposure amount	Risk-weighted exposure amounts	Minimum capital requirement
Credit risk	**1,753**	**1,329**	**140**
of which standardised approach	1,139	832	91
of which foundational IRB (F-IRB) approach	308	265	25
of which advanced IRB (A-IRB) approach	306	232	24
of which the equity-related IRB approach as part of the simple risk-weighted approach or the IRB model	0	0	0
Counterparty credit risk – CCR	**1**	**5**	**0**
of which mark-to-market	1	5	0
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 valuation adjustment (CVA)	0	0	0
Settlement risk	**0**	**0**	**0**
Securitisation exposures in the non-trading book (after the celing)	**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**
of which standardised approach			
Large exposures	**0**	**0**	**0**
Operational risk	**223**	**227**	**18**
of which basic indicator approach			
of which standardised approach	223	227	18
of which advanced measurement approach			
Amounts below thresholds for deductions (subject to 250 per cent risk weighting)			
Floor adjustment			
Risk weight floor for Finnish mortgages (CRR, Article 458, point 2 vi)	0	110	0
Total	**1,976**	**1,671**	**158**

Table 4.4.3

Capital adequacy	2021	2020
EUR M		
Equity capital according to balance sheet	302.5	292.4
Foreseeable dividend	−31.2	−31.2
Common equity Tier 1 capital before deductions	**271.3**	**261.2**
Intangible assets	−15.0	−19.3
Permission for buy-backs of own shares	−10.5	0,0
Non-controlling interests	0.0	0.0
Other items, net	0.0	0.0
Additional adjustments in value	−0.4	−0.5
Expected losses according to IRB approach beyond recognised losses (deficit)	−6.9	−3.7
Adjustments due to transitional rules related to IFRS 9	0.5	0.9
Common equity Tier 1 capital	**239.0**	**238.5**
AT1 instruments	29.4	0,0
Additional Tier 1 capital	**29.4**	**0.0**
Tier 1 capital	**268.4**	**238.5**
Supplementary capital instruments	36.4	37.0
Expected losses according to IRB approach beyond recognised losses (surpluses)	0.0	0.0
Supplementary capital	**36.4**	**37.0**
Total own funds	**304.8**	**275.5**
Capital requirements for credit risks according to IRB approach	38.8	39.8
Additional capital requirements, IRB approach	10.3	8.7
Capital requirements for credit risks according to standardised approach	91.1	67.0
Capital requirement for credit value adjustment risk	0.1	0.0
Capital requirement for operational risk	17.8	18.2
Capital requirement	**158.1**	**133.6**
Risk exposure amount	1,976.2	1,670.8
of which % comprising credit risk	88.7	86.0
of which % comprising credit-worthiness adjustment risk	0.0	0.0
of which % comprising operational risk	11.3	14.0
Capital ratios, %		
Common equity Tier 1 capital ratio	12.1	14.3
Tier 1 capital ratio	13.6	14.3
Total capital ratio	**15.4**	**16.5**
Requirements related to capital buffers, %		
Total common equity Tier 1 capital requirement including buffer requirement	7.6	8.5
of which common equity Tier 1 capital requirement under Pillar 1	4.5	4.5
of which common equity Tier 1 capital requirement under Pillar 2	0.6	1.5
of which capital conservation buffer requirement	2.5	2.5
of which countercyclical capital buffer requirement	0.0	0.0
of which systemic risk buffer requirement	0.0	0.0
Common equity Tier 1 capital available to be used as a buffer	12.1	14.3

5. Leverage ratio

Leverage is a measure of bank solvency aimed at avoiding excessive debt. The leverage ratio is calculated as the ratio of Tier 1 capital to a specially defined exposure metric according to CRR. Unlike the capital adequacy calculation, the exposures are not risk-weighted when calculating the ratio.

Taking into account relief measures due to the COVID-19 pandemic (Article 429a.1 n in CRR), which represent temporary exemptions for certain exposures to central banks from the total exposure metric, the Bank of Åland's leverage ratio amounted to 4.3 per cent at the end of 2021, compared to 4.2 per cent at the end of 2020. Without taking these relief measures into account, the leverage ratio at the end of 2021 would have been 3.9 per cent. During the year, Tier 1 capital increased by EUR 30 M or 13 per cent. The total exposure metric, taking relief measures into account, increased by EUR 648 M or 12 per cent, which resulted in a 0.1 per cent improvement in the leverage ratio. The increase in Tier 1 capital was due to increased profit for the period and thus had a positive impact on the leverage ratio. The minimum requirement for the leverage ratio is 3.3 per cent when relief measures are taken into account and 3 per cent otherwise.

The leverage ratio is calculated according to the situation at year-end. Tier 1 capital includes profit for the period.

Table 5.1

Leverage ratio		2021	2020
EUR M			
EU LR SUM:	Summary reconciliation of accounting assets and leverage ratio exposures		
1	Total assets as per published financial statements	6,630.9	6,034.4
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	−582.7	−537.4
8	Adjustment for derivative financial instruments	29.1	−6.7
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	220.9	158.1
12	Other adjustments	−25.3	−23.6
13	**Total exposure measure**	**6,272.9**	**5,624.8**
EU LR COM:	Leverage ratio common disclosure		
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	*On-balance sheet items (excluding derivatives, SFTs, but including collateral)*	6,035.0	5,472.2
6	*(Asset amounts deducted in determining Tier 1 capital)*	−25.3	−23.6
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**6,009.7**	**5,448.6**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)		8.9
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions		9.2
EU-9b	Exposure determined under Original Exposure Method	42.3	
13	**Total derivatives exposures**	**42.3**	**18.1**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	1,045.3	750.8
20	(Adjustments for conversion to credit equivalent amounts)	-824.4	-592.6
22	**Off-balance sheet exposures**	**220.9**	**158.1**
	Capital and total exposure measure		
23	**Tier 1 capital**	**268.4**	**238.5**
24	**Total exposure measure**	**6,272.9**	**5,624.8**
	Leverage ratio		
25	**Leverage ratio, %**	**4.3**	**4.2**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves), %	3.9	3.9
26	Regulatory minimum leverage ratio requirement, %	3.3	3.3
	Choice of transitional arrangements and relevant exposures	Transitional	Transitional

Table 5.2

EU LR3 – LRSpl, Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

EUR M		
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**6,035.0**
EU-2	*Trading book exposures*	0.0
EU-3	*Banking book exposures*	6,035.0
EU-4	*Covered bonds*	397.0
EU-5	*Exposures treated as sovereigns*	335.9
EU-6	*Exposures to regional governments, MDBs, international organisations and PSEs not treated as sovereigns*	128.0
EU-7	*Institutions*	235.9
EU-8	*Secured by mortgages of immovable properties*	3,353.0
EU-9	*Retail exposures*	496.2
EU-10	*Corporates*	918.5
EU-11	*Exposures in default*	50.9
EU-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*	119.6

6. Internal capital adequacy and liquidity assessment, 2021

The purpose of the internal capital adequacy assessment process (ICAAP) is to analyse all risks in the Group's operations and, based on the results, estimate the capital requirement to ensure that the Group is sufficiently capitalised to cover all its risks, enabling it to conduct and develop its operations both under normal and sharply worsened business conditions. 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, business risk and interest rate risk in the banking book.

The 2021 ICAAP, which was related to the situation on December 31, 2020, evaluated the effects of a prolonged negative scenario, based on the recession scenario from the EBA's planned 2021 stress test, the economic outlook during the ongoing COVID-19 pandemic and other information published regularly by the Finnish Finance Ministry, the Bank of Finland, the Swedish National Institute of Economic Research, Sweden's Riksbank and others. In keeping with practice, the negative scenario is based on unchanged business volumes.

The negative scenario that was tested assumed that Finnish and Swedish real GDP would fall very sharply during 2021 and 2022 and then cautiously begin recovering during 2023. It assumed that unemployment would gradually rise during the period being assessed and would remain high at the end of 2023. It assumed that during the same period, housing prices would fall significantly compared to price levels at the end of 2020.

The significant risks and capital requirement that have been identified in the Group according to ICAAP 2021, based on the situation on December 31, 2020, can be seen in Table 6.1.1. The identified additional capital requirement beyond Pillar 1 amounted to EUR 17.3 M. The largest risk areas were concentration risks in the loan portfolio, credit risk and equity risk beyond Pillar 1. The common equity Tier 1 capital buffer on December 31, 2020 taking into account Pillar 1 capital requirements was EUR 88.3 M, compared to EUR 68.1 M one year earlier.

In its capital requirement estimate, the Bank has included the Pillar 2 requirement (P2R) established by FIN-FSA as part of its SREP process, since this is higher than the Bank's internally estimated capital requirement according to ICAAP and binding regulatory requirements for the Bank.

Capital planning for a possible economic downturn did not show any additional capital need in order to cover operating losses that arise. Given a sufficiently high level of profitability at the outset, no operating losses occur in the stress scenario. Capital ratios remain at high levels throughout the stress period. In relation to the buffer requirements in capital adequacy regulations, the Bank of Åland shows an ample capital surplus even in scenarios that describe very difficult economic conditions.

The capital requirement for the Bank of Åland on December 31, 2020 – taking into account the elimination in March 2020 of the systemic risk buffer and countercyclical buffer requirements – amounted to SEK 200.6 M including the Pillar 2 capital requirement, which went into effect during the fourth quarter of 2018. Of this, EUR 133.6 M represented the minimum requirement according to Pillar 1, EUR 41.8 M represented the capital conservation buffer and EUR 25.1 consisted of the Pillar 2 capital requirement estimated by FIN-FSA.

The Bank has applied and received approval to permanently exempt the Swedish loan portfolio from capital requirement calculation according to the IRB approach, because it intends to transfer the mortgage loans in its Swedish branch to the Swedish credit market company Borgo AB. After that, the Swedish loan portfolio will maintain consist of corporate exposures to a few counterparties for which the official capital requirement will permanently be calculated according to the standardised approach.

The purpose of the internal liquidity adequacy assessment process (ILAAP) is to ensure that the existing liquidity buffers are sufficient to secure disruption-free operations, even during periods of stress. This is achieved by using stress tests, featuring scenarios that have varying degrees of stress aimed at assessing what effects these will have on the Bank's liquidity supply and borrowing needs.

At regular intervals, at least once a year, the Bank carries out a review of the scenarios it will use in identifying, measuring and managing liquidity risks.

This is based on factors identified by the Bank that are expected to have a major impact on its liquidity risk. Examples of such factors are deposits, the collateral pool for covered bonds and liquid assets.

The 2021 ILAAP, which was related to the situation on December 31, 2020, evaluated the effects of the following scenarios, among others:

- Some of the deposits from the public will flow out of the Bank
- The Bank's borrowing options will become worse and more expensive
- Borrowing using certificates of deposit will only be possible with shorter maturity intervals, which shortens the maturity structure of the debt portfolio, and/or
- The Bank's credit rating is downgraded

The stress tests that were carried out show that the Bank has good, well-balanced liquidity management that is based on low liquidity risk, based on low liquidity risk, a diversified funding structure and a high-quality liquidity reserve.

Table 6.1

Estimated risks, internal capital adequacy assessment	2020	2019	
EUR M			Change
Internal capital requirement according to ICAAP			
Credit risk in addition to Pillar 1	4.0	2.9	1.1
Credit concentration risk	4.3	4.8	−0.5
Interest rate risk in the banking book	3.2	2.3	0.9
Exchange rate risk	0.1	0.1	0.0
Equity risk	3.2	2.3	0.9
Operational risks in addition to Pillar 1	0.0	0.0	0.0
Pension liability risk	2.5	4.4	−1.9
Business risk	0.0	0.0	0.0
Liquidity risk	0.0	0.0	0.0
Total estimated internal capital requirement	**17.3**	**16.8**	**0.5**
Pillar 1 capital requirement	**133.6**	**126.6**	**7.0**
Total capital requirement	**150.9**	**143.4**	**7.5**
Total common equity Tier 1 capital buffer	**87.6**	**68.1**	**19.5**

7. Coming changes in capital adequacy regulations

For some time, the Basel Committee has been conducting a far-reaching review of current capital adequacy regulations. In December 2017, an update of the capital adequacy regulations was published, entitled "Basel III: Finalising post-crisis reforms" (also known as Basel IV and Basel 3.1).

These regulations have been implemented stepwise in the European Union. This task began with the so-called Banking Package, which began to be applied on June 28, 2021 and included some parts of Basel IV. The purpose of the Banking Package was not only to implement Basel-related regulations, but also to improve the efficiency of the EU banking union. The Banking Package represented a number of updates to the Capital Requirements Regulation 575/2013/EU (CRR) and Directive 2013/36/EU (CRD IV), which both regulate the capital requirements of banks. The Banking Package also included updates of the EU's Bank Recovery and Resolution Directive 2014/59 (BRRD), which prescribes rules for crisis management at banks.

In October 2021 the European Commission published its initial proposals for CRR III, CRD IV and amendments to BRRD, which will complete the implementation of Basel IV in the EU countries. The Commission proposes January 1, 2025 as the starting date for most of the articles. This means that Basel IV will be implemented two years later in the EU than the Basel Committee had proposed. The Commission's proposal is not exactly identical to Basel IV, since the Commission took local differences into account. Since these amendments have not yet been approved, this means that amendments can still be made by the European Parliament or the European Council.

The legislative proposals for CRR III and CRD IV would amend credit risk methods, calculation of credit valuation adjustment risk and operational risk and would establish a floor for risk exposure amounts (output floor) that banks must take into account when they use internal models. The floor rule may increase banks' capital requirements if the risk exposure amount calculated according to internal models is lower than the floor calculated on the basis of the risk exposure amount according to the standardised approach, and which will be equivalent to 72.5 per cent of this once the rule is phased in completely. The package also includes rules on management and monitoring of ESG risks in line with the EU's sustainable development strategy. In the future there will be a greater focus on climate risks and on measuring such risks from a financial perspective. It is also expected that new regulations regarding ESG risks will be introduced, which may have an impact on banks' capital requirements.

Another change that will affect banks' capital requirements in the near term is that regulators have begun to raise capital requirement buffers, since they believe that the recovery from the coronavirus pandemic has begun. The combined buffer requirement for the Bank will increase during the year when the countercyclical buffer amount in Sweden rises to 1 per cent on September 29, 2022. FIN-FSA is also expected to announce an increase in the systemic risk buffer during the second quarter of 2022, with the new requirement beginning to be enforced 12 months after it is announced.

The pandemic is still contributing to uncertainty in the regulation field during 2022, but its impact has decreased since 2021. Many temporary relief measures have expired, but a sharp deterioration in the coronavirus situation, with a substantial effect on the economy, could cause regulatory authorities to temporarily impose new rules that impact banks' capital requirements.

8. 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 in response to changed market conditions for the Bank of Åland's operations, but also 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.

Much of the work of the Board of Directors and the Executive Team as well as their committees is aimed at identifying business risks and finding appropriate measures to manage the opportunities and threats that arise in a changeable world.

9. Credit risk

Credit risk is the risk of losses due to the inability of a customer to fulfil obligations towards the Bank and the risk that the collateral provided will not cover the Bank's receivables from the customer. The Bank divides up credit risk into two main categories: credit risk in lending operations and credit risk in treasury operations. Credit risk in lending operations is the biggest risk in the Bank's operations and is defined as the risk of loss because a customer or counterparty is unable to pay interest and/or make principal repayments on loans and other commitments to the Bank. In this category, credit risk mainly consists of receivables from private individuals and non-financial companies. These receivables mainly consist of loans, credit limits and guarantees that have been issued. Credit risk in treasury operations mostly consists of the risk of default by issuers of bond holdings in the Bank's portfolio management and is described in more detail below in section 9.6, "Credit risk in treasury operations". Also attributable to this risk category are counterparty risks, which specifically refer to trading in derivatives as part of portfolio management.

Also attributable to credit risk are credit concentration risks and geographic risks, which may arise within both main categories of credit risk. Credit risk also exists outside of 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.

9.1 RISK MANAGEMENT TARGETS AND POLICY

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 risk management assumes that credit 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 renewed through the yearly review process.

The Bank's credit committee makes decisions on credit matters that fall outside the limit of an individual officer or unit manager. 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 and including 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 and for ensuring that the risk is managed according to the Bank's internal rules, that is, a Credit Processing department that is independent of business operations checks that the analysis has been performed appropriately and according to regulations.

The Credit Processing department ensures that credit matters presented to a credit committee include a comprehensive and correct picture of the customer's financial situation and future repayment capacity 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. 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 and the Executive Team 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. Risks in the Bank's lending operations are followed up internally according to the same methods.

The Bank mitigates credit risk mainly by requiring sufficient collateral of high quality. In corporate lending it is possible to use covenants. Covenants may be of a financial nature and/or of a non-financial nature. Financial covenants are generally based on various financial key ratios while non-financial ones limit the customer's freedom of action more.

9.2 EXPOSURE TO CREDIT RISK AND DILUTION RISK

Non-performing exposures are defined as receivables that fulfil the regulatory definition for default according to Article 178 of the CRR or are written down (impaired) according to accounting principles. According to the Bank's internal definition of default, an exposure is considered in default when a payment related to a significant amount is more than 90 days past due or when the Bank considers it unlikely that the borrower can fulfil his or her obligations to the Bank, without the Bank needing to take steps such as selling collateral or guarantees. In assessing the unlikelihood of payment, the indicators found in 178.3 are included. In addition, the Bank applies other indicators that are deemed appropriate based on the Bank's credit risk management process. The definition of impairment losses for accounting purposes is when receivables are recognised as being in Stage 3 according to the IFRS 9 regulation and are essentially the same as the regulatory definition of default. In general, the Bank only uses specific impairment losses and not group provisions. During 2021 no group provisions were made.

Table 9.2.1 describes the allocation of the Bank's performing and non-performing exposures and what provisions have been made for these. The biggest changes since 2020 are a general increase in the item "Loans and advances" and in exposures off the balance sheet, mainly driven by the household sector. This increase is mainly attributable to the Bank's strategic partners ICA Bank and Söderberg & Partners, where during 2021 the Bank added mortgage loans arranged by these organisations in its own balance sheet and managed the credit lines that arose in connection with this collaboration. Another noteworthy increase since 2020 was an increase in Stage 3 exposures. In 2020 these stood at EUR 39.5 M, but in 2021 they rose to EUR 62.3 M (of which EUR 2.9 M off-balance sheet). One reason for this was the implementation of a new definition of default during 2021. For example, this new definition led to changes in forbearance management and default contagion. A number of larger individual defaults occurred during the third and fourth quarters of 2021, which increased the Stage 3 amount and the related impairment losses. The same customers also caused the increase in off-balance sheet Stage 3 loans.

Table 9.2.2 describes the maturity classification of the Bank's loans and advances as well as interest-bearing securities. The biggest change since 2020 was an increase in loans and advances in the category "more than 5 years", where many of the new loans to the Bank's business partners arose. This is because in Sweden, home mortgage loans often have long maturities compared with practices in the Finnish mortgage market. There was also some re-allocation of the Bank's interest-bearing securities, with more securities belonging to the "less than 1 year" category than in 2020.

Table 9.2.1

EU CR1, Performing and non-performing exposures and related provisions

EUR M	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures			Non-performing exposures					
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		For performing exposures	For non-performing exposures
Cash balances at central banks and other demand deposits	702.0	702.0	0.0	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Loans and advances	4,761.7	4,621.8	139.9	59.3	0	59.3	(3.0)	(2.1)	(0.9)	(11.7)	0	(11.7)	0	4,628.4	47.6
Central banks	0.0	0.0	0.0	0.0	0	0.0					0		0		
General governments	8.8	8.8	0.0	0.0	0	0.0	(0.0)	(0.0)			0		0		
Credit institutions	0.0	0.0	0.0	0.0	0	0.0					0		0		
Other financial companies	3.2	3.2	0.0	0.0	0	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0	(0.0)	0	1.0	
Non-financial companies	1,021.2	996.5	24.7	23.1	0	23.1	(1.5)	(1.3)	(0.1)	(3.1)	0	(3.1)	0	991.7	22.0
of which SMEs	454.1	445.9	8.2	4.5	0	4.5	(1.0)	(1.0)	(0.1)	(0.5)	0	(0.5)	0	426.6	4.1
Households	3,728.5	3,613.3	115.2	36.2	0	36.2	(1.5)	(0.8)	(0.7)	(8.6)	0	(8.6)	0	3,635.8	25.6
Debt securities	720.5	720.5	0.0	0.0	0	0.0	(0.1)	(0.1)			0		0		
Central banks	0.0	0.0	0.0	0.0	0	0.0					0		0		
General governments	72.5	72.5	0.0	0.0	0	0.0	(0.0)	(0.0)			0		0		
Credit institutions	335.0	335.0	0.0	0.0	0	0.0	(0.0)	(0.0)			0		0		
Other financial companies	274.6	274.6	0.0	0.0	0	0.0	(0.0)	(0.0)			0		0		
Non-financial companies	38.4	38.4	0.0	0.0	0	0.0	(0.0)	(0.0)			0		0		
Off-balance sheet exposures	1,044.8	1,044.5	0.3	2.9	0	2.9	(0.3)	(0.3)	(0.0)	(0.0)	0	(0.0)			
Central banks	0.0	0.0	0.0	0.0	0	0.0					0				
General governments	5.1	5.1	0.0	0.0	0	0.0	(0.0)	(0.0)			0				
Credit institutions	0.5	0.5	0.0	0.0	0	0.0	(0.0)	(0.0)			0				
Other financial companies	81.9	81.9	0.0	0.0	0	0.0	(0.0)	(0.0)			0				
Non-financial companies	330.2	330.2	0.1	1.1	0	1.1	(0.2)	(0.2)		(0.0)	0	(0.0)			
Households	627.2	626.9	0.3	1.8	0	1.8	(0.1)	(0.0)	(0.0)	(0.0)	0	(0.0)			
Total	**7,229.0**	**7,088.7**	**140.3**	**62.3**		**62.3**	**(3.4)**	**(2.5)**	**(0.9)**	**(11.7)**		**(11.7)**	**0**	**4,628.4**	**47.6**

Table 9.2.3 shows the flow from 2020 regarding the Bank's non-performing loans. The increase was mainly due to the new definition of default and a number of large defaulting loans. But we can also see that some impairment losses that were large for the Bank occurred, totalling EUR 2.3 M.

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 capacity. 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 capacity. Examples of such adjustments are that the Bank may 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. During 2020 the FIN-FSA allowed banks to grant a moratorium to customers as a consequence of the COVID-19 pandemic. A moratorium means that measures to ease loan conditions are granted without the need for an individual assessment of whether this is a forbearance measure. This led to an increased number of principal payment postponements being granted by the Bank, but these moratoriums were reported separately from the principal payment postponements that were granted as a result of forbearance measures. No moratoriums were granted during 2021, and the Bank has noted a substantial reduction in principal payment postponements (both new postponements and the volume of postponements outstanding).

According to the Bank's guidelines, a receivable is finally written down (recognised as an impairment loss) 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. 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.

Table 9.2.4 shows the credit quality of forborne exposures. The total nominal amount of performing exposures with forbearance measures was EUR 14.7 M (EUR 15.9 M in 2020). The nominal amounted of non-performing exposures with forbearance measures rose to EUR 17.2 M. This was an increase of EUR 6.0 M compared to 2020, which can be partly explained by the application of the new definition of default.

Table 9.2.5 shows the credit quality of performing and non-performing exposures. The total amount of performing exposures rose to EUR 7,229 M (EUR 6,359 M in 2020). The increase was due to larger lending volume as well as exposures outside the balance sheet. The volume of non-performing exposures was EUR 62,3 M at the close of 2021 (EUR 39,5 M in 2020). The rise in non-performing exposures derives mainly from loans and advances, partly due to the new definition of default, and partly due to some large individual defaults.

Table 9.2.6 shows the quality of non-performing exposures by geography, which primarily means exposures in Finland and Sweden. Lending to other countries mainly consists of the Bank's treasury portfolio, but also the Bank's counterparties domiciled elsewhere than in Finland or Sweden. The volume of defaults in the balance sheet increased in all geographic areas. In Finland, defaulted exposures totalled EUR 44.6 M at the close of 2021 (EUR 27.8 M in 2020), while defaulted exposures in Sweden increased to EUR 9.6 M (EUR 2.4 M in 2020). Defaulted exposures in other countries also increased to EUR 5.0 M at the end of 2021 (EUR 0.8 M in 2020) as did defaulted exposures outside the balance sheet, which totalled EUR 2.9 M in 2021 (EUR 0.0 M in 2020). The increases were mainly due to one large commitment that had exposure both inside and outside the balance sheet.

Table 9.2.7 shows the credit quality of loans and advances to non-financial companies by industry. Exposures to non-financial companies decreased overall during 2021 to EUR 1,044.3 M (EUR 1,106.2 M in 2020). Meanwhile the volume of defaulted exposures increased to EUR 23.1 M (EUR 6.2 M in 2020). An increase in defaulted exposures at the end of 2021 is visible mainly in the "Financial and insurance activities" industry with EUR 8.7 M (EUR 0.0 M in 2020), "Accommodation and food service activities" with EUR 5.3 M (EUR 0.0 M in 2020) and "Manufacturing" with EUR 3.5 M (EUR 0.0 M in 2020).

Table 9.2.2

EU CR1-A, Maturity of exposures

	Net exposure value					
EUR M	On demand	<=1 year	>1 year <=5 years	>5 years	No stated maturity	Total
Loans and advances	33.4	685.2	1 571.6	2 521.1	9.7	4 821.0
Interest-bearing securities		182.6	490.2	47.6		720.5
Total	**33.4**	**867.8**	**2 061.9**	**2 568.7**	**9.7**	**5 541.5**

Table 9.2.3

EU CR2, Changes in the stock of non-performing loans and advances

EUR M	Gross carrying amount
Initial stock of non-performing loans and advances	39.5
Inflows to non-performing portfolios	36.8
Outflows from non-performing portfolios	−17.0
Outflows due to write-offs	−2.3
Outflow due to other situations	−14.7
Final stock of non-performing loans and advances	**59.3**

Table 9.2.4

EU CQ1, Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
EUR M	Performing forborne		Of which defaulted	Of which uncertain	For performing forborne exposures	For non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Cash balances at central banks and other demand deposits	0.0	0.0	0.0	0.0			0.0	0.0
Loans and advances	14.6	17.2	17.2	17.2	−0.1	−0.8	16.7	0.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial companies	8.3	10.9	10.9	10.9	−0.1	−0.3	10.9	0.0
Households	6.4	6.3	6.3	6.3	0.0	−0.6	5.7	0.0
Interest-bearing securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan commitments given	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**14.7**	**17.2**	**17.2**	**17.2**	**−0.1**	**−0.8**	**16.7**	**0.0**

Table 9.2.5

EU CQ3, Credit quality of performing and non-performing exposures by past due days

EUR M	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤30 days	Past due >30 days ≤90 days		Unlikely to pay that are not past due or are past due ≤90 days	Past due >90 days ≤180 days"	Past due >180 days ≤1 year	Past due >1 year ≤2 years	Past due >2 years ≤5 years	Past due >5 years ≤7 years	Past due >7 years	Of which defaulted
Cash balances at central banks and other demand deposits	702.0	702.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances	4,761.7	4,758.4	3.3	59.3	37.5	4.2	2.7	2.4	10.1	0.3	2.2	59.2
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	8.8	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial companies	3.2	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial companies	1,021.2	1,021.0	0.2	23.1	21.2	0.0	0.9	0.4	0.5	0.0	0.1	23.1
of which SMEs	454.1	453.9	0.1	4.5	4.0	0.0	0.0	0.3	0.1	0.0	0.0	4.5
Households	3,728.5	3,725.4	3.1	36.2	16.3	4.2	1.8	2.0	9.6	0.3	2.1	36.1
Debt securities	720.5	720.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	72.5	72.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	335.0	335.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	274.6	274.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	38.4	38.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance-sheet exposures	1,044.8			2.9								2.9
Central banks	0.0			0.0								0.0
General governments	5.1			0.0								0.0
Credit institutions	0.5			0.0								0.0
Other financial companies	81.9			0.0								0.0
Non-financial companies	330.2			1.1								1.1
Households	627.2			1.8								1.8
Total	**7,229.0**	**6,180.9**	**3.3**	**62.3**	**37.5**	**4.2**	**2.7**	**2.4**	**10.1**	**0.3**	**2.2**	**62.1**

Table 9.2.6

EU CQ4, Quality of non-performing exposures by geography

miljoner euro	Gross carrying/nominal amount	Of which non-performing	Of which defaulted	Of which subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures	Accumulated negative changes in fair value due to credit risk on non-performing exposures
On-balance-sheet exposures							
Finland	2,856.9	44.6	44.6	2,856.9	−10.0		0
Sweden	2,230.0	9.7	9.6	2,230.0	−2.3		0
Other countries	454.6	5.0	5.0	427.2	−2.4		0
Total	**5,541.5**	**59.3**	**59.2**	**5,514.1**	**−14.8**		**0**
Off-balance sheet exposures							
Finland	254.2	1.1	1.1			0.3	
Sweden	769.0	0.0	0.0			0.0	
Other countries	24.5	1.8	1.8			0.0	
Total	**1,047.7**	**2.9**	**2.9**			**0.3**	
Total non-performing exposures	**6,589.3**	**62.3**	**62.1**	**5,514.1**	**−14.8**	**0.3**	**0**

Table 9.2.7

EU CQ5, Credit quality of loans and advances to non-financial companies by industry

EUR M	Gross carrying amount	Of which non-performing	Of which defaulted	Of which loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
Agriculture, forestry and fishing	11.3	0.0	0.0	11.3	0.0	0.0
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	25.1	3.5	3.5	25.1	−0.2	0.0
Electricity, gas, heating and cooling supply	5.3	0.0	0.0	5.3	0.0	0.0
Water supply	0.8	0.0	0.0	0.8	0.0	0.0
Construction	49.2	0.2	0.2	49.2	−0.1	0.0
Wholesale and retail trade	39.3	0.6	0.6	39.3	−0.3	0.0
Transport and storage	59.9	0.3	0.3	59.9	0.0	0.0
Accommodation and food service activities	32.5	5.3	5.3	32.5	−0.9	0.0
Information and communication	9.8	0.0	0.0	9.8	0.0	0.0
Financial and insurance activities	436.6	8.7	8.7	436.6	−2.6	0.0
Real estate activities	248.7	0.9	0.9	248.7	−0.1	0.0
Professional, scientific and technical activities	71.8	0.2	0.2	71.8	−0.1	0.0
Administrative and support service activities	10.1	0.0	0.0	10.1	0.0	0.0
Public administration and defense, compulsory social security	0.0	0.0	0.0	0.0	0.0	0.0
Education	0.4	0.0	0.0	0.4	0.0	0.0
Human health services and social work activities	12.2	0.0	0.0	12.2	0.0	0.0
Arts, entertainment and recreation	14.9	3.3	3.3	14.9	−0.1	0.0
Other services	16.3	0.0	0.0	16.3	0.0	0.0
Total	**1,044.3**	**23.1**	**23.1**	**1,044.3**	**−4.6**	**0.0**

9.3 USE OF CREDIT RISK MITIGATION METHODS

Collateral eliminates or reduces the Bank's loss if the borrower cannot fulfil his or her 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.

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 residential properties, guarantees issued by sovereigns, local authorities and institutions, deposit accounts in the Bank itself and other banks as well as financial collateral.

Under "loans and advances", a majority of all loans have been granted to private individuals and businesses with a home or other property as collateral. This collateral is concentrated in the areas where the Bank has offices, that is, in growth centres on the Finnish mainland and Sweden as well as in Åland. The Bank regularly monitors the market values of properties and securities that serve as collateral for loans. A follow-up of the market value of residential property used as collateral is performed quarterly. Where a need is identified, the Bank engages an external appraiser for reappraisals. The residential property collateral used in credit risk mitigation must meet special requirements set by capital adequacy regulations in order to be accepted. These include requirements for regular independent appraisals and for the value of the collateral to exceed the receivable by a significant amount, which is ensured by the loan-to-value ratio. According to capital adequacy regulations, an exposure or part of an exposure that does not exceed 80 percent of the property's market value is considered fully collateralised. By applying loan-to-value (LTV) ratios to collateral, the Bank takes into account any negative price changes for various forms of collateral, such as residential property prices and share prices of financial collateral. As a general rule, mortgage loans are provided up to a maximum of 70–85 per cent of market value (LTV ratio).

A large percentage of the Bank's lending also takes place using financial securities as collateral. The values of most of these securities are quoted daily. Financial collateral is largely concentrated in Nordic listed securities or mutual funds with a Nordic investment profile. For financial collateral, the LTV ratio is mainly determined by the liquidity and credit quality of the financial instrument. The calculated loss given default (LGD) value of an exposure goes hand in hand with the LTV ratio, since both are based on the available market value of pledged collateral in relation to the exposure. For financial collateral, the Bank uses the comprehensive method. 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 exposures where the capital requirement is calculated according to the standardised approach, the exposure amount for the exposures is mitigated before these are risk-weighed. 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.

By using guarantees issued by governments and others, the Bank may substitute all or part of an exposure to a counterparty with better credit quality when calculating capital requirements for credit risk. The foremost providers of these forms of 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 serve as collateral in some financing solutions in the form of building loans. The Bank was also granted permission to use guarantees issued by the European Investment Fund for a limited portfolio. The Bank does not use on- or off-balance sheet netting or credit derivatives.

The Bank manages name concentration risk in the credit portfolio by limiting individual counterparties and certain industries. For banks, statutory limits apply to concentrations of individual customers or customer entities. Large exposures are defined in capital adequacy regulations as customers and customer entities whose total exposures make up 10 per cent or more of a bank's Tier 1 (T1) capital). When calculating the exposure amount, all the customer's or the customer entity's commitments on and off the balance sheet must be included in the full amount. The exposure may amount to a maximum of 25 per cent of Tier 1 capital after taking into account CRM-approved collateral. Exposures exceeding the limit must be reported immediately to the FSA. But one exception is exposure to institutions, where an upper limit of EUR 150 M for exposures after CRM applies when the Bank's Tier 1 capital is below that amount. The Bank has nevertheless internally established stricter limits than EUR 150 million for exposure to institutions. According to the lending strategy chosen by the Bank of Åland, large individual concentrations may arise with individual customers. All large credit commitments in each business area are reported quarterly to the Executive Team and also to the FSA.

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 the conversion factor (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.

In Table 9.3.1 an increase occurred in unsecured loans and advances. This was mostly because the table includes a sizeable increase in the proportion of demand deposits in a central bank, which are unsecured.

9.4 USE OF THE STANDARDISED APPROACH FOR CREDIT RISK

In the standardised approach, exposures are divided into various exposure classes depending on the type of counterparty, collateral or type of receivable. The exposure figures for the receivables are calculated according to the regulation and are then multiplied by the risk weight specified in the CRR for the respective exposure class. Exposures to sovereigns (central 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 the CRR, the Bank bases its risk weight for institutions, covered bonds and companies on external credit rating agencies. For those exposures in the "institutions" class and the "covered bonds" class that have no external rating, the risk weight is based on the rating of the national government (sovereign) method. The Bank has no exposures where a rating by an issuer included in the Bank's trading book is transferred to exposures outside the trading book. During 2021 there were no changes in this approach that have affected the Bank's risk exposure amount.

Table 9.4.1 shows the Bank's exposures that apply the standardised approach as well as the density of the risk-weighted exposure amount.

Table 9.4.2 shows how exposure amounts calculated according to the standardised approach are allocated by exposure classes and risk weights applied in the standardised approach. The amounts are reported according to specific credit risk adjustments, conversion factors and credit risk mitigation techniques. The biggest change compared to 2020 was an increase in total exposure of EUR 592.9 M, driven by an increase in exposures with property as collateral by EUR 281.1 M, central governments or central banks by EUR 187.2 M and corporates by EUR 102.3 M.

Table 9.3.1

EU CR3, CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

EUR M	Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
Loans and advances	847.0	4676.0	4541.7	134.3	0.0
Interest-bearing securities	720.5	0.0	0.0	0.0	0.0
Total	**1,567.5**	**4,676.0**	**4,541.7**	**134.3**	**0.0**
of which non-performing exposures	11.7	47.6	46.8	0.7	0.0
of which defaulted	11.7	47.5	46.7	0.7	0.0

Table 9.4.1

EU CR4, Standardised approach – Credit risk exposure and CRM effects

Exponeringsklass	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
EUR M	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWA density, %
Central governments or central banks						
Regional government or local authorities	61.5	4.9	100.1	1.0	0.0	0
Public sector entities	8.5	0.0	8.5	0.0	0.0	0
Multilateral development banks	53.9	0.0	61.0	0.0	1.0	2
International organisations	4.0	0.0	4.0	0.0	0.0	0
Institutions	235.9	39.5	236.2	0.0	52.3	22
Corporates	440.3	313.1	274.1	23.2	284.4	96
Retail	115.1	516.6	83.6	76.6	119.0	74
Secured by mortgages on immovable property	1,436.5	1.1	1,436.5	0.2	485.2	34
Exposures in default	11.3	0.6	11.1	0.0	13.1	118
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0
Covered bonds	397.0	0.0	397.0	0.0	43.5	11
Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0
Collective investment undertakings	1.0	0.0	1.0	0.0	0.8	77
Equity capital	28.6	0.0	28.6	0.0	41.1	143
Other items	89.9	0.0	89.9	0.0	78.0	87
Total	**3,802.2**	**875.9**	**3,729.6**	**103.0**	**1,118.3**	**29**

9.5 USE OF THE INTERNAL METHOD FOR CREDIT RISK

At the Bank of Åland, today there are two internal risk classification systems for credit risk in lending operations. One system is used for calculating unexpected losses (capital requirements) and expected losses (EL) according to the principles of IRB regulations. The other system is used for calculating provisions for future expected credit losses (ECL) in compliance with the IFRS 9 regulation. The estimation of risk parameters for both these purposes is largely similar.

Both risk classification systems 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.

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 FSA has granted the Bank of Åland permission to apply the standardised approach to the following exposure classes and exposures:

- Exposures to sovereigns and central banks
- Exposures to institutions
- Equity exposures
- Exposures of the subsidiary Ålandsbankens Fondbolag Ab
- Credit card exposures
- The Swedish branch's exposures
- Other minor exposures not covered by the classification systems

Internal risk classification models are applied within the following IRB asset classes:

- Exposures to private individuals in the retail portfolio ("PH")
- Exposures to companies in the retail portfolio ("FH")
- Exposures to companies in the corporate portfolio ("FF")

Table 9.4.2

EU CR5, Standardised approach

Exposure classes	Risk weight																
EUR M	0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others	Total	Of which unrated
Central governments or central banks	1,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Regional government or local authorities	101.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	101.1	0.0
Public sector entities	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.5	0.0
Multilateral development banks	56.0	0.0	0.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	61.0	0.0
International organisations	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.0
Institutions	28.0	0.0	0.0	0.0	172.6	0.0	35.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	236.2	0.0
Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	295.7	1.6	0.0	0.0	0.0	0.0	297.3	228.2
Retail exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	160.2	0.0	0.0	0.0	0.0	0.0	0.0	160.2	160.2
Exposures secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	1,436.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,436.7	1,436.7
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0	4.1	0.0	0.0	0.0	0.0	11.1	11.1
Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Covered bonds	0.0	0.0	0.0	359.2	37.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	397.0	0.0
Exposures to institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Units or shares in collective investment undertakings	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.5	0.0	0.0	0.0	0.0	1.0	0.0
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.4	0.0	8.3	0.0	0.0	0.0	28.6	28.6
Other items	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	78.0	0.0	0.0	0.0	0.0	0.0	89.9	89.9
Total	**1,210.1**	**0.0**	**0.0**	**359.2**	**215.3**	**1,436.7**	**35.6**	**0.0**	**160.2**	**401.1**	**6.1**	**8.3**	**0.0**	**0.0**	**0.0**	**3,832.6**	**1,954.7**

The Bank's risk classification system estimates the probability that a customer will default within 12 months (PD) as well as how much the Bank will lose if the customer defaults, that is, its share of loss given default (LGD). For companies in the retail portfolio, the official PD classification, comprising class number and class value, is determined on the basis of a statistical regression model. For companies in the corporate portfolio, the official PD classification is determined at an annual presentation, which is based, among other things, on the PD classification proposed by the models. For retail class exposures (PH and FH), the Bank makes its own LGD estimates (A-IRB), while for corporate class exposures (FF) it uses LGD values stated by regulators (F-IRB). The Bank's models for estimating LGD for the exposures are based on statistical analysis data that the Bank has stored on customers' repayment history.

Risk Control, as part of the second line of defence, is independent in relation to the activities that it monitors and does not participate in the management of the risks that it monitors. Since the Bank of Åland is authorised to use internal risk classification systems, the model development and validation units are separate. The two units are organisationally part of Risk Control but have clear areas of responsibility and report separately to the department head. The model development unit is responsible for development, documentation and implementation of internal models. This responsibility also includes updating the IRB logbook in the event of expansions or changes to models, as well as correcting deficiencies discovered during regular oversight or by the validation unit. Regular oversight includes quarterly reviews, annual reviews and a complete review every three years, as well as any subsequent calibration of the metrics and models used for risk classification. In addition, regular monitoring takes place to ensure that risk is measured in a reliable and consistent manner. The validation unit is responsible for conducting evaluations of the risk classification system on a regular basis. The results of the evaluation are reported to the Board. Internally, the Bank's risk profile is divided into classes, migration between classes and comparisons of the actual default percentages and, to the extent that in-house estimates are used, comparisons of actual LGD values and conversion factors plus forecasts in the quarterly risk report and validation reports.

The Internal Audit 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 FSA approval.

For large corporate customers included in the corporate exposure category, the Bank must perform a qualitative assessment of the customer, to be reported yearly and be presented to the Bank's Credit Committee. This qualitative assessment is an important complement to statistical scoring of a corporate customer.

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 calculating the capital requirement. There is an additional class for loans that have defaulted. In its modelling of credit risk among corporate customers, the Bank also uses external scoring data based on key financial ratios of companies and other factors.

The Bank's model for calculating capital requirements and EL has both elements of Point-in-Time (LGD) and the so-called Through-the-cycle approach (PD). Put simply, it is based on a complete economic cycle, including a recession. Since EL is assumed to be known, there must also be provisions for it in the Bank's own funds to the extent that this is not covered by recognised loan loss provisions. Such provisions (ECL) are based on the accounting principles stipulated by IFRS 9.

Table 9.5.1 shows the use of the IRB approach and the standardised approach for various types of exposure in the Bank. In terms of total exposure value, the Bank largely uses the IRB approach, and the migration of the Swedish mortgage portfolio to Borgo AB will make the proportion of exposure in the retail segment that uses the IRB approach even higher. The Bank does not intend to apply to use the IRB approach for any portfolio other than those for which there is currently a permit.

Table 9.5.2 shows the allocation of the Bank's portfolios according to PD ranges. It is clear that the great majority of the Bank's exposure and the number of debtors are in low PD ranges. LGD values are generally low in the A-IRB portfolio which is based on the Bank's own calculations, and significantly higher in the F-IRB portfolio where the regulatory LGD calculation is used. This affects the density of risk-weighted exposure amounts, with expected loss (EL) amounts being relatively high in the F-IRB models. In the table, there is no specialised lending, which instead uses the simplified risk weighting method. These exposures are shown in Table 9.5.6.

Table 9.5.3 shows that there is generally a good proportion of credit risk mitigation in the Bank, especially the segments that have been covered by collateral in the form of properties. The Bank mainly uses collateral in the form of properties in the retail portfolio (which applies A-IRB), while the corporate portfolio (which applies F-IRB) mainly uses financial collateral. The Bank does not distinguish between the mitigation effect and the substitution effect.

Table 9.5.4 shows a flow analysis of the risk-weighted exposure amount according to the IRB approach. The risk-weighted exposure amount fell by EUR 11.7 M during 2020 because asset quality became better.

Table 9.5.5 compares observed default ratios within different PD intervals, both in 2021 and compared to an average historical ratio based on data from the past five years. The comparison is made separately for the portfolios that apply A-IRB and the portfolio that applies F-IRB. In all PD intervals, the observed default ratio is lower than the PD estimates. Since PD estimates are made at the loan level in the retail portfolio, the number of debtors ("obligors") is the same as the number of loans within each PD interval. For the corporate portfolios, PD estimates are made at customer level and the number of debtors is thus the number of customers within each PD interval.

In some exceptional cases the Bank uses specialised lending, and in such cases it applies the simplified risk weighting approach. Table 9.5.6 shows the exposures that are covered by this approach. The Bank believes that the risk category improved to Category 2 from Category 3 in 2020.

Table 9.5.1

EU CR6-A, Scope of the use of IRB and SA approaches

EUR M	Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA, %	Percentage of total exposure value subject to IRB Approach, %	Percentage of total exposure value subject to a roll-out plan, %
Central governments or central banks	993.7	993.7	100.0	0.0	0.0
of which Regional governments or local authorities	66.4	66.4	100.0	0.0	0.0
of which Public sector entities	8.5	8.5	100.0	0.0	0.0
Institutions	301.7	301.7	100.0	0.0	0.0
Corporates	1,352.8	1,351.1	56.8	43.2	0.0
of which Corporates – Specialised lending, excluding slotting approach					
of which Corporates – Specialised lending under slotting approach					
Retail	3,060.8	3,050.0	20.8	79.2	0.0
of which Retail – Secured by real estate SMEs					
of which Retail – Secured by real estate non-SMEs					
of which Retail – Qualifying revolving					
of which Retail – Other SMEs					
of which Retail – Other non-SMEs					
Equity capital	28.6	28.6	100.0	0.0	0.0
Other non-credit obligation assets	89.9	89.9	100.0	0.0	0.0
Total	**5,827.6**	**5,815.0**	**48.4**	**51.6**	**0.0**

Table 9.5.2

EU CR6, IRB approach – Credit risk exposures by exposure class and PD range

EUR M	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD, %	Number of obligors	Exposure weighted average LGD, %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjust-ments and provisions
A-IRB – Exposure class PH													
	0.00 to <0.15	815.6	36.6	1	846.0	0.1	12185	9.6	10	21.9	2.6	0.1,	(0.3)
	0.00 to <0.10	123.0	10.9	1	133.5	0.0	2797	8.8	9	1.4	1.0	0.0	(0.1)
	0.10 to <0.15	692.6	25.7	1	712.5	0.1	9388	9.8	11	20.5	2.9	0.1	(0.2)
	0.15 to <0.25	710.8	16.2	1	710.5	0.2	8276	10.5	11	32.5	4.6	0.2	(0.2)
	0.25 to <0.50	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0,
	0.50 to <0.75	541.5	13.0	1	517.5	0.7	7365	11.2	11	61.0	11.8	0.4	(0.1)
	0.75 to <2.50	41.8	2.8	1	43.6	0.8	485	12.2	7	4.3	9.9	0.0	(0.3)
	0.75 to <1.75	41.8	2.8	1	43.6	0.8	485	12.2	7	4.3	9.9	0.0	(0.3)
	1.75 to <2.5	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0,
	2.50 to <10.00	183.6	5.5	1	179.4	5.7	2267	12.8	8	63.6	35.4	1.3	(0.7)
	2.5 to <5	63.1	2.5	1	64.9	2.6	485	12.5	7	13.1	20.2	0.2	(0.3)
	5 to <10	120.6	3.1	1	114.5	7.4	1782	12.9	9	50.5	44.1	1.1	(0.5)
	10.00 to <100.00	21.0	0.8	1	19.4	21.7	303	14.8	9	11.6	59.7	0.6	(0.2)
	10 to <20	10.7	0.8	1	10.6	13.3	71	14.2	8	5.3	50.3	0.2	(0.1)
	20 to <30	9.1	0.0	1	7.7	28.7	202	15.6	11	5.8	74.8	0.3	(0.1)
	30.00 to <100.00	1.2	0.0	1	1.1	53.0	30	14.4	3	0.5	44.0	0.1	(0.0)
	100.00 (default)	34.7	1.8	1	36.6	100.0	475	21.3	4	46.8	127.9	8.3	(8.4)
Subtotal (exposure class)		**2,349.2**	**76.8**	**1**	**2,353.1**	**2.4**	**31356**	**10.7**	**11**	**241.6**	**10.3**	**11.0**	**(10.2)**
Total (all exposures classes)		**2,875.8**	**178.0**	**0.43**	**2,834.9**	**2.7**	**32359**	**14.0**	**10**	**481.8**	**17.0**	**18.6**	**(11.8)**
A-IRB – Exposure class FH													
	0.00 to <0.15	0.0	0.0	0	0.0		0		0	0.0	0.0	0.0	0.0
	0.00 to <0.10	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0
	0.10 to <0.15	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0
	0.15 to <0.25	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0
	0.25 to <0.50	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0
	0.50 to <0.75	67.1	41.9	0	84.2	0.5	65	32.3	11	35.5	42.2	0.1	(0.0)
	0.75 to <2.50	367.1	43.8	0	347.7	1.4	679	31.4	3	171.5	49.3	1.5	(0.5)
	0.75 to <1.75	294.6	42.8	0	277.4	1.3	536	30.0	3	130.3	47.0	1.1	(0.4)
	1.75 to <2.5	72.6	1.0	0	70.3	1.8	143	36.6	4	41.2	58.6	0.5	(0.1)
	2.50 to <10.00	77.3	14.3	0	37.7	7.1	222	34.8	8	30.9	82.0,	0.9	(0.1)
	2.5 to <5	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0
	5 to <10	77.3	14.3	0	37.7	7.1	222	34.8	8	30.9	82.0	0.9	(0.1)
	10.00 to <100.00	1.5	0.1	0	1.5	31.7	12	44.9	2	2.3	146.8	0.2	(0.0)
	10 to <20	0.0	0.0		0.0		0		0	0.0	0.0	0.0	0.0
	20 to <30	1.1	0.1	0	1.2	21.5	10	44.8	3	1.8	154.5	0.1	(0.0)
	30.00 to <100.00	0.4	0.0		0.4	63.8	2	45.0	0	0.5	122.5	0.1	(0.0)
	100.00 (default)	13.6	1.1	0	10.8	100.0	25	44.8	0	0.0	0.0	4.8	(1.0)
Subtotal (exposure class)		**526.6**	**101.2**	**0**	**481.8**	**4.0**	**1003**	**32.1**	**6**	**240.1**	**49.8**	**7.6**	**(1.7)**
Total (all exposures classes)		**2,875.8**	**178.0**	**0.43**	**2,834.9**	**2.7**	**32359**	**14.0**	**10**	**481.8**	**17.0**	**18.6**	**(11.8)**

Table 9.5.3

EU CR7-A, IRB approach – Disclosure of the extent of the use of CRM techniques

miljoner euro	Total exposures	Credit risk mitigation techniques											CRMs when calculating risk-weighted exposure amounts	
		Funded credit Protection (FCP)									Unfunded credit Protection (UFCP)			
		Part of exposures covered by financial collateral, %	Part of exposures covered by other eligible collateral, %	Part of exposures covered by Immovable property collateral, %	Part of exposures covered by receivables, %	Part of exposures covered by other physical collateral. %	Part of exposures covered by other funded credit protection, %	Part of exposures covered by cash on deposit, %	Part of exposures covered by life insurance policies, %	Part of exposures covered by instruments held by a third party, %	Part of exposures covered by guarantees, %	Part of exposures covered by credit derivatives, %	RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and sustitution effects)
Advanced IRB approach (A-IRB)														
Central governments and central banks	0.0	0	0	0	0	0	0	0	0	0	0	0		
Institutions	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
Corporates	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
of which corporates – SMEs	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
of which corporates – Specialised lending	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
of which corporates – Other	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
Retail	2,353.1	13	180	180	0	0	0	0	0	0	0	0	N/A	241.6
of which retail – Immovable property SMEs	127.4	6	226	226	0	0	0	0	0	0	0	0	N/A	27.5
of which retail – Immovable property non-SMEs	1,859.2	5	209	209	0	0	0	0	0	0	0	0	N/A	174.2
of which retail – Qualifying revolving	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
of which retail – Other SMEs	33.9	42	9	9	0	0	0	0	0	0	0	0	N/A	6.8
of which retail – Other non-SMEs	332.6	60	15	15	0	0	0	0	0	0	0	0	N/A	33.1
Total	**2,353.1**	**13**	**180**	**180**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**N/A**	**241.6**
Foundational IRB approach (F-IRB)														
Central governments and central banks	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
Institutions	0.0	0	0	0	0	0	0	0	0	0	0	0	N/A	0.0
Corporates	486.8	41	16	16	0	0	0	0	0	0	0	0	N/A	243.7
of which corporates – SMEs	274.1	42	11	11	0	0	0	0	0	0	0	0	N/A	139.4
of which corporates – Specialised lending	5.0	0	0	0	0	0	0	0	0	0	0	0	N/A	3.5
of which corporates – Other	207.7	41	24	24	0	0	0	0	0	0	0	0	N/A	100.7
Total	**486.8**	**41**	**16**	**16**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**N/A**	**243.7**

Table 9.5.4

EU CR8, RWEA flow statements of credit risk exposures under the IRB approach	
miljoner euro	Risk-weighted exposure amount
Risk-weighted exposure amount as at the end of the previous reporting period	497.0
Asset size (+/−)	16.6
Asset quality (+/−)	(28.3)
Model updates (+/−)	
Methodology and policy (+/−)	
Acquisitions and disposals (+/−)	
Foreign exchange movements (+/−)	
Other (+/−)	
Risk weighted exposure amount as at the end of the reporting period	**485.3**

Table 9.5.5

CR9, IRB approach – Back-testing of PD per exposure class (fixed PD scale)

Exposure class	PD range	Number of obligors at the end of previous year	Of which number of	Observed average default rate, %	Exposure-weighted average PD, %	Average PD, %	Average historical annual default rate, %
Advanced IRB approach (A-IRB) – PH portfolio							
	0.00 to <0.15	**12,176**	**5**	**0.0**	**0.1**	0.1	0.0
	0.00 to <0.10	2,741	0	0.0	0.0	0.0	0.0
	0.10 to <0.15	9,435	5	0.1	0.1	0.1	0.0
	0.15 to <0.25	**8,349**	**5**	**0.1**	**0.2**	**0.2**	**0.1**
	0.25 to <0.50	**0**	**0**				
	0.50 to <0.75	**7,378**	**52**	**0.7**	**0.7**	**0.7**	**0.4**
	0.75 to <2.50	**318**	**0**	**0.0**	**0.8**	**0.8**	**0.4**
	0.75 to <1.75	318	0	0.0	0.8	0.8	0.4
	1.75 to <2.5	0	0				
	2.50 to <10.00	**2,287**	**115**	**5.0**	**5.7**	**6.7**	**2.7**
	2.5 to <5	334	1	0.3	2.6	2.6	0.6
	5 to <10	1,953	114	5.8	7.4	7.4	3.2
	10.00 to <100.00	**369**	**93**	**25.2**	**21.7**	**28.3**	**19.3**
	10 to <20	41	0	0.0	13.3	13.3	0.6
	20 to <30	308	91	29.5	28.7	28.7	23.7
	30.00 to <100.00	20	2	10.0	53.0	53.0	16.0
	100.00 (defaulted)	**345**			**100.0**	**100.0**	

Exposure class	PD range	Number of obligors at the end of previous year	Of which number of	Observed average default rate, %	Exposure-weighted average PD, %	Average PD, %	Average historical annual default rate, %
Foundational IRB approach (F-IRB) – FF portfolio							
	0.00 to <0.15	**0**	**0**				
	0.00 to <0.10	0	0				
	0.10 to <0.15	0	0				
	0.15 to <0.25	**0**	**0**				
	0.25 to <0.50	**0**	**0**				
	0.50 to <0.75	**30**	**0**	**0.0**	**0.5**	**0.5**	**0.0**
	0.75 to <2.50	**314**	**1**	**0.3**	**1.4**	**1.4**	**0.3**
	0.75 to <1.75	227	0	0.0	1.3	1.3	0.2
	1.75 to <2.5	87	1	1.1	1.8	1.8	0.5
	2.50 to <10.00	**85**	**2**	**2.4**	**7.1**	**6.2**	**2.4**
	2.5 to <5	0	0				
	5 to <10	85	2	2.4	7.1	6.2	2.4
	10.00 to <100.00	**7**	**0**	**0.0**	**31.7**	**21.5**	**17.1**
	10 to <20	0	0				
	20 to <30	7	0	0.0	21.5	21.5	10.5
	30.00 to <100.00	0	0		63.8		56.3
	100.00 (defaulted)	**11**			**100.0**	**100.0**	

Table 9.5.6

EU CR10, Specialised lending and equity exposures under the simple risk-weighted approach

	Specialised lending: Income-producing real estate and high volatility commercial real estate (Slotting approach)						
EUR M	Remaining maturity	On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk-weighted exposure amount	Expected loss amount
Regulatory categories							
Category 1	<2.5 years			50			
	≥2.5 years			70			
Category 2	<2.5 years	0.5	0.0	70	0.5	0.3	0.0
	≥2.5 years	4.4	0.0	90	4.5	3.2	0.0
Category 3	<2.5 years			115			
	≥2.5 years			115			
Category 4	<2.5 years			250			
	≥2.5 years			250			
Category 5	<2.5 years						
	≥2.5 years						
Total	**<2.5 years**	**0.5**	**0.0**		**0.5**	**0.3**	**0.0**
	≥2.5 years	**4.4**	**0.0**		**4.5**	**3.2**	**0.0**

9.6 CREDIT RISK IN TREASURY OPERATIONS

In the Group's treasury operations, credit risk arises 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 arise in the Bank's treasury operations when the Bank enters into derivative contracts with various counterparties. This counterparty 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 Treasury unit endeavours to reduce its credit risk exposures as much as possible by using central clearing for derivative instruments and by prioritising counterparties with strong credit ratings. Table 9.6.1 shows exposures to qualified central counterparties.

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. As part of the Bank's general liquidity management, it only does business with well-known counterparties with investment grade credit ratings. 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.

Credit risk also arises in the Treasury unit's high yield bond portfolio. This portfolio consists of securities issued by counterparties with lower credit ratings or with no credit rating. The counterparties in the high yield portfolio have undergone an evaluation process requiring high quality standards. For all counterparties, the Bank estimates creditworthiness based on an analysis of the counterparty and its key financial ratios. Exposures are monitored on a monthly basis. These instruments mainly consist of debt securities issued by companies in the European market. The high yield portfolio and its counterparties are limited by an internal regulation established by the Board.

Table 9.6.2 shows counterparty exposure by method and how the Group's overall derivative exposures are allocated by risk type. Positive gross value refers to the sum of contracts that have a positive market value from the Bank's standpoint. Exposure value was then calculated according to the original exposure method in compliance with Article 282 of CRR, which also takes into account the nominal amount and thus makes allowances for an exposure to the counterparty that may be larger than today's market value, in case of default.

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 value 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. Table 9.6.3 shows the capital cost of credit value adjustment.

Table 9.6.4 shows how exposure values for the Group's holdings of securities are allocated by credit quality steps in the exposure classes where external credit ratings are used in calculating the capital requirement.

Table 9.6.1

EU CCR8, Exposures to central counterparties

EUR M	Exposure	Risk-weighted amount
Total exposures to qualified central counterparties (QCCPs)		0.1
Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	6.6	0.1
of which OTC derivatives	6.6	0.1
of which exchange-traded derivatives	0.0	0.0
of which securities financing transactions	0.0	0.0
of which netting sets where cross-product netting has been approved	0.0	0.0
Segregated initial margin	0.0	
Non-segregated initial margin	0.0	0.0
Pre-funded default fund contributions	0.0	0.0
Unfunded default fund contributions	0.0	0.0
Total exposures to non-QCCPs		0.0
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions)	0.0	0.0
of which OTC derivatives	0.0	0.0
of which exchange-traded derivatives	0.0	0.0
of which securities financing transactions	0.0	0.0
of which netting sets where cross-product netting has been approved	0.0	0.0
Segregated initial margin	0.0	
Non-segregated initial margin	0.0	0.0
Pre-funded default fund contributions	0.0	0.0
Unfunded default fund contributions	0.0	0.0

Table 9.6.2

EU CCR1, Analysis of counterparty credit risk (CCR) exposure by approach

EUR M		Replacement cost (RC)	Potential future exposure (PFE)	Effective EPE	Alpha used for computing regulatory EAD	EAD pre-CRM	EAD post-CRM	Exposure at default (EAD)	Risk-weighted amount
EU-1	EU – Original exposure method (for derivatives)	3.8	26.4		1.4	42.3	42.3	42.3	20.5
EU-2	EU – Simplified SA-CCR (for derivatives)				1.4			0.0	0.0
1	SA-CCR (for derivatives)				1.4			0.0	0.0
2	Internal model method (for derivatives and SFTs)			0.0		0.0	0.0	0.0	0.0
2a	Of which netting amounts for SFTs							0.0	0.0
2b	Of which netting amounts for derivatives and long settlement transactions							0.0	0.0
2c	Of which from contractual cross-product netting amounts							0.0	0.0
3	Simple approach for financial collateral (for SFTs)							0.0	0.0
4	Comprehensive approach for financial collateral (for SFTs)							0.0	0.0
5	VaR for SFTs							0.0	0.0
	Total					**42.3**	**42.3**	**42.3**	**20.5**

Table 9.6.3

EU CCR2, Transactions subject to the credit value adjustment (CVA) capital charge

EUR M		Exposure	Risk-weighted amount
1	All transactions for which the internal measurement approach is applied		
2	i) VaR component (including the 3 x multiplier)	0.0	0.0
3	ii) Stressed VaR component (including the 3 x multiplier)		
4	Transactions for which the standardised approach is applied		
EU-4	Transactions for which the alternative approach is applied (based on the original exposure method)	19.7	0.7
5	Total transactions subject to the CVA capital charge	0.0	
	Total	**19.7**	**0.7**

Table 9.6.4

EU CCR3, Standardised approach – CCR exposures by regulatory portfolio and risk weight

EUR M	Risk weight											Total exposure value
Exposure class	0 %	2 %	4 %	10 %	20 %	50 %	70 %	75 %	100 %	150 %	Others	
Sovereigns or central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional or local governments or agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutions	0.0	6.6	0.0	0.0	16.1	3.6	0.0	0.0	0.0	0.0	0.0	26.3
Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.5	0.0	0.0	13.5
Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	2.5
Institutions and corporates with short-term credit valuations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total exposure value	**0.0**	**6.6**	**0.0**	**0.0**	**16.1**	**3.6**	**0.0**	**2.5**	**13.5**	**0.0**	**0.0**	**42.3**

10. Liquidity risk

Liquidity risk refers to the risk of not being able to fulfil payment obligations on the maturity date due to a shortage of liquid assets, or that these obligations can only be fulfilled by obtaining the means of payment at a substantially higher cost or by selling positions at substantially lower market prices than expected.

10.1 Risk management

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

- Observance of 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 by means of 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.

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio, net stable funding ratio, survival horizon and how large the amount of covered bonds issued may be as a proportion of the available collateral. Liquidity risk is managed by the Bank's Treasury unit, which is responsible for ensuring that risks respect the limits established by the Board of Directors. 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.

10.1.1 Liquidity reserve

In order to decrease its liquidity risk, the Bank maintains a liquidity reserve containing high-quality assets that shall serve as an alternative source of liquidity at times of limited or non-existent opportunities to borrow money in the external capital market. The reserve may consist of cash, accounts with central banks or other well-reputed banks with a good credit rating, deposits with short maturities, holdings of debt securities issued by the Bank and 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 10.1.1.1

Liquidity reserve					2021	2020
	Allocation by currency, market value					
EUR M	EUR	SEK	USD	Other	Total	Total
Cash and investments with central banks	580	311		2	894	665
Debt securities issued by sovereigns, central banks or multilateral development banks	25	33	12	0	71	72
Debt securities issued by credit institutions	0	12	0	0	12	7
Debt securities issued by the public sector	0	41	0	0	41	60
Covered bonds	110	40	44	0	195	278
Liquid assets, Level 1	**715**	**438**	**56**	**2**	**1,212**	**1,083**
Covered bonds	44	22	9	0	74	56
Liquid assets, Level 2	**44**	**22**	**9**	**0**	**74**	**56**
Total	**759**	**460**	**65**	**2**	**1,286**	**1,140**
Accounts with other banks	21	1	5	7	34	26
Other	14	0	0	0	14	10
Total (including other liquid assets)	**794**	**461**	**70**	**10**	**1,335**	**1,175**

10.1.2 Funding

The Bank of Åland endeavours to achieve a well-diversified funding structure, both from the perspective of instruments and maturities. The Bank intends to be independent of individual depositors, investors, funding instruments or market segments.

Aside from equity capital, the Bank of Åland's funding sources consist mainly of deposits from the public, covered bonds, certificates of deposit and short- and long-term borrowing from credit institutions. One long-term goal is that deposits from the public shall account for more than 50 per cent of funding, excluding equity capital. At the end of 2021, deposits and covered bonds comprised more than 80 per cent of the Bank's funding structure.

Funding of the Bank's lending must not be dependent on unsecured capital market borrowing or short-term funding sources. Unsecured funding is used in order to control the percentage of total available collateral that may be utilised for covered bonds and to have a more diversified funding structure.

The Bank of Åland uses several different borrowing programmes, both in euros and in Swedish kronor. These regulate the structure of debt instruments that are issued. The most important ones are a Finnish debt programme under which the Bank issues covered bonds and unsecured bonds and a commercial paper programme in Swedish kronor for issuing short-term debt instruments.

The Bank's Treasury unit 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 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.

Total capital market borrowings outstanding at the end of 2021 is shown in Table 10.1.2.1.

In the spring of 2021, for the first time the Bank issued an additional Tier 1 (AT1) capital instrument totalling SEK 300 M. This is a perpetual financial instrument, with a possibility of early redemption after five years. For financial reporting purposes, this instrument is regarded as equity capital.

In the autumn of 2021, the Bank of Åland carried out an early redemption of SEK 2.5 billion in covered bonds from the Swedish collateral pool with a final due date in November 2022. At the same time, the Bank issued new covered bonds in the amount of SEK 5.5 billion with a final due date in September 2026. These bonds carry contractual conditions that allow them to move from the Finnish to the Swedish legislative framework, and from the Bank of Åland as counterparty to Borgo as counterparty, when the Bank's Swedish mortgage loan portfolio is transferred to Borgo during the first half of 2022. At year-end the nominal outstanding amount of covered bonds was EUR 1,186 M.

During the autumn, EUR 250 M in unsecured bonds also matured. The Bank chose not to renew them.

In December, for the first time the Bank of Åland issued green Tier 2 (T2) supplementary capital instruments, totalling SEK 150 M. This instrument has a 20-year maturity, with a possibility of early redemption after five years. The proceeds of the instrument will be used for financing and refinancing wind power projects and mortgage loans with high energy performance ratings.

Funding sources

Per cent of total

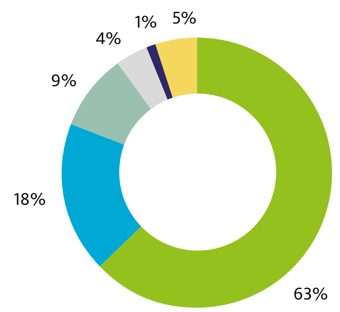


Table 10.1.2.1

Capital market borrowings outstanding

EUR M	Currency of issue	Nominal amount	Average remaining maturity, years
Long-term capital market borrowings			
Central bank funding	EUR	317	1.8
Covered bonds	EUR	640	1.9
	SEK	546	4.7
Debenture loans	EUR	2	15.6
	SEK	34	17.9
Total long-term capital market borrowings		**1,540**	**3.2**
Short-term capital market borrowings			
Central bank funding	SEK	293	0.1
Certificates of deposit and deposit accounts	EUR	146	0.1
Total short-term capital market borrowings		**439**	**0.1**
Total capital market borrowings		**1,978**	**2.5**

10.2 RISK MEASUREMENT

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 forecast. These are an important tool in managing and planning liquidity risks and borrowing requirements.

10.2.1 Survival horizon

One of the Bank of Åland's internal metrics for liquidity is the "survival horizon", defined as the period during which all outflows can be covered by the liquidity reserve without any further need for funding. 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 model, a significant proportion of demand deposits is assumed to be a stable source of funding. At year-end 2021, the Bank's survival horizon was estimated to be well in excess of the target level.

10.2.2 Liquidity coverage ratio and net stable funding ratio

Regulatory authorities have adopted rules for liquidity risk that cover both short-term and structural liquidity under stressed conditions. The purpose of the liquidity coverage ratio (LCR) is to ensure that banks have enough liquid assets to deal with short-term liquidity stress. This means that 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.

Table 10.2.2.1 shows the liquidity coverage ratio, calculated according to the situation at the end of the quarter.

The net stable funding ratio (NSFR), a structural liquidity metric, requires that banks have enough stable funding to cover their funding needs in a one-year perspective, both under normal and stressed conditions. The minimum NSFR requirement is 100 per cent.

Table 10.2.2.2 shows the Bank's net stable funding ratio, calculated according to the situation at year-end.

Table 10.2.2.1

EU LIQ1, Liquidity coverage ratio in accordance with CRR

		Total unweighted value				Total weighted value			
		Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021
	High-quality liquid assets (HQLA)								
1	**Total high-quality liquid assets (HQLA)**					1 097	1 116	1 145	1 265
	Cash outflows								
2	Retail deposits and deposits from small business customers	2,369	2,519	2,512	2,518	167	181	180	180
3	*of which stable deposits*	1,422	1,462	1,465	1,462	71	73	73	73
4	*of which less stable deposits*	947	1,057	1,046	1,055	96	108	107	107
5	Unsecured wholesale funding	1,088	1,149	1,214	1,423	549	577	616	775
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	199	238	229	156	48	58	55	38
7	Non-operational deposits (all counterparties)	859	906	965	1,268	471	514	541	737
8	Unsecured debt	30	5	20	0	30	5	20	0
9	Secured wholesale funding	0	0	0	0	0	0	0	0
10	Additional requirements	335	410	447	448	31	35	37	38
11	Outflows related to derivative exposures and other collateral requirements	0	0	0	0	0	0	0	0
13	Credit and liquidity facilities	334	410	447	448	31	35	37	38
14	Other contractual funding obligations	6	15	7	3	6	15	7	3
15	Other contingent funding obligations	565	621	593	530	28	31	30	26
16	**Total cash outflows**					**782**	**840**	**870**	**1,023**
	Cash inflows								
18	Inflows from fully performing exposures	110	90	86	67	**74**	**69**	**62**	**53**
19	Other cash inflows	209	192	197	230	**42**	**39**	**39**	**58**
20	**Total cash inflows**	**320**	**283**	**283**	**298**	**116**	**107**	**101**	**112**
	Total adjusted value								
21	Liquidity buffer					1,097	1,116	1,145	1,265
22	Total net cash outflows					666	733	770	911
23	Liquidity coverage ratio					165	152	149	139

Table 10.2.2.2

EU LIQ2, Net stable funding ratio					2021	2020
	Unweighted value by residual maturity					
EUR M	No maturity	<6 months	6 months–1 year	≥1 year	Weighted value	Weighted value
Required stable funding (RSF) items						
High-quality liquid assets (HQLA)	862	118	39	241	60	44
Other liquid assets		15	0	155	52	180
Other securities		25	22	105	122	127
Performing loans		479	136	4,167	3,862	3,399
Derivative assets		8	0	0	8	0
Other assets		24	1	177	202	118
Off-balance sheet items		485	0	0	24	0
Total required stable funding (RSF)					**4,330**	**3,868**
Available stable funding (ASF) items						
Own funds	337				337	276
Retail deposits		2,625	1	1	2,437	2,292
Stable deposits		1,463	0	0	1,390	1,339
Less stable deposits		1,161	1	1	1,047	953
Other deposits		1,687	10	0	481	392
Other wholesale funding		293	117	1,386	1,445	1,149
Other liabilities		125	0	0	0	0
Total available stable funding (ASF)					4,700	**4,109**
Net stable funding ratio, %					**109**	**106**

10.3 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 10.3.1 shows the Bank of Åland's encumbered assets on December 31, 2021.

10.4 MORTGAGE BANKING OPERATIONS

The Bank of Åland has two separate collateral pools, a Finnish pool consisting of Finnish home mortgage loans and a Swedish one consisting of Swedish home mortgage loans.

Mortgage banking operations are regulated by the Act on Mortgage Credit Banks. The Act prescribes that the fair value of collateral shall be determined in accordance with good property appraisal practices and in compliance with FIN-FSA regulations on credit institutions' internal capital adequacy and credit risk management. In the case of loans exceeding EUR 3 million, the valuation of the property shall be determined by an independent appraiser at least once every three years.

Internally, operations are regulated by limits established by the Board on the percentage of the collateral pool that may be utilised, the percentage of the funding structure 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 collateral pools as of December 31, 2021 can be seen in the tables below.

Table 10.3.1

Encumbered and unencumbered assets

	Encumbered assets		Unencumbered assets	
EUR M	Carrying amount	Fair value	Carrying amount	Fair value
Equity instruments				
Debt securities	314	314	407	407
of which covered bonds	129	129	268	268
of which issued by general governments	19	19	54	54
of which issued by non-financial companies			30	30
of which issued by financial companies other than covered bonds	166	166	55	55
Other assets	2,092		3,803	
Total assets	**2,406**		**4,225**	

Purpose of encumbrance, carrying amount

EUR M	Matching liabilities
Central bank financing	610
Covered bonds	1,196
Other	0
Total	**1,806**

Table 10.4.1

Assets included in the collateral pool

EUR M	Collateral pool Finland	Collateral pool Sweden
Loans	1,095	990
Substitute collateral	125	0
Other	0	0
Total	**1,220**	**990**

Type of collateral

Loan volume, %	Collateral pool Finland	Collateral pool Sweden
Single-family homes and flats	100	100
Multi-family homes	0	0
Commercial properties	0	0
Farm land and forest	0	0
Public sector	0	0
Total	**100**	**100**

Key figures

	Collateral pool Finland	Collateral pool Sweden
Number of loans	12,509	5,596
Number of borrowers	7,776	3,439
Average loan volume, EUR K	90	182
Over-collateralisation, nominal, %	43	35
Weighted loan-to-value ratio, %	55	57
Foreign exchange risk[1]	0	0

[1] All foreign exchange risks is hedged against euros.

Regional distribution

	Loan volume, %
Collateral pool Finland	
Helsinki region, southern Finland	43.1
Tampere region, central Finland	12.4
Turku region, western Finland	15.1
Åland	21.6
Other regions	7.8
Total	**100.0**

Regional distribution

	Loan volume, %
Collateral pool Sweden	
Stockholm County	57.9
Southern Sweden	14.8
Western Sweden	15.0
Other regions	12.3
Total	**100.0**

Loan-to-value ratio

EUR M	0–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	Total
Collateral pool Finland								
Loan volume	10	35	69	111	178	237	455	1,095
Loan volume, %	0.9	3.2	6.3	10.1	16.3	21.6	41.6	100.0
Collateral pool Sweden								
Loan volume	4	20	47	99	207	191	423	990
Loan volume, %	0.4	2.0	4.7	10.0	20.9	19.3	42.7	100.0

Seasoning

EUR M	0–12 M	12–14 M	24–36 M	36–60 M	60 M–	Total
Collateral pool Finland						
Loan volume	122	145	133	202	493	1,095
Loan volume, %	11.1	13.2	12.1	18.4	45.0	100.0
Collateral pool Sweden						
Loan volume	357	200	73	173	188	990
Loan volume, %	36.0	20.2	7.4	17.4	18.9	100.0

Credit quality, payment delays

EUR M	31–60 D	61–90 D	90+D	Total
Collateral pool Finland				
Loan volume	0.3	0.1	0.0	0.4
Loan volume, %	0.0	0.0	0.0	0.0
Collateral pool Sweden				
Loan volume	0.6	0.2	0.0	0.8
Loan volume, %	0.0	0.0	0.0	0.0

Issues outstanding

ISIN	Nominal amount, M	Currency	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon, %	Fixed/ floating
Collateral pool Finland						
XS0876678391	100	EUR	30.01.2013	30.01.2023	2.750	Fixed
XS1496878742	250	EUR	29.09.2016	29.09.2023	0.000	Fixed
FI4000375241	300	EUR	19.03.2019	19.03.2024	0.125	Fixed
FI4000490677	200	EUR	24.02.2021	24.11.2024	0.000	Floating
Collateral pool Sweden						
SE0013359627	2,000	SEK	12.05.2020	12.05.2025	0.405	Floating
SE0013360419	5,500	SEK	10.09.2021	10.09.2026	0.393	Floating

10.5 CREDIT RATING

At the end of 2021, the Bank of Åland has a credit rating of BBB/A-2 from Standard & Poor’s Global Ratings, with a positive outlook for its long- and short-term borrowing. The Bank of Åland’s covered bonds have a credit rating of AAA with a stable outlook.

The starting point for Standard & Poor’s credit rating of a Finnish or Swedish bank is A–, which may then be raised or lowered on the basis of institution-specific characteristics. According to Standard & Poor’s, one of the Bank’s strengths is that it carries out business operations in economically stable regions in Finland and Sweden. At the same time, this leads to concentration risks and greater sensitivity to changes in the Finnish and Swedish real estate markets. The Bank is deemed to have a sound funding structure, supported by stable customer deposits and Bank-issued covered bonds, plus a strong risk-adjusted capitalisation and low loan losses.

10.6 RECOVERY AND RESOLUTION PLANNING

In accordance with the EU directive establishing a framework for recovery and resolution (2014/59/EU), the Bank maintains a recovery plan that includes measures that can be taken to capitalise and safeguard liquidity in a crisis situation. The purpose of the plan is to prepare the Bank to handle a possible liquidity deficit or a liquidity crisis through various alternative actions. The plan includes approaches to cover a number of different crisis situations.

Since banks provide key services to citizens, businesses and the economy, their financial difficulties must be managed in a controlled, rapid and efficient manner. The Financial Stability Authority establishes resolution plans for Finnish banks. The purpose of these plans is to create such good preparedness for banking crises that the probability of a bank failure will decrease and such a crisis will cause society as little inconvenience as possible in the form of costs or disruptions in critical functions.

As part of preparing the resolution plan, the Financial Stability Authority establishes an institution-specific minimum requirement for own funds and eligible liabilities (MREL). Its purpose is to ensure that banks have sufficiently large own funds and debt instruments that can be used in a crisis to cover losses and capitalise the bank. In 2021, the Financial Stability Authority established a formal MREL for the Bank of Åland. In practice, however, the requirement does not involve any capital requirement in addition to the existing minimums for the Bank's total capital ratio and leverage ratio. The MREL is set at the institutional level and thus does not cover the consolidated situation. The MREL must be completely fulfilled starting on January 1, 2022.

Table 10.6.1

Minimum requirement for own funds and eligible liabilities (MREL)	2021	2020
EUR M		
Total risk exposure amount (TREA)	1,888	1,575
Leverage ratio exposure(LRE)	6,263	5,588
Combined buffer requirement	47	39
MREL	217	181
MREL as a percentage of TREA	11,5	11,5
Common equity Tier 1 capital	239	239
AT1 instruments	29	0
Tier 2 instruments	36	37
Own funds and qualified liabilities that can be used to cover MREL	**305**	**276**

11. Market risk

Market risk is the risk of decreases in earnings, equity capital or value due to price changes and risk factors in financial markets. Market risk includes interest rate risk, foreign exchange risk and equity risk.

11.1 RISK MANAGEMENT

The Bank of Åland's Board of Directors decides on the Bank's risk appetite and establishes limits on interest rate risk, foreign exchange risk and equity risk. The Bank's market risks are low and primarily of a structural nature. Interest rate risks and foreign exchange risks are managed by the Bank's Treasury department. Positions are hedged when they enter the balance sheet as well as continuously in compliance with the principles established by the Bank's Board of Directors and the processes established by the Treasury department. Equity risk is managed either by the Board of Directors or by the Managing Director.

Market risks in the Group are followed up and analysed by Risk Control, 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 FIN-FSA regularly. Monitoring and reporting are evaluated by the Bank's Internal Audit department.

11.2 INTEREST RATE RISK

Interest rate risk refers both to the risk of decreased net interest income and the risk of unfavourable changes in the value of the Bank's interest-bearing assets and liabilities when market interest rates change (economic value of equity). Interest rate risks arise mainly due to differences in the interest rate repricing periods and repricing dates between interest-bearing assets and liabilities.

The Bank 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 various ways.

Table 11.2.1 shows interest-bearing assets and liabilities that fall due for repricing during each respective time interval, assuming that demand deposits fall due on Day 1.

11.2.1 NET INTEREST INCOME RISK

Net interest income risk is measured as the sensitivity of net interest income during the next twelve months, assuming an unchanged balance sheet. Positions in the balance sheet undergo interest rate adjustments on their contractual or assumed interest rate adjustment dates. In the model, the interest rate repricing period of demand deposits is set at one day. For debenture loans, the redemption date is used. In the model, the Bank has made business-related assumptions about how various items reacts in case of different shifts. Net interest income risk is measured by material currency, in compliance with EBA regulations. The Bank has an internal limit for a –50 basis point shift.

11.2.2 ECONOMIC VALUE OF EQUITY

Economic value of equity (EVE) risk is measured as the sensitivity of the estimated present value of all existing interest-bearing items. When calculating EVE , the Bank uses two methods for the modelling of the repricing maturities for demand deposits. In the first method, demand deposits are assigned a repricing maturity of one day, while the second method models the repricing maturities based on the European Banking Authority (EBA) guideline EBA/GL/2018/02 and Basel Committee regulations. This calculation results in an average repricing maturity of 2.0 and 1.3 years, respectively, for retail and institutional customers, where core deposits result in an average repricing maturity of 4.8 and 4.3 years for the respective depositor categories. The longest repricing maturity assigned is five years. These repricing maturities are applied in the EBA supervisory outlier test, where the outcomes of its six stress scenarios are controlled in relation to the regulatory limit that is linked

Table 11.2.1

Interest rate repricing periods for assets and liabilities	2021					
EUR M	<3 months	3–6 months	6–12 months	1–5 years	>5 years	Total
Assets						
Total interest-bearing assets	**3,867**	**696**	**1,100**	**890**	**574**	**7,127**
Liabilities						
Total interest-bearing liabilities	**5,157**	**56**	**128**	**852**	**10**	**6,203**
Off-balance sheet items	–562	104	–11	522	–51	3
Difference between assets and liabilities	**–1,852**	**745**	**961**	**561**	**513**	**927**
Difference between assets and liabilities, 2020	–1,697	500	1,004	556	410	774

to the Bank's common equity Tier 1 capital. Debenture loans are treated here in the same way as for net interest income risk. EVE is measured by material currency in compliance with EBA regulations, and positive outcomes are weighted at 50 per cent. The Bank has an internal limit against comprehensive income for a +100 basis point shift.

Table 11.2.2.1 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 per material currency. The present value risk in the table refers to the present value of all interest-bearing assets and liabilities, with demand deposits modelled according to the Bank's regulation model.

Table 11.2.2.2 shows the effect of the six scenarios of the EBA supervisory outlier test, for changes in the economic value of equity, as well as the effect on net interest income in the scenario of a parallel shift upward and downward. The outcomes of the extreme value test are at historically comparable levels, with positive outcomes for all scenarios.

11.3 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. A limited proportion of its lending and deposits also occurs in other currencies. The foreign exchange risk is primarily managed with matching, and the potential foreign exchange risk that remains at the end of day undergoes a foreign exchange balance adjustment. At year-end 2021, the Bank's foreign exchange exposure was EUR 0.7 M (2020: EUR 0.7 M). The Bank also uses a statistical measure of risk in the Group's foreign exchange balance. A VaR analysis with a 95 per cent confidence interval and a one-month forecast horizon results in a year-end sensitivity of about EUR –9 thousand, compared to the above EUR 0.7 M in total foreign exchange risk exposure.

The Group has a structural foreign exchange position in Swedish kronor that arises due to the functional reporting currency of its Swedish branch being in Swedish kronor. The branch is capitalised with endowment capital and accrued earnings that are reported in Swedish kronor. The purpose of this position is to ensure that the ratio of CET1 capital in Swedish kronor and the risk exposure amount in Swedish kronor is in balance with the Group's CET1 capital ratio. The structural foreign exchange position in Swedish kronor implies volatility in other comprehensive income. The Bank has permission from the FIN-FSA to exempt the structural foreign exchange position from the capital adequacy calculation.

11.4 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 is exposed to equity risk through its strategic and other holdings. The Bank's strategic and other equity holdings are managed, in light of their purpose and nature, through separate Board decisions for strategic holdings and decisions by the Managing Director for other equity holdings.

Table 11.2.2.1

Parallel shift in the yield curve

EUR M	Basis points	
	+100	–100
Net interest income risk	11.2	4.2
EUR	6.2	3.3
SEK	4.5	1.3
Net present value risk	31.3	40.0
EUR	27.6	27.1
SEK	3.1	13.5

Table 11.2.2.2

EU IRRBB1, Interest rate risks of non-trading book activities

EUR M	Changes of the economic value of equity	Changes of the net interest income
Supervisory shock scenarios		
Parallel up	35.2	25.1
Parallel down	37.7	7.4
Steepener	18.5	
Flattener	12.0	
Short rates up	14.4	
Short rates down	31.5	

12. Operational risk

Operational risk refers to the risk of losses due to inappropriate or faulty internal processes, human errors, systemic errors or external events. Legal risks are included in operational risks. Operational risks occur in all operations. The important thing is that risk-taking is deliberate and suitable actions are taken when the risks that are identified are too large. What risk level is considered optimal shall be established by the Board of Directors and constitutes the Bank's risk appetite.

12.1 RISK MANAGEMENT

The objective of operational risk management is to ensure that significant operational risks are identified and managed at a sufficient level in relation to the nature and the scope of the operations. Adequate procedures for computer protection and information security must be in place and be further developed based on the threat situation. The probability of significant unforeseen losses or threats to the Group's reputation must be minimised. The Executive Team and the Board of Directors must be informed regularly about the operational risks associated with Group operations. Adequate operational risk management is important to ensure trust in the Bank's operations, especially from a customer standpoint. The Operational Risks & Security department is responsible for "second line of defence" analyses of the Group's operational risks and for reporting these. The same is true of the Compliance department, which analyses risk from a compliance standpoint. The "third line of defence" also analyses the Group's risks, including operational risks. To obtain a completely current picture of the Group's risks, risk mapping and analyses from all three lines of defence must be coordinated. The Compliance and Operational Risk & Security departments rely on risk analyses when developing focus areas for the work of the following year.

12.2 SUPPORT FOR RISK MANAGEMENT

There are many ways to provide support to the Group's operations. Internal training courses are an important element of second defence line support for operational risk management. Processes that support a risk-based way of working as well as internal regulations and controls are other means of support and of raising awareness. The new products approval process (NPAP) is one of the key processes for promoting risk management as early as when development and/or reform efforts begin. Internal regulations relating to the operational risk management and compliance with the rules also serve as operational aids and directives. The Group has continuity plans for all business units, in order to maintain operations and limit interruptions, losses and damage in the event of various operational disruptions. The Operational Risk & Security department serves as a back-up resource and standard-setter with regard to the above.

At the Group level, insurance policies have been obtained to decrease the consequences of risks. These include insurance for directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage.

12.3 MAPPING OF OPERATIONAL RISKS

Group operational risks are mapped yearly by first defence line operations through self-evaluation and other methods. Self-evaluations assess the probability and consequences of operational risks, with back-up from the Operational Risks & Security department. Risks that, after second defence line analysis (by the Operational Risks & Security department) are deemed high or unacceptable are presented to the Group's Executive Team to ensure that sufficient steps are taken in order not to exceed the Group's risk appetite. Action plans to reduce high and unacceptable risks are then followed up during the year.

In addition, AML-CFT (Anti Money Laundering - Combating the Financing of Terrorism) risk analysis is performed within the Bank at least once a year and reported to the Executive Team and the Board in a corresponding manner. The second defence line also carries out risk assessments, such as information security risk assessments, the Compliance department's yearly risk analysis in its field, and Operational Risks & Security's mapping of the Bank's operational risks. The most significant risks are referred to the Executive Team and the Board.

During project work, NPAP is used. Risk mapping is an important part of this process. The purpose of a comprehensive analysis that highlights a variety of risks is to avoid inadvertent risk-taking. Products and services that are new or have undergone significant changes must be secure and functional when they are put into use.

12.4 IMPORTANT OPERATIONAL RISKS

Operational risk areas that have been identified and assessed as important and that may thus have a major effect on operations or may lead to major losses or damage are presented below.

Table 12.1

EU OR1, Operational risk own funds requirements and risk-weighted exposure amounts

		Relevant indicator				
		Year-3	Year-2	Last year	Own funds requirements	Risk exposure amount
	Banking activities					
1	Banking activities subject to basic indicator approach (BIA)	0	0	0	0	0
2	Banking activities subject to standardised (TSA)/ alternative standardised (ASA) approaches	147.5	130.3	126.7	17.8	222.7
3	*Subject to TSA:*	147.5	130.3	126.7		
4	*Subject to ASA:*	0	0	0		
5	Banking activities subject to advanced measurement approaches (AMA)	0	0	0	0	0

12.4.1 Risks connected to manual processes and insufficient systems support

The demands placed on banks by external regulations lead to a growing need for IT systems that support increasingly complex processes. From an operational risk standpoint, more complex processes with many manual work stages mean a higher risk, especially when a bank wants to scale up the activity. To decrease risks, IT deliveries and the pace of development need to be in balance.

12.4.2 The risk of fraud and suspicious transactions

This risk area concerns external threat situations that are becoming increasingly prevalent in and around the financial services sector. A growing amount of criminal activity occurs on the internet and often harms customers, but it may also be aimed directly at banks. This includes payment card fraud, false invoices, investment fraud or harmful software. Enormous numbers of transactions flow through banks daily, and this also leads to a greater risk of suspicious transactions. In order to manage this threat situation, various training activities take place in order to increase awareness in this area and there are systems-based procedures for identifying suspicious cases. There are also dedicated employees in the first and second line of defence who work to support the organisation with operational risk management, which includes combating money laundering and financing of terrorism.

12.4.3 Risks connected to suppliers

Today banks are dependent on suppliers, and this often involves IT deliveries. To reduce risks, it is important to ensure that a sufficient approval process is applied when new suppliers are added and that existing counterparties are followed up in an adequate way. It is also important to identify and manage risks related to outsourcing.

12.4.4 Risks connected to organisation

The Bank is a small player in the financial services sector, but it offers a broad range of services. Among other things, this means that there are many internal process dependencies that need to be taken into account so that operations will run smoothly and the right prioritisations are made in case of disruption. Identification of both internal and external dependency relationships must be mapped in the annual Business Impact Analysis (BIA).

12.4.5 Compliance risks

Risks related to compliance are extremely important. There are numerous regulations that make far-reaching demands on banking operations, such as the European Union's General Data Protection Regulation (GDPR), the updated Markets in Financial Instruments Directive (MiFID2) and anti-money laundering and financing of terrorism (AML-CFT). Risk analyses as described above in section 12.3 also provide a basis for the actions taken by the Bank to deal with identified compliance risks.

12.5 RISK INDICATORS

Statistics that are compiled monthly on the basis of incident reporting is a risk indicator and helps with mapping of the risk situation. Every employee who discovers a deviation must report it, after which the incident must be managed by those in charge of risk in the first line of defence. The Operational Risks & Security department administers incident follow-up and provides backup as needed to the first line of defence in managing and compiling reports on the incident situation for the Executive Team and the Board of Directors. Various other internal risk indicators are used in order to provide early warning signals.

Mapping of own funds to the balance sheet	2020	2019	
EUR M			Line reference in own funds
Assets			
Intangible assets	24.4	25.3	
of which: Goodwill and other intangible assets (net of related tax liabilities)	−24.1	−25.0	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	32.2	34.1	
of which: reliant on future profitability except those that arise due to temporary differences			10
Defined benefit pension obligations	12.3	8.8	
of which: defined benefit pension assets (net of related tax liabilities)			15
Subordinated liabilities	36.9	36.1	
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	37.0	36.2	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	42.0	1
of which: Share capital (net of direct and indirect holdings of own shares)	42.0	42.0	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	52.7	52.5	
of which: Statutory reserve	25.1	25.1	1
of which: Unrestricted equity reserve	27.6	27.4	1
Other reserves	6.3	1.7	
of which: Other comprehensive income	6.3	1.7	3
of which: Fair value reserves related to gains or losses on cash flow hedges	0.0	0.0	11
Retained earnings	158.6	129.3	
of which: Profit for the period	31.5	26.3	5 a
of which: Retained earnings	127.1	103.0	2

	Disclosures about own funds	2020	2019	
	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	127.5	127.3	26.1, 27,28,29
	of which: share capital	42.0	42.0	EBA list 26.3
	of which: share premium account	32.7	32.7	EBA list 26.3
	of which: other funds	52.7	52.5	EBA list 26.3
2	Retained earnings	127.1	103.0	26.1 c
3	Accumulated other comprehensive income (and other reserves)	6.3	1.7	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	0.3	10.8	26.2
6	**Common equity Tier 1 capital before regulatory adjustments**	**261.2**	**242.8**	**Total of lines 1–5a**

		2020	2019	
	Common equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	−0.5	−0.6	24, 105
8	Intangible assets (net of related tax liabilities) (negative amount)	−19.3	−25.0	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	−2.8	−5.7	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	0.0	0.0	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 own funds (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, 243.1 b, 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**	**−22.6**	**−31.3**	**Total of lines 7–20a, 21, 22 and 25a–27**
29	**CET1 capital**	**238.5**	**211.5**	**Line 6 minus line 28**

		2020	2019	
	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 own funds (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)**	**238.5**	**211.5**	**Total of lines 29 and 44**
	Tier 2 (supplementary) capital: Instruments and provisions			
46	Capital instruments and related share premium accounts	37.0	36.2	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	0.0	1.7	62 c and d
51	**Tier 2 capital before regulatory adjustments**	**37.0**	**37.9**	
	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**	**37.0**	**37.9**	**Line 51 minus line 57**
59	**Total capital (Tier 1 capital + Tier 2 capital)**	**275.5**	**249.4**	**Total of lines 45 and 58**
60	**Total risk-weighted assets**	**1,670.8**	**1,583.1**	

		2020	2019	
	Capital ratios and buffers			
61	Common equity 1 capital (as a percentage of total risk-weighted exposure amount), %	14.3	13.4	92.2 a
62	Tier I capital (as a percentage of total risk-weighted exposure amount), %	14.3	13.4	92.2 b
63	Total capital (as a percentage of total risk-weighted exposure amount), %	16.5	15.8	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), %	8.5	10.7	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, %*	0.0	1.2	
67a	*of which: global systemically important institution or other systemically important institution buffer, %*	0.0	1.0	
68	Common equity Tier 1 capital available to meet buffers (as percentage of risk-weighted exposure amount), %	9.8	8.9	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)			62
77	Cap on inclusion of credit risk adjustments in Tier 2 capital under the standardised approach			62
78	Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the IRB approach (before application of the cap)	0.0	1.7	62
79	Cap for inclusion of credit risk adjustments in Tier 2 capital according to the IRB approach	3.0	3.1	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	Bank of Åland Plc
2	Unique identifier code	FI0009001127	FI0009000103	SE0013360153
3	Governing laws of the instrument	Finnish law	Finnish law	Finnish law
	Regulatory treatment			
4	Transitional rules according to Capital Requirement Regulation (CRR)	CET1 capital	CET1 capital	CET1 capital
5	Post-transitional CRR rules	CET1 capital	CET1 capital	CET1 capital
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	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	Supplementary capital instrument according to CRR 575/2013 Art. 63
8	Amount recognised in regulatory capital	EUR 28.9 M	EUR 13.1 M	EUR 29.4 M
9	Nominal amount of instrument	EUR 28.9 M	EUR 13.1 M	SEK 300 M/ EUR 29.4 M
9a	Issue price	N/A	N/A	100 %
9b	Redemption price	N/A	N/A	100 % of nominal amount
10	Accounting classification	Equity capital	Equity capital	Debt – amortised cost
11	Original issuance date	N/A	N/A	24.03.2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No	No	Yes
15	Optional call date, conditional call dates and redemption amount	N/A	N/A	24.03.2026
16	Subsequent call date, if applicable	N/A	N/A	Each interest payment date after first redemp-tion date
	Coupons/dividends			
17	Fixed or floating dividend/coupon	N/A	N/A	Floating
18	Coupon rate and any related index	N/A	N/A	STIBOR 3M + 3.75 %
19	Existence of a dividend stopper	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)	Fully discretionary	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or obligatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No
22	Non-cumulative or cumulative	N/A	N/A	N/A
23	Convertible or non-convertible	N/A	N/A	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, type of instrument to which conversion is made	N/A	N/A	N/A
29	If convertible, issuer of the instrument to which conversion is made	N/A	N/A	N/A
30	Write-down features	N/A	N/A	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	If the CET1 capital ratio of the Bank of Åland Plc or the Group falls below 7 %
32	If write-down, full or partial	N/A	N/A	50 %
33	If write-down, permanent or temporary	N/A	N/A	Permanent
34	If write-down is temporary, write-up mechanism	N/A	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	Tier 2 (supplementary) capital instruments
36	Non-compliant transition features	No	No	No
37	If Yes, specify non-compliant features	N/A	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.
2	Unique identifier code	FI4000266580	SE0011116037	SE0016274294
3	Governing laws of the instrument	Finnish law	Finnish law	Finnish law
	Regulatory treatment			
4	Transitional rules according to Capital Requirement Regulation (CRR)	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
5	Post-transitional CRR rules	Tier 2 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Type of instrument	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 2.3 M	EUR 19.5 M	EUR 19.9 M
9	Nominal amount of instrument	EUR 2.3 M	SEK 200 M/ EUR 19.5 M	SEK 150.0 M/ EUR 14.6 M
9a	Issue price	100 %	100 %	100 %
9b	Redemption price	100 % of nominal amount	100 % of nominal amount	100% of nominal amount
10	Accounting classification	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost
11	Original issuance date	19.6.2017	15.5.2018	15.05.2018
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	18.8.2037	15.5.2038	15.05.2038
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, conditional call dates and redemption amount	18.8.2022	15.5.2023	15.05.2023
16	Subsequent call date, if applicable	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	Floating	Floating
18	Coupon rate and any related index	3.75 %	3-mo Stibor +2.40 %	STIBOR 3M + 2.40 %
19	Existence of a dividend stopper	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	N/A	N/A	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, type of instrument to which conversion is made	N/A	N/A	N/A
29	If convertible, issuer of the instrument to which conversion is made	N/A	N/A	N/A
30	Write-down features	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 %	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 %	If the CET1 capital ratio of the Bank of Åland Plc or the Group falls below 7 %
32	If write-down, full or partial	50 %	50 %	50 %
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent
34	If write-down is temporary, write-up mechanism	N/A	N/A	N/A
35	Position in prioritisation hierarchy for liquidation, instrument next in line	Senior debts	Senior debts	Senior debts
36	Non-compliant transition features	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A

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

Disclosures about the transitional rule for IFRS 9 in compliance with CRR, Article 473a

	Available capital (amount)	
1	Common equity Tier 1 (CET1) capital	239.0
2	CET1 capital if transitional regulations for IFRS 9 or analogous expected risk losses had not been applied	238.5
3	Tier 1 capital	268.4
4	Tier 1 capital if transitional regulations for IFRS 9 or analogous expected risk losses had not been applied	267.9
5	Total capital	304.8
6	Total capital if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	304.3
	Risk-weighted assets (amount)	
7	Total risk-weighted assets	1,976.2
8	Total risk-weighted assets if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied	1,976.2
	Capital ratios	
9	CET1 capital (as a percentage of risk exposure amount)	12.1
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	12.1
11	Tier 1 capital (as a percentage of risk exposure amount)	13.6
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	13.6
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	15.4
	Leverage ratio	
15	Total exposure measure for leverage ratio	6,272.9
16	Leverage ratio, %	4.3
17	Leverage ratio if transitional regulations for IFRS 9 or analogous expected loan losses had not been applied, %	4.3

EU LI1, Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

		Carrying values of items				
EUR M	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Breakdown by asset classes according to the balance sheet in the published financial statements						
Cash and balances at central banks	893.7	893.7				
Debt securities	717.9	717.9				
Receivable from credit institutions	64.4	64.4				
Receivable from the public and public sector entities	4,787.8	4,787.8				
Shares and participations	29.7	29.7				
Derivatives	13.0		13.0		13.0	
Intangible and tangible assets	57.7	42.6				15.0
Deferred tax assets	4.8	4.8				
Other assets	34.3	34.3				
Prepaid costs and accrued income	31.3	31.3				
Current tax assets	0.1	0.1				
Total assets	**6,634.6**	**6,606.6**	**13.0**	**0.0**	**13.0**	**15.0**
Breakdown by liability classes according to the balance sheet in the published financial statements						
Liabilities to credit institutions	867.5					
Liabilities to the public	4,070.1					
Debt certificates issued	1,196.5					
Derivative instruments	6.8		6.8		6.8	
Tax liabilities	38.8					
Other liabilities	49.8					
Provisions	0.4					
Accrued expenses and prepaid income	36.4					
Subordinated liabilities	36.3					
Equity capital	331.9					
Total liabilities	**6,634.6**	**0.0**	**6.8**	**0.0**	**6.8**	**0.0**

EU LI2, Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Items subject to			
EUR M	Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
Assets carrying value amount under the scope of prudential consolidation (as per template LI1)	6,634.6	6,606.6		13.0	13.0
Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	6.8	0.0		6.8	6.8
Total net amount under the scope of prudential consolidation	**6,627.8**	**6,606.6**		**6.2**	**6.2**
Off-balance sheet amounts	1,045.3	1,045.3			
Differences in valuations	(0.4)	(0.4)			
Differences due to different netting rules, other than those already included in row 2					
Differences due to consideration of provisions					
Differences due to the use of credit risk mitigation techniques (CRMs)	(176.2)	(176.2)			
Differences due to credit conversion factors	(824.4)	(824.4)			
Differences due to securitisation with risk transfer					
Other differences					
Exposure amounts considered for regulatory purposes	6,672.1	6,650.8	0.0	6.2	6.2

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