Annual Report 2017

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

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Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2018 financial year:

• January–March Interim Report	April 25, 2018
• January–June Interim Report	July 20, 2018
• January–September Interim Report	October 23, 2018

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

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

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,400-island Åland archipelago has more than 28,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2017, the middle rate for EUR was USD 1.1993 and SEK 9.8438.

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

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

About the Bank of Åland

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of three offices in the Åland Islands and five offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has a total of three subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Fondbolag Ab, Ab Compass Card Oy Ltd and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- In the Åland Islands, the Bank of Åland is a bank for all residents, both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®. We also offer asset management services for institutional investors.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2017 amount, over the years the Bank's Baltic Sea Account (formerly the Environmental Account) has contributed almost EUR 2 M to projects that improve and protect the environment.

Bank of Åland Group	2017	2016	2015	2014	2013
EUR M					
Income					
Net operating profit	26.0	25.1	30.3	22.4	10.4
Profit for the year attributable to shareholders	20.7	19.7	24.3	16.1	6.7
Volume					
Actively managed capital [1]	5,737	3,900	3,927	3,696	3,231
Lending to the public	3,979	3,808	3,617	3,343	3,104
Deposits from the public [2]	3,197	3,100	2,675	2,391	2,460
Risk exposure amount	1,538	1,576	1,581	1,554	1,475
Equity capital	234	222	213	196	184
Financial ratios					
Return on equity after taxes (ROE), % [3]	9.1	9.1	12.0	8.7	3.8
Expense/income ratio [4]	0.78	0.76	0.73	0.80	0.86
Loan loss level, % [5]	0.06	0.11	0.09	0.06	0.14
Core funding ratio, % [6]	88	89	100	105	103
Equity/assets ratio, % [7]	4.4	4.3	4.6	4.6	4.7
Common equity Tier 1 capital ratio, % [8]	12.9	11.8	12.0	10.9	10.8
Working hours re-calculated to full-time equivalent positions	691	683	663	644	617
Earnings per share, EUR	1.35	1.29	1.60	1.12	0.46
Dividend per share, EUR	0.65	0.60	0.60	0.40	0.15

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

[2] Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public

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

[4] Expenses/Income

[5] Impairment losses on loans and other commitments/Lending to the public at the beginning of the period

[6] Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

[7] Equity capital/Balance sheet total

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

The year 2017 in brief

Financial summary of 2017

- Profit for the year attributable to shareholders increased by 5 per cent to EUR 20.7 M (19.7).
- Earnings per share increased by 5 per cent to EUR 1.35 (1.29).
- Return on equity after taxes (ROE) was unchanged at 9.1 (9.1) per cent.
- Net interest income increased by 1 per cent to EUR 55.9 M (55.1).
- Net commission income increased by 11 per cent to EUR 49.7 M (44.9).
- Total expenses increased by 9 per cent to EUR 99.8 M (91.3).
- Net impairment losses on loans (including recoveries) decreased by 47 per cent to EUR 2.1 M (4.1), equivalent to a loan loss level of 0.06 (0.11) per cent.
- Actively managed assets increased by 47 per cent to EUR 5,737 M (3,900).
- Lending increased by 4 per cent to EUR 3,979 M (3,808).
- Deposits increased by 3 per cent to EUR 3,197 M (3,100).
- The common equity Tier capital ratio increased to 12.9 (11.8) per cent.
- The Board of Directors proposes an 8 per cent increase in the dividend to EUR 0.65 (0.60) per share.

Important events in 2017

FIRST QUARTER

- Eagerly awaited product launches took place in Sweden, in the form of the real-time payment service Swish, Mobile BankID for logging into the Internet Office and mobile apps as well as for approval of payments, a new bank card (MasterCard from CompassCard/Crosskey) and the Baltic Sea Account.
- In March, the fund management subsidiary Ålandsbanken Fondbolag (Ålandsbanken Funds) launched a new bond fund called Ålandsbanken Dynamisk Ränta (the Ålandsbanken Dynamic Interest Income Fund). The fund has a broad mandate enabling it to invest in attractive fixed income and credit instruments worldwide. The fund is also able to move within a generous range of durations, between minus 5 years and plus 10 years. In practice this means that the fund can earn a positive return even if market yields are rising.
- For the fourth consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category and received the prestigious Lipper Fund Award Nordic. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years.
- In the Åland Islands, the Bank of Åland joined with two locally based insurance companies – Alandia Försäkring and Ålands Ömsesidiga Försäkringsbolag – in a partnership called AX3. Initially, AX3 is offering three basic packages of banking and insurance services. What is unique about AX3 is that the three companies are working together in providing their respective services, in order to make things simpler for Åland residents.
- The Bank of Åland's work on behalf of the Baltic Sea continued to attract interest. For example Peter Wiklöf, Managing Director and Chief Executive of the Bank of Åland, was invited to a meeting on climate change at the United Nations in New York during March. There he spoke about the Bank's Baltic Sea Card and the Åland Index, a digital tool that measures the environmental impact of your purchases.

SECOND QUARTER

- The Annual General Meeting on April 6, 2017 re-elected the Board consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å Karlsson, Göran Persson, Ulrika Valassi, Anders Wiklöf and Dan-Erik Woivalin. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board.
- In May the Bank's fund management subsidiary, Ålandsbanken Funds (Ålandsbanken Fondbolag), reached an agreement with the fund management company Allra to take over the holdings of its mutual funds, about EUR 1.3 billion, in the Swedish premium pension system. To begin with, the Bank of Åland took over management of the assets in Allra's funds. Later a controlled exchange of Allra's fund assets to the Bank of Åland's corresponding funds occurred.

THIRD QUARTER

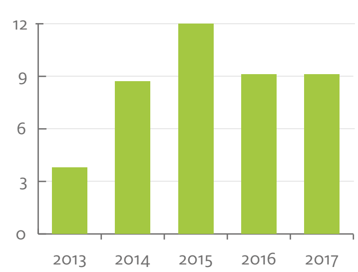
- The Bank of Åland placed a new securities platform developed by its subsidiary Crosskey Banking Solutions in operation in Sweden. For the past five years, the Bank of Åland has worked systematically to create Group-wide, modern solutions in the securities field encompassing trading systems, custody systems, portfolio systems, back office processes and customer service via the Internet Office and mobile applications. The launch in Sweden was an important milestone in this journey.
- The Bank of Åland strengthened its asset management organisation by adding a new Nordic equities team led by Lars Söderfjell.

FOURTH QUARTER

- The Bank of Åland launched the digital identification solution Ålandsbanken e-ID in Finland. With this solution, our customers no longer need to use a code table to log in and to approve transactions via the Internet Office, the Mobile Bank and other web-based services that require TUPAS identification (the ID standard in Finland).
- The Bank of Åland came in at second place in TNS Sifo Prospera's survey of Private Banking market participants in Finland.

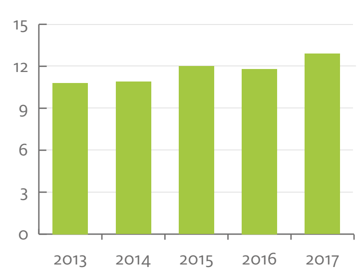
Return on equity after taxes (ROE)

Per cent

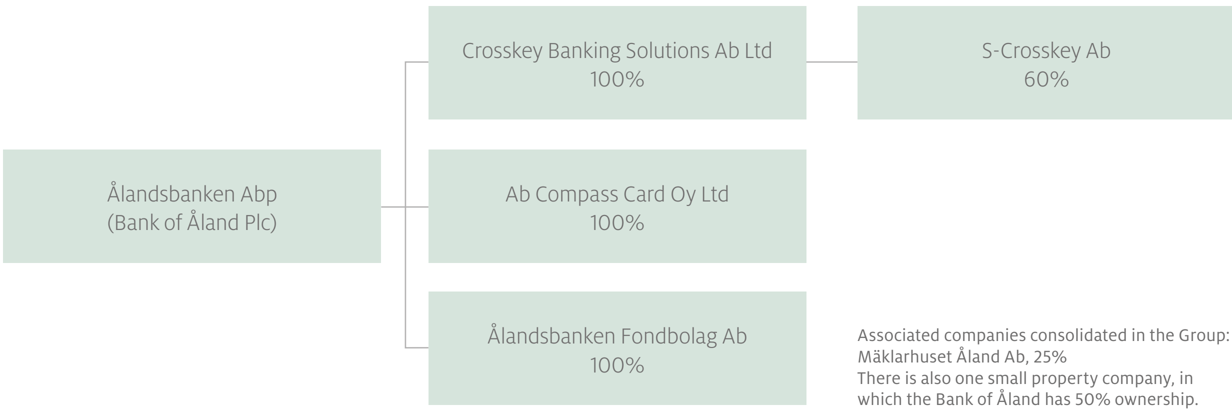


Common equity Tier 1 capital ratio

Per cent



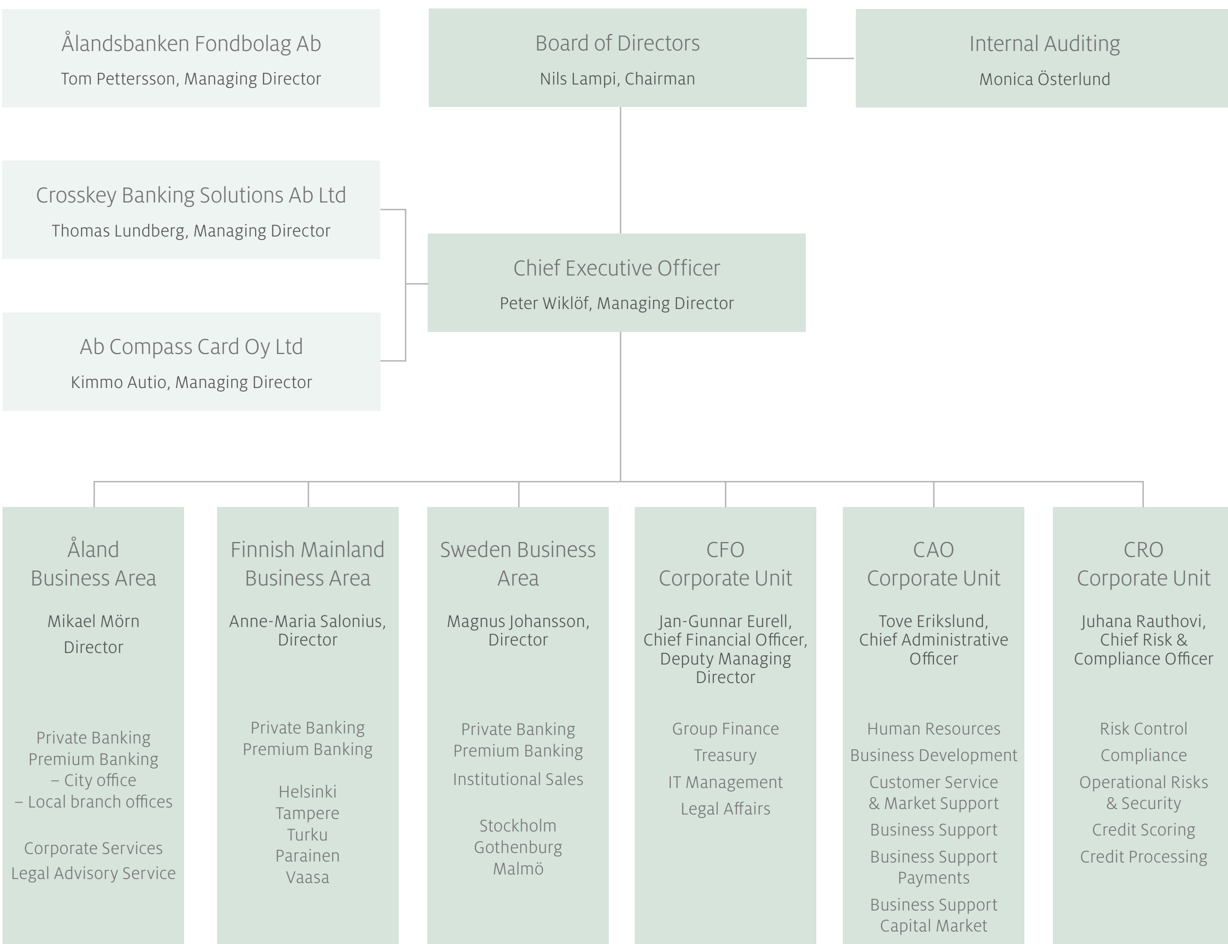
Legal structure of the Group



Associated companies consolidated in the Group:
Mäklarhuset Åland Ab, 25%
There is also one small property company, in which the Bank of Åland has 50% ownership.

Bank of Åland Abp

Organisational chart



Taking further steps forward along our own path

Photographer: Viktor Fremling

Peter Wiklöf, Managing Director

Last year we continued to move forward along the path we had mapped out – a path that requires us to deliver good digital services, yet without abandoning the personalised service and advice that we know are appreciated by many customers in our chosen segments.

THE BIG PICTURE

After many years of negligible or negative growth, the Finnish economy finally came back to life. GDP grew by over 3 per cent: substantially more than expected. Meanwhile this led to a surge of optimism among Finnish companies and their executives, thereby increasing the probability of several additional years of good growth.

Sweden continued its economic expansion, which had already been under way for some years. Discussions began to focus increasingly on the risks of overheating, especially in the housing market where very low interest rates had driven home prices to unprecedented heights. Other European economies also performed well, with Germany as a strong growth engine. Not even the consequences of Brexit (British withdrawal from the European Union) seem capable of slowing the current momentum.

Other major countries such as the United States and China also continued to perform well, making 2017 a strong overall year of growth for the entire global economy.

As a consequence of this good growth, the US Federal Reserve (Fed) has begun to hike its key interest rate and has ended its expansionary bond purchases. As a result, we have started to see higher interest rates and bond yields. The European Central Bank (ECB) and Sweden's Riksbank are still lagging well behind the Fed. During 2017 they continued their bond purchases and kept their key rates at record-low levels.

Continued low interest rates, combined with healthy economic growth, drove the world's stock markets to record highs. Meanwhile short-term market rates, which are the most important rates for us at the Bank of Åland since customers' deposits and loans are linked to them, continued to creep downward – thereby further squeezing the Bank's net interest income. We also saw the risk margins in various investments shrink to very low levels. By year-end, more and more players were warning of excessive optimism about the bond and stock markets.

FURTHER STEPS ALONG OUR PATH

The Bank of Åland has chosen a growth strategy on the Finnish mainland and in Sweden in the Private Banking and Premium Banking segments, while at home in the Åland Islands we want to continue being an alternative for all Åland residents and local companies. In Åland, our broad roots enable us to provide good service to everyone, whereas outside of Åland we need to focus on a few selected customer segments in order to offer the high service level that we aim for.

In our growth strategy, we achieved new volume records for deposits, lending and managed assets. Deposits grew by 3 per cent to EUR 3,197 M and lending by 4 per cent to EUR 3,979 M. I am satisfied with this stable growth during 2017. On the lending side, we have continued to try to lower the risk level in our portfolio by replacing some corporate loans that mainly have commercial properties as collateral with lending to private individuals with homes and financial securities as collateral.

Actively managed assets grew by a full 47 per cent to EUR 5,737 M. In all our markets, we had continued good growth in the number of new customers who choose to begin saving and investing with us. In addition, last summer we were able to help resolve a legally complicated process in Sweden, in which the Swedish Pension Authority and the fund management company Allra had become stuck. In a final joint solution, the Pension Authority transferred all premium pension savings from Allra's funds to the Bank of Åland's equivalent funds, totalling roughly SEK 13 billion (about EUR 1.3 billion). This solution benefited the Pension Authority, Allra's approximately 70,000 pension savers and the Bank of Åland.

During 2017 we continued to add important products to our service offering in Sweden, including the Swish mobile payment system and Mobile BankID, which topped our customers' wish list. After launching these products, we are now justified in saying we are a full-service bank for private individuals in Sweden as well. In Finland, our product launches included e-ID, which enabled all our digital service customers to log in easily and carry out transactions using the Mobile Bank and Internet Bank without any codes, but simply by using their fingerprint. This service was very warmly received.

I am pleased with our income performance during the year. Total income rose by 6 per cent to EUR 128.0 M. Net interest income rose by 1 per cent to EUR 55.9 M. There are two main reasons why net interest income did not grow as fast as the volume of our deposits and lending. One is that the most important market interest rate for us, the 12-month Euribor, continued to fall during 2017, and since this rate is used by most of our home mortgage loan customers, it continue to lower our lending rates. The other is that the above-mentioned change in the structure of our loan portfolio towards lower-risk lending has meant lower lending rates, but this lending has been more effective since we also measure the capital requirements that result from lending at different risk levels.

The biggest source of satisfaction with 2017 earnings was the performance of our net commission income, which climbed by 11 per cent to EUR 49.7 M. This positive trend was almost entirely driven by the rising volume of financial investments that our customers made with us and by a comparatively good stock market year, with rising share prices and high trading activity.

If the income side was pleasant reading, I cannot say the same regarding our cost trend. Total expenses climbed by 9 per cent to EUR 99.8 M, which was about EUR 8.5 M higher than the year before. There are three main explanations for this increase. Staff costs rose, since we continued to recruit new employees. We also had phase-out costs that were about EUR 1.4 M higher than the year before, since we are continuing our effort to centralise Group-wide departments in Åland. During 2017 we placed our new capital market system in service in Sweden. This has been the Bank of Åland's largest-ever IT project, and it has cost more than we originally expected. During 2017 we did not capitalise as large a percentage of IT expenses as the year before, resulting in a decline of EUR 2.8 M in our capitalisation during the year. This boosted expenses accordingly but will reduce future amortisation. Finally, our expenses for Finland's stabilisation fund increased by EUR 0.9 M.

The increase in expenses during 2017 was high and we will not allow equivalent increases over the next few years.

Our loan losses nearly halved during the year to EUR 2.1 M. We perceive the Bank of Åland as a bank with a relatively cautious lending policy. This loss level, equivalent to 0.06 per cent of lending, is among the lowest in the Nordic countries. The trend for our non-performing loans was also favourable during the year, and here too we are at low levels compared to our competitors.

Overall, 2017 was a good year and we can note that the Bank of Åland's balance sheet total is now twice as large as when we entered the financial crisis 10 years ago. Business volume and income as well as loan losses performed well during the year, while the expense side cannot be given high marks.

Profit after taxes grew by EUR 1.0 M or 5 per cent to EUR 20.7 M. Profit after taxes for the Group's core business in the form of Private Banking, Premium Banking and Asset Management increased by a full EUR 3.2 M or 18 per cent to EUR 20.0 M. In our Year-end Report, the Bank of Åland announced that we expect net operating profit in 2018 to be at the same level as, or better than, in 2017.

REGULATIONS

Aside from healthy growth, the year was characterised by extensive efforts to prepare for and implement new regulations. We counted no fewer than 27 new and amended regulations that we worked with during 2017, in order to live up to new regulatory requirements. The two largest single regulatory projects were the introduction of MiFID 2, which affects the entire financial service industry's way of selling investment products, and the new IFRS 9 international accounting standard.

There is no doubt that every individual set of regulations is based on thinking whose main purpose is to create either greater transparency or stability in our industry, but the question that is beginning to occur to me is whether the scale and complexity of new regulations as a whole are in fact starting to counteract some of their original purposes. Now that a decade has passed since the financial crisis broke out, this tsunami of regulations should hopefully soon begin to run its course.

THE BANK OF ÅLAND AND TWO GLOBAL TRENDS

Right now we are seeing two strong global trends in digitisation and sustainability. Digitisation changes our behaviour, and in the financial services industry a rapid shift to digital services is under way. We are seeing many banks pursuing large-scale digitisation programmes, while being stressed out by new financial technology ("fintech") players that are nimbly attempting to cherry-pick selected portions of the market. Especially in the payments field, we have seen many new players successfully break into the market.

So can a bank of the Bank of Åland's size keep up with this changing world? I believe the answer is a definite yes, although there will be many challenges along the way. The Bank of Åland has a long tradition of solid IT knowhow, which we have been able to sell to other market players since 2004 via our subsidiary Crosskey. We also see that we have been able to launch new services at a healthy pace, and sometimes we have even managed to be first. We have chosen not to make the Bank of Åland 100 per cent digital for our customers, since we also want to give customers access to a personal advisor. At the same time as we have made this choice, we are pursuing partnerships with other fintech market players where we can use our existing infrastructure. We are carrying out such a partnership with Dreams, an app that offers Swedes a more fun way of starting to save. As one element of the partnership, the Bank of Åland is building a 100 per cent digital bank, and during 2017 this partnership succeeded in attracting more than 50,000 Swedes to begin saving at the Bank of Åland. I think this shows that we can operate a bank that has conservative values in many ways, but we can do so while using new technology.

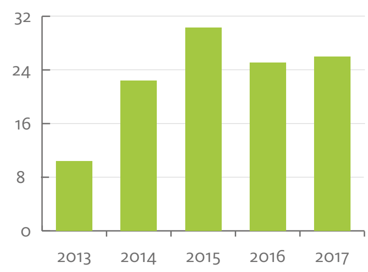
Sustainability issues are engaging more and more people, locally and globally. In the past, companies could often choose whether they want to behave in a sustainable way or make money. Today they are beginning to face the need to do both. We welcome this trend, since we believe that in many ways the Bank of Åland can show that our fundamental values have already led us to assume responsibility in various fields for years. We also know that in the future, there are many areas in which we can improve. This is why we are continuing our work in the four areas into which we have divided our sustainability work: the environment, social responsibility, sustainable lending and sustainable investments.

Looking at our sustainability efforts, I cannot refrain from singling out the environmental work we are doing in partnership with our customers. For more than 20 years we have had an Environmental Account, now called the Baltic Sea Account, in which together with our customers we donate money to projects that improve the environment in and around the Baltic Sea. Together we have donated about EUR 2 M to these projects. The next step after the Baltic Sea Account has been to try to further raise awareness among our customers by creating the world's first debit and credit card that measures the carbon footprint of their day-to-day consumption, using the Åland Index. Launching this index turned 2017 into a very different kind of year in terms of the attention we attracted. Historically, we have relatively often managed to be the first in Finland to launch new products, but this launch attracted attention on a global level. During the year, we were invited multiple times to the United Nations in New York and in Europe to tell about the sustainability work we pursue together with our customers. Our Baltic Sea Card also enabled us to win various marketing awards in New York, Rome and Stockholm. The biggest victory of all, however, occurred in Cannes, where we won the Cannes Lions Festival of Creativity's Cyber Grand Prix for corporate responsibility. This is the world's largest marketing industry competition, with about 41,000 entries in 2017, and the Bank of Åland emerged as a winner. It was the first time that a Finnish company won this competition. I thus believe we are well positioned in the sustainability field too, but we know this is a task that will never end.

We are continuing to follow our own path. When we see the major banks choosing a common digitisation strategy, we will continue to go our own way. I am convinced that there are enough customers out there who appreciate our values and our service culture that we will be able to keep on growing for a long time to come.

In closing, I would like to take this opportunity to thank our employees for their good work during 2017. I know that because of their strong commitment to the Bank and our customers, we stand well equipped for the years ahead.

Net operating profit
EUR M



Daring to go our own way

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

OUR VISION

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

OUR POSITION

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

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

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

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

CUSTOMER RELATIONSHIPS AND TRUST

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

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

GOOD SERVICE VIA ALL CHANNELS

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

OUR THREE MARKETS

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

GOING OUR OWN WAY IS EMBEDDED IN OUR GENES

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

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

Photographer: Staffan Sundström

Customers' sense of responsibility challenges us

During 2017 the Bank of Åland's sustainability work continued to take concrete steps forward. As part of the Baltic Sea Project, our customers gained the opportunity to use the Mobile Bank to follow the Åland Index, which shows how their consumption affects the environment. During the year we also began the task of clarifying how we define and work with responsible investments.

Our perception is that today, our customers are surrounded by a sustainability buzz. Many market players want to talk sustainability and tell about their objectives. Our obligation is to break through this buzz – not by shouting the loudest, but by being clear and concrete.

This challenge is largely pedagogical in nature: we must become better at more clearly formulating how we work with everyday sustainability issues, what definitions we make and how we apply them and monitor our sustainability commitments. Put simply: there is no room for platitudes.

The above insights are based on the first structured "materiality analysis" that we carried out during 2017. Among other things, this analysis told us that we must work even harder to broaden the horizon for sustainability issues. When sustainability is mentioned, many people think primarily of environmental issues, whereas such issues as social responsibility – which is more abstract – tend to be overlooked.

The same is true when we want to describe how the Bank of Åland works with responsible investments. We must offer every customer both a clear overview and the opportunity, for example, to see a more detailed description of our criteria for selecting investments and how we monitor the choices we make.

We are undoubtedly justified in putting additional energy into our pedagogical task. The private individuals and institutional investors that prefer the Bank of Åland have a genuine interest in sustainable development, and their commitment is rooted in a knowledge base that is becoming ever stronger.

Meanwhile our customers are not alone in demanding higher standards of their service providers; this is a strong social trend in the Nordic countries. Two separate consumer surveys, conducted by Kantar Sifo and the Sustainable Brand Index, show that the sustainability aspect is becoming more and more important in Nordic consumers' buying and investment decisions.

During 2017 we have taken steps forward to live up to the expectations that our customers and other stakeholders have of the Bank of Åland and our sustainability work.

The Bank's sustainability strategy in 2017

Our sustainability work is based on a strategy we rely on daily and adapt as the Group evolves.

We must pursue our operations with long-term financial, social and environmental sustainability in mind. In this work, we are following the United Nations' global sustainable development goals and our materiality analysis.

Below is a presentation of the Bank of Åland's four focus areas, each with a brief strategy description, an account of the Bank's main actions during 2017 and a commentary.

1. RESPONSIBLE INVESTMENTS

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

- We calculated the carbon dioxide intensity of our fund holdings, in accordance with a recommendation by the Swedish Investment Fund Association. Our objective is to continuously reduce the CO_2 intensity of the Group's operations. Starting with 2018, we will publish the ESG scores and CO_2 intensity of the Bank of Åland's in a separate yearly report.
- We implemented ESG data from Sustainalytics in our fund management. Sustainalytics scores companies and we gather data at the fund level. Our ambition is to be within the two best quartiles in the category of equivalent funds. We achieved this for all equity funds.
- We participated in public discourse through discussions at the Finnish Sustainable Investment Forum and its Swedish counterpart. Bank of Åland representatives also participated in Finance Finland's Climate Change Indicators Working Group, which discussed how the financial services sector can help achieve the 2 degree limit on the increase in global average temperatures.
- The Bank of Åland's funds are now included in the Swedish Sustainable Investment Forum's ESG profile, an investment service that simply and clearly describes how funds apply sustainability criteria in their management task.

In discussions with customers and potential customers during 2017, three issues have clearly emerged: Our attitude towards fossil fuels, the potential for offering a fossil-free investment alternative and greater interest in how we work to influence the companies in which we have shareholdings.

Finding what is material in our sustainability work

A yearly materiality analysis is our tool for determining what the most important development areas are.

THE MATERIALITY ANALYSIS:

1. Is a compass for the Bank of Åland's long-term sustainability work.
2. Is based on a dialogue with all of the Bank of Åland's five stakeholder categories: customers, shareholders, employees, suppliers and business partners.
3. Enables us to structure, prioritise and develop our sustainability work for the entire Group.

Photo: Shutterstock

2. RESPONSIBLE LENDING

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

- In the lending and decision making process, each loan advisor now comments on the activities or wishes of a corporate customer from a sustainability perspective.
- The share of all corporate loans made to sectors with a high environmental impact has continued to decline. In the past decade, loans to agriculture, forestry and fishing has decreased from 3.0 to 0.9 per cent of the total.
- Some 83 per cent of the Group's lending was aimed at housing, real estate, securities and other financial assets.
- Well-developed "know your customer" processes have given our loan advisors a deeper knowledge of their customers. This gives us good potential to achieve high credit quality and low sustainability risk in the loan portfolio.

Our guidelines for corporate lending include standards for customers' repayment capacity and the quality of collateral. Repayment capacity is crucial from the perspective of both the customer and the Bank. The purpose for which the loan will be used is also of great importance from a sustainability and environmental perspective.

3. SOCIAL RESPONSIBILITY

We are a bank for the development of people, businesses and society. We respect social and cultural diversity. By providing an attractive workplace, we want to be the first choice of the best talents in the market. We follow the Bank's policies for ethical behaviour as well as identification and management of conflicts of interest. We work actively to combat money laundering and other crime.

- The Group has continued to offer new positions; we have experienced growth in the number of employees over the past three years. In keeping with the Bank's strategy for increased efficiency, Group-wide operations have been concentrated at the Head Office. It is thus natural that the largest expansion has occurred in Åland. This centralisation process was a factor in higher employee turnover during 2017. On the plus side, to a great extent it has been possible to offer employees new challenges within the Group, thereby contributing to their skills development.
- Despite higher employee turnover and lower healthy attendance, employees remained highly committed: in the year's employee survey, they rated the Group at 4.1 out of a maximum of 5. Healthy attendance fell from 93.7 per cent in 2016 to 92.8 per cent in 2017. The main reason was the rapid pace of change in the Group.
- We continued to improve the Group's skills base during 2017. We coordinated external financial service industry training for our investment and mortgage loan advisors, among others. We also organised a number of in-house training courses, for example in ethical behaviour and combating money laundering and crime. The EU's MiFID directive also resulted in higher skills requirements and training courses in investment advisory services. The number of internal training hours was consequently high during 2017.
- As part of the Bank's commitment to society and young people, we became involved in Business Lead 2017 Finland, a project for the integration of educated immigrants and refugees that aims at increased diversity in the financial services sector. We also continued to support the Business Lab Åland project. We encourage studies by donating yearly stipends to all Åland schools. The Bank has also sponsored youth activities run by Åland-based non-profit organisations.
- In the Group's gender equality work, we try to achieve a balance between age groups and the genders when filling new positions. Our goal is an even gender breakdown (at least 40/60). At the team and departmental levels, and in certain roles, imbalances may occur, while total gender representation in the Group is now 48/52. In the Executive Team and on boards of directors that include external members, the breakdown is 24 per cent women and 76 per cent men. In the Group's succession planning, we are aiming for a 50/50 balance.

As for employee turnover, in the short term we will achieve better stability since we have now identified a pattern that explains the turnover. The objective is that employee turnover should not exceed 5 per cent yearly and that the number of long-term absences due to illness should not exceed 1 per cent of all employees. We would like short-term absences to fall to 5 per cent in the near future and a maximum of 3 per cent in the long term.

4. ENVIRONMENTAL RESPONSIBILITY

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

- The Baltic Sea Project entered an important new phase, which in many ways clarifies the project's ambitions both to our customers and to the world.
  - *First, we were able to get our customers involved by enabling them to use their Baltic Sea Card and the digital tool known as the Åland Index to learn about the carbon dioxide pollution generated by their own consumption. Customers are now also being offered tools to reduce their own environmental impact, for example by suggesting offsets through various environmental projects.*
  - *Second, the United Nations drew attention to our Baltic Sea work during a conference on Climate Change and the Sustainable Development Agenda in New York. Because we were given the opportunity to present the Baltic Sea Card and the Åland Index to an international audience, we were able to inspire other companies and organisations to create climate-smart tools and services.*

- In addition to the Baltic Sea Project, we also continued our commitment to the Stockholm International Water Institute (SIWI) and to the Bärkraft Network for a sustainable Åland. We participate in the strategic planning of both organisations.
- As sustainability aspects have become a natural element of the Bank's strategy, we have seen a growing interest among employees in such questions as their own energy consumption and policies concerning travel. During 2017 we thus worked systematically to support and encourage environmental awareness within the Group. In that work, the installation of the first solar panels on our Head Office in Mariehamn was one tangible milestone.

Meanwhile there are reasons for humility when we look at our own paper consumption and air travel figures, for example. Paper consumption increased by 36 per cent in 2017 compared to the year before. This increase was due, among other things, to new regulations and IT systems, and these projects have led to stricter requirements about mailings and information to our customers. The number of trips by air increased by 18 per cent, and the main reason was that 2017 was characterised by several large development projects, primarily the launch of the new capital market system.

Governance and management

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

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

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

The Group's ESG Committee met on a quarterly basis to discuss and make decisions on current sustainability and investment-related issues. For example, the issue of whether we should exclude fossil fuel investments has been on the agenda at several meetings.

The Bank's environmental working group consists of committed employees. This group keeps track of general environmental issues and monitors the environmental work of the Bank. The group met several times during 2017 and discussed such issues as the possibility of introducing sensor-controlled faucets, charging outlets for electric cars, the choice of cleaning chemicals and local waste management. Thanks to the group, environmental tips are published regularly on the Bank of Åland Group's internal web. It also took the initiative to study the potential for improving the energy mix in the Finnish Mainland and Sweden business areas.

During 2017 the Bank of Åland installed Mariehamn's largest set of solar panels to date on the roof of its Head Office.

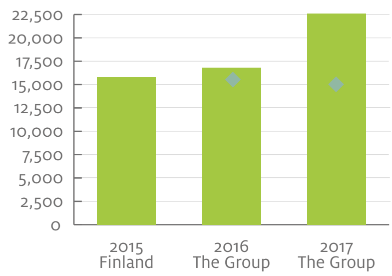
Photographer: Jan Karlsson

Measuring our environment impact

Paper consumption	Energy consumption	Business travel

The targets in the Group's yearly environmental plan are reported in the charts as diamonds. The structure of these targets diverged somewhat in 2015, but since 2016 it has been harmonised, as have the calculation models

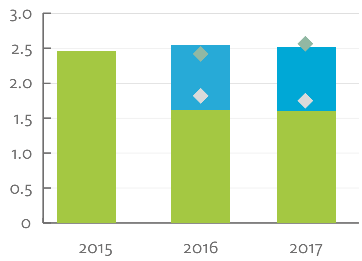
Group paper consumption
kg



● Our target

Our target is an annual decrease of at least 5 per cent. Paper consumption in prior years has been rather constant, but in 2017 it increased by 36 per cent, among other things due to greater requirements for information to customers.

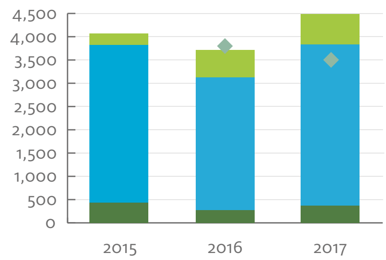
Group energy consumption
GWh



● GWh other ● GWh renewable
● Our total target
● Our green energy target

In keeping with our target, total energy consumption in the Group remained at about the same level as in prior years. During 2017 we achieved a slight reduction to 2.51 GWh from 2.57 GWh the year before. Of all the energy the Group uses, 62 per cent is generated using renewal sources ("green energy"). The target is to use at least 70 per cent green energy in future years.

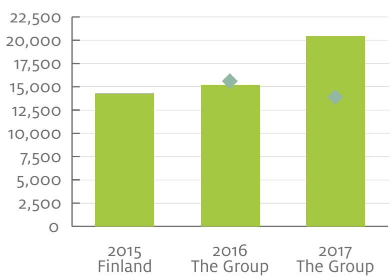
Number of business trips in the Group



● Train ● Aircraft ● Ship
● Our total target

During 2016 the Group had reduced travel by about 15 per cent from the year before. During 2017 Group employees made numerous trips, especially by air but also by other modes of transport. This led to an increase in total travel of about 18 per cent. Our target is to reduce travel by 5 per cent yearly. In this context, we can note that the proportion of travel using modes of transport other than air increased and now comprises about 22 per cent of all travel.

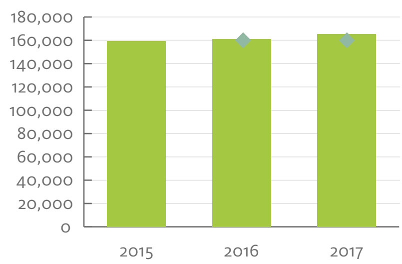
Quantity of carbon dioxide emissions caused by paper consumption
CO_2 in kg



● Our total target

Increased paper consumption during 2017 led to increased carbon dioxide emissions. Emissions were 20,400 kg, up from 15,200 kg the year before.

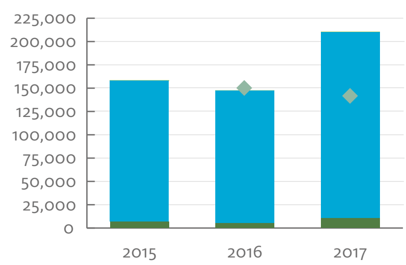
Indirect carbon dioxide emissions from Group energy consumption
CO_2 in kg



● Our target

Because energy consumption was kept constant, carbon dioxide emissions remained relatively unchanged. The energy mix on the Finnish mainland and in Sweden during 2017 was somewhat unfavourable, so we had a slight increase in emissions compared to our target.

Quantity of carbon dioxide emissions caused by travel
CO_2 in kg



● Train ● Aircraft ● Ship
● Our total target

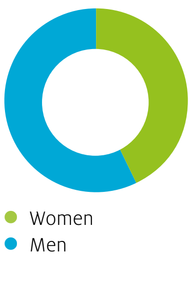
Carbon dioxide emissions from travel increased by 63,100 kg during 2017, from about 147,500 the year before to 210,600 kg.

Information about employees

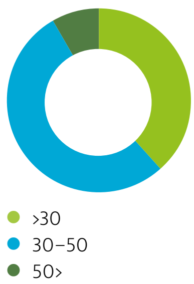
Employee mobility	2017	2016	2015
Expansion, %	12.3	10.7	7.7
Employee turnover, %	11.9	8.8	6.3

Expansion

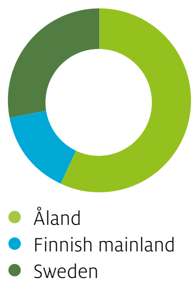
By gender



By age category



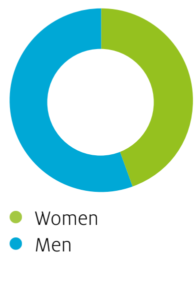
By region



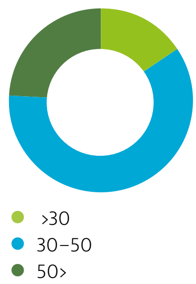
The Group hired 86 new regular employees during 2017. Expansion was thus 12.3 per cent compared to total full-time equivalent employees, up from 10.7 per cent in 2016.

Employee turnover

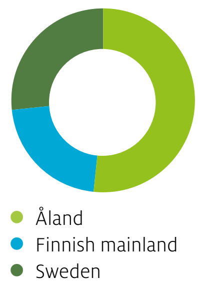
By gender



By age category



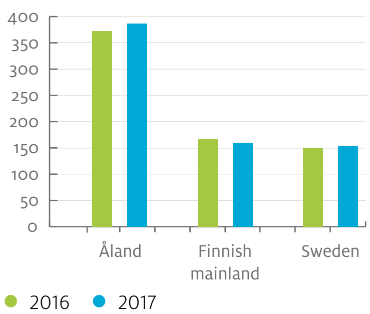
By region



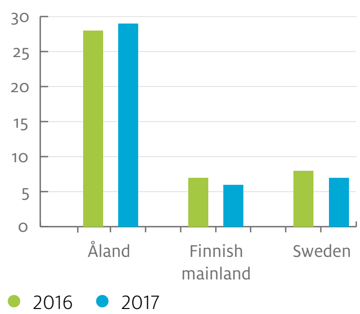
In the Group, 83 people ended their regular employment, including seven retirements. Employee turnover as a percentage of total full-time equivalent employees during the year was thus 11.9 per cent, which was an increase from 8.8 per cent in 2016. The Group seeks a healthy employee turnover that is proportional to expansion and competency requirements.

Contract type by region

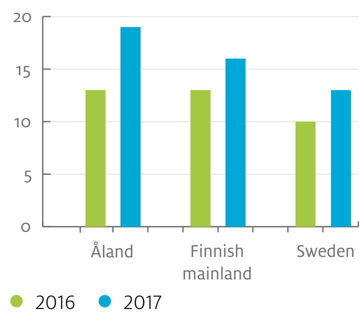
Regular



Temporary, monthly

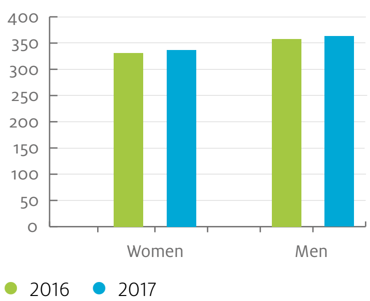


Temporary, hourly

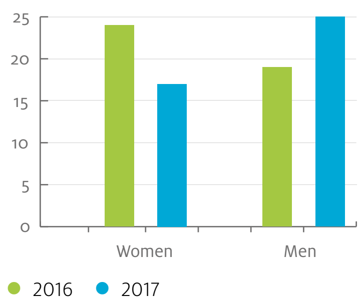


Contract type by gender

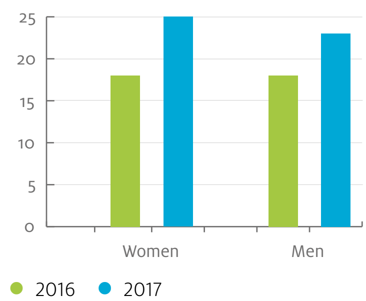
Regular



Temporary, monthly



Temporary, hourly



Full-time/part-time by gender		2017	
Gender	Part-time	Full-time	Total
Women	75	304	379
Men	31	380	411
Total	**106**	**684**	**790**

		2016	
Gender	Part-time	Full-time	Total
Women	84	289	373
Men	25	370	395
Total	**109**	**659**	**768**

The number of jobs in the Group totalled 790 at the end of 2017, up 22 during the year. Of these 790 employees, 88 per cent had permanent employment contracts and 12 per cent had temporary contracts. Women accounted for 70 per cent of all part-time jobs while men accounted for 30 per cent. Just over half the work force was stationed in Åland, while the Finnish mainland and Sweden each accounted for about half of the remainder. In addition, 89 consultants worked in the Group at year-end.

Healthy attendance and accidents	2017	2016	2015
Healthy attendance, %	92.8	93.7	95.2
Accidents	8	11	7

Of all 790 employees, 57 were absent due to illness for at least one continuous two-week period during the year, which translates to 93 per cent “healthy attendance”. The Group seeks 97 per cent healthy attendance. The accident rate was about 1 per cent among employees.

Skills development

Breakdown of training hours by category

Information about diversity

Gender breakdown, governing bodies	2017		2016		2015	
Gender	Number	%	Number	%	Number	%
Women	6	24	7	28	7	26
Men	19	76	18	72	20	74
Total	**25**	**100**	**25**	**100**	**27**	**100**

Gender breakdown, employees	2017		2016		2015	
Gender	Number	%	Number	%	Number	%
Women	379	48	373	49	365	49
Men	411	52	395	51	379	51
Total	**790**	**100**	**768**	**100**	**744**	**100**

Age breakdown, governing bodies	2017		2016		2015	
Age category	Number	%	Number	%	Number	%
<30	0	0	0	0	0	0
30–50	9	36	9	36	12	44
50>	16	64	16	64	15	56
Total	**25**	**100**	**25**	**100**	**27**	**100**

Gender breakdown, employees	2017		2016		2015	
Age category	Number	%	Number	%	Number	%
<30	133	17	111	15	105	14
30–50	438	55	425	55	436	59
50>	219	28	232	30	203	27
Total	**790**	**100**	**768**	**100**	**744**	**100**

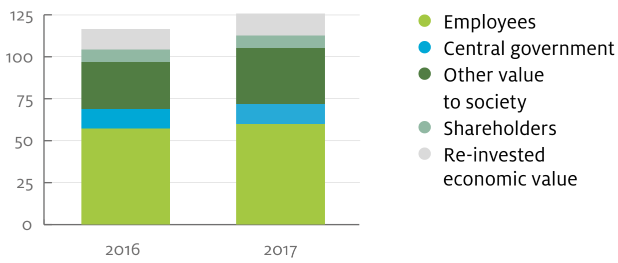
Our goal is an even gender breakdown (at least 40/60). The total gender breakdown in the Group is now 48/52. In the Group’s Executive Team and boards of directors that include external members, the breakdown is 24 per cent women and 76 per cent men.

Information about social commitments

Economic value-added	2017	2016
EUR M		
Total income minus loan losses		
Value-added generated by serving the Bank's customers	**125.9**	**116.4**
Employees		
Salaries	42.8	41.6
Social security and other staff costs	17.0	15.4
Total value to employees	**59.8**	**57.0**
To central government		
Income taxes	5.3	5.4
Non-deductible value-added taxes	6.0	6.5
Deposit guarantee fees	0.0	0.0
Fees to government stability fund	0.9	0.0
Total value to central government	**12.2**	**11.9**
Suppliers*	32.5	27.3
Sponsorships	0.5	0.5
Total other value to society	**33.1**	**27.8**
Transactions with shareholders		
Dividend paid	9.2	9.2
New share issue	–1.6	–1.6
Total transactions with shareholders	**7.6**	**7.6**
Remaining in the Bank		
Reinvested economic value	**13.1**	**12.1**

* Refers to other administrative expenses plus depreciation and amortisation.

Economic value-added



Keeping pharmaceutical residues out of the Baltic Sea

Photographer: Jetro Stavén

- Pharmaceuticals and other hazardous substances such as pesticides, plasticisers and solvents are “micro-pollutants” that are becoming more and more common.
- These substances are not very biodegradable and pass unchanged through the human body or from washing water into wastewater.
- Today’s wastewater plants cannot break down micro-pollutants. These substances thus enter waterways, among other things causing deformations and reproductive disruptions among fish. Micro-pollutants also contribute to the development of new resistant strains of bacteria.
- Today the technologies for treating hazardous substances are expensive and energy-ineffective. Wapulec Oy is a company that is developing an energy-economical technology for purifying water. A corona discharge forms a small-scale electric pulse that forms OH radicals, atomic oxygen and ozone. These are among the strongest oxidants in nature and can be used for purifying both water and air.

Encouraging test results from the Baltic Sea Project prize winner.

Researcher and entrepreneur Henry Hatakka’s project impressed the Baltic Sea Project prize jury and he returned home to Lappeenranta, Finland with EUR 80,000 in funding. Using his technology, wastewater plants can more effectively prevent household pollutants such as pharmaceutical residues and solvents from running out into the Baltic Sea. But Hatakka also sees opportunities far beyond the Baltic.

With the help of the Baltic Sea Project prize money, Henry Hatakka and his company Wapulec Oy conducted their first pilot project during the autumn of 2017 at the Toikansuo wastewater treatment plant south-west of Lappeenranta on the Finnish mainland.

Even though the plant’s technology is so outdated that the city of Lappeenranta is planning a new facility, Hatakka was encouraged by the test results.

“Although there was a large quantity of solid particles left in the biologically treated water, we achieved a 50 per cent purification result at a cost of EUR 0.03 per cubic metre of water.”

A second test began early in 2018 at the Kotka wastewater treatment plant, and the initial results are good.

"In Kotka the plant is more modern, so the quantity of solid particles is considerably smaller. The purification result was 70 per cent at the same cost as in Lappeenranta, even though the amount of pharmaceutical residues in the wastewater in Kotka was about 50 per cent higher," Hatakka says.

Aside from three problematic pharmaceutical substances, the degree of purification in both test runs was so high that residues were below European Medicines Agency (EMEA) recommendations: less than 150 nanograms per litre.

But Hatakka already has a plan for how he will tackle these three pharmaceuticals.

"By slightly increasing the energy dose, these three substances will also end up below officially recommended levels," he explains.

For Henry Hatakka, a cleaner Baltic Sea is still only an intermediate target. For years, his vision has been to be able to help developing countries produce cleaner drinking water.

"Our technology is suitable for purifying and disinfecting drinking water in environments where wastewater is often mixed with clean surface water. Our tests show that even with a small quantity of energy, we can purify water from coliform bacteria, which means that the energy from a solar panel is enough to start the purification reactor."

And today he is closer than ever to realising his vision:

"The Baltic Sea Project has enabled us to develop our equipment for industrial use. It has awakened an interest among potential business partners, and we have already begun discussions on commoditising this technology."

Strong relationships yield results

During 2017 the Baltic Sea Project and the Åland Index were in the international spotlight – from the United Nations in New York to the red carpet in Cannes.

In New York, the Bank of Åland's environmental work served as a source of inspiration at a UN conference on Climate Change and the Sustainable Development Agenda.

"With our expertise on the banking world and our long-term work to achieve a cleaner Baltic Sea, we can hopefully inspire others to create climate-smart tools and services," says Managing Director Peter Wiklöf.

At the Cannes Lions communications industry competition, the Bank was awarded the Grand Prix in the corporate responsibility category.

"This prize is much more than a shiny statuette. It is the result of many years of dialogue with our customers and mutually trustful collaboration with Mathias Wikström at our communications agency, RBK. A long-term perspective and strong relationships yield results," Mr Wiklöf says.

How to pinpoint your own environmental impact

It has never before been this simple to monitor your own carbon footprint.

It is not always easy to keep track of how your own buying habits affect the environment. But if you have received the new Baltic Sea card, you are only a few clicks away from important insights. Just log into the Internet Office or the Mobile Bank and choose *Your environmental impact*.

The calculation is performed using the Åland Index, in which card purchases are ranked according to a sustainability model.

A one-minute sustainability review

THREE BUSINESS AREAS

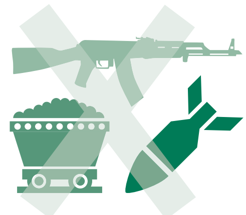
The Bank of Åland has operations in thirteen locations, of which five are in the Åland Islands.

INVESTING

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

PRI Principles for Responsible Investment

NO LENDING TO



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

THE BALTIC SEA PROJECT

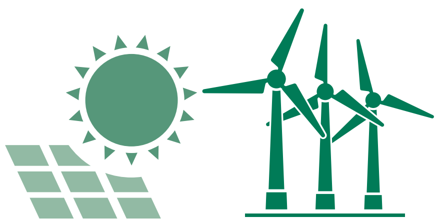
EUR 1,850,000 for good environmental ideas since 1997.

1,850,000

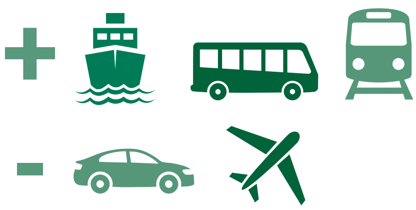
ÖSTERSJÖPROJEKTET
ITÄMERIPROJEKTI
BALTICSEAPROJECT.ORG

SUSTAINABLE ENERGY USE

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



Priorities in the Bank's travel:



ONE PLANET

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

97%

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

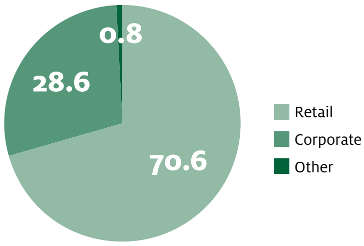
OUR VALUES

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

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

SUSTAINABLE LENDING

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



We endeavour to decrease our yearly paper consumption by at least 5%.

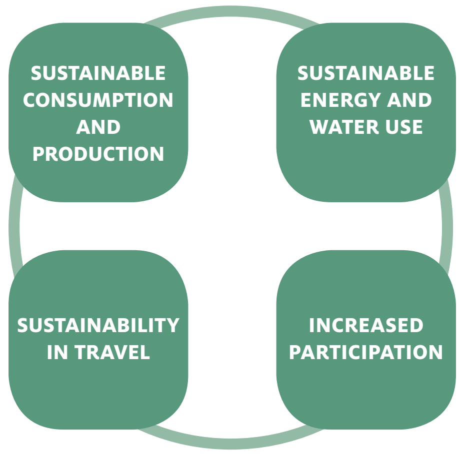
THE BALTIC SEA CARD

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

...calculated using the

ALAND INDEX®

INTERNAL FOCUS ON REDUCING CO_2



THE BANK OF ÅLAND’S PRIORITIES AMONG THE UN SUSTAINABILITY GOALS

8 DECENT WORK AND ECONOMIC GROWTH

12 SUSTAINABLE CONSUMPTION AND PRODUCTION

13 COMBAT CLIMATE CHANGE

Balanced representation
between men and women

Social commitments
We encourage and become involved in sports, culture and studies by donating scholarships to Åland schools yearly. We also participate in the Business Lead 2017 Finland project, aimed at increasing promoting greater diversity in the financial services sector through integration of immigrants.

Ensure
equal pay for equal work.

bärkraft.ax

SIWI

SWESIF

FINSIF

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

Building successful customer relationships locally

Photographer: Daniel Eriksson

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

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

At the end of 2017, Private Banking customers accounted for 50 per cent of the Bank's actively managed assets, 51 per cent of deposit volume and 45 per cent of lending volume. Net operating profit from Private Banking in 2017 amounted to EUR 18.5 M, which was equivalent to 71 per cent of the Bank's total net operating profit. Return on allocated equity was 20.3 per cent.

Last year marked the debut of our new Private Banking work model. At the heart of this model is a team of experts in wealth management, financial planning and personalised service who act as project managers for a customer's overall finances. During 2017 this way of working proved both successful and appreciated among our customers.

The year was characterised by a very high level of relationship-building with new customers. After Private Banking events in the mainland cities of Lahtis, Joensuu, Pori and Rovaniemi, we can report that our offering and the Bank of Åland's reputation generate great interest among potential customers all over Finland. Actively managed assets increased by 9 per cent.

In Sweden we increased the number of customer seminars in Stockholm, Gothenburg and Malmö, and the results were not long in coming: actively managed assets increased by 26 per cent, which is the highest-ever pace of growth.

Also worth noting is that more and more Swedes living abroad are choosing the Bank of Åland as their main Private Banking partner. This trend can be explained by our successful employee recruitments in recent years. Today we have many employees who are highly skilled in financial matters of an international nature. This has motivated us to increase our international presence both through customer meetings and seminars.

In Åland, our Private Banking offering continued to attract new customers. We regard the many customers who switched from other banks to ours as evidence that we deliver a top-quality overall package of services in our home market. Consequently the number of discretionary management customers increased by 4 per cent, while actively managed assets rose by 4 per cent.

Åland residents traditionally prefer Nordic investments, and investment manager Lars Söderfjell's return to the Bank of Åland has thus been highly appreciated. During the autumn, our customers had the opportunity to listen to his analyses at two customer seminars in Mariehamn.

To summarise, we believe that our healthy pace of growth has gone hand in hand with a carefully considered employee recruitment strategy that allows us to ensure high-quality service. It is thus heartening that in Åland and on the Finnish mainland, we came in at second place in Kantar Sifo's yearly survey of Private Banking providers.

Personalised service outshines new regulations

All individual customers who are not Private Banking or asset management customers are reported in the Premium Banking business segment. The Bank of Åland's corporate unit in Åland is also part of the Premium Banking segment. During 2017 the special funding unit in Helsinki was discontinued after having successfully completed its task. Thanks to the work of this unit, the Bank of Åland's lending portfolio is now in good shape.

During 2017 the number of customers with Premium Banking agreements increased by 7 per cent. Our largest number of Premium Banking customers is found on the Finnish mainland, but our fastest growth rate is in Sweden. The increase there was 21 per cent during the year. In Åland, too, the number of Premium Banking customers continues to grow. During 2017 the increase was 10 per cent.

Volume growth was good during the year. Actively managed capital increased by 23 per cent compared to 2016, deposits grew by 12 per cent and lending by 4 per cent.

Those who followed news stories about the banking world during 2017 may easily be lulled into thinking that all banks have their hands full implementing new regulations such as MiFID 2, PSD 2 and GDPR. The new regulations undeniably lead to a lot of work behind the scenes. But in fact, during 2017 the Bank of Åland had time to launch a surprisingly large number of new products and services that simplify daily life for our customers.

For our customers in Sweden, new products included the Swish mobile payment service, log-in using Mobile BankID, a new debit card and new funds: Dynamic Interest and the Premium 100 equity fund, also offered to customers in our two other business areas.

In Åland, we partnered with the Alandia and Ömsen insurance companies to unveil the AX3 portal for banking and insurance services. Our customers in Åland and the Finnish mainland can now also use their fingerprints to easily log into the Mobile Bank, which was also updated several times during 2017. Aside from design improvements, it also enables customers who have received the new Baltic Sea Card to track how their own consumption impacts the environment.

To summarise: We offered our Premium Banking customers new services, and by hiring new employees in all three business areas we have ensured that the personalised service that we offer still maintains high quality, both through our digital channels and at our offices. As for the office network, we closed two offices in Åland while in Tampere on the Finnish mainland we moved into new, substantially more spacious quarters.

In return, we can be pleased that the year's customer surveys in all three business areas showed a high level of satisfaction and loyalty among our customers. One nuance of this loyalty is that they are happy to recommend the Bank of Åland to their friends.

As for financial investments, mutual fund saving is among the favourites of our Premium Banking customers in all three business areas. With the new Premium 100 fund, our range of Premium funds became complete and our customers can choose funds that match their risk appetite. Regular fund saving consequently rose by 14 per cent during the year.

THE ÅLAND CORPORATE SERVICES UNIT

The Bank of Åland's Corporate Services unit is the market leader in Åland and offers a wide range of services and products adapted for Åland-based companies.

The target group is broad and includes small and medium-sized businesses as well as large corporations with international operations. The number of corporate customers continued to increase during 2017, and the level of customer activity was high. We also received a large number of inquiries from the corporate customers of other banks.

Loans outstanding totalled EUR 320 M at year-end. Lending to maritime shipping companies continued to decline during 2017 and accounted for 1.2 per cent of total Group lending at year-end. Our customers in the maritime shipping sector have their vessels chartered out and are servicing their borrowing obligations as planned.

The customer survey conducted late in 2017 revealed that our Corporate Services customers are happy to recommend us to other business owners. Customers appreciate the way they are treated and the service they receive. They also have great confidence in their customer advisor.

Late in 2017 the Bank of Åland signed an agreement with the European Investment Fund (EIF) on a guarantee programme for small and medium-sized companies. With the help of guarantees from EIF, the Bank's capital and credit risk expenses decrease. This, in turn, benefits companies. The aim is to offer better financing conditions to small and medium-sized companies that want to expand their operations or sustainability efforts. We believe that this may lead to long-term business expansion and more workplaces in Åland.

During 2017 the Corporate Services unit continued its involvement in Business Lab Åland, Young Entrepreneurship and the RoslandsMinglet networking project, among other initiatives. The Bank of Åland is thus contributing to a positive view of entrepreneurship and the potential for young entrepreneurs to get started in business more easily by using effective tools.

Photographer: Staffan Sundström

We have strengthened our Nordic presence

Photographer: Daniel Eriksson

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

Ålandsbanken Fondbolag manages the Bank's mutual funds and supplies comprehensive services to the Bank of Åland related to the asset management that the Bank offers customers in the Private Banking and Premium Banking units and to institutional customers.

Events during 2017

One significant event during the year was the takeover of the pension fund management company Allra's fund volume. The Bank of Åland was able to help resolve a legal dispute between Allra and the Swedish Pension Authority. As a result the Pension Authority invested about EUR 1.3 billion of retirement savers' assets in three of the Bank of Åland's mutual funds.

Because the Pension Authority chose to rely on the Bank of Åland, the Bank's fund assets under management virtually doubled during the year. The additional amount also represents new assets in the Finnish fund market.

With about 70,000 new fund savers from the former Allra funds, the Bank of Åland also became a significantly larger market player in the Swedish premium pension system.

During the year, the Nordic equities management organisation was also strengthened by the formation of a new management unit. Nordic equities are part of the Bank of Åland's core competency as a Nordic market player.

Property mutual fund activities continued their strong expansion during the year. Investors were especially interested in Ålandsbanken Tomtfond, which specialises in housing sites and grew significantly in 2017.

The Bank's asset management took place in an environment of continued robust upturns in global stock markets, while interest rates remained extremely low or negative. Interest rates represented a complicated situation, especially in handling dynamic asset management mandates, in which our basic attitude during the year was to remain cautious about stock markets due to share valuation levels.

Active management strategy

An active, not index-oriented, asset management strategy is the fundamental concept behind all asset management at the Bank of Åland.

The aim is to generate excess returns in strong market situations and preserve capital as well as possible in weak market situations. The value-added of such a strategy should be viewed over a market cycle, which normally runs for 5-7 years. In the short term, this active strategy may mean that returns in management mandates diverge substantially from underlying market performance, both positively and negatively.

The importance of this active strategy in our four main asset classes can be described as follows:

DYNAMIC ASSET MANAGEMENT MANDATES

The active asset management strategy is most prominent in the Bank's own asset management funds and discretionary dynamic asset management mandates, where asset allocation between equities, fixed income investments and alternative asset classes in each market situation is the biggest single factor behind returns.

EQUITY MANAGEMENT

In the management of directly owned Nordic equities as well as equity funds, our active strategy mainly involves selecting investments at the company and sectoral level. This means that the portfolios normally diverge greatly from the structure of underlying markets according to benchmark indices.

FIXED INCOME MANAGEMENT

Fixed income management mainly consists of the Bank of Åland's notably successful fixed income funds. Their strategy is to invest mainly in corporate bonds, preferably issued by solid Nordic and other European companies that we have analysed and are familiar with and that have a long track record of successful, stable business and financial position.

PROPERTY FUND MANAGEMENT

Management of property mutual funds is not categorised as active or passive in the same way as management of other asset classes. In any case Ålandsbanken Bostadsfond, the Bank's housing mutual fund, differs from most similar funds in Finland. For example, the fund invests in flats in housing corporations, whose buildings consist of condominiums rather than traditional rental flats. The fund also invests only in new buildings in attractive areas with a well-functioning housing market. This strategy has proved successful.

Ålandsbanken Tomtfond, a fund specialising in housing sites, offers investors unique qualities in the form of a predictable and stable return combined with low risk. Especially in the current market situation, with extremely low interest rates, there are few alternatives that offer equivalent stability and return levels.

Future outlook

Despite the challenging market situation, we believe that there is good potential for continued growth in most operations during 2018, as well as in a longer perspective. This growth is of course dependent on market conditions and the asset management results that are generated. We believe that increased regulation, for example the MiFID 2 regulations, may to some extent benefit the growth of mutual fund operations, since these operations are quite transparent, especially in terms of costs.

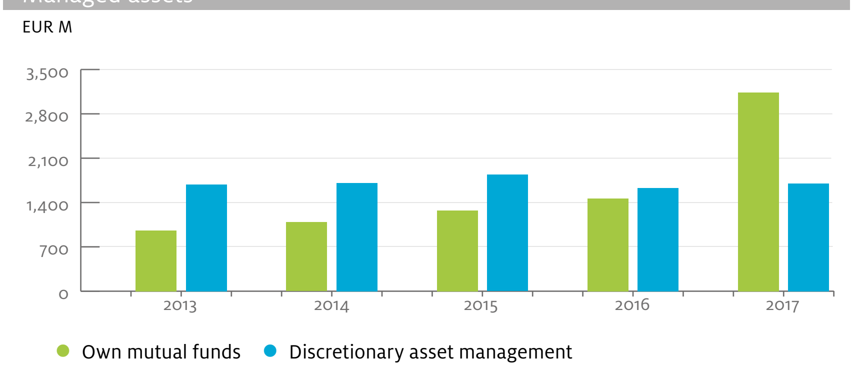
We are working actively to develop concepts for new property funds. We want to offer investors new opportunities to easily take advantage of the potential of real estate investments. Meanwhile we want to build on the strong position that the Bank of Åland has created in the Finnish property fund market.

As a new and larger player in the Swedish pension fund market, we will carefully monitor the new requirements that the Financial Supervisory Authority will impose on those asset managers that wish to offer their funds via the Swedish Pension Authority. Sweden's Finance Ministry has announced that new, stricter requirements will be introduced during 2018 for the purpose of ensuring that dishonest market players are not able to operate funds on behalf of the Pension Authority.

Responsible investments

All Bank of Åland funds and asset management mandates follow the Bank's criteria for responsible investments. In our view, responsible investments are a field that will expand greatly over the next several years. This is why we are devoting resources to improving the role of our funds as active owners on sustainability-related issues. One innovation is that a sustainability report for Bank of Åland funds is being included in the 2017 annual report of these funds.

Managed assets



More centralised processes boost efficiency

Photographer: Daniel Eriksson

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

CFO Corporate Unit

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

Treasury occupies a central role at the Bank of Åland, with responsibility for the Group's liquidity, funding and interest rate risk, including interest rate risk in banking operations. In recent years, the department has successfully expanded and streamlined its operations. Due to regulatory requirements, the Treasury portfolio – which comprises liquid assets and asset pledged – has grown significantly faster than the lending portfolio in recent years. At year-end 2017, the Treasury portfolio totalled EUR 1.2 billion, equivalent to about 30 per cent of the lending portfolio. Because of the prevailing interest rates, it is difficult to earn a positive return on this growing part of the balance sheet. The Bank of Åland's capital market borrowing has also grown faster than deposits from the public. At year-end, Treasury borrowings amounted to EUR 1.8 billion, equivalent to about 58 per cent of deposits from the public. Treasury's dominant funding instrument is covered bonds, which now total about EUR 1.3 billion. The trend towards declining capital market funding costs, fortunately continued in 2017 as well.

For years, Group Finance has done a commendable job of streamlining and raising the quality of the financial reporting process, so that nowadays consolidated financial statements are ready as early as the fifth banking day after the closing date. During 2017 the department performed extensive preparatory work ahead of the implementation of IFRS 9, the new regulation for reporting of financial instruments.

A large proportion of resources at both the IT Management and Legal Affairs departments are directed to the most highly prioritised Bank of Åland projects at any given time. During 2017 this included working with the new capital market system and projects driven by regulatory requirements, such as MiFID 2, GDPR, PAD and PSD2.

During 2018 the CFO Corporate Unit will continue its efforts to streamline and raise the quality of its work processes.

CAO Corporate Unit

Chief Administrative Officer Tove Erikslund is in charge of the following departments: Business Support, Business Support Payments, Business Support Capital Market, Customer Service & Market Support, Business Development and Human Resources. The CAO Corporate Unit has about 100 employees in Mariehamn, Helsinki and Stockholm.

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

During 2017 the centralisation and streamlining of the CAO Corporate Unit's back office units continued. Among other things, card issuance services at Business Support were transferred to Crosskey Financial Services. The payments unit at Business Support Payments was centralised in Mariehamn. The goal during 2018 is to build up a completely centralised back office for all of the CAO Corporate Unit's fields of operations.

To a growing extent, the CAO Corporate Unit is applying faster and smoother working methods in order to streamline and speed up its deliveries. One major challenge is to pursue improvements in fields other than those required by regulations. During 2017 many changes in regulations occurred, especially in the capital market field. Several regulatory-related projects took place in this field. Meanwhile we implemented the Bank's largest-ever IT project: development of the Group's new capital market system. This system went into service in our Swedish operations in July 2017.

The work done both before and after the capital market system was placed in service was time-consuming and challenging for both employees and customers. The system will be further refined during 2018 in order to create an even better user experience for our customers. This task will include securities trading and mutual fund savings via our Internet Office in Sweden and our mobile service.

In the next phase, the capital market system will be implemented in Åland and on the Finnish mainland. When all three business areas are using the system, the entire Group will have a modern capital market system with a clear and enjoyable customer experience. Meanwhile the new system will enable us to benefit from the full effect of our centralised back office units, with shared processes and lower systems expenses.

During 2017 there was an intensive effort to implement MiFID 2, a European Union directive that went into effect on January 3, 2018. Among the purposes of MiFID 2 is to increase transparency and further strength customer protection. The directive is far-reaching and has led to changes in the Bank's processes and systems.

TARGET2-Securities (T2S), a project of the European Central Bank (ECB) aimed at harmonising securities trading in Europe, continued during 2017. Since 2015, European central securities depositories (CSDs) have gradually joined the ECB's T2S platform. The Finnish CSD, Euroclear Finland, will join T2S in May 2018. For the Bank of Åland, this will involve new technical connections to Euroclear Finland.

We are seeing increased use of real-time payments and new opportunities offered by such payments. In Sweden, the Bank linked up with the Swish mobile phone payment service in February 2017. A project is under way to connect the Bank of Åland to Siirto, the equivalent service in Finland.

User-friendly new identification and log-in solutions for our digital services were well-received by our customers. In Sweden, Mobile BankID went into service during 2017 and an equivalent service, Bank of Åland eID, was launched in November for our customers on the Finnish mainland and in Åland.

Development work on the Åland Index and the Baltic Sea Card has continued, which starting in 2018 will also enable our customers in Sweden to monitor the environmental impact of their card purchases.

We also continued the task of streamlining our processes to make them more digital, thus requiring less paper. We focused mainly on processes related to new customers and lending.

Digital development work will continue during 2018 in many fields for the purpose of enhancing the customer experience, streamlining and increasing security. For example, we will offer digital telephone identification to further strengthen customer security. Another goal is to offer our customer advisory services by video if a need exists.

During 2017 we introduced geographic and amount-related limitations at our Internet Office in Sweden and in the Mobile Bank. We also carried out various customer information projects aimed at helping our customers protect their cards. These measures have had an effect: today our customers are more aware of security risks. They are thus using our services and substantially decreasing the risk of card-related fraud.

The volume of cases handled by Customer Service, which customers can contact via telephone, the Internet and online chat, continued to increase. Communication via social media is also gradually increasing.

A new Group-wide human resource administration system was partially placed in service late in 2018 and will be completed early in 2018.

In addition to development projects for the Bank of Åland, we also develop services for the mobile savings application offered by our business partner Dreams. At the end of 2017 we had more than 50,000 savings account customers via Dreams, and during the autumn we also enabled these customers to save in mutual funds.

CRO Corporate Unit

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

Risk Control is primarily entrusted with protecting the Bank's assets, earnings and brand by providing a framework for risk and credit management. Its purpose is to create a healthy risk culture that corresponds to the Bank's risk appetite.

The Bank of Åland's risk level has gradually fallen for a number of years in all major risk areas (credit risk, liquidity risk, market risk and operational risk). Meanwhile risk management and monitoring processes have been strengthened. This was confirmed by the Finnish Financial Supervisory Authority after its overall capital assessment in 2017.

The percentage of non-performing loans in the lending portfolio was at a historically low level at the end of 2017. After nine years of operations, loan losses in the Bank's Swedish operations remained non-existent.

Our field of lending is affected by various new regulatory requirements. During 2017 the Bank worked intensively with implementation of the new IFRS 9 accounting standard for expected loan losses. This task included establishing requirements and testing IT functionality as well as training employees. Modelling of expected losses for all assets in compliance with the IRFS 9 standard was completed by the Bank's credit risk modelling specialists.

The Bank also analysed the consequences of classifying and carrying all financial assets in compliance with the new standard. It also made preparations for the tightened mortgage principal repayment requirements that go into effect in Sweden on March 1, 2018.

The Compliance Department is responsible for customer protection, monitoring market behaviour and counteracting money laundering and the financing of terrorism, as well as permitting and supervisory matters. During 2017 the department's work included market abuse regulation and projects for combating money laundering and financing of terrorism, investment services and future requirements related to management of personal information. As always, employee training in the department's fields of responsibility, internal regulations and various inspections were important elements of the Compliance Department's work.

The Operational Risk & Security Department further developed its continuity planning and organised continuity drills and security reviews. New e-training courses were placed in service, and models for updating the Bank's authorisation structure were created.

Crosskey and Compass Card

Crosskey Banking Solutions Ab Ltd

Last year began with good news for the Bank of Åland's customers in Sweden. We linked up the Bank to the mobile payment service Swish, and our customers could begin using Mobile BankID to log into the Internet Office and the Mobile Bank.

Another important event in the Swedish market was that Crosskey successfully converted the Bank of Åland's entire debit card population to Crosskey's card system.

In Finland, Crosskey made sure that during the first quarter of 2017, S-Bank was able to launch the Siirto payment service, the Finnish equivalent of Swish. S-Bank thus became one of the first banks in Finland to offer this new service. In conjunction with the launch of Siirto, S-Bank customers were also given the opportunity to identify themselves on digital channels by using their fingerprint, supported by Crosskey's C ID service.

Overall, we can note that during 2017 Crosskey's banking system became one of the few banking systems in the Nordic market that is integrated with both Swish and Siirto.

However, the foremost milestone of the year was the launch of a new capital market system for the Bank of Åland in Sweden. After several years of development work together with Crosskey's Finnish IT partner, Model IT, the platform was launched during the summer and the Bank of Åland's Swedish capital market operations were converted to the new platform. A few months later Indecap, one of Crosskey's new customers during 2017, chose to place a number of service modules from the new capital market system in service in order to streamline its own business operations.

During the second half of 2017, Crosskey worked with the implementation of its card system and related services for two new customers in Sweden. These new customers will go live during 2018.

Crosskey also devoted extensive work to adapting its range of systems to the EU's new General Data Protection Regulation (GDPR), the MiFID 2 regulations and the EU's latest Payment Services Directive (PSD 2). As for PSD 2, during 2018 Crosskey will launch C Open, its open banking service platform. This platform enables banks to cooperate easily with other banks and fintech companies.

Customer satisfaction remained high in 2017. One third of Crosskey customers who were surveyed during the year recommended Crosskey as a supplier of banking systems. Half of respondents stated that Crosskey is their most valuable business partner.

Not only did Crosskey's customer and their customers have a good working relationship with Crosskey, but Crosskey employees were also stimulated and motivated by the year's successes. This was apparent from the annual employee survey. Crosskey had the highest satisfaction score ever measured in the international employee survey Great Place to Work.

Net operating profit during the year amounted to EUR 1.4 M. This was lower than in 2016, when the figure was EUR 2.4 M. The main reason for the decrease was temporarily higher expenses connected to the launch of the new capital market system in Sweden.

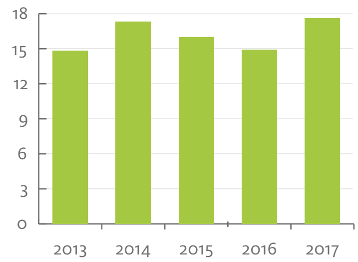
Crosskey maintained its high level of quality, and after the year's audits the company was re-certified according to both the ISO and PCI DSS standards.

Ab Compass Card Oy Ltd

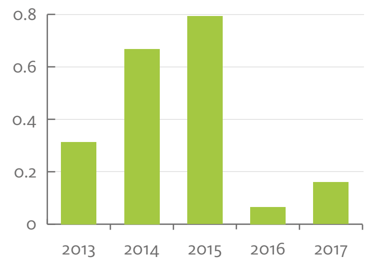
Compass Card manages the Bank of Åland's growing card business in Finland and Sweden. In addition, the company has a credit card business with a number of Finnish partners. Its previously largest card business in volume terms, with about 100,000 customers of S-Bank, was shut down in 2016.

During 2017 the company carried out reorganisations to scale down its expenses. It began a project to move its operations to its systems supplier Crosskey's new card platform. Compass Card gained PCI certification.

Non-Group income, Crosskey
EUR M



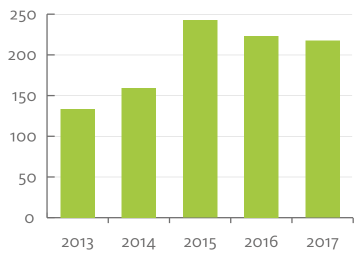
Net operating profit, Compass Card
EUR M



Facts on Bank of Åland shares

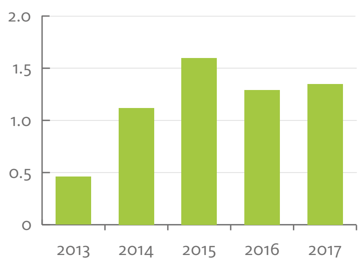
Market capitalisation

EUR M



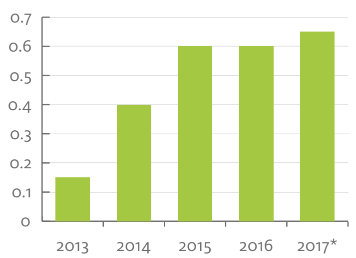
Earnings per share

euros



Dividend per share

euros



* Proposed by the Board of Directors for approval by the 2018 Annual General Meeting.

Share capital

The share capital of the Bank of Åland is EUR 41,949,003.76. The shares are divided into 6,476,138 Series A and 8,959,175 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a General Meeting may vote for more than one fortieth of the number of shares represented at the Meeting.

In April 2014, the Annual General Meeting voted to authorise the Board to decide on the issuance of shares, option rights and other special rights entitling their holders to shares, as provided by the Finnish Companies Act, Chapter 10, Section 1. The authorisation concerns Series B shares. The total number of shares that may be issued with the support of the authorisation may not exceed 3,000,000 Series B shares. The authorisation covers one or more issues in exchange for payment or without payment and may also cover divestment of the Company's own shares. The authorisation replaces all of the Annual Meeting's earlier unutilised authorisations of shares, option rights and other special rights entitling their holders to shares. The Board's mandate is in force until April 10, 2019. So far 1,036,885 Series B shares (as of December 31, 2017) have been issued or divested as authorised, and consequently an additional 1,963,115 Series B shares may be issued or divested on the basis of the authorisation.

On September 30, 2014, the Bank of Åland's Board of Directors decided – on the basis of the authorisation by the Annual General Meeting on April 10, 2014 – to carry out a targeted issue of 100,000 option rights to key individuals as one step in fulfilling the Bank's incentive programme. Each option right entitled the holder to subscribe for one Series B share. The redemption date for the option rights was December 29, 2017, and 100,000 shares were subscribed for on the basis of these option rights.

Share savings programme

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

Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In March 2017, 7,965 newly issued Series B shares were disbursed. In March 2018, about 12,000 newly issued Series B shares will be disbursed. An additional 28,000 or so Series B shares will be disbursed as a delayed portion of incentive programmes and will be disbursed during the years 2019–2010, provided that the criteria for disbursement are fulfilled. The number of shares is dependent on the share price on the disbursement date.

Changes in share capital

Year	Share capital, EUR	Series A shares	Series B shares
2017	41,949,003.76	6,476,138	8,959,175
2016	41,674,226.83	6,476,138	8,823,012
2015	41,500,786.10	6,476,138	8,737,101
2014	29,103,547.58	6,476,138	7,944,015
2013	29,103,547.58	6,476,138	7,944,015

Trading in the Bank's shares

During 2017, the volume of trading in the Bank's Series A shares on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) was EUR 2.5 M. Their average price was EUR 14.85. The highest quotation per share was EUR 15.89, the lowest EUR 13.06. Trading in Series B shares totalled EUR 6.9 M at an average price of EUR 14.41. The highest quotation was EUR 15.49, the lowest EUR 13.27.

On December 31, 2017, the number of registered shareholders was 9,479 and they owned 14,080,289 shares. There were also a total of 1,355,024 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2017

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Wiklöf Anders and companies	1,605,496	1,326,549	2,932,045	19.00	24.15
2	Alandia Insurance	917,358	406,432	1,323,790	8.58	13.54
3	OP Corporate Bank plc (nominee registered shares)	40	919,065	919,105	5.95	0.66
4	Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)	794,566	111,201	905,767	5.87	11.56
5	Fennogens Investments S.A.	474,264	152,088	626,352	4.06	6.96
6	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	165,954	289,622	1.88	1.91
7	Svenska Litteratursällskapet i Finland rf (literary society)	208,750	0	208,750	1.35	3.01
8	OMXBS/Skandinaviska Enskilda Banken AB (nominee registered shares)	186,166	14,672	200,838	1.30	2.70
9	Oy Etra Invest Ab (investment company)	0	200,000	200,000	1.30	0.14
10	Nordea Bank AB (nominee registered shares)	19,065	165,269	184,334	1.19	0.39

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

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held,	Average holding	Voting power, %
1–100	3,980	173,955	44	1.1
101–1,000	4,286	1,486,176	347	7.0
1,001–10,000	1,106	2,845,063	2,572	12.2
10,001–	107	10,930,119	102,151	79.8
Of which, nominee registered shares		1,335,024		3.9

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,112,403	33.1
Companies	4,606,083	29.8
Financial institutions and insurance companies	2,740,967	17.8
Non-profit organisations	662,351	4.3
Government organisations	9,186	0.1
Foreign investors	949,299	6.2
Nominee registered shares	1,355,024	8.8
	15,435,313	**100.0**

Bank of Åland share data	2017	2016	2015	2014	2013
Number of shares, thousands [1]	15,435	15,299	15,208	14,398	14,395
Number of shares after dilution, thousands	15,586	15,572	15,411	14,498	14,395
Average number of shares, thousands	15,330	15,266	15,188	14,398	14,395
Earnings per share, EUR [2]	1.35	1.29	1.60	1.12	0.46
Earnings per share after dilution, EUR	1.34	1.28	1.59	1.12	0.46
Dividend per share, EUR [3]	0.65	0.60	0.60	0.40	0.15
Dividend payout ratio [4]	48.5	46.6	37.5	35.7	32.3
Equity capital per share, EUR [5]	15.14	14.50	14.00	13.49	12.54
Equity capital per share after dilution, EUR	15.02	14.37	13.94	13.46	12.54
Market price per share, closing day, EUR					
Series A	14.20	14.84	16.40	11.27	10.88
Series B	14.05	14.38	15.60	10.87	7.94
Price/earnings ratio [6]					
Series A	10.5	11.5	10.2	10.1	23.4
Series B	10.4	11.2	9.7	9.7	17.1
Effective dividend yield, % [7]					
Series A	4.6	4.0	3.7	3.5	1.4
Series B	4.6	4.2	3.8	3.7	1.9
Market capitalisation, EUR M	217.8	223.0	242.4	159.1	133.3

1 Number of registered share minus own shares on closing day

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

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

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

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

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

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

Bank of Åland shares traded, Helsinki Stock Exchange					
Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2017	A	167	2.6	15.89–13.06	14.85
2017	B	482	5.4	15.49–13.27	14.41
2016	A	208	3.2	16.99–12.11	14.45
2016	B	809	9.2	16.10–12.62	14.11
2015	A	772	11.9	19.50–11.00	16.28
2015	B	972	11.1	17.58–10.76	15.33
2014	A	194	3.0	12.24–10.00	11.09
2014	B	1,129	14.2	11.30–7.86	9.03
2013	A	83	1.3	13.67–10.02	11.60
2013	B	605	7.6	9.00–7.01	8.11

Report of the Directors

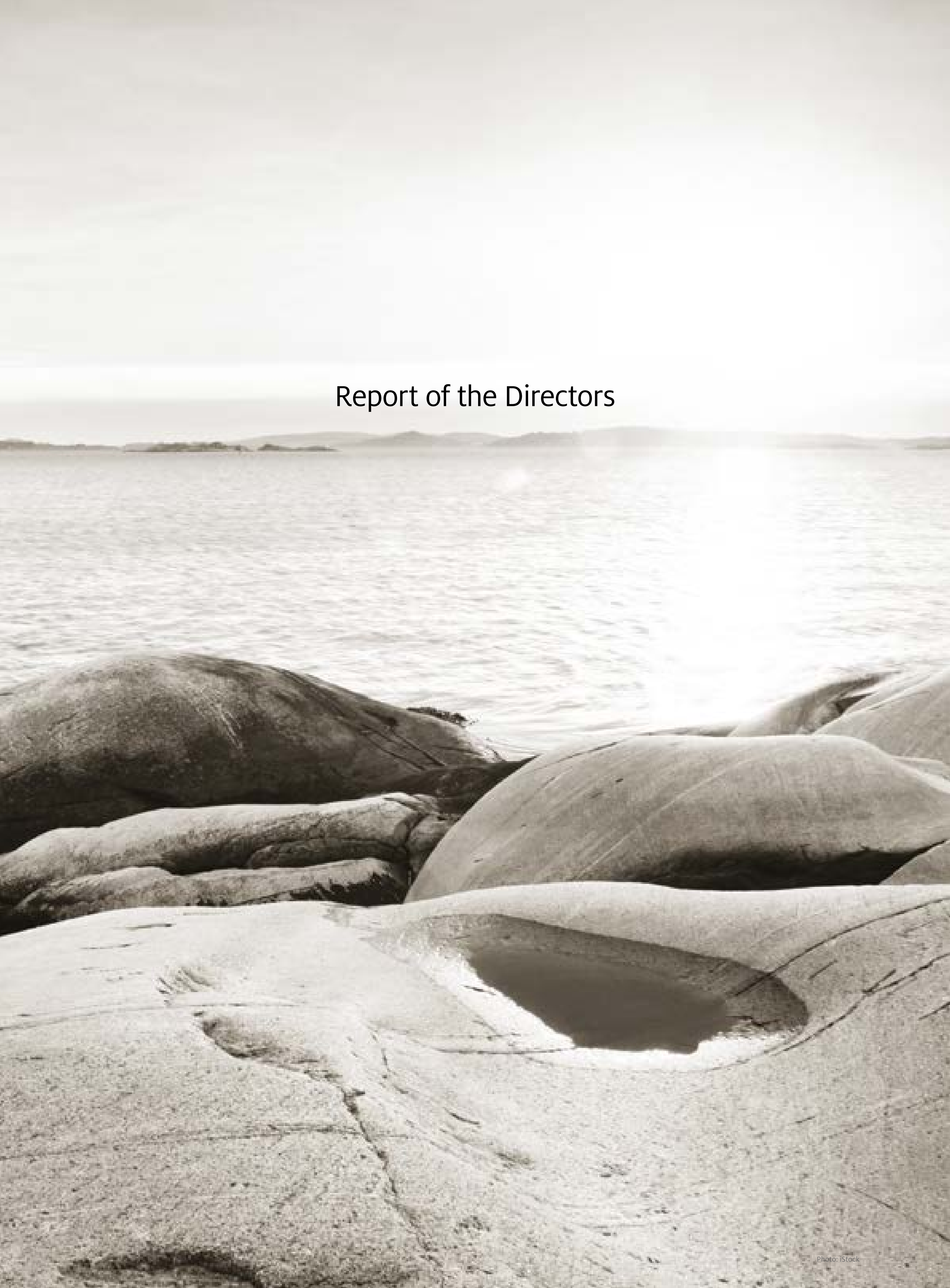


Photo: iStock

Report of the Directors

Macro situation and regulatory requirements

The Finnish economy ended 2017 strongly, after many years of stagnation. Growth is mainly export-driven. The manufacturing sector is reporting that order books are back at pre-financial crisis levels. Sources of concern such as an ageing population combined with continued high unemployment will require new reforms.

In Sweden a new trend is apparent, with several months of falling home prices. The price decline is mainly visible among flats in the Stockholm, Gothenburg and Malmö regions, where a number of housing developers have also noticed a sharp downturn in demand. During the autumn, the government approved a further tightening of the principal repayment ("amortisation") requirement for home mortgage loans. The tightened repayment requirement will go into effect on March 1, 2018.

A decade after the outbreak of the global financial crisis, it is still making itself felt – both through the flood of regulations that continues to pour over the banking industry and through negative interest rates. However, a turnaround is discernible in the United States, whose central bank (the Federal Reserve) has begun to hike its key interest rate and where long-term market yields have begun to climb. Meanwhile signals are coming from the new US administration that reduced financial market regulation is desirable. In Finland and Sweden, as elsewhere in Europe, the corresponding turnaround has not yet manifested itself, although long-term market yields have begun to climb.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2017	2016
Euribor 3 mo	−0.33	−0.26
Euribor 12 mo	−0.15	−0.03
Stibor 3 mo	−0.50	−0.49

During 2017, share prices according to both the Nasdaq Helsinki (OMXHPI) index and the Nasdaq Stockholm (OMXSPI) index rose by about 6 per cent.

The average value of the Swedish krona in relation to the euro was 2 per cent lower during 2017 than in 2016 and compared to year-end 2016 it was 3 per cent lower. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day of the period.

Important events in 2017

On July 3, the Bank of Åland in Sweden placed a new securities platform developed by its subsidiary Crosskey Banking Solutions in operation. For the past five years, the Bank of Åland has worked systematically to create Group-wide, modern solutions in the securities field encompassing trading, custody and portfolio systems, back office processes and customer service via the Internet Office and mobile applications. The launch in Sweden was an important milestone in this journey. Certain development phases still remain in Sweden, especially connected to functionality via the Internet Office and mobile apps, as well as replacement of custody systems in Finland, before this large-scale development programme is completed.

In May the Bank's fund management subsidiary, Ålandsbanken Funds (Ålandsbanken Fondbolag), reached an agreement with the fund management company Allra to take over the holdings of its mutual funds, about EUR 1.3 billion, in the Swedish premium pension system. To begin with, the Bank of Åland took over management of the assets in Allra's funds. Later a controlled exchange of Allra's fund assets to the Bank of Åland's corresponding funds occurred.

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

The Bank of Åland's work on behalf of the Baltic Sea is continuing to attract interest. For example Peter Wiklöf, Managing Director of the Bank of Åland, was invited to a meeting on climate change at the United Nations in New York during March. There he spoke about the Bank's Baltic Sea Card and the Åland Index, a digital tool that measures the environmental impact of customers' purchases. The Bank of Åland and the Swedish advertising agency RBK Communication received awards from various national and international marketing competitions for their insightful visualisation of the state of the Baltic Sea and for the concrete actions the Bank has taken to benefit the environment. These included Sweden's Golden Egg award and the Grand Prix at the Cannes Lions festival of creativity in France.

In the Åland Islands, the Bank of Åland joined with two locally based insurance companies – Ålandia Försäkring and Ålands Ömsesidiga Försäkringsbolag – in a partnership called AX3. Initially, AX3 is offering three basic packages of banking and insurance services. Two are targeted to young people up to age 25: the Study Package and the Moving from Home Package. The third package is aimed at helping those who are thinking about buying a home: the Home Buyer Package. These individual services already exist at the Bank of Åland, Alandia Försäkring and Ålands Ömsesidiga Försäkringsbolag, respectively. What is unique about AX3 is that the three companies are working together in providing their respective services, in order to make things simpler for customers.

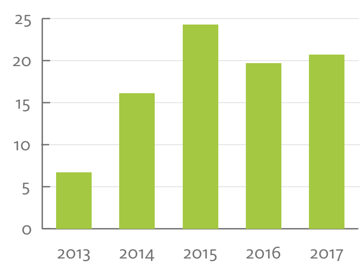
The Annual General Meeting on April 6, 2017 re-elected the Board consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Göran Persson, Ulrika Valassi, Anders Wiklöf and DanErik Woivalin. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board.

Earnings

Profit for the period attributable to shareholders increased by EUR 1.0 M or 5 per cent to EUR 20.7 M (19.7). Net operating profit rose by EUR 0.9 M or 4 per cent to EUR 26.0 M (25.1).

Profit attributable to shareholders

EUR M



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

Total income increased by EUR 7.6 M or 6 per cent to EUR 128.0 M (120.4), mainly attributable to higher commission income from our customers' financial investment transactions and higher IT income.

Net interest income increased by EUR 0.8 M or 1 per cent to EUR 55.9 M (55.1). The negative effect of falling and negative market interest rates was offset by an increase in business volume.

Net commission income rose by EUR 4.8 M or 11 per cent to EUR 49.7 M (44.9). Income from customers' investment transactions in the form of brokerage commissions as well as mutual fund and asset management commissions increased by a total of EUR 4.9 M or 14 per cent. Lending and card-related commissions decreased. As for the lower card-related commissions from Compass Card, the downturn was explained by the end of collaboration with S-Bank in June 2016 as agreed earlier.

Net income on financial items at fair value fell by EUR 1.1 M or 26 per cent to EUR 3.1 M (4.2), mainly due to lower capital gains in the liquidity portfolio.

IT income rose by EUR 2.7 M or 18 per cent to EUR 17.6 M (14.9), due to increased project and service income from new customers as well as nonrecurring income from licence sales of Crosskey's card system in the Swedish market.

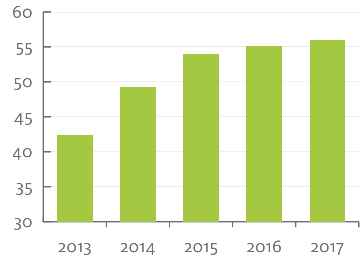
Total expenses increased by EUR 8.5 M or 9 per cent to EUR 99.8 M (91.3). In the same period of 2016, these expenses included EUR 0.5 M as a finally determined reduction in purchase price related to the Swedish subsidiary that was sold in 2012. Fees for the new resolution fund amounted to EUR 0.9 M. Half of the increase of EUR 2.8 M in staff costs consisted of higher severance pay. Increased IT project expenses of EUR 1.4 M, a decline of EUR 2.8 M in production for own use (capitalisation of development expenses) and EUR 1.2 M in higher depreciation and amortisation expenses were largely explained by the Bank's IT project to implement a new securities platform developed by Crosskey.

Impairment losses on loans amounted to EUR 2.1 M, equivalent to a loan loss level of 0.06 per cent, compared to a loan loss of EUR 4.1 M and 0.11 per cent in 2016.

Tax expenses amounted to EUR 5.3 M (5.4), equivalent to an effective tax rate of 20.5 (21.6) per cent.

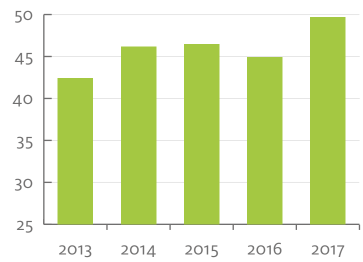
Net interest income

EUR M



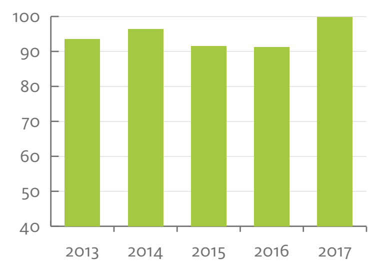
Net commission income

EUR M

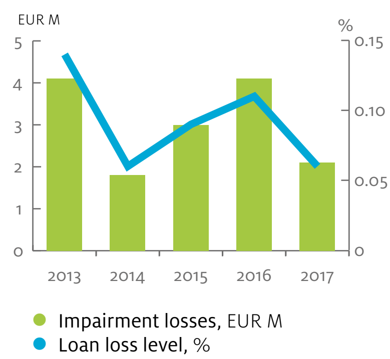


Total expenses

EUR M

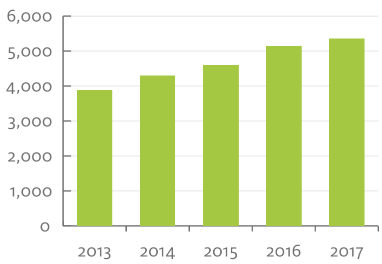


Impairment losses and loan loss level



Balance sheet total

EUR M



Strategic business areas

The increase in the Group's net operating income by EUR 0.9 M to EUR 26.0 M in 2017 was allocated as follows:

- Private Banking +0.2
  (higher income on customer investments)
- Premium Banking +2.9
  (higher income on customer investments, lower loan losses)
- Asset Management +1.0
  (higher income on customer investments)
- IT −1.0
  (higher project expenses)
- Corporate units incl. eliminations −2.2
  (Treasury, severance pay, reduction in purchase price)

The Bank's core business in the form of Private Banking, Premium Banking and Asset Management thus improved its operating income by a full EUR 4.1 M. Operating income from IT business (Crosskey Banking Solutions) decreased, despite substantial nonrecurring licence sales income, because of expenses from the implementation of the Bank of Åland's new securities platform.

Business volume

Actively managed assets increased by EUR 1,837 M or 47 per cent during 2017 to EUR 5,737 M (3,900). The Allra transaction, which was carried out in May, accounted for nearly EUR 1,300 M of this. Assets under discretionary management rose by EUR 67 M or 4 per cent to EUR 1,698 M (1,631). Managed assets in the Group's own mutual funds increased by EUR 1,676 M or 115 per cent to EUR 3,139 M (1,463).

Deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public – increased by EUR 97 M or 3 per cent during 2017 and amounted to EUR 3,197 M (3,100).

Lending to the public rose by EUR 171 M or 4 per cent during the first nine months to EUR 3,979 M (3,808). Lending to private individuals increased by EUR 209 M or 8 per cent.

All volume figures were adversely affected by the 3 per cent depreciation of the Swedish krona against the euro during 2017.

Balance sheet total and off-balance sheet obligations

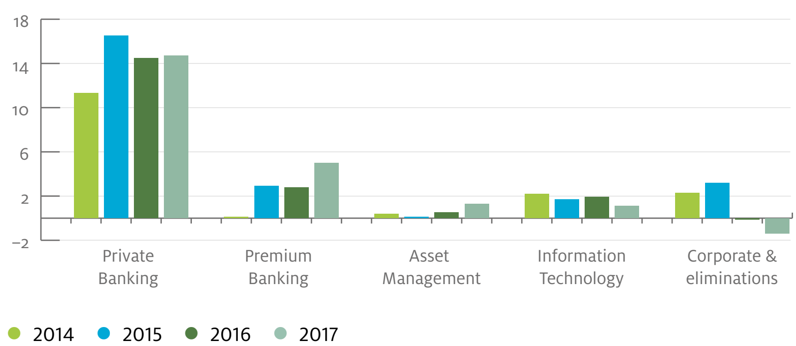
During 2017, the Group's balance sheet increased by EUR 216 M or 4 per cent to EUR 5,353 M. The increase was primarily related to lending to the public. The increase in assets was funded through increased deposits from the public and covered bonds issued. Off-balance sheet obligations increased by EUR 70 M or 17 per cent to EUR 485 M. The increase was mainly related to unutilised overdraft facilities

Credit quality

Lending to private individuals comprised 72 (70) per cent of the loan portfolio. Home mortgage loans accounted for 78 per cent of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprised the second-largest type of lending to individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has not had any substantial loan

Profit attributable to shareholders, by segment

EUR M



losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

Gross doubtful receivables decreased by EUR 7.6 M or 35 per cent to EUR 14.1 M (21.7) during 2017. As a share of lending to the public, doubtful receivables decreased to 0.35 (0.57) per cent during the year. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 60 per cent compared to 50 per cent at year-end 2016.

The Bank of Åland Group had EUR 10.4 M (12.6) in impairment loss provisions, of which individual impairments totalled EUR 8.5 M (10.8) and group impairments EUR 1.9 M (1.8).

Liquidity and borrowing

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,066 M on December 31, 2017 (906). This was equivalent to 20 (18) per cent of total assets and 27 (24) per cent of lending to the public.

In June 2017, SEK 1,000 M in covered bonds matured. In November, SEK 850 M in unsecured bonds matured. In March, the Bank of Åland issued EUR 100 M in unsecured bonds with a maturity of 3 years. In November, the Bank of Åland issued SEK 2,500 M in covered bonds with a maturity of 5 years.

On December 31, 2017, the average remaining maturity on outstanding bonds was about 3.2 (3.4) years. During 2018, SEK 500 M in covered bonds will mature in June and EUR 150 M in covered bonds will mature in October.

The Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued, amounted to 88 (89) per cent on December 31.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 63 (64) per cent and covered bonds issued accounted for 27 (25) per cent.

The liquidity coverage ratio (LCR) amounted to 142 (97) per cent.

The net stable funding ratio (NSFR) amounted to 110 (128) per cent.

Rating

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

Equity and capital adequacy

Equity capital changed in the amount of profit for the period, EUR 20.7 M; other comprehensive income, EUR –1.3 M; the issuance of new shares as part of the share savings programme, EUR 0.8 M; and within the framework of incentive programmes EUR 0.8 M; as well as the payment of EUR 9.2 M in dividends to shareholders. On December 31, 2017, equity capital totalled EUR 233.6 M (221.8).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR –1.3 M after taxes, in compliance with IAS 19.

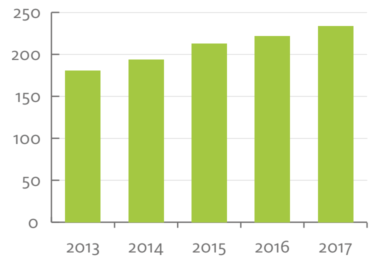
Common equity Tier 1 capital increased by EUR 11.6 M or 6 per cent during 2017 to EUR 197.6 M (186.0), mainly due to comprehensive income for the period minus proposed dividend payments to shareholders.

The risk exposure amount fell by EUR 38 M or 2 per cent to EUR 1,538 M (1,576). The credit risk exposure amount fell by EUR 51 M. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 13 M.

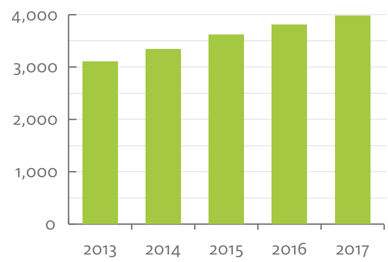
The common equity Tier 1 capital ratio amounted to 12.9 (11.8) per cent. Since the Bank of Åland has no hybrid capital, its common equity Tier 1 capital ratio is the same as its Tier 1 capital ratio.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of common equity Tier 1 capital, applies in all European Union countries. The countercyclical capital buffer requirement may vary between 0-2.5 per cent. The decision concerning the size of a countercyclical capital buffer in Finland is made quarterly by the Board of the Financial Supervisory Authority (FSA) on

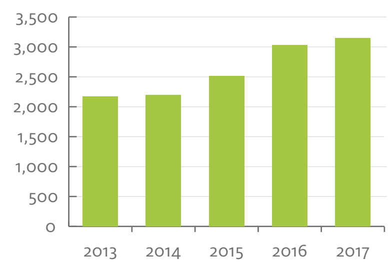
Equity capital attributable to shareholders
EUR M



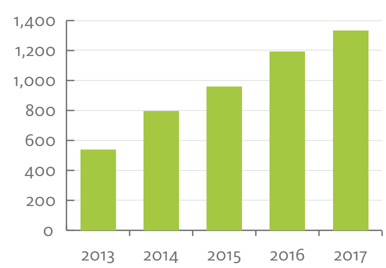
Lending
EUR M



Deposit accounts
EUR M



Covered bonds
EUR M



the basis of a macroeconomic stability analysis. So far, the FSA has not imposed any countercyclical buffer requirement related to Finnish exposures. As for Sweden, the Swedish FSA raised the requirement to 2.0 per cent of Swedish exposures starting in March 2017. The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. The Bank of Åland is not included in the buffer requirements for systemically important institutions.

The Finnish FSA has decided to introduce a 15 per cent risk weight floor for home mortgage loans from banks that use internal ratings-based (IRB) models in their capital requirement calculations. This requirement went into effect in January 2018. The Finnish risk weight floor will be part of the Pillar 1 requirement, unlike its Swedish equivalent, for example, which is part of the Pillar 2 requirement.

The total capital ratio increased to 14.2 (13.0) per cent.

Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.65 per share (0.60), equivalent to a total amount of EUR 10.0 M (9.2). The proposed dividend is equivalent to a 48 (47) per cent payout ratio.

Important events after close of report period

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

Risks and uncertainties

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

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

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

Future outlook

The Bank of Åland expects operating profit in 2018 to be at about the same level as, or better than, in 2017.

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

Long-term financial targets

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

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2017	2016	2015	2014	2013
EUR M					
Net interest income	55.9	55.1	54.0	49.3	42.4
Net commission income	49.7	44.9	46.5	46.2	42.4
Net income from financial items carried at fair value	3.1	4.2	8.0	6.8	7.4
IT income	17.6	14.9	16.0	17.3	14.8
Other income	1.6	1.3	0.4	1.0	1.0
Total income	**128.0**	**120.4**	**124.9**	**120.6**	**108.0**
Staff costs	−59.8	−57.0	−56.0	−53.1	−51.5
Derpreciation/amortisation and impairment losses on tangible and intangible assets	−7.1	−5.9	−6.9	−8.2	−8.0
Other expenses	−32.9	−27.8	−28.7	−34.9	−34.0
Total expenses	**−99.8**	**−91.3**	**−91.6**	**−96.4**	**−93.5**
Profit before loan losses etc.	**28.2**	**29.2**	**33.3**	**24.2**	**14.5**
Impairment losses on loans and other commitments	−2.1	−4.1	−3.0	−1.8	−4.1
Net operating profit	**26.0**	**25.1**	**30.3**	**22.4**	**10.4**
Income taxes	−5.3	−5.4	−6.0	−4.8	−2.7
Profit for the report period	**20.7**	**19.7**	**24.3**	**17.6**	**7.7**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	1.5	−1.0
Shareholders in Bank of Åland Plc	**20.7**	**19.7**	**24.3**	**16.1**	**6.7**
Volume					
Lending to the public	3,979	3,808	3,617	3,343	3,104
Deposits from the public [1]	3,197	3,100	2,675	2,391	2,460
Actively managed assets [2]	5,737	3,900	3,927	3,696	3,231
Equity capital	234	222	213	196	184
Balance sheet total	5,353	5,137	4,602	4,292	3,887
Risk exposure amount	1,538	1,576	1,581	1,554	1,475
Financial ratios					
Return on equity after taxes (ROE), % [3]	9.1	9.1	12.0	8.7	3.8
Expense/income ratio, % [4]	0.78	0.76	0.73	0.80	0.86
Loan loss level, % [5]	0.06	0.11	0.09	0.06	0.14
Core funding ratio, % [6]	88	89	100	105	103
Equity/assets ratio, % [7]	4.4	4.3	4.6	4.6	4.7
Common equity Tier 1 capital ratio, % [8]	12.9	11.8	12.0	10.9	10.8
Working hours re-calculated to full-time equivalent positions	691	683	663	644	617

[1] Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public

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

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

[4] Expenses/Income

[5] Impairment losses on loans and other commitments/Lending to the public at the beginning of the period

[6] Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

[7] Equity capital/Balance sheet total

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

Financial statements

Photo: Shutterstock

Consolidated income statement

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Interest income		66,493	68,635
Interest expenses		–10,593	–13,544
Net interest income	G6	**55,901**	**55,091**
Commission income		68,841	55,310
Commission expenses		–20,442	–10,386
Net commission income	G7	**49,719**	**44,925**
Net income from financial items carried at fair value	G8	3,110	4,204
IT income		17,646	14,923
Share of income in associated companies		68	18
Other operating income	G9	1,563	1,248
Total income		**128,006**	**120,408**
Staff costs	G10	–59,827	–56,979
Other costs	G11	–32,872	–28,332
Depreciation/amortisation and impairment losses on tangible and intangible assets	G24, G25	–7,125	–5,943
Total expenses		**–99,825**	**–91,255**
Profit before impairment losses		**28,181**	**29,153**
Impairment losses on loans and other commitments	G12	–2,146	–4,053
Net operating profit		**26,036**	**25,100**
Income taxes	G13	–5,330	–5,412
Net profit for the period		**20,705**	**19,687**
Attributable to:			
Non-controlling interests		1	0
Shareholders in Bank of Åland Plc		**20,704**	**19,687**
Earnings per share, EUR	G14	1.35	1.29

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Profit for the accounting period		**20,705**	**19,688**
Cash flow hedge		166	223
Assets available for sale		137	789
Translation differences		114	−600
of which hedging of net investment in foreign operations	G13	1,635	766
Taxes on items that have been or may be reclassified to the income statement		−388	−385
of which cash flow hedges		−33	−45
of which assets available for sale		−27	−158
of which hedging of net investment in foreign operations		−327	−183
Items that have been or may be reclassified to the income statement		**29**	**27**
Re-measurements of defined benefit pension plans	G41	−1,633	−4,045
Taxes on items that may not be reclassified to the income statement	G13	327	809
Items that have been or may be reclassified to the income statement		**−1,307**	**−3,236**
Other comprehensive income	G36	**−1,277**	**−3,209**
Total comprehensive income for the period		**19,428**	**16,479**
Attributable to:			
Non-controlling interests		1	0
Shareholders in Bank of Åland Plc		**19,427**	**16,479**

Consolidated balance sheet

(EUR K)

Bank of Åland Group	Note	Dec 31, 2017	Dec 31, 2016
Assets			
Cash and balances with central banks		523,801	513,018
Debt securities eligible for refinancing with central banks	G18	633,789	503,590
Lending to credit institutions	G19	92,984	201,360
Lending to the public and public sector entities	G20	3,978,642	3,808,199
Shares and participations	G21	531	522
Holdings recognised according to the equity method	G22	119	58
Derivative instruments	G23	17,780	20,907
Intangible assets	G24	16,638	15,605
Tangible assets	G25	24,594	25,241
Investment properties	G25	323	343
Current tax assets		665	217
Deferred tax assets	G28	5,109	4,952
Other assets	G26	32,192	20,191
Accrued income and prepayments	G27	25,346	22,591
Total assets		**5,352,514**	**5,136,794**
Liabilities			
Liabilities to credit institutions	G29	206,392	218,656
Liabilities to the public	G30	3,148,117	3,027,644
Debt securities issued	G31	1,599,518	1,451,673
Derivative instruments	G23	21,642	33,126
Current tax liabilities		113	631
Deferred tax liabilities	G28	25,214	21,106
Other liabilities	G32	49,889	95,728
Provisions	G33	1,031	175
Accrued expenses and prepaid income	G34	33,959	26,885
Subordinated liabilities	G35	33,003	39,357
Total liabilities		**5,118,878**	**4,914,982**
Equity capital and non-controlling interests			
Share capital		41,949	41,674
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve	G36	−45	−178
Fair value reserve	G36	1,846	1,736
Translation differences	G36	−579	−366
Own shares		0	0
Unrestricted equity capital fund		26,926	25,982
Retained earnings	G36	105,660	95,086
Shareholders' portion of equity capital		**233,623**	**221,801**
Non-controlling interests' portion of equity capital		13	12
Total equity capital		**233,636**	**221,812**
Total liabilities and equity capital		**5,352,514**	**5,136,794**

Statement of changes in equity capital

(EUR K)

Bank of Åland Group

	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Own shares	Unrestricted equity capital fund	Retained earnings	Shareholders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2015	**41,501**	**32,736**	**25,129**	**−357**	**1,105**	**417**	**−57**	**24,992**	**87,405**	**212,871**	**11**	**212,882**
Profit for the period									19,687	19,687	0	19,687
Other comprehensive income				178	631	−783			−3,236	−3,209		−3,209
Dividend paid									−9,160	−9,160		−9,160
Incentive programme	41						57	263	10	370		370
Share savings programme	132							728	381	1,241		1,242
Equity capital, Dec 31, 2016	**41,674**	**32,736**	**25,129**	**−178**	**1,736**	**−366**	**0**	**25,982**	**95,086**	**221,801**	**12**	**221,812**
Profit for the period									20,705	20,705	1	20,706
Other comprehensive income				133	109	−213			−1,307	−1,277		−1,277
Dividend paid									−9,201	−9,201		−9,201
Incentive programme	218						0	618	−22	813		813
Share savings programme	57							326	400	783		783
Equity capital, Dec 31, 2017	**41,949**	**32,736**	**25,129**	**−45**	**1,846**	**−579**	**0**	**26,926**	**105,660**	**233,623**	**13**	**233,636**

For further disclosures about change in equity capital, see Note G36.

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from operating activities		
Net operating profit	26,036	25,100
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	7,125	5,943
Impairment losses on loans and other commitments	1,690	3,803
Unrealised changes in value	−1,236	1,244
Accrued surpluses/deficits on debt securities and bonds issued	4,977	6,707
Defined benefit pension plan	321	224
Gains/losses from investment activity	−1	482
Income taxes paid	−2,495	−1,954
Increase (−) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	−134,131	124,393
Lending to credit institutions	100,227	−124,541
Lending to the public	−208,690	−236,604
Other assets	−14,264	−121
Increase (−) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	1,480	−87,047
Liabilities to the public	144,415	535,510
Debt securities issued	−13,232	−117,546
Other liabilities	−46,782	69,792
Cash flow from operating activities	**−134,561**	**205,385**
Cash flow from investing activities		
Divestment of shares and participations	1	297
Divestment of shares in associated companies and subsidiaries	0	−1,326
Investment in tangible assets	−2,699	−2,378
Divestment of tangible assets	76	109
Investment in intangible assets	−4,972	−8,351
Cash flow from investing activities	**−7,595**	**−11,648**
Cash flow from financing activities		
Share issues, share savings programme/option rights	1,219	1,164
Finance leases	−869	−885
Increase in unsecured bonds issued	99,850	0
Decrease in unsecured bonds issued	−85,634	−81,615
Increase in covered bonds issued	255,297	248,395
Decrease in covered bonds issued	−102,246	0
Increase in subordinated debentures	2,179	6,173
Decrease in subordinated debentures	−8,435	−9,387
Dividend paid	−9,201	−9,160
Cash flow from financing activities	**152,159**	**154,741**
Exchange rate differences in cash and cash equivalents	−2,867	−2,191
Change in cash and cash equivalents	**7,136**	**346,287**
Cash and cash equivalents at beginning of year	579,232	232,945
Cash flow from operating activities	−134,561	205,385
Cash flow from investing activities	−7,595	−11,648
Cash flow from financing activities	152,159	154,741
Exchange rate differences in cash and cash equivalents	−2,867	−2,191
Cash and cash equivalents at end of year	**586,368**	**579,232**
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	523,801	513,018
Claims repayable on demand from credit institutions	62,566	66,214
Total cash and cash equivalents	**586,368**	**579,232**

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

"Operating activities" included interest received of EUR 64,790 K (70,852), interest paid of EUR 11,262 K (14,324) and dividend income received of EUR 177 K (9).

Reconciliation of liabilities attributable to funding activities

	Dec 31, 2016	Cash flow from funding activities	Changes not affecting cash flows			Dec 31, 2017
			Effect of exchange rate changes	Change in fair value	Accrual of surplus/deficit value	
Covered bonds	1,193,271	153,051	−8,432	−7,347	1,028	1,331,570
Unsecured bonds	88,942	14,216	−3,348	0	79	99,889
Subordinated debenture loans	39,357	−6,256	0	−97	0	33,003
Leasing liabilities	2,967	−869	0	0	0	2,097
Total liabilities attributable to funding activities	**1,324,536**	**160,141**	**−11,780**	**−7,444**	**1,106**	**1,466,560**

Photographer: Staffan Sundström

Table of contents, capital and risk management report

Capital and risk management report

1 Introduction

In this section, the Bank reports on the disclosure requirements laid down in Part Eight of the Capital Requirements Regulation (EU) No 575/2013 (CRR). The information that is provided covers the entire Group. Aside from the Bank of Åland Plc (LEI code: 7437006WYM821IJ3MN73), the consolidated situation also relates to the subsidiaries Ab Compass Card Oy Ltd., Crosskey Banking Solutions Ab Ltd and Ålandsbanken Fondbolag Ab. Ab Compass Card Oy Ltd and Ålandsbanken Fondbolag Ab are required to prepare capital requirement reporting at the solo level in compliance with the CRR. All figures that are presented in the Bank's Pillar 3 report refer to the situation on December 31, 2017, unless otherwise stated.

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

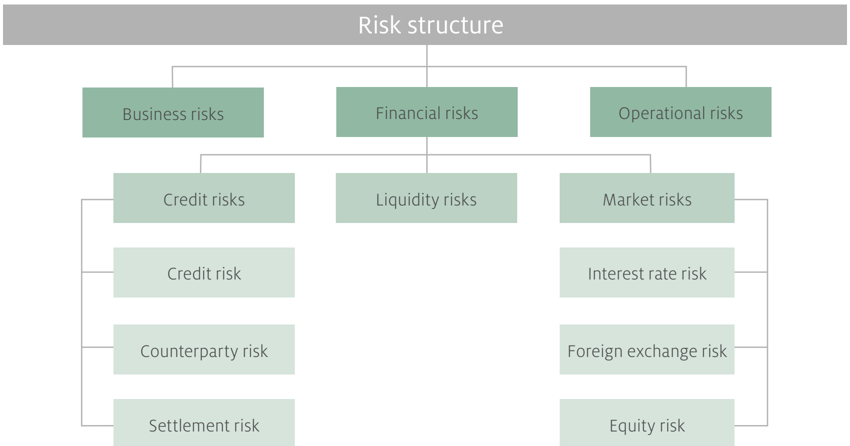
In accordance with Article 431.3 of the CRR, the Bank's Board of Directors has adopted a formal policy document to comply with the disclosure requirements of the regulation. By annually adopting the policy and this part of the Annual Report (the Bank's Pillar 3 information), the Bank's Board ensures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

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

1.1 RISK MANAGEMENT

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

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



1.2 RISK ORGANISATION

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

Board of Directors

Managing Director

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

1.2.1 Board of Directors

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

1.2.2 Managing Director

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

1.2.3 First line of defence

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

1.2.4 Second line of defence

The second line of defence consists of the independent Risk Control, Operational Risks and Security and Compliance departments.

Risk Control is responsible for continuously identifying, measuring, analysing, overseeing and reporting the Bank's financial risks. This includes regular oversight to ensure that the Bank's operations remain within the established risk tolerances and regular reporting of the Bank's financial risks to the Executive Team and the Board. Risk Control also includes the Credit Risk Modelling team, which is responsible for the Bank's internal credit classification system.

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

Compliance 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 follow the principles adopted by the Board of Directors and the Managing Director.

1.2.5 Third line of defence

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

1.3 RISK MANAGEMENT MODEL

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

The model consists of:

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

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

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

2 Capital management

2.1 CAPITAL ADEQUACY AND BUFFER REQUIREMENTS

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

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

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

In calculating the above ratios, institutions that use internal models for calculating capital requirements are limited to maintaining a capital requirement equivalent to at least 80 per cent of the capital requirement calculated according to Basel 1 rules: in practice according to the "standardised approach". Starting on January 1, 2018, this "Basel 1 floor" rule disappears and is being replaced, in practice, by the introduction of a risk weight floor of 15 per cent for Finnish mortgage loans that is part of the Pillar 1 requirement.

In addition to the above requirements, banks must also maintain capital for other risks not covered by Pillar 1 regulations. These risks are assessed yearly by means of the "internal capital adequacy assessment process" (ICAAP) and are established or adjusted by the Finnish Financial Supervisory Authority (FSA) through a supervisory review and evaluation process (SREP). Using an SREP, national authorities may impose extra capital requirements on banks for these other risks. These "Pillar 2" requirements are described below in the "Internal capital adequacy assessment" section.

In the internal assessment based on its situation in 2016, the Bank of Åland estimated its Pillar 2 capital requirement at EUR 11.8 M, which at that time amount to 0.7 per cent of REA. In its evaluation of the Bank's internal capital assessment related to the situation at the end of 2016, the FSA decided on additional capital requirements totalling 1.5 per cent of REA, of which 1.0 per cent of REA is for credit concentration risks and 0.5 per cent is for interest rate risk in the banking book. These requirements will go into effect starting at the end of the third quarter of 2018 and will, together with Pillar 1 and combined buffer requirements, comprise the Bank's total capital requirement.

In addition to these requirements, institutions must have buffers against economic downturns. At the Bank of Åland, these capital buffers consist of a capital conservation buffer amounting to 2.5 per cent of REA plus a countercyclical capital buffer that may vary between 0 and 2.5 per cent of REA. The latter is a "macroprudential" tool and is determined by the supervisory authority in each country and applied to the relevant lending exposures that are located within this market. On December 31, 2017, the countercyclical buffer at the Bank of Åland amounted to 0.92 per cent. The sum of the two buffers comprises the Bank's combined buffer requirement. The combined buffer 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, repay interest on additional Tier 1 capital and buy back shares. Unlike larger institutions, the Bank has no buffer requirements for systemic risks. So far, the Finnish FSA has not made a decision to put the countercyclical capital buffer into effect, but the Swedish FSA has enacted a buffer requirement of 2 per cent, which is being applied to the portion of the Bank's relevant credit risk exposures attributable to Sweden.

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

Table 2.1.1

Countercyclical capital buffer

	General credit exposures		Capital base requirements			
EUR M	Exposure value – standardised approach	Exposure value – IRB approach	General credit exposures	Total	Capital base requirement weights, %	Countercyclical capital buffer, %
Finland	152.2	765.6	54.7	54.7	54	0
Sweden	1,366.5	0.0	45.7	45.7	45	2
Germany	6.9	0.0	0.1	0.1	0	0
Norway	149.5	0.0	1.2	1.2	1	2
Denmark	23.9	0.0	0.2	0.2	0	0
Total	**1,699.0**	**765.6**	**101.8**	**101.8**	**100**	

Table 2.1.2

Combined buffer requirements

EUR M	
Total risk exposure amount	1,604.2
Institution-specific countercyclical capital buffer, %	0.92
Institution-specific countercyclical capital buffer, amount	14.8
Capital conservation buffer	40.1
Combined buffer requirement	**54.9**

Taking into account the latest estimated Pillar 2 capital requirement and the above combined buffer requirement, the Bank of Åland's common equity Tier 1 capital on December 31, 2017 must amount to 8.3 per cent in order to avoid restrictions on dividends. The corresponding minimums for Tier 1 capital and total capital levels were 9.9 and 12.1 per cent, respectively. At the end of 2017, the Bank's common equity Tier 1 capital ratio amounted to 12.9 (11.8) per cent, which means that the Bank had a common equity Tier 1 capital buffer of 4.6 per cent, or (expressed as common equity Tier 1 capital) EUR 70.6 M. When the above-mentioned requirements for credit concentration risk and interest rate risk in the banking book go into effect, the minimum requirement for the common equity Tier 1 capital ratio will climb to 9.4 per cent, assuming that the adjusted risk categories will be fully covered by common equity Tier 1 capital.

2.2 CAPITAL BASE

The capital base is divided into two types: Tier 1 capital (T1) and supplementary capital (T2). Since the Bank has not issued any instruments in the "Additional Tier 1 capital" (AT1) category so far, its entire Tier 1 capital consists of capital in the best category, common equity Tier 1 capital (CET1).

The most important characteristic of common equity Tier 1 capital is that it is freely, perpetually and immediately available for covering unforeseen losses arising in operations. Common equity Tier 1 capital consists of share capital in the form of capital instruments as well as related premium reserves that meet the conditions in Articles 28 and 29 of the Capital Requirements Regulation (CRR), retained earnings, other accumulated comprehensive income, other reserves and provisions for general banking risks. Retained earnings include the portion of the year's profit that is not planned as a dividend. Permission to include retained earnings in common equity Tier 1 capital is granted by the FSA after independent verification by an external auditor. The instruments that are included in the Bank's common equity Tier 1 capital consist of the Bank's

Series A and Series B shares; details concerning these are presented in an appendix below on page 94.

Certain deductions from common equity Tier 1 capital are made for items that have poorer capacity to absorb losses. Examples of such deductions are the unamortised cost of intangible assets, defined-benefit pension assets, deferred tax assets that are dependent on future profitability and deficits in the form of expected losses exceeding recognised impairment losses in the IRB-approved portfolio. The Bank's own holdings in common equity Tier 1 capital instruments in financial sector entities are also subtracted.

Unlike Tier 1 capital, supplementary capital is not as available for covering losses according to the regulations. The Group's supplementary capital consists of subordinated debentures issued to the public, which are specified in the appendix below. Aside from capital instruments plus related premium reserves that meet the requirements of Article 63 of the CRR, supplementary capital includes general credit risk adjustments up to 1.25 per cent of the risk exposure amount calculated according to the standardised approach. Supplementary capital may also include the expected losses that exceed recognised impairment losses for the IRB-approved portfolio up to 0.6 per cent of the risk exposure amount calculated according to the IRB approach. As with Tier 1 capital, the Bank's own holdings of capital instruments in financial sector entities are subtracted from supplementary capital. According to a decision by the FSA, subordinated debentures issued after January 1, 2012 that are amortised for up to 5 years may no longer be included in supplementary capital. The Bank is thus forced to subtract these instruments from its capital base. The appendix to this section on risk management provides a detailed presentation of the instruments that comprise the supplementary capital items in the capital base and their most important characteristics. The Appendix begins with a reconciliation between the capital base and the balance sheet. During 2017, the Bank of Åland issued a debenture loan that is included in supplementary capital in the amount of EUR 2.3 M.

2.3 CAPITAL REQUIREMENTS

The Bank of Åland's capital requirement for credit risks is calculated according to the IRB approach in the Finnish retail lending portfolio ("lending to the public"). For the corporate exposure category, the Bank applies the foundation method (FIRB). IRB has been applied to retail exposures since the first quarter of 2012 and to corporate exposures since the second quarter of 2016. In Sweden and other countries, the capital requirement is calculated entirely using the standardised approach. For all other exposure categories, including equity exposures, the Bank uses the standardised approach to calculate the capital requirement for credit risk.

The Bank applies the exemption for small trading book business according to Article 94 of the CRR. It thus estimates no capital requirement for position risks according to the market risk regulations. Instead it applies the credit risk rules to these items to the extent they arise. In the Bank's assessment, all balance sheet items are currently classified as belonging to funding operations in the context of capital adequacy. For counterparty risks on derivatives and securities financing, the Bank uses the mark-to-market method without regard to netting agreements to calculate the exposure amount. The capital requirement for credit value adjustment risk is calculated according to the standardised approach and applies to all derivatives exposures to institutions that are not cleared by a central counterparty.

Since the second quarter of 2013, the Bank has used the standardised approach in calculating the capital requirement for operational risk. According to the standardised approach, the capital requirement for operational risk is calculated on the basis of disclosures in the financial statements adopted for the latest three financial years. The income indicator is calculated for the following eight business areas:

Table 2.3.1

Capital requirement for operational risk		2017	2016
EUR M	Percentage (beta factor)		
Corporate financing	18		
Trading and financial management	18		
Brokerage operations, individual customers	12		
Banking, large customers	15	1.9	1.4
Banking, retail	12	9.4	8.9
Payment and phase-out	18	3.7	3.6
Administrative assignments	15		
Asset management	12	1.2	1.3
Total capital requirement, operational risk	**13**	**16.2**	**15.2**

The total of the items that are taken into account when calculating the income indicator is multiplied by the above-mentioned percentage for the respective business area. The income indicator for the financial year is obtained by adding up the income indicators for the three latest years and then dividing by three. Table 2.3.1 shows a breakdown by business area of the Bank's total capital requirement for operational risk. This calculation is updated yearly at the end of the first quarter but always refers to the position for the previous full year. The capital requirement for operational risk related to IT-related operations in the Bank's subsidiary Crosskey Banking Solutions is included on the "Payment and phase-out" line in the above table.

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

Table 2.3.2

Overview of risk-weighted exposure amounts

EUR M	2017 Risk-weighted exposure amounts	2016 Risk-weighted exposure amounts	2017 Minimum capital requirements
Credit risk	**1,327.2**	**1,359.0**	**106.2**
Of which standardised approach	745.9	761.4	59.7
Of which foundation IRB approach	291.7	283.8	23.3
Of which advanced IRB approach	289.6	313.8	23.2
Of which the equity related IRB approach as part of the simple risk-weighted approach or the IRB model			
Counterparty credit risk	**8.2**	**27.0**	**0.7**
Of which mark-to-market	8.0	12.0	0.6
Of which original exposure			
Of which standardised approach			
Of which IRB approach			
Of which risk exposure amount for contribution to a central counterparty's default fund			
Of which credit value adjustments	0.2	15.0	0.0
Settlement risk	**0.0**	**0.0**	**0.0**
Securitisation exposures outside trading book (after ceiling)	**0.0**	**0.0**	**0.0**
Of which IRB approach			
Of which formula-based IRB approach			
Of which internal assessment approach (IAA)			
Of which standardised approach			
Market risk	**0.0**	**0.0**	**0.0**
Of which standardised approach			
Of which IRB approach			
Large exposures	**0.0**	**0.0**	**0.0**
Operational risk	**202.5**	**190.0**	**16.2**
Of which basic indicator approach			
Of which standardised approach	202.5	190.0	16.2
Of which advanced measurement approach			
Amounts below thresholds for deductions (subject to 250 per cent risk weighting)			
Floor adjustment			
Total	**1,537.9**	**1,575.5**	**123.0**

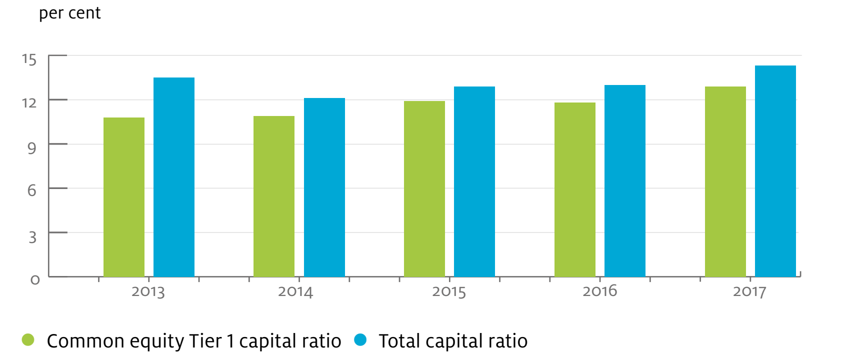
During the year, the Bank of Åland's risk-weighted exposure amount decreased from EUR 1,575.5 M to EUR 1,537.9 or by 2 per cent.

Table 2.3.2 provides a summary of the Group's capital adequacy calculation under Pillar 1.

Table 2.3.3

Capital adequacy	2017	2016
EUR M		
Equity capital according to balance sheet	233.6	221.8
Foreseeable dividend	−10.0	−9.2
Common equity Tier 1 capital before deductions	**223.6**	**212.6**
Intangible assets	−15.9	−14.3
Property revaluation		
Tax liabilities due to future profitability offset against tax liabilities	0.0	0.0
Surplus value in pension assets	0.0	0.0
Non-controlling interests	0.0	0.0
Unrealised accumulated positive change in value	0.0	0.0
Cash flow hedge	0.0	0.2
Additional adjustments in value	−1.3	−1.3
Expected losses according to IRB approach beyond recognised losses	−8.8	−11.2
Common equity Tier 1 capital	**197.6**	**186.0**
Additional Tier 1 capital	0.0	0.0
Tier 1 capital	**197.6**	**186.0**
Supplementary capital instruments	19.7	19.1
Expected losses according to IRB approach beyond recognised losses (surpluses)	1.7	0.0
Tier 2 (supplementary) capital before deductions	**21.4**	**19.1**
Tier 2 capital	**21.4**	**19.1**
Total capital	**219.0**	**205.2**
Capital requirement for credit risk according to the IRB approach	46.5	47.8
Capital requirement for credit risk according to standardised approach	60.3	61.9
Capital requirement for credit valuation adjustment	0.0	1.2
Capital requirement for operational risk	16.2	15.2
Capital requirement	**123.0**	**126.0**
Addition according to transitional rules for IRB approach	5.3	0.0
Capital requirement including transitional rule for IRB approach	**128.3**	**126.0**
Risk exposure amount	1,537.9	1,575.5
of which % comprising credit risk	86.8	87.0
of which % comprising credit-worthiness adjustment risk	0.0	0.9
of which % comprising market risk		
of which % comprising operational risk	13.2	12.0
Capital ratios excluding Basel I floor effect		
Common equity Tier 1 capital ratio, %	12.9	11.8
Tier 1 capital ratio, %	12.9	11.8
Total capital ratio, %	14.2	13.0
Capital ratios (including Basel I floor effect)		
Common equity Tier 1 capital ratio, %	12.3	11.8
Tier 1 capital ratio, %	12.3	11.8
Total capital ratio, %	13.7	13.0
Capital requirement according to Basel I floor transitional rule *		
Capital requirement adjusted for Basel I floor rule	128.3	126.0
Capital base according to Basel I	226.1	216.4
Capital surplus according to Basel I floor transitional rules	97.8	90.3
Capital base as % of Basel I floor capital requirement	176.3	171.7

Changes in capital ratios



During 2017, the Bank's common equity Tier 1 capital ratio changed from 11.8 to 12.9 per cent, excluding the Basel 1 floor transitional rule. The total capital ratio improved from 13.0 to 14.2 per cent. The improvement in these ratios occurred because the Bank's common equity Tier 1 capital increased by EUR 11.6 M, or by 6 per cent. The total capital base increased by EUR 13.8 M or by 7 per cent, while the risk exposure amount decreased from EUR 1,575.5 M to EUR 1,537.9 M, or by 2 per cent.

2.4 LEVERAGE RATIO

The leverage ratio is calculated as the ratio of Tier 1 capital to a specially defined exposure metric according to the CRR. Unlike the capital adequacy calculation, the exposures are not risk-weighted when calculating the ratio. The Bank of Åland reports its ratio quarterly to the Finnish FSA as part of the European Banking Authority's Common Reporting Framework (COREP) and also reports the ratio in note disclosures in its interim reports. Table 2.4.1 shows the Bank's leverage ratio on December 31, 2017.

Table 2.4.1

Leverage ratio	2017	2016
EUR M		
Tier 1 capital defined according to transitional rules	197.6	186.0
Total exposure metric	5,440.4	5,232.9
of which balance sheet items	5,340.6	5,120.5
of which off-balance sheet items	99.8	112.4
Leverage ratio, %	3.6	3.6

Tier 1 capital includes profit for the period. On December 31, 2017, the Bank of Åland's leverage ratio was 3.6 per cent, which was unchanged compared to December 31, 2016.

2.5 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS, 2016

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

The 2016 ICAAP evaluated a negative scenario (modified EBA adverse scenario) of a lengthy economic downturn that adversely affects the Finnish and Swedish export industry and leads to higher unemployment, sharply declining property prices and share prices and continued extremely low market interest rates.

The identified capital requirements on December 31, 2016 according to Pillar 2 amounted to EUR 17.4 M, of which the largest items were business risk at EUR 8.5 M, concentration risks in the loan portfolio at EUR 4.3 M, pension debt risk at EUR 1.8 M and interest rate risk in the banking book at EUR 1.2 M. The Bank subtracted EUR 5.6 M from its capital requirement, based on IRB approaches for calculating capital requirements in Swedish operations, which showed overestimated capital requirement according to the standardised approach. After this adjustment, the capital requirement for Pillar 2 risks totalled EUR 11.8 M. Taking into account the combined buffer requirement, to the extent these identified capital needs were covered by common equity Tier 1 and Tier 1 capital (75 per cent), the Bank of Åland's overall common equity Tier 1 and Tier 1 capital requirement on December 31, 2016 was EUR 141.5 M. Including the remaining portion consisting of the supplementary capital requirement, the Bank's total capital requirement was EUR 188.6 M. Based on risk-weighted assets, on December 31, 2016 this requirement was equivalent to a minimum common equity Tier 1 capital ratio of 8.1 per cent, a minimum Tier 1 capital ratio of 9.8 per cent and a total capital ratio of 12.0 per cent.

Capital planning for an economic downturn – that is, the stress test that was conducted – showed no capital requirement to cover the operating losses that would occur. The Bank's capital ratios thus never fell below the capital restriction thresholds during the planning period, which was three years. The total capital buffer, taking into account the combined buffer requirement of EUR 50.7 M, was EUR 16.6 M.

The significant risks and capital requirement that have been identified in the Group according to Pillar 2 are shown in Table 2.5.1.

Table 2.5.1

Estimated risks, internal capital adequacy assessment

EUR M	2016	2015	Change
Pillar 2 capital requirement			
Credit risk in addition to Pillar 1	1.3	1.1	0.2
Credit concentration risk	4.3	3.8	0.5
Counterparty risk	0.0	0.3	−0.3
Interest rate risk in the banking book	1.2	0.9	0.3
Exchange rate risk	0.1	0.1	0.0
Equity risk	0.2	0.7	−0.5
Property risk	0.0	0.0	0.0
Operational risks in addition to Pillar 1	0.0	0.0	0.0
Pension liability risk	1.8	0.0	1.8
Business risk	8.5	8.5	0.0
Liquidity risk	0.0	0.0	0.0
Total Pillar 2 capital requirement	**17.4**	**15.4**	**2.0**
Adjustment for internal use of IRB in Swedish operations	**−5.6**	**−4.8**	**−0.8**
Total Pillar 2 capital requirement after adjustment	**11.8**	**10.6**	**1.2**
Total capital buffer	**16.6**	**21.1**	**−4.5**

2.6 COMING CHANGES IN CAPITAL REQUIREMENT REGULATIONS

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

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

In November 2016 the European Commission proposed a number of updates to the Capital Requirements Regulation and Directive (CRRII and CRDV), which are currently being negotiated. The proposed update includes a binding 3 per cent minimum requirement for the leverage ratio under Pillar 1, the net stable funding ratio (NSFR) and total loss-absorbing capacity (TLAC) for systemically important institutions. The proposed new regulations also include changes to the calculation of capital requirements for market risk and counterparty risk, as well as stricter rules for large exposures. The new rules are expected to go into effect in 2019 at the earliest.

For some time, the Basel Committee has been conducting a far-reaching review of current capital adequacy regulations. In December 2017, an extensive update of the capital adequacy regulations was published, entitled "Basel III: Finalising post-crisis reforms". It will be phased in from 2022 onward. The new regulations are expected to be phased in by 2027. The Basel Committee's rules will not be automatically binding in the EU, but must first be implemented by means of EU regulations and with new national legislation in member countries by means of directives. Among other things, the new regulations will change the calculation of credit risk according to the standardised approach and introduce a new way of calculating the floor rule for exposures calculated according to the IRB approach. The level of this floor has a major effect on how much a bank benefits from using its internal models in calculating capital requirements. The new regulations phase in the floor rule during a 5-year period from 50 per cent up to 72.5 per cent of the capital requirement calculated according to the new standardised approach for credit risk. The Basel Committee has also published new proposals on how the capital requirement for operational risk according to the standardised approach should be calculated. In addition, the new rules introduce changes in estimation of the parameters that are used in banks' internal models. For example it stipulates a floor for the PD level.

Concurrently and in close association with the work of the Basel Committee, the European Banking Authority (EBA) has begun a project to harmonise banks' calculation of risk according to internal models. This project specifically addresses the definition of default, PD and LGD modelling and the use of credit risk mitigation (CRM) methods. During the next few years, the Bank will analyse what effects the updated regulations will have on its capital position.

3 Business risk

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

Strategic risk refers to the strategy chosen by the Board of Directors and the Managing Director, but also to changes in market conditions for the Bank of Åland's operations, for example in the form of changes in regulations or technological shifts in the financial sector that may affect the ability of the Bank, as a small market player, to carry out profitable banking business. The financial sector is rapid changing, with new technology enabling new market players to distribute financial services in new and cost-effective ways. Thanks to new technology and regulations, many players that already have large customer databases could change the financial sector dramatically, thereby eroding the profitability of traditional banks. Meanwhile public trust in traditional banks has been seriously damaged after many highly publicised scandals.

Earnings risk implies volatility in earnings, for example due to unforeseen lower income as a consequence of lower business volume.

4 Credit risk

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

4.1 RISK APPETITE

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

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

As a niche bank, the Bank of Åland is selective in its choice of customers, and lending must be of high quality. Quality standards are not set aside for the benefit of higher lending volume or to achieve higher returns. In order for its credit strategy to be successful, the Bank must know its customers well and be familiar with the economic sectors in which they work.

4.2 Risk management

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

Credit management assumes that lending decisions will be based on comprehensive knowledge about the customer. This means that the Bank primarily does business with customers active in the regions where the Bank has offices. In the case of corporate loans, the customer generally has 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 the responsible contact person at the Bank before a loan is granted. This presentation is valid for a maximum of one year before being updated.

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

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

At the Bank of Åland, credit risk monitoring and analysis of exposures to private individuals and businesses are based mainly on internal statistical methods, developed in compliance with the capital adequacy rules for internal ratings based (IRB) credit risk classification. Exposures in the Bank's lending operations are followed up according to the same methods, even though IRB permission has not yet been formally granted for some portfolios. About 95 per cent of the Parent Company's volume of lending to the public is monitored quantitatively with the help of the Bank's internal risk classification system. In the Swedish retail (household) and corporate portfolios, until further notice the Bank uses the standardised approach in calculating its regulatory capital requirement.

4.2.1 Risk classification system

The Bank's internal risk classification system divides exposures into seven risk classes based on the probability of default and six classes based on the percentage of loss in case of default. In addition to the seven risk classes, there is a class for defaulted loans and a class for unclassified loans. The unclassified class consists of exposures for which the risk classification process is still under way, and in the meantime they are assigned a conservative estimate. In addition, there is a class for classification-exempted exposures, which includes loans to certain legal company types that have been exempted from internal risk classification methods, for example non-profit associations and foundations. The internal ratings based (IRB) model is intended to be the Group's most important method for estimating and externally reporting capital adequacy according to the Basel regulations.

In the IRB approach, the Bank's own statistical calculations are based on 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.

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

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

Probability of default (PD) – the probability that a customer will default within 12 months. According to the Bank's overall definition, a customer is regarded as having defaulted when the delay related to unpaid interest and/or loan principal amounts to more than 90 days. However, other factors may also cause the customer to meet the Bank's definition of default, for example bankruptcy filings. The PD value that has been calculated is then placed in the Bank's seven-point PD scale for non-defaulted loans. There is an additional class for loans that have defaulted and thus have a PD value of 100 per cent. The Bank's models for estimating the probability of default for retail exposures are based entirely on statistical analysis data that the Bank has stored concerning the repayment histories of its customers. In its model for credit risk among corporate customers, the Bank also uses external scoring data based on key financial ratios of companies and other factors.

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

Multiplying PD and LGD by the EAD amount (PD×LGD×EAD) results in the *expected loss (EL)* expressed in euros. The Bank's model for calculating expected loss has elements of both Point in Time (LGD) and "through the cycle" approaches (PD) and, to summarise, is based on a full economic cycle including a recession. Since the risk parameters in this calculation include adjustments for economic cycles (see above), the outcome is a stressed EL value. Since the loss is assumed to be known there must also be a provision for it in the Bank's capital base, to the extent no impairment loss has already been recognised for the claim according to accounting principles.

The Risk Control Department carries out a large-scale annual validation of the system, and the findings of this validation are reported to the Board of Directors. This oversight includes a yearly validation and possibly a follow-up calibration of the risk measurements and models that are applied in risk classification. There is also regular monitoring to ensure that risk is being measured in a reliable, consistent way. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations. The Bank may not make changes in its internal models that have a significant impact on the capital requirement without Financial Supervisory Authority (FSA) approval.

For large corporate customers included in the corporate exposure class, the Bank also performs a qualitative assessment of the customer, to be reported at least yearly and be presented to the Bank's Credit Committee. This qualitative assessment is an important complement to statistical scoring of a corporate customer. Non-performing and weak loan commitments, as well as trends in special credit risk indicators for lending, are reported monthly to the Managing Director and quarterly to the Board in conjunction with the Group's internal risk report.

4.2.2 Collateral management and credit risk mitigation

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

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

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

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

4.3 CREDIT RISK EXPOSURE

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

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

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

Table 4.3.1

Credit risk exposure	2017	2016
EUR M		
Balances with central banks	513	507
Lending to the public	3,979	3,808
Lending to credit institutions	93	201
Debt securities eligible for refinancing with central banks	634	504
Other debt securities	0	0
Derivative instruments	18	21
Guarantees	40	12
Unutilised overdraft limits	216	85
Unutilised credit card limits	74	67
Lines of credit	142	200
Other commitments	14	50
Total	**5,722**	**5,456**

During 2017, the overall credit risk exposure of the Group rose at the same pace as the increase in its lending to the public. Lending to the public rose from EUR 3,808 M to EUR 3,979 M, or by more than 4 per cent, during the year. Lending mainly increased in the Swedish home mortgage loan segment. Meanwhile there were also increases in exposures attributable to the Bank's liquidity and portfolio management. For example, balances with central banks increased from EUR 507 M to EUR 513 M compared to the end of 2016. Credit risk exposure in the form of debt securities eligible for refinancing increased from EUR 504 M to EUR 634 M. A substantial share of bond holdings issued by financial institutions consisted of Nordic covered bonds with very good credit quality.

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

Table 4.3.2

Lending to the public by business segment	2017			
EUR M	Private Banking	Premium Banking	Compass Card	Total
Home mortgage loans	676	1,547	0	2,224
Securities and other investments	245	63	0	308
Business operations	28	92	0	120
Other household purposes	82	102	29	213
Total private individuals	**1,032**	**1,804**	**29**	**2,865**
Shipping	0	47	0	48
Wholesale and retail trade	13	27	0	41
Housing operations	288	39	0	327
Other real estate operations	187	66	0	253
Financial and insurance operations	165	33	0	198
Hotel and restaurant operations	3	22	0	26
Other service operations	55	39	0	95
Agriculture, forestry and fishing	3	8	0	11
Construction	24	19	0	43
Other industry and crafts	8	33	0	41
Total companies	**746**	**335**	**0**	**1,081**
Public sector and non-profit organisations	**10**	**22**	**0**	**32**
Total lending	**1,789**	**2,161**	**29**	**3,979**

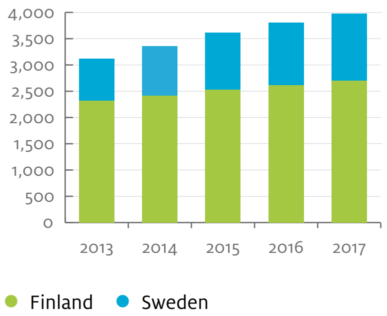
Table 4.3.3 below correspondingly shows a breakdown of the Bank's lending to the public by the purpose for which the loans are used, and with industrial classifications broken down by countries where the Bank has lending operations.

Table 4.3.3

Lending to the public	2017			2016		
EUR M	Finland	Sweden	Total	Finland	Sweden	Total
Home mortgage loans	1,534	689	2,224	1,320	568	1,888
Securities and other investments	266	42	308	394	40	434
Business operations	120	0	120	138	4	142
Other household purposes	144	69	213	141	50	191
Total private individuals	**2,065**	**800**	**2,865**	**1,993**	**662**	**2,656**
Shipping	47	0	48	56	0	56
Wholesale and retail trade	37	4	41	36	3	39
Housing operations	60	266	327	62	310	372
Other real estate operations	125	128	253	126	136	262
Financial and insurance operations	155	43	198	145	49	194
Hotel and restaurant operations	24	2	26	23	4	27
Other service operations	78	16	95	81	16	97
Agriculture. forestry and fishing	10	0	11	12	0	12
Construction	28	15	43	26	7	33
Other industry and crafts	36	5	41	34	0	34
Total companies	**601**	**480**	**1,081**	**601**	**525**	**1,127**
Public sector and non-profit organisations	**32**	**0**	**32**	**25**	**0**	**25**
Total lending	**2,699**	**1,279**	**3,979**	**2,619**	**1,187**	**3,808**

Lending by geographic area

EUR M

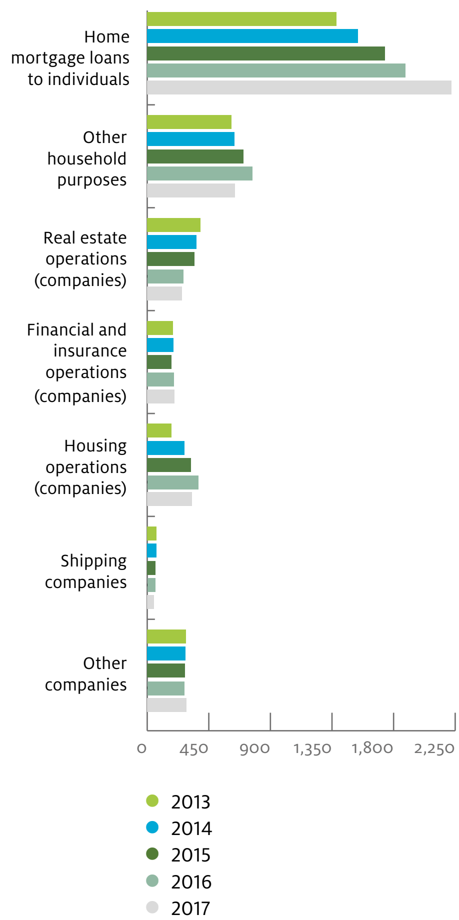


During 2017, Swedish home mortgage lending rose by EUR 122 M or 21 per cent and was the single segment in the Bank's lending portfolio that increased the most. The increase in Finnish home mortgage lending is largely explained by the reclassification of loans consisting of residential investments, which were moved during the year from the "Securities and other investments" category to "Home mortgage loans". Corporate lending for Swedish housing operations fell by EUR 44 M and was the segment that decreased the most. Lending to shipping operations decreased by EUR 8 M or by 15 per cent. Overall corporate lending decreased by EUR 45 M or by 4 per cent, and lending to private individuals increased by EUR 209 M or by 8 per cent. Lending to the public sector and non-profit organisations increased by EUR 7 M to EUR 32 M or by 28 per cent during the year.

Lending to private individuals accounted for 72 per cent of the Group's lending to the public, compared to 70 per cent at the end of 2016. The remaining portion, aside from corporate lending, consists of lending to public sector entities.

Lending by economic sector

EUR M



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

Table 4.3.4

Retail exposures with property as collateral – Private individuals

	2017					2016				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.04	1	78.0	4.4	4.4	0.04	1	80.2	4.6	4.6
2	0.11	2	216.6	12.2	16.6	0.11	2	215.8	12.4	17.0
3	0.14	3	316.2	17.8	34.5	0.13	3	302.6	17.4	34.4
4	0.21	5	599.2	33.8	68.3	0.21	5	583.4	33.5	67.8
5	0.75	14	440.9	24.9	93.2	0.75	14	435.0	25.0	92.8
6	7.31	65	100.8	5.7	98.8	7.31	63	101.0	5.8	98.6
7	28.75	115	13.9	0.8	99.6	28.75	119	13.2	0.8	99.4
Defaulted	100.00	229	6.5	0.4	100.0	100.00	339	11.3	0.6	100.0
Total			**1,772.1**	**100.0**				**1,742.5**	**100.0**	
Risk classes 1–5			**1,650.9**					**1,617.0**		
Risk classes 1–5			**93.2%**					**92.8%**		

Table 4.3.5

Retail exposures – Small and medium-sized companies*

	2017					2016				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.15	6	4.2	2.8	2.8	0.15	6	4.7	3.0	3.0
2	0.22	6	13.5	9.1	11.9	0.22	7	15.3	9.7	12.6
3	0.79	13	31.5	21.2	33.1	0.79	13	27.0	17.1	29.8
4	2.61	26	61.5	41.4	74.5	2.61	26	60.2	38.1	67.9
5	7.80	49	28.1	18.9	93.4	7.80	51	28.1	17.8	85.7
6	13.31	68	6.6	4.4	97.9	13.31	55	15.7	10.0	95.6
7	53.00	82	2.4	1.6	99.4	53.00	84	5.4	3.4	99.0
Defaulted	100.00	198	0.8	0.6	100.0	100.00	290	1.5	1.0	100.0
Total			**148.4**	**100.0**				**157.9**	**100.0**	
Risk classes 1–5			**138.7**					**135.3**		
Risk classes 1–5			**93.4%**					**85.7%**		

Table 4.3.6

Retail exposures – Other retail exposures

	2017					2016				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.04	2	5.9	2.0	2.0	0.04	2	6.0	2.4	2.4
2	0.11	4	24.0	8.2	10.2	0.11	4	26.1	10.3	12.7
3	0.14	5	41.8	14.3	24.5	0.13	5	31.5	12.5	25.2
4	0.21	8	99.4	33.9	58.4	0.21	8	83.1	32.9	58.0
5	0.75	20	89.8	30.7	89.1	0.75	20	76.4	30.2	88.3
6	7.31	44	23.8	8.1	97.2	7.31	45	22.6	8.9	97.2
7	28.75	79	3.5	1.2	98.4	28.75	71	3.1	1.2	98.4
Defaulted	100.00	89	4.6	1.6	100.0	100.00	93	4.0	1.6	100.0
Total			**293.0**	**100.0**				**252.8**	**100.0**	
Risk classes 1–5			**261.0**					**223.1**		
Risk classes 1–5			**89.1%**					**88.3%**		

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

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

Table 4.3.7

Corporate exposures – Large companies

	2017					2016				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.50	38	39.7	27.2	27.2	0.50	38	1.0	0.7	0.7
2	1.16	40	60.3	41.4	68.6	1.06	33	72.5	48.7	49.4
3	1.44	83	21.9	15.0	83.7	1.44	46	42.2	28.4	77.8
4	1.80	72	18.9	12.9	96.6	1.80	89	19.1	12.8	90.6
5	5.25	20	2.9	2.0	98.6	5.25	100	13.4	9.0	99.6
6										
7										
Defaulted	100.00	0	0.0	0.0	98.6	0.00	0	0.0	0.0	99.6
Unclassified	8.85	146	2.0	1.4	100.0	8.53	74	0.6	0.4	100.0
Total			**145.7**	**49.7**				**148.7**	**58.8**	
Risk classes 1–5			**143.7**					**148.2**		
Risk classes 1–5			**98.6%**					**99.6%**		

Table 4.3.8

Corporate exposures – Small and medium-sized companies

	2017					2016				
Risk class	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	PD by class value	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	0.50	45	36.0	11.3	11.3	0.50	58	36.2	12.9	12.9
2	1.06	41	65.1	20.4	31.7	1.06	47	59.4	21.3	34.2
3	1.44	63	102.0	32.0	63.7	1.44	56	56.8	20.3	54.6
4	1.95	70	62.0	19.4	83.2	1.80	68	49.7	17.8	72.4
5	5.25	101	30.5	9.6	92.8	5.25	100	31.5	11.3	83.6
6	21.47	162	6.6	2.1	94.8	21.47	178	21.1	7.6	91.2
7	63.83	150	3.7	1.2	96.0	63.83	144	5.3	1.9	93.1
Defaulted	100.00	0	1.1	0.3	96.3	100.00	0	7.6	2.7	95.9
Unclassified	8.53	109	11.7	3.7	100.0	8.53	85	11.6	4.1	100.0
Total			**318.7**	**100.0**				**279.2**	**100.0**	
Risk classes 1–5			**295.6**					**233.6**		
Risk classes 1–5			**92.8%**					**83.6%**		

Table 4.3.9

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

	2017				2016			
Risk class	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD	Risk weight, %	EAD, EUR M	EAD, %	Acc % of total EAD
1	50	0.0	0.0	0.0	50	1.0	8.9	8.9
2	70	0.3	4.0	4.0	70	0.0	0.1	9.0
3	90	0.0	0.0	4.0	90	0.0	0.0	9.0
4	115	5.0	70.0	74.0	115	5.0	46.7	55.7
5	250	0.0	0.0	74.0	250	1.1	10.2	65.9
Defaulted	0	1.9	26.0	100.0	0	3.7	34.1	100.0
Total		**7.1**				**10.7**		
Risk classes 1–3			**0.3**				**1.0**	
Risk classes 1–3			**4.0%**				**9.0%**	

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

Table 4.3.10

Exposure class, amounts				
EUR M	Original gross exposures in balance sheet	Original off-balance sheet exposures before CF	Average credit conversion factor, %	Defaulting exposures after CRM and CF
Using own estimates of LGD				
Retail, property as collateral, small and medium-sized companies	104.8	6.5	100	0.2
Retail, property as collateral, private individuals	1,744.5	37.4	100	6.5
Retail, other small and medium-sized companies	29.9	8.4	100	0.6
Other retail exposures	307.9	15.9	100	4.7
Without own estimates of LGD				
Corporate, other large companies	129.1	49.2	34	0.0
Corporate, small and medium-sized companies	323.2	22.5	14	1.1
Corporate, special lending	7.1	0.0	0	1.9

Exposure class, risk parameters							
EUR M	Average PD, (incl. defaulted) %	Number of debtors	Average LGD, %	Average maturity (days)	Risk-weighted exposure amount	Density of risk-weighted exposure amount: Expected loss, %	Value adjustments and provisions
Using own estimates of LGD							
Retail, property as collateral, small and medium-sized companies	4.51	1,072	13.9	2,349	32.4	29	0.0
Retail, property as collateral, private individuals	1.30	20,817	11.0	4,236	199.7	11	1.9
Retail, other small and medium-sized companies	5.41	754	28.0	1,352	10.5	28	0.5
Other retail exposures	2.85	10,210	20.0	1,754	47	16	3.6
Without own estimates of LGD							
Corporate, other large companies	1.30	97	26.9	1,391	74.6	51	0.0
Corporate, small and medium-sized companies	3.45	300	35.2	2,316	211.2	66	0.8
Corporate, special lending		3		4,562	5.9	83	1.8

4.4 IRB – Estimated values and observed outcomes

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

At the end of 2016, the exposure-weighted PD estimate according to class value – including adjustments for economic cycles and safety margins – for all non-defaulting retail exposures was 1.34 per cent. For retail exposures with property as collateral, the weighted PD estimate amounted to 0.94 per cent, for small and medium-sized companies and for other retail exposures 5.37 and 1.35 per cent, respectively.

The exposure-weighted PD estimate for non-defaulted corporate exposures on December 31, 2016 was 3.40 per cent and on December 31, 2017 it was 2.50 per cent. On December 31, 2016, a separate conservative PD estimate was introduced for companies without valid PD classification, which was taken into account in the reported PD estimates on December 31, 2016 and on December 31, 2017, but the effect of this change is small since it only concerns a very limited number of companies.

The table below shows observed defaults during 2017. Note that these actual outcomes were observed during a period when the macroeconomic situation was better than the average situation to which the cyclical adjustment is made. For corporate exposures and exposures to companies in the retail portfolio, the difference between estimates and observed amounts is larger than for exposures to private individuals, due to greater statistical uncertainty in the estimates because of less data material, which makes it necessary to use larger add-ons to ensure that the estimates are conservative.

Table 4.4.1

Default frequency* in 2017

Exposure class	Actual outcome, %	Estimated value**
Retail with real estate as collateral	0.43	0.87
Small and medium-sized companies classified as retail exposures	0.59	5.48
Other retail exposures	0.86	2.09
Total retail exposures	**0.57**	**1.49**
Corporate exposures	**1.52**	**4.53**

*Arithmetic median values

**Estimated on December 31, 2015. Includes cyclical adjustment and safety margins.

Table 4.4.2 shows EAD-weighted average LGD levels on December 31, 2017 in per cent for the respective exposure class where the IRB approach was applied. Estimated levels include safety margins plus a cyclical adjustment of LGD to a recession situation.

Table 4.4.2

Estimated LGD levels (on December 31, 2017)

Exposure class	Non-defaulting, %	Defaulted, %	Total, %
Retail exposures with real estate as collateral*	10.9	34.7	11.0
Small and medium-sized companies classified as retail exposures	17.3	45.9	17.5
Other retail exposures	19.6	48.9	20.0
Total retail exposures	**12.5**	**40.9**	**12.6**
Corporate exposures – Small and medium-sized companies **	35.9	44.0	36.0
Corporate exposures – Large companies **	26.9	45.0	26.9
Total corporate exposures **	**33.2**	**44.1**	**33.3**

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

**Method for calculating LGD determined by authorities.

The exposure-weighted LGD value for all non-defaulting retail exposures on December 31, 2016 was 12.6 per cent. For non-defaulting retail exposures with residential property as collateral, LGD totalled 11.1 per cent, for non-defaulting small and medium-sized companies 17.8 per cent and for other non-defaulting retail exposures 19.4 per cent. The estimated levels were virtually unchanged for each exposure class between December 31, 2016 and December 31, 2017.

Estimated and observed LGD levels for the exposures that defaulted during 2016 are presented in the table below. When calculating observed LGD, only recoveries from residential property and financial collateral until December 31, 2017 have been taken into account. This means that the observed LGD level will fall further, since on December 31, 2017 there was remaining unsold collateral for defaults in 2016.

Table 4.4.3

LGD levels for 2016 defaults

Exposure class	Estimated LGD, %	Observed LGD , %
Retail exposures with real estate as collateral	17.3	7.8
Small and medium-sized companies classified as retail exposures	17.1	8.2
Other retail exposures	30.9	12.4
Small and medium-sized companies classified as corporate exposures	44.2	5.7
Other corporate exposures*		

*No defaults occurred in the exposure class during 2016.

4.5 STANDARDISED APPROACH FOR CALCULATION OF CAPITAL REQUIREMENT

In the standardised approach, exposures are divided into various exposure classes depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight specified in the Capital Requirements Regulation (CRR) for the respective exposure class or type. Exposures to sovereigns (national governments) in the European Economic Area (EEA) and their respective central banks shall always be assigned a risk weight of 0 per cent and exposures fully or partially covered by collateral in residential property shall be assigned a risk weight of 35 per cent. In compliance with CRR, the Bank bases its risk weight for institutions and covered bonds on external credit rating agencies. Their various ratings are translated according to predetermined principles to credit quality steps, which in turn are mapped into a risk weight according to the regulations. For those exposures that have no external rating, the risk weight is based on the rating of the national government (sovereign method). The section entitled "Credit risk and counterparty risk in Treasury operations" explains the breakdown of exposures by external rating classes.

Table 4.5.1 shows how exposure amounts calculated according to the standardised approach are allocated among exposure classes and risk weights. The table also shows the size of the exposure amounts that have been risk-weighted on the basis of external credit assessment.

Table 4.5.1

Standardised approach: Exposure values by exposure classes and risk weights

EUR M	0%	2%	10%	20%	35%	50%	75%	100%	150%	Total	Of which not credit rated
Central governments or central banks	650.0									650.0	650.0
Regional governments or local authorities	26.5									26.5	26.5
Public sector entities	5.1									5.1	5.1
Multilateral development banks	46.2									46.2	46.2
International organisations	22.1									22.1	22.1
Institutions	7.5	23.5		168.0		56.7				255.7	0.0
Corporates								228.4		228.4	228.4
Retail							82.2			82.2	82.2
Secured by mortgages on immovable property					948.0					948.0	948.0
Exposures in default									0.0	0.0	0.0
Items associated with particularly high risk									0.4	0.4	0.4
Covered bonds			371.0							371.0	0.0
Claims on institutions and corporates with short-term credit assessment										0.0	0.0
Collective investment undertakings										0.0	0.0
Equity exposures								0.7		0.7	0.7
Other exposures	7.8							60.5		68.4	68.4
Total exposure	**765.2**	**23.5**	**371.0**	**168.0**	**948.0**	**56.7**	**82.2**	**289.6**	**0.4**	**2,704.5**	**2,077.9**

4.6 CREDIT RISK MITIGATION IN CAPITAL REQUIREMENT CALCULATIONS

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 mortgages, guarantees issued by sovereigns, local authorities and institutions, deposit accounts in the Bank itself and other banks as well as financial collateral. In these calculations, commercial properties are not accepted as credit risk mitigating collateral, even if they are otherwise accepted as collateral.

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

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

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

Table 4.6.1

Use of eligible credit risk mitigation techniques

EUR M	Original exposure after value adjustments	Guarantees (–)	Net exposure	Securities	Property	Weighted LGD, %
Credit risk, IRB approach						
Retail exposures with property as collateral, private individuals	1,781.9	–11.7	1,770.2	54.8	3,482.9	11.0
Small and medium-sized companies classified as retail	149.6	–1.5	148.1	14.3	238.1	17.5
Other retail exposures	323.8	–32.0	291.7	162.0	28.1	20.0
Corporate exposures	531.1	–8.8	522.3	129.7	107.9	32.7
Total exposure using IRB approach	**2,786.4**	**–54.1**	**2,732.3**	**360.7**	**3,857.1**	**16.2**
Credit risk, standardised approach						
Central governments or central banks	603.1	54.0	657.1			
Regional governments or local authorities	7.4	25.8	33.2			
Public sector entities	5.1	0.0	5.1			
Multilateral development banks	46.0	0.1	46.2			
International organisations	22.1	0.0	22.1			
Institutions	297.3	0.4	297.7	41.4		
Corporates	465.4	–24.6	440.8	134.6		
Retail	240.5	–1.7	238.7			
Secured by mortgages on immovable property	951.7	0.0	951.7	0.0	951.7	
Exposures in default	0.0	0.0	0.0			
Items associated with particularly high risk	0.4	0.0	0.4			
Covered bonds	371.0		371.0			
Claims on institutions and corporates with short-term credit assessment	0.0	0.0	0.0			
Collective investment undertakings	0.0	0.0	0.0			
Equity exposures	0.7	0.0	0.7			
Other exposures	68.4	0.0	68.4			
Total exposure using standardised approach	**3,079.0**	**54.0**	**3,133.0**	**176.0**	**951.7**	
Total exposure	**5,865.4**	**0.0**	**5,865.3**	**536.7**	**4,808.8**	

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

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

Table 4.6.2

Standardised approach – Exposure amounts and effects of credit risk mitigation

EUR M	Exposure before CF and CRM	Exposure after CF and CRM	Risk exposure amount	Average risk weight, %
Central governments or central banks	603.1	650.0	0.0	0
Regional governments or local authorities	7.4	26.5	0.0	0
Public sector entities	5.1	5.1	0.0	0
Multilateral development banks	46.0	46.2	0.0	0
International organisations	22.1	22.1	0.0	0
Institutions	297.3	255.7	62.3	24
Corporates	465.4	228.4	223.1	98
Retail	240.5	82.2	59.5	72
Secured by mortgages on immovable property	951.7	948.0	309.6	33
Exposures in default	0.0	0.0	0.0	150
Items associated with particularly high risk	0.4	0.4	0.6	150
Covered bonds	371.0	371.0	37.1	10
Claims on institutions and corporates with short-term credit assessment	0.0	0.0	0.0	
Collective investment undertakings	0.0	0.0	0.0	
Equity exposures	0.7	0.7	0.7	100
Other exposures	68.4	68.4	60.5	89
Total exposure	**3,079.0**	**2,704.5**	**753.5**	**28**

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

4.7 BREAKDOWN OF EXPOSURES BY EXPOSURE CLASS AND REGION

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

Table 4.7.1

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

	2016				
EUR M	Original exposure	Exposure-value	Risk weight, %	Risk exposure amount	Capital requirement
Credit risk according to IRB approach					
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	119.0	117.9	36	38.5	3.1
Retail with property as collateral (private individuals)	1,751.3	1,742.5	13	220.5	17.6
Retail, other (small and medium-sized companies)	40.5	40.0	35	13.9	1.1
Retail, other	278.7	252.8	16	41.0	3.3
Without own LGD estimates					
Corporate, other large companies	168.8	148.7	50	74.6	6.0
Corporate, small and medium-sized companies	305.8	279.2	72	201.0	16.1
Corporate, special lending	10.7	10.7	77	8.2	0.7
Total exposures according to IRB approach	**2,674.8**	**2,591.9**	**23**	**597.6**	**47.8**
Credit risk according to standardised approach					
Central governments or central banks	572.0	609.4	0	0.0	0.0
Regional governments or local authorities	8.1	25.3	0	0.0	0.0
Public sector entities	5.1	5.1	0	0.0	0.0
Multilateral development banks	53.5	53.6	0	0.0	0.0
International organisations	4.1	4.1	0	0.0	0.0
Institutions	306.0	302.9	23	69.1	5.5
Corporates	498.3	288.7	100	288.3	23.1
Retail	185.4	59.0	73	43.2	3.5
Secured by mortgages on immovable property	869.0	860.4	34	293.0	23.4
Exposures in default	1.1	1.1	101	1.1	0.1
Items associated with particularly high risk	0.3	0.3	150	0.5	0.0
Covered bonds	333.0	333.0	10	33.3	2.7
Collective investment undertakings	0.0	0.0		0.0	0.0
Equity exposures	0.6	0.6	100	0.6	0.0
Other exposures	51.2	51.2	87	44.4	3.5
Total exposures according to standardised approach	**2,887.7**	**2,594.7**	**30**	**773.4**	**61.9**
Total risk exposure amount	**5,562.5**	**5,186.6**	**26**	**1,371.1**	**109.7**

During 2017, the total risk exposure amount for the Bank's credit risk exposures decreased by EUR 36.3 M (3 per cent), or expressed in capital requirements by EUR 2.9 M. The risk exposure amount of IRB-approved exposures decreased during the year by EUR 16.4 M (3 per cent) or by EUR 1.3 M expressed in capital requirements. The decreases are explained by improved credit quality in the Bank's IRB-approved retail portfolio and a decrease in exposure to companies in Swedish operations, which generally has a risk weight of 100 per cent. These decreases had a favourable impact on the Bank's capital adequacy.

Table 4.7.2 shows the subtraction of regulatory expected loss and the calculation of the transitional rule. These steps affect capital adequacy assessment, since the shortfall of expected losses decreases common equity Tier 1 capital in the capital base. The estimated expected loss amount is based on the same risk parameters as the capital requirement, which means that improved credit quality decreased the subtraction from the capital base. Since common equity Tier 1 capital has already been reduced due to the impact of the recognised impairment loss on equity capital, these are reduced from the amount to be subtracted. The entire subtraction and the difference between expected loss and impairment losses (specific credit risk adjustments) are presented in the table below.

Table 4.7.2

Special IRB-related disclosures	2017	2016	Change, %
EUR M			
Credit adjustments attributable to IRB-approved portfolios	9.3	11.6	−20
Estimated expected loss (EL) amount according to IRB models	−16.4	−21.0	−22
EL surplus against credit adjustments	−1.7		
Shortfall subtracted from the capital base	**−8.8**	**−11.2**	**−22**
Limit according to transitional rule (minimum 80% of capital requirement according to standardised approach)	121.0	120.8	0
Capital requirement with reference to IRB	115.7	120.9	−4
Additional capital requirement including net effect for deficit subtracted from capital base	5.3	0.0	

Table 4.7.2 above shows that the amount of the shortfall against individual impairment losses on December 31, 2017 was EUR 8.8 M, compared to EUR 11.2 M at the end of 2016. The total amount of estimated expected losses decreased from EUR 21.0 M to EUR 16.4 M or by 22 per cent. During 2017, improved credit quality in the Bank's loan portfolio had an impact in the form of a decreased capital base requirement, while the portfolio increased. This is visible because expected losses as a proportion of exposure value decreased from 0.43 to 0.33 per cent after taking impairment losses into account.

Exposures in default according to exposure value in the IRB-approved portion of the loan portfolio decreased during 2017 from EUR 28.1 M to EUR 14.9 M or by 47 per cent, while there was also a shift to better risk classes (increase in risk classes 1 to 5).

The capital requirement for the transitional rule that the Bank set aside in addition to the capital requirement under Pillar 1 amounted to EUR 5.3 M on December 31, 2017. On December 31, 2016, the Bank had no capital requirement for the transitional rule.

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

Table 4.7.3

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

EUR M	2016					
	Finland		Sweden		Other	
	Exposure-value	Risk exposure amounts	Exposure-value	Risk exposure amounts	Exposure-value	Risk exposure amounts
Credit risk according to the IRB approach						
Retail with property as collateral (small and medium-sized companies)	117.9	38.5	0.0	0.0	0.0	0.0
Retail with property as collateral (private individuals)	1,742.5	220.5	0.0	0.0	0.0	0.0
Retail, other (small and medium-sized companies)	40.0	13.9	0.0	0.0	0.0	0.0
Retail, other (non small and medium-sized companies)	252.8	41.0	0.0	0.0	0.0	0.0
Corporate – Other large companies	148.7	74.6	0.0	0.0	0.0	0.0
Corporate – Small and medium-sized companies	279.2	201.0	0.0	0.0	0.0	0.0
Corporate – Special lending	10.7	8.2	0.0	0.0	0.0	0.0
Total exposures according to the IRB approach	**2,591.9**	**597.6**	**0.0**	**0.0**	**0.0**	**0.0**
Credit risk according to standardised approach						
Central governments or central banks	507.5	0.0	75.9	0.0	26.0	0.0
Regional governments or local authorities	25.3	0.0	0.0	0.0	0.0	0.0
Public sector entities	0.0	0.0	0.0	0.0	5.1	0.0
Multilateral development banks	5.3	0.0	0.0	0.0	48.3	0.0
International organisations	0.0	0.0	0.0	0.0	4.1	0.0
Institutions	50.8	14.3	204.0	44.1	46.2	10.6
Corporates	12.0	11.3	256.8	256.8	19.9	18.3
Retail	38.3	28.2	20.7	15.0	0.0	0.0
Secured by mortgages on immovable property	13.3	4.6	847.1	288.4	0.0	0.0
Exposures in default	0.0	0.0	1.1	1.1	0.0	0.0
Items associated with particularly high risk	0.3	0.5	0.0	0.0	0.0	0.0
Covered bonds	14.1	1.4	196.6	19.7	122.4	12.2
Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.6	0.6	1.9	1.9	0.0	0.0
Other exposures	51.2	44.4	0.0	0.0	0.0	0.0
Total exposures according to standardised approach	**718.7**	**105.1**	**1,604.1**	**627.1**	**271.8**	**41.2**
Total risk exposure amount	**3,310.6**	**702.8**	**1,604.1**	**627.1**	**271.8**	**41.2**

4.8 DOUBTFUL AND NON-PERFORMING RECEIVABLES

A receivable is defined as doubtful when it is probable that contractual payments will not be fulfilled and when, because of this, one or more loans within a customer entity have given rise to an individual provision. Doubtful receivables are recognised on a gross basis, without taking into account individual provisions and without regard to collateral that has been received to secure the receivable. Non-performing receivables arise when a borrower has diverged from contractual payment of interest or loan principal. At the end of 2017, receivables with amounts overdue for more than 90 days were at a lower level than a year earlier. Their recognised value before taking into account individual provisions amounted to EUR 16.6 M (28.2).

Table 4.8.1 below shows a breakdown of the Bank's non-performing receivables by region

Table 4.8.1

Recognised gross values for lending to the public

EUR M	Exposures in default	Exposures that have not defaulted	Defaulted, % of total	Individual impairment provisions	Group impairment provisions	Net values
Finland	16.6	2,681.9	0.62	8.5	1.9	6.2
Sweden	0.0	1,279.5	0.00	0.0	0.0	0.0
Other						
Total	**16.6**	**3,961.5**	**0.42**	**8.5**	**1.9**	**6.2**

A provision for an expected loss is made if there is objective evidence indicating that full repayment of a receivable is no longer probable. The size of the provision is equivalent to the difference between the carrying amount of the outstanding exposure and the discounted value of expected future cash flows attributable to the receivable and any collateral or guarantees received. If there is no evidence for an individual provision on a receivable, regardless of whether the receivable is of significant size or not, it is included in a group of financial assets with similar credit risk characteristics, which undergo collective impairment testing. All of the group impairment losses reported below are in the class of group provisions that are collectively recognised according to IFRS rules. They are treated in the capital adequacy analysis as specific credit risk adjustments. Impairment testing takes place quarterly. At the end of 2017, individual provisions amounted to EUR 8.5 M (10.8) and group provisions totalled EUR 1.9 M (1.8). The level of provisions for doubtful receivables, calculated as individual provisions due to doubtful receivables, amounted to 60 (50) per cent.

Table 4.8.2

Doubtful and non-performing receivables

2017									
EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing >90 days	Non-performing 60–90 days	Non-performing 30–59 days	Non-performing 5–29 days
Home loans	6.6	0.3	3.1	0.1	46.4	7.0	2.1	3.3	13.9
Securities and other investments	1.8	0.6	0.1	0.0	4.5	2.0	0.2	1.4	2.2
Business operations	0.4	0.3	1.7	0.1	418.4	0.1	0.0	0.0	1.2
Other household purposes	0.7	0.4	0.4	1.4	48.1	3.7	0.3	0.9	2.8
Total private individuals	**9.6**	**0.3**	**5.3**	**1.7**	**54.6**	**12.7**	**2.6**	**5.6**	**19.9**
Shipping	1.0	2.1	0.2	0.0	20.0	0.0	0.0	0.0	0.0
Wholesale and retail trade	0.3	0.7	0.2	0.1	86.4	0.4	0.0	0.0	0.2
Housing operations	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	2.4
Other real estate operations	2.2	0.8	1.9	0.0	89.7	2.2	0.0	0.0	0.4
Financial and insurance operations	0.0	0.0	0.0	0.0	100.0	0.0	1.0	0.0	0.1
Hotel and restaurant operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other service operations	0.9	1.0	0.7	0.0	78.0	1.0	0.0	0.0	1.3
Agriculture, forestry and fishing		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.1	0.2	0.1	0.1	100.0	0.3	0.1	0.0	0.2
Other industry and crafts		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total companies	**4.5**	**0.4**	**3.2**	**0.2**	**72**	**3.9**	**1.2**	**0.0**	**4.7**
Public sector and non-profit organisations	0	0.0	0.0	0.0	0	0	0	0	0
Total lending	**14.1**	**0.4**	**8.5**	**1.9**	**60**	**16.6**	**3.8**	**5.6**	**24.6**

2016									
EUR M	Doubtful, gross	Doubtful receivables, %	Individual impairment provisions	Group impairment provisions	Level of provisions, %	Non-performing >90 days	Non-performing 60–90 days	Non-performing 30–59 days	Non-performing 5–29 days
Home loans	5.7	0.3	2.8	0	49	9.8	0.5	3.3	7.8
Securities and other investments	0.9	0.2	0.1	0	12	2.1	0.5	0.3	1.6
Business operations	0.7	0.5	0.8	0	122	1.2	0.6	0.5	2.2
Other household purposes	0.8	0.4	0.3	1.3	44	3.6	0.3	1.0	2.1
Total private individuals	**8.1**	**0.3**	**4.1**	**1.5**	**50**	**16.7**	**2.0**	**5.1**	**13.6**
Shipping	1.1	1.9	0.2	0.0	22	0.1	0.0	0.0	0.0
Wholesale and retail trade	0.6	1.5	0.6	0.1	99	0.8	0.2	0.0	0.0
Housing operations	0.5	0.1	0.5	0.0	100	1.4	0.0	0.0	0.1
Other real estate operations	4.2	1.6	2.3	0.1	55	4.4	0.0	0.0	0.1
Financial and insurance operations	1.7	0.9	0.2	0.0	9	0.2	0.0	0.0	0.4
Hotel and restaurant operations	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0
Other service operations	5.5	5.7	2.8	0.1	52	4.4	0.0	0.4	1.0
Agriculture, forestry and fishing		0.0	0.0	0.0	0	0.0	0.0	0.0	0.0
Construction	0.1	0.2	0.1	0	109	0.2	0.0	0.0	0.2
Other industry and crafts		0.0	0.0	0	0	0.0	0.0	0.0	
Total companies	**13.6**	**1.2**	**6.7**	**0.3**	**49**	**11.5**	**0.2**	**0.4**	**1.8**
Public sector and non-profit organisations	0.0	0.0	0	0	0	0	0	0	0
Total lending	**21.7**	**0.6**	**10.8**	**1.8**	**50**	**28.2**	**2.2**	**5.5**	**15.4**

4.9 CREDIT CONCENTRATION RISK

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

On December 31, 2017, the Bank had loans to 5 (December 31, 2016: 6) non-financial customers/customer entities that reached the reporting threshold of 10 per cent or more of the capital base. The total exposure to these 7 customers/customer entities was 74 per cent of the capital base. On December 31, 2016, the equivalent 6 customers totalled 109 per cent of the capital base.

The Bank's corporate lending includes a sector-specific concentration risk in the form of lending to real estate operations. This concentration specifically consists of lending to housing operations and lending to other real estate operations in Sweden. Lending to real estate operations in Sweden totals 82 per cent of corporate lending. However, during 2017, lending to Swedish real estate operations fell by EUR 52 M or 12 per cent.

Every year the Bank examines the need for extra capital for concentration risk in its internal capital assessment, both for sectoral concentration risk and concentration among individual customers, since this form of risk is not included in and covered by Pillar 1 capital requirement regulations. During 2017, the FSA began applying a standardised method for estimating the capital needs of banks for loan concentration risk.

4.10 CREDIT RISK AND COUNTERPARTY RISK IN TREASURY OPERATIONS

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

Counterparty risks also arise in the Bank's Treasury operations when the Bank enters into derivative contracts with various counterparties. This counterparty credit risk in the Bank's derivative operations is managed through netting agreements concluded with counterparties in accordance with the International Swaps and Derivatives Association (ISDA) standard. Receivables and liabilities covered under the same agreement are thus offset against each other. To further manage risk, the Bank enters into Credit Support Annex (CSA) agreements with counterparties, which regulate the posting and receiving of collateral, depending on how net exposure looks for the Bank. The Bank mainly uses cash in collateral management for derivative transactions. During 2017, the Bank continued to transfer a portion of its counterparty credit risk to so-called central counterparties through central clearing procedures.

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

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

Table 4.10.1

Credit risk exposure in the Group's Treasury operations

EUR M

Credit quality steps	Bonds issued by sovereigns and state-guaranteed counterparties	Balances with central banks	Covered bonds	Miscellaneous unsecured bonds	Overnight deposits	Cheque account	Derivatives*	Total
1	134.4	512.9	371.6	75.1	0.0	2.3	5.0	1,101.3
2	0.0	0.0	0.0	55.8	0.0	86.3	1.2	143.2
3	0.0	0.1	0.0	0.0	0.0	9.6	0.0	9.7
Unrated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**134.4**	**513.0**	**371.6**	**130.8**	**0.0**	**98.2**	**6.2**	**1,254.2**

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

Table 4.10.1 above shows that most of the Group's exposures in its Treasury operations are attributable to holdings of government bonds and deposits with central banks. As for bonds issued by other entities, they consist mostly of covered bonds in the highest rating class. The "unsecured bonds" class includes no subordinated securities or any form of hybrid loans. None of the Group's bond holdings consists of securitised structures. Derivative exposures to other financial institutions occur exclusively within the framework of currency and interest rate risk management.

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

Table 4.10.2

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

EUR M

Credit quality steps	Institutional exposures	Covered bonds
1	82.4	371.0
2	143.2	0.0
3	9.7	0.0
Sovereign method	20.3	0.0
Total	**255.7**	**371.0**

Table 4.10.3

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

EUR M	Exposure	As % of total
European Union	1,036.3	83
Non-EU Nordic countries	149.6	12
Other European countries	0.2	0
North America	68.0	5
Rest of the world	0.1	0
Total	**1,254.2**	

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

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

Table 4.10.4

Derivates exposures

EUR M	Nominal amount	Positive gross amount	Exposure amount (gross)	Collateral received*	Exposure amount (net)	Risk exposure amount	Capital requirement
Fixed income	915.6	16.3	25.2	0.0	25.2	1.8	0.1
Currency	546.5	3.9	9.4	0.0	9.4	5.8	0.5
Equity	4.5	1.2	1.5	0.7	0.8	0.4	0.0
Credit	4.1	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1,470.8**	**21.4**	**36.0**	**0.7**	**35.3**	**8.0**	**0.6**

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

A large proportion of the derivatives exposure amount consists of currency interest rate swaps (CIRSs) that will not be transferred to central clearing.

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. At year-end 2017, this capital requirement amounted to EUR 0.6 M. As the Bank transfers its exposures to a central counterparty, this capital requirement will decrease.

Each quarter, the Bank calculates accounting credit and debit value adjustment (CVA/DVA) risk for all derivatives contracts. To the extent that DVA exceeds CVA, nothing is recognised in the Bank's income statement. To the extent CVA exceeds DVA, the Bank recognises a cost for credit value adjustment risk.

5 Liquidity risk

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

5.1 RISK APPETITE

To ensure access to liquidity even during periods without external borrowing opportunities, the Bank must have a liquidity reserve and a well-diversified maturity structure in its borrowing.

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

5.2 RISK MANAGEMENT

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

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

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

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

5.3 MEASURING LIQUIDITY RISK

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

Table 5.3.1

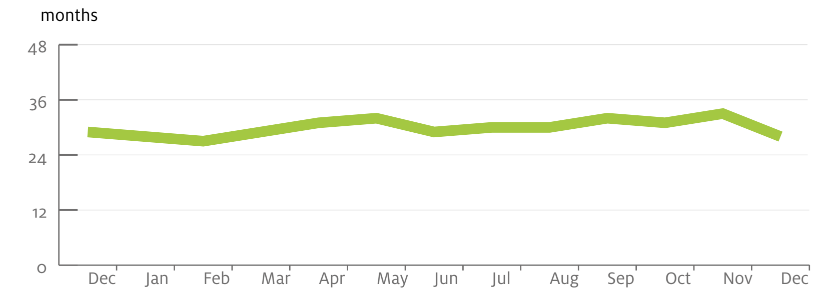
Remaining maturity	2017								
	Undiscounted contractual cash flows								
EUR M	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	524								524
Debt securities eligible for refinancing with central banks		25	48	38	424	87		11	634
Lending to credit institutions	93								93
Lending to the public and public sector entities	196	175	171	305	1,504	599	1,026	2	3,979
Shares and participations								1	1
Derivative instruments		4	1	1	4	7	1		18
Intangible assets								17	17
Tangible assets								24	24
Other assets								63	63
Total	**813**	**205**	**220**	**344**	**1,932**	**694**	**1,027**	**119**	**5,353**
Liabilities									
Liabilities to credit institutions	58	18			130				206
Liabilities to the public	2,749	277	17	79	26				3,148
Debt securities issued		100	97	172	882	347		3	1,600
Derivative instruments		4	7	1	1	7	1		22
Other liabilities								110	110
Subordinated liabilities		2		3	10		17		33
Equity capital								234	234
Total	**2,808**	**401**	**120**	**256**	**1,050**	**354**	**18**	**347**	**5,353**

	2016								
	Undiscounted contractual cash flows								
EUR M	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	513								513
Debt securities eligible for refinancing with central banks		45	20	47	310	72		10	504
Lending to credit institutions	79	122							201
Lending to the public and public sector entities	212	184	155	267	1,503	556	932	−1	3,808
Shares and participations								1	1
Derivative instruments		4	1	1	5	8	2		21
Intangible assets								16	16
Tangible assets								26	26
Other assets								48	48
Total	**804**	**355**	**176**	**315**	**1,818**	**636**	**934**	**99**	**5,137**
Liabilities									
Liabilities to credit institutions	52	36			130				219
Liabilities to the public	2,782	104	36	84	22				3,028
Debt securities issued		105	149	101	745	347		5	1,452
Derivative instruments		6	12		2	11	2		33
Other liabilities								145	145
Subordinated liabilities		2	3	3	16		15		39
Equity capital								222	222
Total	**2,834**	**254**	**200**	**189**	**915**	**358**	**17**	**371**	**5,137**

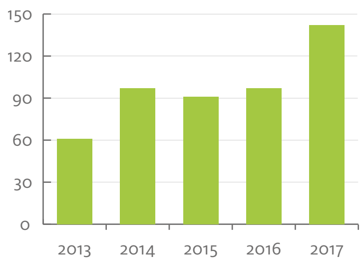
5.3.1 Survival horizon

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

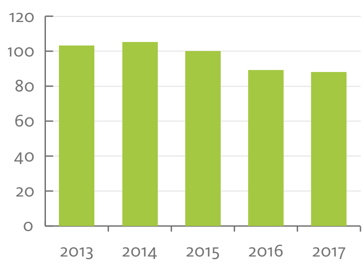
Survival horizon, December 2016–December 2017



Liquidity coverage ratio
per cent



Core funding ratio
per cent



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

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

Table 5.3.2

Financial ratios, liquidity risk

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

Table 5.3.3

Financial ratios, liquidity risk	2017	2016
Per cent		
LCR	142	97
NSFR	110	124
Core funding ratio	88	89

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

Table 5.3.4

Liquidity coverage ratio (LCR)	2017	2016
EUR M		
Liquid assets, level 1	908	809
Liquid assets, level 2	18	0
Total liquid assets	**926**	**809**
Customer deposits	827	834
Market borrowing	15	60
Other cash outflows	25	7
Total cash outflows	**867**	**901**
Inflows from lending to non-financial customers falling due for payment	108	38
Other cash inflows	109	29
Total cash inflows	**217**	**67**
Net cash outflows	**650**	**834**
Liquidity coverage ratio (LCR), %	**142**	**97**
Liquidity coverage ratio (LCR), %, EUR	206	104
Liquidity coverage ratio (LCR), %, SEK	65	64

5.4 LIQUIDITY RESERVE

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

Liquidity reserve	2017	2016
EUR M		
Cash and investments with central banks	524	513
Debt securities issued by sovereigns and public authorities	132	76
Covered bonds (ratings of AA– or higher)	343	263
Holdings of own covered bonds	0	4
Holdings of own unsecured bonds	0	0
Accounts with other banks	67	50
Lending to credit institutions <3 days	0	0
Debt securities issued by financial companies	0	0
Debt securities issued by non-financial companies	0	0
Total	**1,066**	**906**
Of which LCR-qualified	926	809

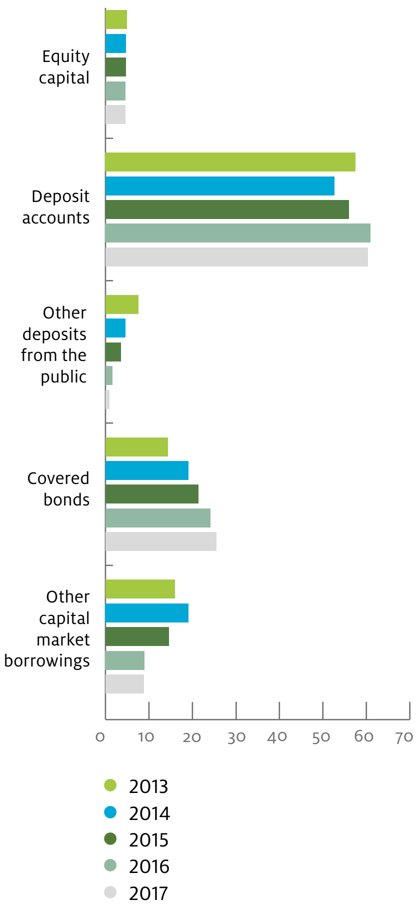
5.5 CONTINGENCY PLAN FOR LIQUIDITY RISK

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

5.6 FUNDING STRATEGY

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

Funding sources
per cent



5.6.1 Funding sources

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

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

At year-end 2017, the nominal amount of covered bonds outstanding was EUR 1,333 M. During 2017, SEK 1,000 M in covered bonds in the Finnish collateral pool fell due for payment, and SEK 2,500 M in the Swedish collateral pool was issued. The nominal amount of unsecured bonds outstanding totalled EUR 100 M at the end of 2017. During 2017, SEK 850 M in unsecured bonds fell due for payment and EUR 100 M was issued.

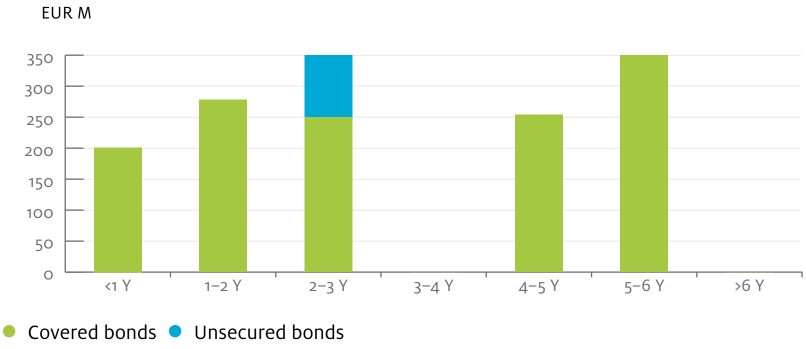
At present, the Bank has a well-diversified maturity structure. On December 31, 2017, the average maturity for the Bank's external debt was 3.2 years. Liabilities outstanding at the end of 2017 can be seen in the table below.

Table 5.6.1

Capital market borrowings outstanding

EUR M	Nominal amount in local currencY	Nominal amount in EUR	Average maturity, years
Covered bonds			
EUR	850,000,000	850,000,000	3.3
SEK	4,750,000,000	482,537,232	3.2
Unsecured bonds			
EUR	100,000,000	100,000,000	2.2
Total long-term capital market borrowings		**1,432,537,232**	**3.2**
Certificates of deposit and deposit accounts			
EUR	11,600,000	11,600,000	0.4
SEK	1,495,000,000	151,872,244	0.2
Total short-term capital market borrowings		**163,472,244**	**0.2**
Total capital market borrowings		**1,596,009,476**	**2.9**

Maturity structure, debt instruments issued



5.6.2 Investor base

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

5.7 MORTGAGE BANKING OPERATIONS

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

The Finnish cover pool included a total of EUR 1,524 M in collateral at the end of 2017. Backed by collateral registered in Cover Pool FIN, the Bank issued a total of EUR 901M in covered bonds. The Finnish collateral pool included over-collaterisation of 69 per cent on December 31, 2017.

The Swedish collateral pool included collateral totalling SEK 5,801 M. Backed by collateral registered in Cover Pool SWE, the Bank had issued a total of SEK 4,250 M in covered bonds by December 31, 2017. The Swedish collateral pool included over-collaterisation of 36 per cent at the end of 2017.

Due to business growth during 2016, the Bank increased its total available collateral base that can be used for covered bond issues both in Finland and Sweden. During 2017, internal buffer requirements were introduced that take into account the risk of home price declines in Finland and Sweden for use of collateral for covered bonds in the Group.

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

Collateral Pool Finland – Cover Pool FIN

Assets included

EUR M	
Loans	1,400
Substitute collateral	124
Other	0
Total	**1,524**

Type of collateral

EUR M	Loan volume	Loan volume, %
Single-family homes and flats	1,397	99.8
Multi-family homes	3	0.2
Commercial properties		0.0
Agriculture and forestry		0.0
Public sector		0.0
Total	**1,400**	**100.0**

Key figures

Number of loans	16,338
Number of borrowers	14,964
Average loan volume, EUR K	88
Over-collateralisation, nominal, %	69.2
Weighted loan-to-value ratio, %	56.7
Foreign exchange risk	0

Loan-to-value ratio

EUR M	–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70%–	Total
Loan volume	13	44	74	159	190	278	642	0	1,400
Loan volume, %	1.0	3.2	5.3	11.4	13.5	19.9	45.8	0.0	100

Seasoning

EUR M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	165	259	237	276	463	1,400
Loan volume, %	11.8	18.5	16.9	19.7	33.1	100

Issues outstanding, EUR

EUR M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS1117564572	150	8.10.2014	8.10.2018	0,500	Fixed
XS0999478372	100	3.12.2013	3.6.2019	1,550	Fixed
XS1238023813	250	26.5.2015	26.5.2020	0,375	Fixed
XS0876678391	100	30.1.2013	30.1.2023	2,750	Fixed
XS1496878742	250	29.9.2016	29.9.2023	0,000	Fixed

Issues outstanding, SEK

SEK M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS0862155941	500	12.12.2012	12.6.2018	0,493	Floating

Maturity, issues outstanding

EUR M	2018	2019	2020	2021	2022–2026	2027–2031	2032–	Total
Total	201	100	250	0	0	350	0	901
Total, %	22.3	11.1	27.8	0.0	0.0	38.9	0.0	100

Collateral Pool Sweden – Cover Pool SWE

Assets included

SEK M	
Loans	5,801
Substitute collateral	0
Other	0
Total	**5,801**

Type of collateral

SEK M	Loan volume	Loan volume, %
Single-family homes and tenant-owned cooperative flats	4,558	78.6
Multi-family homes and cooperative housing associations	1,243	21.4
Agriculture and forestry	0	0.0
Public sector	0	0.0
Commercial properties	0	0.0
Total	**5,801**	**100.0**

Key figures

Number of loans	1,951
Number of borrowers	2,013
Average loan volume, SEK K	3,011
Over-collateralisation, nominal, %	36.5
Weighted loan-to-value ratio, %	56.9
Foreign exchange risk	0

Loan-to-value ratio

SEK M	–10%	10–20%	20–30%	30–40%	40–50%	50–60%	60–70%	70%–	Total
Loan volume	26	69	230	664	883	1,152	2,777	0	5,801
Loan volume, %	0.5	1.2	4.0	11.5	15.2	19.9	47.9	0.0	100.0

Seasoning

SEK M	0–12 M	12–24 M	24–36 M	36–60 M	60 M–	Total
Loan volume	1,307	1,861	1,179	1,082	372	5,801
Loan volume, %	15	25	21	33	6	100

Issues outstanding, SEK

SEK M	Total	Issue date (d/m/y)	Maturity date (d/m/y)	Coupon	Fixed/ floating
ISIN					
XS1077864905	1,000	23.6.2014	25.3.2019	0,062	Floating
XS1155041004	750	16.12.2014	16.12.2019	0,054	Floating
SE0010598474	2,500	22.11.2017	22.11.2022	0,115	Floating

Maturity, issues outstanding

SEK M	2018	2019	2020	2021	2022–2026	2027–2031	2032–	Total
Total	0	1,750	0	0	2,500	0	0	4,250
Total, %	0	41	0	0	59	0	0	100

5.8 CREDIT RATING

The credit rating agency Standard & Poor's Global Ratings has assigned a credit rating of BBB with a stable outlook for the Bank of Åland's long-term borrowing and a credit rating of A-2 with a stable outlook for the Bank's short-term borrowing.

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

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

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

5.9 ENCUMBERED ASSETS

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

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

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

Table 5.9.1 below shows the Bank of Åland's encumbered assets on December 31, 2017:

Table 5.9.1

Disclosures on encumbered assets	2017			2016		
EUR M	Encumbered assets, carrying amount	Unencumbered assets, carrying amount	Total assets, carrying amount	Encumbered assets, carrying amount	Unencumbered assets, carrying amount	Total assets, carrying amount
Interest-bearing securities	161.6	472.2	633.8	164.5	339.1	503.6
Lending to the public	1,989.4	1,989.2	3,978.6	1,664.7	2,143.5	3,808.2
Other assets	32.1	584.7	616.8	15.1	699.3	714.4
Non-encumberable assets		123.3	123.3		110.6	110.6
Total	**2,183.1**	**3,169.4**	**5,352.5**	**1,844.3**	**3,292.5**	**5,136.8**
Per cent of total assets	**41**	**59**	**100**	**36**	**64**	**100**

5.10 LIQUIDITY RISK REGULATIONS

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

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

According to the net stable funding ratio (NSFR) metric, which measures structural liquidity, banks must fund their illiquid assets with stable funding.

The LCR metric is being introduced gradually during 2015–2018, while the NSFR metric is expected to be introduced in 2019.

6 Market risk

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

6.1 RISK APPETITE

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

6.2 RISK MANAGEMENT

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

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

6.3 INTEREST RATE RISK

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

Interest rate risks arise mainly due to differences in the interest rate refixing periods between interest-bearing assets and liabilities. They are managed mainly by using derivatives, primarily interest rate swaps. Table 6.3.1 shows assets and liabilities that fall due for a new interest rate refixing during each respective time interval.

Table 6.3.1

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

				2016		
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Lending to credit institutions and central banks	708	0	0	0	0	708
Debt securities eligible for refinancing with central banks	259	20	37	116	72	504
Lending to the public and public sector entities	2,333	421	788	205	61	3,808
Total interest-bearing assets	**3,300**	**441**	**825**	**320**	**134**	**5,020**
Liabilities						
Liabilities to credit institutions	77	6	6	130	0	219
Liabilities from the public and public sector entities	2,886	36	84	22	0	3,028
Debt securities issued	537	44	9	518	344	1,452
Subordinated liabilities	2	3	3	16	15	39
Total interest-bearing liabilities	**3,501**	**89**	**102**	**686**	**359**	**4,738**
Off-balance sheet items	**−583**	**-93**	**15**	**350**	**319**	
Difference between assets and liabilities	**−1,291**	**258**	**738**	**114**	**94**	

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

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

Table 6.3.2 shows the sensitivity of net interest income and the sensitivity of the present value of interest-bearing assets and liabilities in case of a parallel shift in the yield curve upward and downward by 1 percentage point. The model that the Bank uses to calculate net interest income risk was changed in such a way that net interest income risk calculated on December 31, 2017 takes an interest rate floor into account. The figures for 2017 net interest income risk are thus not comparable with the 2016 figures. The calculation shows that the Bank's net interest income would benefit from an interest rate hike, while an interest rate cut would have a marginal impact on net interest income. The value change risk in the table refers to the present value of all interest-bearing assets and liabilities, regardless of whether items are recognised at fair value in the consolidated balance sheet according to the applicable accounting principles. The value change risk for both 2016 and 2017 were calculated without taking any interest rate floor into account.

Table 6.3.2

Parallel shift in the yield curve	2017		2016	
EUR M	Basis points		Basis points	
	+100	−100	+100	−100
Net interest income risk	8.0	−0.4	11.8	−11.7
EUR	8.3	−3.1	9.0	−8.9
SEK	−0.3	2.7	2.7	−2.7
Value change risk	6.4	−10.2	8.6	−15.4
EUR	2.4	−5.1	6.9	−11.9
SEK	3.6	−4.7	1.6	−3.3

6.4 FOREIGN EXCHANGE RISK

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

The Bank's operations occur mainly in its two base currencies, euros and Swedish kronor, but a limited proportion of its lending and deposits occurs in other currencies, creating a certain foreign exchange risk. This risk is primarily managed with matching, but also using currency swaps and forward contracts. At year-end 2017, the Bank's foreign exchange exposure was EUR 0.5 M (2016: EUR 0.4 M).

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

6.5 EQUITY RISK

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

Since the Bank does not carry out any trading in equities for its own account, equity risk is very limited. The Bank's exposure to equities consists, among other things, of the equity-related option portion of repurchased structured products. At year-end 2017, the Bank's exposure was EUR 0.3 M (2016: EUR 0.5 M).

The Bank is also exposed to equity risk through its strategic investments in Åland-based companies. Decisions on strategic investments are made by the Managing Director and/or the Board of Directors. At year-end 2017, strategic holdings totalled EUR 0.5 M (2016: EUR 0.5 M).

7 Operational risk

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

7.1 RISK APPETITE

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

7.2 RISK MANAGEMENT

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

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

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

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

The Group has introduced a standardised approval process for new products and services, which is aimed at identifying and resolving any risks prior to launch. The Group has contingency plans for emergency conditions as well as continuity plans for all business units, in order to maintain operations and limit losses in the event of various kinds of operational disruptions.

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

Mapping of own funds to the balance sheet	2017	2016	
EUR M			Line reference in capital base
Assets			
Intangible assets	17.3	15.6	
of which: Goodwill and other intangible assets (net of related tax liabilities)	−17.3	−14.3	8
Deferred tax assets	5.1	5.0	
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	25.2	21.1	
of which: reliant on future profitability except those that arise due to temporary differences			10
Defined benefit pension obligations	5.6	3.7	
of which: defined benefit pension assets (net of related tax liabilities)			15
Subordinated liabilities	33.0	39.4	
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	19.7	19.1	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	41.9	41.7	1
of which: Share capital (net of direct and indirect holdings of own shares)	41.9	41.7	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	52.1	51.1	
of which: Statutory reserve	25.1	25.1	1
of which: Unrestricted equity reserve	26.9	26.0	1
Other reserves	1.2	1.2	
of which: Other comprehensive income	1.2	1.2	3
of which: Fair value reserves related to gains or losses on cash flow hedges	0.0	0.2	11
Retained earnings	105.7	95.1	
of which: Profit for the period	20.7	19.7	5a
of which: Retained earnings	85.0	75.4	

	Disclosures about capital base	2017	2016	
	EUR M			Regulation (EU) No 575/2013 Article reference
	Common equity Tier 1 capital: Instruments and reserves			
1	Capital instruments and related share premium accounts	126.7	125.5	26.1, 27,28,29
	of which: share capital	41.9	41.7	EBA list 26.3
	of which: share premium account	32.7	32.7	EBA list 26.3
	of which: other funds	52.1	51.1	EBA list 26.3
2	Retained earnings	85.0	75.4	26.1 C
3	Accumulated other comprehensive income (and other reserves)	1.2	1.2	26.1
3a	Provisions for general risks in banking operations			26.1 f
4	Amount of qualifying items referred to in Article 484.3 and related share premium accounts subject to phase-out from common equity Tier 1 capital			486.2
5	Minority interests (amount allowed in consolidated common equity Tier 1 capital)	0.0	0.0	84
5a	Interim profit, net of foreseeable expenses and dividends that have been verified by persons who have an independent position	10.7	10.5	26.2
6	**Common equity Tier 1 capital before regulatory adjustments**	**223.6**	**212.6**	**Total of lines 1–5a**

		2017	2016	
	Common equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	–1.3	–1.3	24, 105
8	Intangible assets (net of related tax liabilities) (negative amount)	–15.9	–14.3	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	0.2	33.1 a
12	Negative amounts resulting from calculation of expected loss amounts	–8.8	–11.2	36.1 d, 40, 159
13	Any increase in equity capital that result from securitised assets (negative amount)			32,1
14	Gains or losses on liabilities measured at fair value resulting from changes in the institution's own credit risk			33.1 b
15	Defined benefit pension fund assets	0.0	0.0	36.1 e, 41
16	An institution's direct and indirect holdings of own CET1 capital capital instruments	0.0	0.0	36.1 f, 42
17	Direct, indirect and synthetic holdings of CET1 capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)			36.1 g, 44
18	The institution's direct, indirect and synthetic holdings of CET1 capital instruments of financial sector entities in which the institution does not have significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)			36.1 h, 43, 45, 46, 49.2, 49.3, 79
19	The institution's direct, indirect and synthetic holdings of CET1 capital instruments in financial sector entities where the institution has a significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)			36.1 I, 43, 45, 47,48.1 b, 49.1-49.3, 79
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a risk weight of 1,250% when the institutions opts for the deduction alternative			36.1 k
20b	*of which: qualifying holdings outside the financial sector (negative amount)*			36.1 k ii, 243.1b, 244.1 b, 258
20c	*of which: securitisation positions (negative amount)*			36.1 k ii, 243.1 b, 244.1 b, 258
20d	*of which: qualifying holdings outside the financial sector (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**	**–26.0**	**–26.6**	**Total of lines 7–20a, 21, 22 and 25a–27**
29	**CET1 capital**	**197.6**	**186.0**	**Line 6 minus line 28**

		2017	2016	
	Additional Tier 1 capital: instruments			
30	Capital instruments and related share premium accounts			51, 52
31	*of which: classified as equity capital under applicable accounting standards*			
32	*of which: classified as liabilities under applicable accounting standards*			
33	Amount of qualifying items referred to in Article 484.4 and related share premium accounts subject to phase-out of additional Tier I capital			486.3
34	Qualifying Tier I capital included in consolidated additional core capital (including minority interests not included in line 5) issued by subsidiaries and held by third parties			85, 86
35	*of which: instruments issued by subsidiaries and subject to phase-out*			486.3
36	**Additional Tier I capital before regulatory adjustments**	**0.0**	**0.0**	**Total of lines 30, 33 and 34**
	Additional Tier I capital: regulatory adjustments			
37	An institution's direct and indirect holdings of own additional Tier 1 capital instruments (negative amount)			52.1 b, 56 a, 57
38	Direct, indirect and synthetic holdings of additional Tier 1 capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)			56 b, 58
39	Direct, indirect and synthetic holdings of additional Tier I capital instruments of financial sector entities where the institution has no significant investment (amounts above 10% threshold net of eligible short positions) (negative amount)			56 c, 59, 60, 79
40	Direct, indirect and synthetic holdings of additional Tier I capital instruments in entities in the financial sector where the institution has a significant investment (amounts above 10% threshold net of eligible short positions) (negative amount)			56 d, 59, 79
41	Empty set in the EU			
42	Deductions from qualified supplementary capital that exceeds the institution's supplementary capital (negative amount)			56 e
43	**Total regulatory adjustments to additional Tier 1 capital**	**0.0**	**0.0**	**Total of lines 37–42**
44	**Additional Tier 1 capital before regulatory adjustments**	**0.0**	**0.0**	**Line 36 minus line 43**
45	**Tier 1 capital (Tier I capital = common equity Tier 1 capital + additional Tier I capital)**	**197.6**	**186.0**	**Total of lines 29 and 44**
	Tier 2 (supplementary) capital: Instruments and provisions			
46	Capital instruments and related share premium accounts	19.7	19.1	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	1.7		62 c and d
51	**Tier 2 capital before regulatory adjustments**	**21.4**	**19.1**	
	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**	**21.4**	**19.1**	**Line 51 minus line57**
59	**Total capital (Tier 1 capital + Tier 2 capital)**	**219.0**	**205.2**	**Total of lines 45 och 58**
60	**Total risk-weighted assets**	**1,537.9**	**1,575.5**	

		2017	2016	
	Capital ratios and buffers			
61	Common equity 1 capital (as a percentage of total risk-weighted exposure amount), %	12.9	11.8	92.2 a
62	Tier I capital (as a percentage of total risk-weighted exposure amount), %	12.9	11.8	92.2 b
63	Total capital (as a percentage of total risk-weighted exposure amount), %	14.2	13.0	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), %	7.9	7.7	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, %*	0.9	0.7	
67a	*of which: global systemically important institution or other systemically important institution buffer, %*			
68	Common equity Tier 1 capital available to meet buffers (as percentage of risk-weighted exposure amount), %	8.4	7.3	Capital Requirements Regulation 128
	Amounts below thresholds for deduction (before risk weighing)			
72	Direct and indirect holdings of financial sector entities in which the institution has no significant investment (amounts below 10% threshold net of eligible short positions)			36.1 h, 46, 45, 56 c, 59, 60, 66 c, 69, 70
73	The institution's direct and indirect holdings of financial sector entities in which the institution has a significant investment (amounts below 10% threshold net of eligible short positions)			36.1 i, 45, 48
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amounts below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met)			36.1 c, 38, 48
	Applicable caps on inclusion of provisions in supplementary capital			
76	Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the standardised approach (before application of the cap)	0.0	0.0	62
77	Cap on inclusion of credit risk adjustments in Tier 2 capital under the standardised approach	9.5	9.7	62
78	Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the IRB approach (before application of the cap)	1.7	0.0	62
79	Cap for inclusion of credit risk adjustments in Tier 2 capital according to the IRB approach	3.5	3.4	62
	Capital instruments subject to phase-out arrangements (only applicable between January 1, 2014 and January 1, 2022)			
80	Current cap on Tier I capital instruments subject to phase-out arrangements			484.3, 486.2 and 486.5
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)			484.3, 486.2 and 486.5
82	Current cap on additional CET1 capital instruments subject to phase-out arrangements			484.4, 486.3 and 486.5
83	Amount excluded from additional Tier I capital due to cap (excess over cap after redemptions and maturities)			484.4, 486.3 and 486.5
84	Current cap on Tier 2 capital market instruments subject to phase-out arrangements			484.5, 486.4 and 486.5
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)			484.5, 486.4 and 486.5

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

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

Main features of capital instruments – Supplementary capital instruments					
1	Issuer	Bank of Åland Plc.	Bank of Åland Plc	Bank of Åland Plc	Bank of Åland Plc
2	Unique identifier code	FI4000097068	FI4000153747	FI4000210299	FI4000266580
3	Governing laws of the instrument	Finnish	Finnish	Finnish	Finnish
	Regulatory treatment				
4	Transitional rules according to Capital Requirement Regulation (CRR)	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
5	Post-transitional CRR rules	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments	Tier 2 capital instruments
6	Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level	Solo and consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
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	Tier 2 capital instruments according to CRR 575/2013 Art. 63
8	Amount recognised in regulatory capital	EUR 2.7 M	EUR 8.6 M	EUR 6.2 M	EUR 2.3 M
9	Nominal amount of instrument	EUR 8.3 M	EUR 8.6 M	EUR 6.2 M	EUR 2.3 M
9a	Issue price	100%	100%	100%	100%
9b	Redemption price	100% of nominal amount	100% of nominal amount	100% of nominal amount	100% of nominal amount
10	Accounting classification	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost	Debt – amortised cost
11	Original issuance date	June 6, 2014	May 25, 2015	June 13, 2016	June 19, 2017
12	Perpetual or dated	Dated	Dated	Dated	
13	Original maturity date	Aug 9, 2019	May 25, 2035	Aug 12, 2036	August 18, 2037
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, conditional call dates and redemption amount	N/A	June 26, 2020	August 12, 2021	August 18, 2022
16	Subsequent call date, if applicable	N/A	Yearly on interest payment date after first redemption date	Yearly on interest payment date after first redemption date	Yearly on interest payment date after first redemption date
	Coupons/dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	3.00%	3.75%	3.75%	3.75%
19	Existence of a dividend stopper	N/A	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of date)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Non-cumulative or cumulative	N/A	N/A	N/A	N/A
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, type of instrument to which conversion is made	N/A	N/A	N/A	N/A
29	If convertible, issuer of the instrument to which conversion is made	N/A	N/A	N/A	N/A
30	Write-down features	No	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent	If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent
32	If write-down, full or partial	N/A	25%	50%	50%
33	If write-down, permanent or temporary	N/A	Permanent	Permanent	Permanent
34	If write-down is temporary, write-up mechanism	N/A	N/A	N/A	N/A
35	Position in prioritisation hierarchy for liquidation, instrument next in line	Senior debts	Senior debts	Senior debts	Senior debts
36	Non-compliant transition features	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A

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

Leverage ratio		2017
EUR M		
	Summary reconciliation of accounting assets and leverage ratio exposures	
1	Total assets as per published financial statements	5,352.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429.13 of Regulation (EU) No 575/2013)	
4	Adjustments for derivative instruments	13.8
5	Adjustments for securities financing transactions (SFTs)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	99.8
EU–6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429.7 of Regulation (EU) No 575/2013)	
EU–6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429.14 of Regulation (EU) No 575/2013)	
7	Other adjustments	−24.6
8	**Total leverage ratio exposure**	**5,441.4**
	Leverage ratio common disclosure	
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	5,330.0
2	(Asset amounts deducted in determining Tier 1 capital)	−24.6
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**5,305.3**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	21.4
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	14.6
EU–5a	Exposure determined under original exposure method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	−0.7
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**35.3**
	Securities financing transaction (SFT) exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU–14a	Derogation (exemption) for SFTs: Counterparty credit risk exposure in accordance with Article 429b.4 and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU–15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0.0**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	485.5
18	(Adjustments for conversion to credit equivalent amounts)	−385.7
19	Other off-balance sheet exposures (sum of lines 17 to 18)	99.8
	Exempted exposures in accordance with CRR Article 429.7 and 14 (on and off balance sheet)	
EU–19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429.7 of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU–19b	(Exposures exempted in accordance with Article 429.14 of Regulation (EU) No 575/2013 (on and off balance sheet))	
	Capital and total exposures	
20	Tier 1 capital	197.6
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU–19a and EU–19b)**	**5,440.4**
22	**Leverage ratio**	**3.6**

Table of contents, notes to the consolidated financial statements

Notes to the consolidated financial statements

(EUR K)

G1. Corporate information

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

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

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

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

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

The consolidated financial statements for the financial year ending on December 31, 2017 were approved by the Board of Directors on March 6, 2018 and will be submitted to the 2017 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

G2. Accounting principles

1. Basis for the report

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

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

2. Changes in accounting principles

The essential accounting principles used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ending December 31, 2016.

COMING CHANGES IN REGULATIONS

Amendments to IFRS 2, "Share-based payments – Classification and measurement of share-based payment transactions" (has not yet been approved by the European Union and will be applied to accounting periods that begin on January 1, 2018 or later). The amendments clarify the reporting of a certain type of transactions and affect three areas: the measurement of share-based payments that are classified as cash-settled payments, payments settled with equity instruments where a part consists of withholding tax that has been subtracted and modifications of share-based payments from cash-settled to equity-settled. In the Bank of Åland's assessment, the amendments to the standard will not have any impact on the Group's financial reporting.

On July 24, 2014, the International Accounting Standards Board (IASB) published the standard IFRS 9, "Financial instruments", which will replace IAS 39, "Financial instruments: Recognition and Measurement". IFRS 9, "Financial instruments" includes a new model for classification and measurement of financial instruments, a forward-looking "expected credit loss" impairment model and simplified conditions for hedge accounting.

The new rules about hedge accounting include simplifications of effectiveness testing and a broadening of the range of permitted hedging instruments and hedged items. The Bank of Åland will not apply IFRS 9 to hedge accounting.

The financial asset categories contained in IAS 39 are being replaced by three categories, with measurement taking place either at amortised cost, fair value reported under "Other comprehensive income" or fair value reported via the income statement ("profit and loss"). The classification into these three categories is based on a company's business model for the various holdings and the characteristics of the cash flows that result from the assets ("solely payments of principal and interest" or SPPI test). At the Bank of Åland, as for liquidity exposures it concerns two different portfolios with different purposes: one for the purpose of holding financial assets to collect their contractual cash flows (measured at amortised cost) and another for the purpose of both holding financial assets to collect their contractual cash flows and selling these financial assets (measured at fair value under "Other comprehensive income"). In addition, there is a portfolio for lending exposures, which is held for the purpose of collecting their contractual cash flows. All these portfolios pass the SPPI test.

Fixed interest loans have been reclassified from fair value option (FVO) to amortised cost, which upon the transition to IFRS has an effect of EUR 1,165 K which is recognised directly as a reduction of equity capital. Starting on January 1, 2018, hedge accounting is being applied to these loans (fair value hedging).

The new impairment model will require accounting for 12-month expected credit losses, from the date when the asset is first recognised. In case of a significant increase in credit risk, the impairment loss shall be equivalent to the credit losses that are expected to occur during the remaining life of the loan. To the greatest possible extent, the Bank of Åland intends to use the existing models and processes that are already being used for risk management and risk monitoring, in order to ensure that a uniform picture of the Bank is presented for risk and financial reporting purposes. The Bank of Åland will apply a credit rating model (PD x LGD x EAD).

The Bank of Åland is applying IFRS starting on January 1, 2018. Based on assessments made prior to that date, the total estimated adjustment (net after tax) in initial balances for the Bank of Åland's equity capital will be negatively affected in the amount of EUR 3,098 K, which consists of:

- A reduction equivalent to EUR 2,415 K related to implementation of the expected loss principle
- A reduction equivalent to EUR 1,457 K related to reclassifications
- An increase equivalent to EUR 774 K related to deferred tax

The actual impact of the transition to IFRS 9 on January 1, 2018 may still be affected by the continued development of the impairment model that will occur during early 2018. The Bank of Åland will apply the transition rules to its capital base.

IFRS 9 has also resulted in changes in the disclosure requirements in IFRS 7, "Financial instruments: Disclosure" and in FINREP reporting to regulatory authorities, which will affect the disclosures that are provided.

IFRS 15, "Revenue from contracts with customers". The new standard replaces the current IFRS revenue reporting standards: IAS 18 and IAS 11. The purpose of a new revenue standard is to have a single principle-based standard for all industries, which can replace existing standards and statements on revenue. According to IFRS 15, companies shall recognise revenue in an amount that reflects the compensation to which the company expects to be entitled in exchange for transferring goods or services to a customer. The revenue standard also includes expanded disclosure requirements. IFRS 15 went into effect on January 1, 2018, and earlier application was allowed. The European Commission approved the standard in 2016, and clarifications were approved in 2017. In the Bank of Åland's assessment, the amendments to the standard will not have any significant impact on the Group's financial reporting.

IFRS 16, "Leases (will be applied for accounting periods beginning January 1, 2019 or later): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires lessees to report a lease liability and a "right-of-use" asset. This accounting model resembles the current treatment of financial leases according to IAS 17. There are two applicable exemptions: short-term leases running for 12 months or less or leases of "low value items", i.e. assets worth USD 5,000 or less. The lessor's accounting is essentially equivalent to the current treatment according to IAS 17. The Bank of Åland is still evaluating IFRS 16's impact on the Group's financial reports.

3. Presentation of financial reports

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

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

4. Principles of consolidation

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

In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment which is transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. In case of an acquisition where the payment which is transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. In the consolidated financial statements at the end of 2016 or 2017, there was no goodwill in companies where the Group was deemed to have a controlling influence, or in subsidiaries where it has significant holdings without decision-making rights.

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

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

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

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

5. Items in foreign currencies

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

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

6. Recognition of assets and liabilities in the balance sheet

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

In case of a business acquisition, the acquired business is recognised in the consolidated accounts from the acquisition date. The acquisition date is the date when control over the acquired unit begins. The acquisition date may differ from the date when the transaction is legally confirmed. Assets and liabilities are removed from the balance sheet when controlling influence ceases. Financial assets and liabilities are offset and recognised as a net amount or to simultaneously sell the asset and settle the liability. Further disclosures about offsetting of financial assets and liabilities are provided in Note G44.

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

7. Classification of financial assets and liabilities

For purposes of valuation, in compliance with the provisions of IAS 39, all financial assets and liabilities are classified in the following valuation categories:

1. Loans and other receivables
2. Assets held to maturity
3. Assets carried at fair value via the income statement ("profit and loss")
   - Assets held for trading
   - Other financial assets
4. Financial assets available for sale

Financial liabilities are divided into the following valuation categories:

1. Liabilities carried at fair value via the income statement ("profit and loss")
   - Financial liabilities held for trading
   - Other financial liabilities
2. Other financial liabilities

The classification in the balance sheet is independent of valuation category. Different valuation principles may thus be applied to assets and liabilities that are recognised on the same line in the balance sheet. An allocation of the categories of financial assets and liabilities recognised in the balance sheet in terms of valuation category is provided in Note G15.

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

LOANS AND OTHER RECEIVABLES

Loans and accounts receivable are recognised at amortised cost, which means the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the acquisition date. Loans and receivables are tested for impairment losses when there is an indication that complete payment of a receivable is no longer likely. Impairment losses are recognised in the balance sheet at their net amounts, after subtracting probable and actual loan losses.

ASSETS HELD TO MATURITY

Recognised in the category "assets held to maturity" are interest-bearing assets that the Group intends and is able to hold until maturity. Such assets are recognised at amortised cost. Assets held to maturity are tested for impairment losses when there is objective evidence that one or more loss events have occurred that will influence the expected future cash flow of the asset.

ASSETS AND LIABILITIES HELD FOR TRADING

Assets and liabilities held for trading consist of derivative instruments and listed financial instruments held for trading. The Bank of Åland has very limited assets and liabilities held for trading. Financial instruments held for trading are recognised at fair value in the balance sheet. Changes in market value are recognised in the item "Net income from financial items carried at fair value". Interest attributable to this valuation category is recognised in "Net interest income".

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE (THE FAIR VALUE OPTION)

The option included in IAS 39 to categorise financial instruments as recognised at fair value via the income statement has been applied to financial assets and liabilities not categorised as assets available for sale, in order to avoid inconsistencies in the valuation of assets and liabilities that comprise counter-positions to each other and are managed on a portfolio basis. The Bank of Åland measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups mainly include fixed-interest loans and debt securities as well as interest rate swaps matched to them. This procedure effectively reduces the volatility of income without applying hedge accounting, since the fluctuation in the value of derivative instruments is largely offset by the corresponding fluctuation in the value of the other components in the same group. Changes in the fair value of financial instruments carried at fair value are recognised in the income statement, under the item "Net income from financial items carried at fair value". Interest attributable to lending and debt securities is recognised in "Net interest income".

FINANCIAL ASSETS AVAILABLE FOR SALE

Debt securities as well as shares and participations that are neither held for trading nor held to maturity are recognised in this valuation category. Financial assets available for sale are initially recognised in the balance sheet at cost and subsequently carried at fair value. The change in value is recognised in "Other comprehensive income", less deferred tax. In case of divestment or impairment loss, the portion of accumulated gain or loss previously recognised in "Other comprehensive income" is transferred to the income statement. Divestments are recognised under "Net income from financial assets available for sale", which is part of "Impairment losses on other financial assets". Changes in the value of shares are reported in the income statement under "Net income from assets available for sale". Interest attributable to this category of assets is recognised in "Net interest income" in the income statement.

Dividends on shares categorised as assets available for sale are recognised continuously in the income statement as "Other income". Impairment testing of financial assets available for sale occurs when there is objective evidence that one or more loss events have occurred that will influence the expected future cash flows of the asset.

OTHER FINANCIAL LIABILITIES

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

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The provisions of IAS 39 only allow reclassification of certain financial assets and only under exceptional circumstances. The Bank of Åland has not reclassified any financial instruments.

REPURCHASE TRANSACTIONS

A genuine repurchase transaction, a so-called repo, refers to a contract where the parties have agreed on the sale of securities and the subsequent repurchase of corresponding assets at a predetermined price. In a repurchase transaction, a sold security remains in the balance sheet, since the Group is exposed to the risk that the security will fluctuate in value before the transaction expires. The payment received is recognised as a financial liability in the balance sheet, based on who the counterparty is. Sold securities are also recognised as assets pledged. The proceeds received for an acquired security, a so-called reverse repo, are recognised in the balance sheet as a loan to the selling party.

SECURITIES LOANS

Securities that have been lent out remain in the balance sheet, since the Group remains exposed to the risk that they will fluctuate in value. Securities that have been lent out are recognised on the transaction date as assets pledged, while borrowed securities are carried in the same way as other securities holdings of the same type. In cases where the borrowed securities are sold, so-called short selling, an amount corresponding to the fair value of the securities is recognised among "Other liabilities" in the balance sheet.

EMBEDDED DERIVATIVES

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

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

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

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

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

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

Day 1 gains or losses, that is, gains and losses that arise when immediately measuring the value of new contracts and that are thus not dependent on fluctuations in interest rates or credit-worthiness, are recognised in the income statement.

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

SHARES AND PARTICIPATIONS
Shares listed in an active market are valued at market price. When measuring unlisted shares and participation, the choice of valuation model is determined by what is deemed suitable for that particular instrument. Holdings in unlisted shares mainly consist of various types of jointly owned operations with a connection to the Bank's business and holdings in Åland companies. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company.

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

LENDING CLASSIFIED AS CARRIED AT FAIR VALUE
Lending classified as carried at fair value via the income statement is carried at the present value of expected future cash flows. When making this calculation, market interest rate is adjusted for credit risk. The current credit risk premium is assumed to equal the original one as long is there is no evidence that the repayment ability of the counterparty has substantially deteriorated.

9. Impairment losses on loans and accounts receivable
Loans and accounts receivable are tested for impairment losses when there is objective evidence that complete repayment of a receivable is no longer probable. The size of the provision is equivalent to the difference between the carrying amount of the receivable outstanding and the discounted value of expected future cash flows attributable to the receivable and any collateral or guarantees. If there is no evidence for an individual provision for a receivable, it may be included in a group of financial assets with similar credit characteristics and undergo collective testing for impairment losses.

Objective evidence that one or more events have occurred that affect estimated future cash flows may, for example, be:

- significant financial difficulty of the debtor,
- the borrower has been granted a concession due to the borrower's financial difficulty and that the lender would not otherwise consider,
- a breach of contract, such as a default or delinquency in interest or principal payments, or
- that it is probable that the borrower will enter bankruptcy or undergo other financial reorganisation.

If the impairment decreases in subsequent periods, the previously recognised impairment loss is reversed. However, loans or accounts receivable are never recognised at a higher value than their amortised cost would have been if the impairment loss had not occurred.

Impairment losses on loans and accounts receivable as well as realised loan losses are recognised in the income statement under the item "Impairment loss on loans and other commitments". Repayments of previously realised loan losses as well as recoveries of earlier impairment losses are recognised as income under "Impairment loss on loans and other commitments".

10. Hedge accounting

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

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

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

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

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

CAPITALISATION OF PRODUCTION FOR OWN USE
If the computer system that is produced will probably generate future income or reduce expenses to an extent that exceeds its cost, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Capitalised development expenses are normally amortised on a

straight-line basis over 5–7 years. The amortisation begins when the computer system is ready for use. Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement. Expenses for preliminary studies and research are recognised as an expense in the income statement.

EXTERNALLY PROCURED IT SYSTEMS

External computer systems are recognised in the balance sheet at cost minus accumulated depreciation/amortisation and impairment losses.

IMPAIRMENT LOSS

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

GOODWILL

Goodwill corresponds to the share of cost that exceeds the fair value of assets purchased and liabilities taken over. Goodwill is not amortised but is tested yearly – or more often if a need exists – for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement. There was no goodwill in the consolidated financial statements at the end of 2016 or 2017.

12. Tangible assets

INVESTMENT PROPERTIES

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

PROPERTIES FOR THE GROUP'S OWN USE

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

OTHER TANGIBLE ASSETS

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

DEPRECIATION/AMORTISATION

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

Buildings	40 years
Technical equipment in buildings	12 years
Renovation in rented premises	5–10 years
Machinery and equipment	4–10 years
Computer systems developed in-house	5–7 years
External computer systems	5–7 years
Other intangible and tangible assets	3–5 years

Land is not depreciated.

IMPAIRMENT LOSSES

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

13. Provisions

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

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

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

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

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

A contingent liability is recognised when there is a possible obligation as a result of past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Group, or when there is an obligation that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required or it cannot be estimated in a sufficiently reliable way.

14. Leases

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

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

Most of the Group's leases are operating leases.

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

15. Revenue

NET INTEREST INCOME

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

NET COMMISSION INCOME

Income and expenses for various types of services are recognised in the income statement as "Commission income" and "Commission expenses", respectively. Reported as "Commission income" are brokerage commissions, various forms of asset management fees, payment intermediation commissions and debit card fees. Loan origination fees and commitment fees are accrued over the life of these loans and are included in "Net interest income", in those cases where they are not regarded as constituting cost coverage. Commission expenses are transaction-dependent and are directly related to commission income.

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

NET INCOME FROM FINANCIAL ITEMS CARRIED AT FAIR VALUE

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

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

Realised changes in the value of assets that were available for sale are recognised as "Net income from financial assets available for sale".

IT INCOME

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

OTHER INCOME

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

16. Employee benefits

PENSION LIABILITIES

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

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via a pension fund (Ålandsbanken Abps Pensionsstiftelse r.s., a so-called A Fund defined benefit plan). Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit, but nowadays a growing proportion of Swedish pension plans are defined contribution.

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

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

- Pension rights earned during the year, that is, the year's portion of the estimated final total pension disbursement. The calculation of pension rights earned is based on an estimated final salary and is subject to actuarial assumptions.
- Interest expense for the year, since the present value of the pension liability has increased as the period until its disbursement has decreased. To calculate the year's interest expense, the Bank uses the current swap interest rate (interest rate on January 1) for a maturity equivalent to the remaining time until disbursement of the pension liability.

- Estimated return (interest rate) on plan assets. Interest on plan assets is recognised in the income statement by applying the same interest rate used when setting the year's interest expense. The calculation of expenses and obligations related to the Group's defined benefit plans involve a number of judgements and assumptions that may have a significant effect on the amounts recognised.

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

17. Share-based payment

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

18. Income tax

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

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

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

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. There were no non-current assets held for sale at the end of 2016 or 2017.

20. Operating segments

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

21. Cash and cash equivalents

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

22. Significant judgements and estimation uncertainty

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

MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

The value of the Group's receivables is impairment tested regularly and individually for each receivable. As needed, an impairment loss is recognised for a receivable, bringing its value down to its estimated recoverable amount. The estimated recoverable amount is based on an assessment of the counterparty's financial repayment ability and assumptions about the sales value of any collateral. A judgement by the Executive Team may be required, especially in order to estimate the amounts and timing of expected future cash flows that determine the size of the provision.

Regarding group impairment losses for concentrations that have no impairment according to individual assessments, group-based judgements and estimates are also made. For further information, see Note G12.

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

Future pension liability is calculated using actuarial models. As a basis for the calculation, there are estimates of the discount rate (swap rate with maturity equivalent to the expected life of the pension liability), pay increase (expected future increase for pensions), inflation, employee turnover and expected return on assets. For further information, see Note G41.

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

To determine the fair value of financial instruments, judgements are made that may have a significant impact on the recognised amounts. The judgements referred to include the choice of measurement techniques, judgements on whether markets are active and on what market parameters can be observed. When employing measurement techniques, market quotations are used to the greatest possible extent, but in case this is not possible the Executive Team is required to make estimates in order to determine fair value. For further information, see Note G16.

APPRAISAL OF INVESTMENT PROPERTIES AND PROPERTIES FOR OWN USE

The Executive Team carries out a yearly review of the values of investment properties and properties for the Group's own use to determine whether there is any indication of impairment. If such an indication occurs, the recoverable amount is determined as the higher of the sales price and the value in use of the asset. An impairment loss is then recognised in the income statement if the carrying amount exceeds the recoverable amount. Estimates of the values of the assets are made by independent outside appraisers. For further information, see Note G25.

MEASUREMENT OF DEFERRED TAX

A deferred tax asset is recognised for identified taxable losses to the extent that it is probable that future taxable income will arise. The Executive Team regularly assesses when deferred tax should be recognised in the consolidated financial statements, based on expected future earnings performance. On every closing day, an assessment is made as to whether recognising a deferred tax is justified, based on the size of expected future taxable income. For further information, see Note G28.

SHARE-BASED PAYMENT

When calculating the recognised expense of share-based payment in accordance with the Group's compensation policy, the Executive Team estimates how many shares will be allocated to employees. The expense is based on the fair value of the shares at the moment they are distributed. For further information, see Note G10.

23. Nonrecurring items

Effects on income from divestment of operations and strategic shareholdings are defined as nonrecurring items.

G3. Segment report

	2017						
	Private Banking	Premium Banking	Asset Management	IT	Corporate and other	Eliminations	Total
Net interest income	26,945	24,285	10	−86	4,755	−8	55,901
Net commission income	26,931	13,037	9,776	−86	−131	191	49,719
Net income from financial items carried at fair value	765	621	55	−57	1,719	7	3,110
IT income	0	0	0	33,249	0	−15,603	17,646
Other income	152	39	6	560	6,219	−5,345	1,631
Total income	**54,792**	**37,982**	**9,848**	**33,579**	**12,563**	**−20,758**	**128,006**
Staff costs	−10,968	−7,117	−4,920	−16,271	−20,551	0	−59,827
Other expenses	−5,231	−4,480	−1,848	−12,543	−25,628	16,858	−32,872
Depreciation/amortisation and impairment losses on intangible and tangible assets	−225	−662	−10	−3,391	−4,410	1,573	−7,125
Internal allocation of expenses	−19,974	−17,061	−1,392	0	38,421	6	0
Total expenses	**−36,412**	**−29,320**	**−8,171**	**−32,205**	**−12,168**	**18,437**	**−99,825**
Profit before impairment losses	**18,380**	**8,662**	**1,677**	**1,374**	**394**	**−2,321**	**28,181**
Impairment losses on loans and other commitments	89	−2,252	0	0	18	0	−2,146
Net operating profit	**18,469**	**6,410**	**1,677**	**1,374**	**412**	**−2,321**	**26,036**
Income taxes	−3,756	−1,367	−363	−282	438	0	−5,330
Non-controlling interests	0	0	0	−1	0	0	−1
Profit for the period attributable to shareholders in Bank of Åland Plc	**14,713**	**5,043**	**1,314**	**1,093**	**863**	**−2,321**	**20,704**
Business volume							
Lending to the public	1,788,628	2,181,452	0	0	30,205	−21,643	3,978,642
Deposits from the public	1,626,795	1,539,832	1,458	0	38,114	−8,896	3,197,304
Actively managed assets	2,849,662	571,349	5,736,521	0	54	−3,421,065	5,736,521
Risk exposure amount	661,761	611,501	11,373	44,343	208,739	0	1,537,718
Allocated equity capital	70,604	86,080	1,589	11,118	64,232	0	233,623
Financial ratios etc.							
Return on equity after taxes (ROE), %	20.3	5.6	77.4	10.0	1.7		9.1
Expense/income ratio	0.66	0.77	0.83	0.96	0.97		0.78
Non-performing receivables >90 days, %	0.01	0.66			5.84		0.42
Loan loss level, %	−0.01	0.11			−0.05		0.06

	2016						
	Private Banking	Premium Banking	Asset Management	IT	Corporate and other	Eliminations	Total
Net interest income	27,508	23,408	70	−50	4,058	97	55,091
Net commission income	24,078	11,922	8,866	−49	113	−6	44,925
Net income from financial items carried at fair value	572	564	−37	−52	3,090	67	4,204
IT income	0	0	0	30,525	0	−15,602	14,923
Other income	66	73	88	246	2,933	−2,140	1,266
Total income	**52,224**	**35,967**	**8,986**	**30,620**	**10,194**	**−17,583**	**120,408**
Staff costs	−11,484	−7,154	−4,942	−15,019	−18,203	−177	−56,979
Other expenses	−5,110	−4,536	−2,131	−10,264	−20,576	14,783	−27,833
Depreciation/amortisation and impairment losses on intangible and tangible assets	−209	−637	−13	−2,948	−3,037	901	−5,943
Internal allocation of expenses	−17,052	−16,647	−1,243	0	34,943	0	0
Nonrecurring items	0	0	0	0	−499	0	−499
Total expenses	**−33,855**	**−28,974**	**−8,328**	**−28,230**	**−7,373**	**15,507**	**−91,255**
Profit before impairment losses	**18,368**	**6,993**	**658**	**2,389**	**2,821**	**−2,077**	**29,153**
Impairment losses on loans and other commitments	−89	−3,468	0	0	−496	0	−4,053
Net operating profit	**18,280**	**3,525**	**658**	**2,389**	**2,325**	**−2,077**	**25,100**
Income taxes	−3,747	−720	−154	−497	−294	0	−5,412
Non-controlling interests	0	0	0	0	0	0	0
Profit for the period attributable to shareholders in Bank of Åland Plc	**14,532**	**2,805**	**504**	**1,892**	**2,031**	**−2,077**	**19,687**
Business volume							
Lending to the public	1,700,131	2,098,699	0	0	35,244	−25,875	3,808,199
Deposits from the public	1,672,814	1,369,075	5,168	0	61,025	−7,667	3,100,415
Actively managed assets	2,555,541	465,319	3,899,536	0	85	−3,020,945	3,899,536
Risk exposure amount	678,057	637,986	10,631	41,452	207,409	0	1,575,534
Allocated equity capital	71,430	90,630	1,979	10,580	47,182	0	221,801
Financial ratios etc.							
Return on equity after taxes (ROE), %	21.3	3.3	28.2	18.5	4.1		9.1
Expense/income ratio	0.65	0.81	0.93	0.92	0.72		0.76
Non-performing receivables >90 days, %	0.07	1.20			4.63		0.74
Loan loss level, %	0.01	0.18			1.02		0.11

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

"Private Banking" encompasses Private Banking operations in Åland, on the Finnish mainland and in Sweden. "Premium Banking" encompasses operations in all customer segments excluding private banking in Åland, on the Finnish mainland and in Sweden. "Asset Management" encompasses the Bank of Åland Group's asset management organisation in Finland and Sweden including Ålandsbanken Fondbolag Ab. Asset Management is responsible for management and sales support of the Bank of Åland's own mutual funds, discretionary asset management mandates and advisory asset management mandates. Asset Management also has its own customer responsibility for certain large institutional customers, mutual fund platforms and insurance agents. "IT" encompasses the subsidiary Crosskey Banking Solutions Ab Ltd including S-Crosskey Ab. "Corporate and Other" encompasses all central corporate units in the Group, including Treasury and the subsidiary Ab Compass Card Oy Ltd.

G4. Product areas

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

	2016					
	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	11,434	41,640	29	−50	2,038	55,091
Net commission income	5,492	4,183	35,814	−49	−515	44,925
Net income from financial items carried at fair value	1,139	0	0	−52	3,116	4,204
IT income	0	0	0	14,923	0	14,923
Other income	0	0	0	177	1,089	1,266
Total income	**18,065**	**45,823**	**35,843**	**14,949**	**5,728**	**120,408**

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

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

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

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

G5. Geographic distribution

	2017			2016		
	Finland	Sweden	Total	Finland	Sweden	Total
Net interest income	33,430	22,470	55,901	32,436	22,655	55,091
Net commission income	39,176	10,543	49,719	33,982	10,942	44,925
Net income from financial items carried at fair value	2,383	727	3,110	4,046	157	4,204
IT income	15,918	1,728	17,646	13,723	1,200	14,923
Other income	1,197	435	1,631	745	520	1,266
Total income	**92,103**	**35,903**	**128,006**	**84,933**	**35,475**	**120,408**
Staff costs	−45,879	−13,948	−59,827	−42,402	−14,577	−56,979
Other expenses	−19,626	−13,246	−32,872	−14,852	−12,981	−27,833
Depreciation/amortisation	−6,186	−939	−7,125	−5,402	−542	−5,943
Internal allocation of expenses	4,090	−4,090	0	2,926	−2,926	0
Nonrecurring items	0	0	0	−499	0	−499
Total expenses	**−67,601**	**−32,223**	**−99,825**	**−60,229**	**−31,026**	**−91,255**
Profit before impairment losses	**24,502**	**3,680**	**28,181**	**24,704**	**4,449**	**29,153**
Impairment losses on loans and other commitments	−2,149	3	−2,146	−4,046	−7	−4,053
Net operating profit	**22,353**	**3,683**	**26,036**	**20,658**	**4,441**	**25,100**
Income taxes	−4,576	−754	−5,330	−4,454	−958	−5,412
Non-controlling interests	−1	0	−1	0	0	0
Profit for the period attributable to shareholders in Bank of Åland Plc	**17,775**	**2,929**	**20,704**	**16,204**	**3,484**	**19,687**
Business volume						
Lending to the public	2,698,455	1,280,187	3,978,642	2,621,111	1,187,088	3,808,199
Deposits from the public	2,369,748	827,556	3,197,304	2,278,411	822,004	3,100,415
Actively managed assets	3,245,634	2,490,887	5,736,521	2,837,159	1,062,377	3,899,536
Risk exposure amount	943,034	594,683	1,537,718	951,392	624,142	1,575,534
Allocated equity capital	189,591	44,032	233,623	174,695	47,106	221,801

	2017			2016		
	Finland	Sweden	Total	Finland	Sweden	Total
Financial ratios etc.						
Return on equity after taxes (ROE), %	10.0	6.4	9.1	9.5	7.7	9.1
Expense/income ratio	0.73	0.90	0.78	0.71	0.87	0.76
Non-performing receivables > 90 days, %	0.61	0.00	0.42	1.03	0.09	0.74
Loan loss level, %	0.08	0.00	0.06	0.16	0.00	0.11

Notes to the consolidated income statement

G6. Net interest income	2017			2016		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Lending to credit institutions and central banks	652,253	−1,044	−0.16	478,208	−1,188	−0.25
of which negative interest [1]		−1,309			−1,488	
Lending to the public	3,903,735	63,741	1.63	3,652,872	66,175	1.81
of which negative interest [1]		−25			−41	
Debt securities	574,043	518	0.09	560,795	862	0.15
Interest-bearing assets	**5,130,030**	**63,215**	**1.23**	**4,691,875**	**65,848**	**1.40**
Derivative instruments	19,362	953		23,758	469	
Other assets	156,528	4		115,685	13	
Total assets	**5,305,920**	**64,172**		**4,831,318**	**66,330**	
of which negative interest [1]		−1,334			−1,529	
Liabilities to credit institutions and central banks	220,506	−472	−0.21	269,532	147	0.05
of which negative interest [1]		−527			−269	
Liabilities to the public	3,123,881	3,767	0.12	2,797,559	5,213	0.19
of which negative interest [1]		−68			−3	
Debt securities issued	1,524,329	2,949	0.19	1,382,664	4,507	0.33
varav negativa räntor [1]		−393				
Subordinated liabilities	35,380	994	2.81	39,856	1,005	2.52
Interest-bearing liabilities	**4,904,096**	**7,238**	**0.15**	**4,489,611**	**10,872**	**0.24**
Derivative instruments	27,423	952		25,671	565	
Other liabilities	147,566	82		99,972	53	
Total liabilities	**5,079,086**	**8,271**		**4,615,253**	**11,238**	
Total equity capital	226,834			216,065		
Total liabilities and equity capital	**5,305,920**			**4,831,318**		
of which negative interest [1]		−988			−272	
Net interest income		**55,901**			**55,091**	
Interest margin			1.08			1.16
Investment margin			1.05			1.14

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

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

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

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

G7. Net commission income	2017	2016
Deposits	788	813
Lending	3,467	3,983
Payment intermediation	6,371	6,805
Mutual fund commissions	33,402	20,642
Asset management commissions	11,043	9,928
Securities brokerage	11,703	10,171
Insurance commissions	63	127
Legal services	847	766
Guarantee commissions	473	228
Other commissions	2,004	1,847
Total commission income	**70,161**	**55,310**
Payment commission expenses	–3,768	–4,033
Mutual fund commission expenses	–12,702	–2,525
Asset management commission expenses	–737	–972
Securities brokerage commission expenses	–2,400	–1,893
Other commission expenses	–835	–962
Total commission expenses	**–20,442**	**–10,386**
Net commission income	**49,719**	**44,925**

G8. Net income from financial items carried at fair value	2017			2016		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement (“profit and loss”)						
Debt securities	0	–158	–158	0	–130	–130
Shares and participations	57	0	57	2	–8	–6
Derivative instruments	–41	960	919	–96	246	149
Loan receivables	0	–1,329	–1,329	0	–250	–250
Valuation category fair value via the income statement (“profit and loss”)	**16**	**–527**	**–511**	**–94**	**–142**	**–236**
Hedge accounting						
of which hedging instruments	364	–7,026	–6,662	79	–1,164	–1,085
of which hedged item	0	7,292	7,292	515	470	985
Hedge accounting	**364**	**266**	**630**	**594**	**–694**	**–100**
Net income from foreign exchange dealing	**1,506**	**1,498**	**3,004**	**2,957**	**–165**	**2,792**
Net income from financial assets available for sale	**–12**	**–2**	**–14**	**1,991**	**–243**	**1,748**
Total	**1,874**	**1,236**	**3,110**	**5,447**	**–1,244**	**4,204**

G9. Other income	2017	2016
Income from equity capital investments	177	9
Net income from investment properties	–40	–39
Rental income on properties	77	96
Miscellaneous income	1,348	1,181
Total	**1,563**	**1,248**
Specification of net income from investment properties		
Rental income	11	1
Capital gains	0	1
Impairment losses	–19	0
Other expenses	–31	–41
Total	**–40**	**–39**

G10. Staff costs			2017			2016
Salaries and fees			45,619			43,288
Compensation in the form of shares in Bank of Åland Plc			129			111
Pension expenses			8,267			7,623
Other social security expenses			5,814			5,956
Total			**59,827**			**56,979**
of which variable staff costs			1,947			1,774
of which staff outplacement expenses			1,941			476

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

Salaries and fees						
Boards of Directors			382			347
Senior executives			2,498			2,418
Others			42,867			40,634
Total			**45,747**			**43,399**

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

Salaries and fees to senior executives						
Salaries and fees			2,422			2,388
Share-based payment			77			30
Total			**2,498**			**2,418**
Pension expenses						
Senior executives			444			547
Others			7,823			7,076
Total			**8,267**			**7,623**
Pension expenses						
Defined benefit plan			881			816
Defined contribution plan			7,385			6,807
Total			**8,267**			**7,623**

	Men	Women	Total	Men	Women	Total
Number of employees						
Åland	227	209	436	209	204	413
Finnish Mainland	80	101	181	86	101	187
Sweden	104	69	173	100	68	168
Sweden	**411**	**379**	**790**	**395**	**373**	**768**

Hours worked, recalculated to full-time equivalent positions						
Bank of Åland Plc			432			444
Crosskey Banking Solutions Ab Ltd			229			215
Ab Compass Card Oy Ltd			9			9
Ålandsbanken Fondbolag Ab			22			15
Total number of positions, recalculated from hours worked			**691**			**683**

		Men	Women		Men	Women
Gender breakdown, per cent						
Board of Directors		75	25		75	25
Senior executives		82	18		77	23

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

	2017				2016			
	Managing Director	Senior executives	Risk-takers	Others	Managing Director	Senior executives	Risk-takers	Others
Total compensation								
Fixed compensation earned	305	1,834	12,325	29,685	309	1,908	11,547	28,182
Provisions for pensions	67	377	2,360	5,463	65	482	2,156	4,920
Variable compensation earned	96	263	1,214	24	60	141	1,105	147
Total	**468**	**2,474**	**15,899**	**35,173**	**435**	**2,531**	**14,809**	**33,248**
of which postponed variable compensation	38	23	186	0	24	0	210	0
of which variable compensation paid	58	240	1,029	24	36	141	895	147
Number of persons who received only fixed compensation	0	7	109	746	0	5	104	632
Number of persons who received both fixed and variable compensation	1	8	62	16	1	7	48	84
Total	**1**	**15**	**171**	**762**	**1**	**12**	**152**	**716**
Postponed variable compensation, January 1	178	614	808	0	154	625	693	0
Variable compensation postponed during the year	38	23	186	0	24	0	210	0
Disbursed during the year	0	–27	–45	0	0	0	–129	0
Adjusted during the year	0	3	–172	0	0	–11	34	0
Postponed variable compensation, December 31	**216**	**613**	**776**	**0**	**178**	**614**	**808**	**0**

CONDITIONS AND COMPENSATION

General

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

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

The Bank of Åland's Board of Directors has approved two share savings programmes for all Group employees: the 2015 share savings programme and the 2016 share savings programme. The programmes ran for one year. Employees could save a maximum of five per cent of their monthly salary in order to subscribe for twice-yearly targeted issues of Series B shares. Three years after each respective share issue, the Bank of Åland will distribute one free matching share for each share that has been acquired in the targeted share issues to those who have participated in the share issues and who are still employed by the Group and own the shares that were issued. The savings amount in the 2015 share savings programme totalled EUR 0.9 M, and 63,756 shares were issued. The savings amount in the 2016 programme totalled EUR 0.8 M, and 60,236 shares were issued. At year-end 2017, 111,088 matching shares that will be issued during 2018–2020 are outstanding. The cost of the share savings programme during 2017 amounted to EUR 420 K.

Board of Directors

The fees of the Board members are established by the General Meeting. During the period from the 2017 Annual General Meeting to the end of the 2018 Annual General Meeting, the members of the Board receive an annual fee as well as a fee for each Board and Committee meeting attended. The Chairman of the Board receives an annual fee of EUR 30,000, and the Deputy Chairman receives an annual fee of EUR 28,000. Other Board members each receive an annual fee of EUR 26,000. In addition, Board members are paid a meeting fee for each Board meeting they attend. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members per meeting attended. Each member of a Board committee is paid EUR 750 per committee meeting attended. The chairman of each respective committee receives a meeting fee of EUR 1,000 per committee meeting attended. The members of the Bank's Board of Directors are not included in share-based compensation systems.

Managing Director

The Managing Director receives a monthly salary of EUR 24,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2017, the Managing Director was paid compensation totalling EUR 356,766 (405,737) including fringe benefits and variable compensation. Of the variable compensation paid in 2017, EUR 18,000 was paid in cash and EUR 18,000 in Bank shares, in compliance with external regulations.

The Managing Director's retirement age is a minimum of 63 and a maximum of 68 years. He will receive a pension in accordance with the Finnish national pension system. He is not entitled to a supplementary pension in addition to the statutory public pension. The notice period in case of resignation initiated by the Managing Director is nine (9) months. During this notice period, he will receive a regular monthly salary. According to his employment contract, the Managing Director is entitled to severance pay totalling nine (9) months' salary in case of dismissal by the Bank. Upon resignation, the Managing Director is not entitled to any other compensation.

Senior executives

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

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

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

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

G11. Other expenses	2017	2016
IT expenses (excluding market data)	12,546	11,063
Premises and property expenses	5,571	5,529
Marketing expenses	2,071	2,330
Market data	2,206	2,304
Staff-related expenses	2,407	2,200
Travel expenses	1,347	1,325
Purchased services	2,330	1,984
Deposit guarantee	21	21
Stability fee	859	0
Other expenses	6,533	7,427
Production for own use	−3,019	−5,849
Total	**32,872**	**28,332**
Fees to the Financial Stability Authority		
Deposit guarantee fee	1,519	1,381
Paid by old deposit guarantee fund	−1,519	−1,381
Stability fee	1,391	1,040
Refund of banking taxes paid in prior years	−532	−1,040
Administration fee	31	0
Total	**890**	**0**

Based on the 2017 fee level, the Bank has prepaid deposit guarantee fees for about 11 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	338	273
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	19	15
Tax matters	50	51
Other	61	49
Total	**467**	**390**

These amounts include value-added tax (VAT).

G12. Impairment losses on loans and other commitments

	2017	2016
Individual impairment losses		
New and increased impairment losses	2,584	3,921
Reversals of impairment losses	−529	−968
Withdrawn for actual losses	−4,354	−2,801
Actual losses	4,929	3,923
Recoveries of actual losses	−569	−550
Total individual impairment losses	**2,061**	**3,525**
Group impairment losses		
Net provisions for the period, receivables measured by group	82	573
Total group impairment losses	**82**	**573**
Other provisions		
Net provisions for the period, interest receivable	3	−45
Total	**3**	**−45**
Total	**2,146**	**4,053**
Doubtful receivables		
Gross doubtful receivables	14,116	21,701
Individual impairment losses	8,464	10,763
Net doubtful receivables	5,652	10,938
Gross doubtful receivables as % of total	0.35	0.57
Level of individual provisions for doubtful receivables, %	60	50

	2017			2016		
	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total	Reserve for individually assessed receivables	Reserve for receivables assessed by group	Total
Change in impairment loss reserve						
Reserve on January 1	10,763	1,819	12,581	10,610	1,246	11,856
Provisions for the year	2,584	82	2,666	3,921	573	4,495
Recovered from earlier provisions	−529		−529	−968		−968
Withdrawn for actual losses	−4,354		−4,354	−2,801		−2,801
Exchange rate effect	0		0	0		0
Reserve on December 31	**8,464**	**1,901**	**10,365**	**10,763**	**1,819**	**12,581**

	2017		2016	
	Loan receivables with changed conditions	Refinancing	Loan receivables with changed conditions	Refinancing
Restructured loan receivables				
Healthy and receivables with overdue amounts < 90 days				
Companies	21,436	943	20,402	2,012
Households	4,195	117	4,225	352
Unimpaired receivables with overdue amounts > 90 days				
Companies	157		356	
Households	203		80	
Impaired receivables				
Companies	1,700		4,688	
Households	556	210	1,422	
Total	**28,247**	**1,270**	**31,174**	**2,364**

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

G13. Income taxes	2017	2016
Income statement		
Taxes related to prior years	–20	4
Current taxes	1,325	1,353
Changes in deferred taxes	4,025	4,055
Total	**5,330**	**5,412**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	0.5	1.4
Taxes related to prior years, %	0.0	0.0
Other, %	0.0	0.1
Effective tax rate, %	**20.5**	**21.6**
Other comprehensive income		
Current taxes	224	374
Changes in deferred taxes	–163	–827
Total	**61**	**–453**

G14. Earnings per share	2017	2016
Profit for the period attributable to shareholders	**20,704**	**19,687**
Average number of shares outstanding before adjustments for repurchases, dilution etc.	15,329,878	15,267,442
Average holding of own shares	0	–1,238
Average number of shares before dilution	15,329,878	15,266,204
Average dilution effect	112,111	146,011
Average number of shares after dilution	15,441,989	15,412,216
Earnings per share, EUR	**1.35**	**1.29**
Earnings per share after dilution, EUR	**1.34**	**1.28**

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

Notes to the consolidated balance sheet

G15. Classification of financial assets and liabilities 2017	Carried at fair value in income statement, divided into: Held for trading	Other	Hedge accounting	Financial assets available for sale	Investments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash						523,801		523,801	523,801
Debt certificates eligible for refinancing with central banks		9,925	70,233	414,739	138,892			633,789	634,313
Lending to credit institutions						92,984		92,984	92,984
Lending to the public		32,234	55,889			3,890,519		3,978,642	4,021,505
Shares and participations				531				531	531
Shares and participations in associated companies							119	119	119
Derivative instruments	6,659	54	11,067					17,780	17,780
Accrued interest income							13,194	13,194	13,194
Receivables on mutual fund settlement proceeds							8,958	8,958	8,958
Total financial assets	**6,659**	**42,213**	**137,189**	**415,270**	**138,892**	**4,507,304**	**22,272**	**5,269,800**	**5,313,187**
Non-financial assets								82,714	
Total assets								**5,352,514**	

2017	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Invest-ments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Liabilities to credit institutions							206,392	206,392	206,604
Liabilities to the public							3,148,117	3,148,117	3,141,761
Debt securities issued			754,777				844,741	1,599,518	1,608,494
Derivative instruments	6,151	1,162	14,328					21,642	21,642
Subordinated liabilities			7,794				25,209	33,003	34,498
Accrued interest expenses							6,968	6,968	6,968
Liabilities on mutual fund settlement proceeds							19,330	19,330	19,330
Total financial liabilities	**6,151**	**1,162**	**776,900**	**0**	**0**	**0**	**4,250,757**	**5,034,970**	**5,039,298**
Non-financial liabilities								83,908	
Total liabilities								**5,118,878**	

2016	Carried at fair value in income statement, divided into								
	Held for trading	Other	Hedge accounting	Financial assets available for sale	Invest-ments held to maturity	Loans and other receivables	Other financial assets/ liabilities	Total carrying amount	Fair value
Cash						513,018		513,018	513,018
Debt certificates eligible for refinancing with central banks		15,235	18,120	380,821	89,414			503,590	503,788
Lending to credit institutions						201,360		201,360	201,360
Lending to the public		41,650				3,766,549		3,808,199	3,833,435
Shares and participations				522				522	522
Shares and participations in associated companies							58	58	58
Derivative instruments	4,566	77	16,264					20,907	20,907
Accrued interest income							11,491	11,491	11,491
Receivables on mutual fund settlement proceeds							12,910	12,910	12,910
Total financial assets	**4,566**	**56,962**	**34,384**	**381,343**	**89,414**	**4,480,927**	**24,459**	**5,072,055**	**5,097,489**
Non-financial assets								64,740	
Total assets								**5,136,794**	
Liabilities to credit institutions							218,656	218,656	219,062
Liabilities to the public		85					3,027,559	3,027,644	3,028,401
Debt securities issued			956,679				494,995	1,451,673	1,453,992
Derivative instruments	5,494	2,149	25,484					33,126	33,126
Subordinated liabilities			13,454				25,903	39,357	42,208
Accrued interest expenses							7,638	7,638	7,638
Liabilities on mutual fund settlement proceeds							65,855	65,855	65,855
Total financial liabilities	**5,494**	**2,234**	**995,616**	**0**	**0**	**0**	**3,840,606**	**4,843,950**	**4,850,283**
Non-financial liabilities								71,032	
Total liabilities								**4,914,982**	

G16. Measurement of financial assets and liabilities carried at fair value	2017			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	494,897			494,897
Lending to the public		88,123		88,123
Shares and participations	23	4	504	531
Derivative instruments	0	17,780		17,780
Total financial liabilities carried at fair value	**494,920**	**105,907**	**504**	**601,331**
Liabilities to the public		0		0
Debt securities issued		754,777		754,777
Derivative instruments	0	21,642		21,642
Subordinated liabilities		7,794		7,794
Total financial liabilities carried at fair value	**0**	**784,213**	**0**	**784,213**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at accrued cost					
Assets					
Cash and balances with central banks	523,801		523,801		523,801
Debt securities eligible for refinancing with central banks	138,892		139,417		139,417
Lending to credit institutions	92,984		92,984		92,984
Shares in associated companies	119			119	119
Lending to the public	3,890,519		3,933,382		3,933,382
Total financial assets at accrued cost	**4,646,316**	**0**	**4,689,584**	**119**	**4,689,704**
Liabilities					
Liabilities to credit institutions	206,392		206,604		206,604
Liabilities to the public	3,148,117		3,141,761		3,141,761
Debt securities issued	844,741		853,717		853,717
Subordinated liabilities	25,209		26,812		26,812
Total financial liabilities at accrued cost	**4,224,458**	**0**	**4,228,894**	**0**	**4,228,894**

	2016			
	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	414,176			414,176
Lending to the public		41,650		41,650
Shares and participations	32	4	486	522
Derivative instruments	0	20,907		20,907
Total financial liabilities carried at fair value	**414,208**	**62,561**	**486**	**477,255**
Liabilities to the public		85		85
Debt securities issued		956,679		956,679
Derivative instruments	16	33,110		33,126
Subordinated liabilities		13,454		13,454
Total financial liabilities carried at fair value	**16**	**1,003,327**	**0**	**1,003,344**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at accrued cost					
Assets					
Cash and balances with central banks	513,018		513,018		513,018
Debt securities eligible for refinancing with central banks	89,414		89,612		89,612
Lending to credit institutions	201,360		201,360		201,360
Shares in associated companies	58			58	58
Lending to the public	3,766,549		3,791,785		3,791,785
Total financial assets at accrued cost	**4,570,399**	**0**	**4,595,775**	**58**	**4,595,834**
Liabilities					
Liabilities to credit institutions	218,656		219,062		219,062
Liabilities to the public	3,027,559		3,028,316		3,028,316
Debt securities issued	494,995		497,313		497,313
Subordinated liabilities	25,903		28,755		28,755
Total financial liabilities at accrued cost	**3,767,113**	**0**	**3,773,446**	**0**	**3,773,446**

No transfer between Level 1 and 2 has occurred.

Level 1	Instruments with quoted market prices
Level 2	Measurement techniques based on observable market data
Level 3	Measurement techniques based on non-observable market data

	2017	2016
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	486	942
New purchases/Reclassifications	0	593
Divested/reached maturity during the year	−4	−396
Realised change in value in the income statement	0	4
Unrealised change in value in the income statement	−2	−593
Change in value recognised in other comprehensive income	24	−65
Carrying amount on December 31	**504**	**486**

Financial instruments for which there is price information that is easily available and that represent actual and frequently occurring transactions are measured at current market price. For financial assets, the current purchase price is used. For financial liabilities, the current sale price is used. The current market price of groups of financial instruments that are managed on the basis of the Bank's net exposure to market risk equals the current market price that would be received or paid if the net position were divested.

In the case of financial assets for which reliable market price information is not available, fair value is determined with the help of measurement models. Such models may, for example, be based on price comparisons, present value estimates or option valuation theory, depending on the nature of the instrument. The models use incoming data in the form of market prices and other variables that are deemed to influence pricing. The models and incoming data on which the measurements are based are validated regularly to ensure that they are consistent with market practices and generally accepted financial theory.

THE MEASUREMENT HIERARCHY

Financial instruments that are measured according to quoted prices in an active market for identical assets/liabilities are categorised as Level 1. Financial instruments that are measured using measurement models that are, in all essential respects, based on market data are categorised as Level 2. Financial instruments that are measured with the help of models based on incoming data that cannot be verified with external market information are categorised in Level 3. These assets essentially consist of unlisted shares. Such holdings are generally measured as the Bank's portion of the net asset value of the company. Unlisted shares are essentially classified as available for sale. The changes in the value of these holdings are reported in "Other comprehensive income".

In the above tables, financial instruments measured at fair value have been classified with regard to how they have been measured and the degree of market data used in this measurement on closing day. If the classification on closing day has changed, compared to the classification at the end of the previous year, the instrument has been moved between the levels in the table. During the period January–December 2017, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

G17. Assets and liabilities by currency

2017	EUR	SEK	USD	Others	Total
Cash	473,487	50,095	46	174	523,801
Debt securities eligible for refinancing with central banks	476,837	136,269	20,683	0	633,789
Lending to credit institutions	16,207	31,065	15,790	29,923	92,984
Lending to the public	2,671,666	1,282,144	24,832	0	3,978,642
Derivative instruments	13,857	3,917	0	6	17,780
Other items not allocated by currency	105,517				105,517
Total assets	**3,757,571**	**1,503,489**	**61,351**	**30,103**	**5,352,514**
Liabilities to credit institutions	141,219	63,106	458	1,608	206,392
Liabilities to the public	2,154,753	892,807	65,554	35,003	3,148,117
Debt securities issued	962,952	636,566	0	0	1,599,518
Derivative instruments	10,448	11,158	1	35	21,642
Subordinated liabilities	33,003	0	0	0	33,003
Other items not allocated by currency, including equity capital	343,842				343,842
Total liabilities and equity capital	**3,646,218**	**1,603,637**	**66,014**	**36,646**	**5,352,514**
Other assets and liabilities allocated by currency as well as off-balance sheet items		−100,126	−4,701	−6,563	
Net position in currencies (EUR)		−22	39	21	38

2016	EUR	SEK	USD	Others	Total
Cash	469,786	42,774	110	347	513,018
Debt securities eligible for refinancing with central banks	331,830	171,759	0	0	503,590
Lending to credit institutions	25,925	144,965	16,863	13,607	201,360
Lending to the public	2,589,066	1,189,172	29,960	0	3,808,199
Derivative instruments	19,455	1,443	0	9	20,907
Other items not allocated by currency	89,721				89,721
Total assets	**3,525,783**	**1,550,115**	**46,934**	**13,963**	**5,136,794**
Liabilities to credit institutions	154,166	64,029	458	3	218,656
Liabilities to the public	2,048,140	877,870	81,457	20,177	3,027,644
Debt securities issued	885,674	566,000	0	0	1,451,673
Derivative instruments	10,007	23,109	0	10	33,126
Subordinated liabilities	39,357	0	0	0	39,357
Other items not allocated by currency, including equity capital	366,338				366,338
Total liabilities and equity capital	**3,503,681**	**1,531,007**	**81,916**	**20,190**	**5,136,794**
Other assets and liabilities allocated by currency as well as off-balance sheet items		19,099	−35,019	−6,115	
Net position in currencies (EUR)		8	37	−111	−66

G18. Holdings of debt securities

	2017		2016	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Debt securities eligible for refinancing with central banks				
Assets held for trading				
Covered mortgage bonds	45,200	45,506		
Debt securities issued by credit institutions	29,800	31,585	32,900	33,355
Other debt securities	3,000	3,067		
Holdings available for sale				
Government bonds	58,525	54,400	33,770	34,526
Covered mortgage bonds	227,476	230,993	269,153	273,511
Debt securities issued by credit institutions	122,106	124,271	66,914	67,701
Other debt securities	5,000	5,074	5,000	5,082
Assets held until maturity				
Government bonds	5,587	6,437	5,758	6,831
Covered mortgage bonds	91,800	93,241	56,403	57,896
Debt securities issued by credit institutions	19,611	20,245	19,828	20,637
Other debt securities	19,000	18,970	4,000	4,050
Total	**627,106**	**633,789**	**493,726**	**503,590**

G19. Lending to credit institutions

	2017			2016		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	9,023	0	9,023	2,304	0	2,304
Foreign banks and credit institutions	83,961	0	83,961	76,558	122,498	199,056
Total	**92,984**	**0**	**92,984**	**78,862**	**122,498**	**201,360**

G20. Lending to the public

	2017			2016		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	569,699		569,699	553,942		553,942
Public sector entities	1,524		1,524	2,292		2,292
Households	1,945,434	32,234	1,977,668	1,878,220	41,650	1,919,869
Household interest organisations	11,939		11,939	12,521		12,521
Outside Finland	1,417,812		1,417,812	1,319,574		1,319,574
Total	**3,946,408**	**32,234**	**3,978,642**	**3,766,549**	**41,650**	**3,808,199**
of which subordinated receivables			2,481			2,367

G21. Shares and participations

	2017	2016
Holdings classified as available for sale		
Listed	23	32
Unlisted	508	490
Total	**531**	**522**
Total shares and participations	**531**	**522**

G22. Shares in associated companies

	2017	2016
Carrying amount on January 1	58	634
Share of profit for the year	68	18
Dividends	−8	0
Divestments	0	−72
Reclassifications	0	−450
Impairments	0	−72
Carrying amount on December 31	**119**	**58**

The following associated companies were consolidated according to the equity method of accounting on December 31, 2017:

	Registered office	Ownership, %
Mäklarhuset Åland Ab	Mariehamn	25

Combined financial information about these associated companies:

	2017	2016
Assets	747	516
Liabilities	266	278
Sales	1,329	1,463
Profit for the year	274	157

G23. Derivative instruments and hedge accounting

	Nominal amount/maturity			2017			2016		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	8,000	20,031	65,910	93,941	1,630	2,689	90,232	2,153	4,010
Interest rate futures	0	0	0	0	0	0	7,600	0	16
Interest rate options – purchased	0	0	0	0	0	0	1,382	0	0
Currency-related contracts									
Currency forward contracts	491,996	0	0	491,996	3,919	3,554	338,304	1,383	2,493
Equity-related contracts									
Equity options – purchased	4,505	0	0	4,505	1,211	0	6,599	935	0
Equity options – written	4,505	0	0	4,505	0	1,112	4,237	0	821
Other derivative contracts	8,062	0	0	8,062	0	0	20,060	311	302
Total	**517,069**	**20,031**	**65,910**	**603,009**	**6,760**	**7,355**	**468,414**	**4,781**	**7,642**
Derivatives for fair value hedge									
Interest-related contracts									
Interest rate swaps	9,814	363,520	397,571	770,905	11,020	6,645	733,234	16,126	4,858
Total	**9,814**	**363,520**	**397,571**	**770,905**	**11,020**	**6,645**	**733,234**	**16,126**	**4,858**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	50,793	0	0	50,793	0	7,200	246,009	0	19,670
Total	**50,793**	**0**	**0**	**50,793**	**0**	**7,200**	**246,009**	**0**	**19,670**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	54,501	0	0	54,501	0	441	47,673	0	956
Total	**54,501**	**0**	**0**	**54,501**	**0**	**441**	**47,673**	**0**	**956**
Total derivative instruments	**632,177**	**383,551**	**463,481**	**1,479,209**	**17,780**	**21,642**	**1,495,330**	**20,907**	**33,126**
of which cleared	14,314	380,176	460,451	854,941	11,122	9,334	534,600	3,591	5,858

G24. Intangible assets

	2017				
	Internally developed software	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	14,602	25,871	30	11	40,516
Cost of intangible assets added	1,452	3,519	0	0	4,971
Divestments and disposals	0	0	0	0	0
Exchange rate effect	0	–153	0	0	–153
Cost on December 31	**16,055**	**29,237**	**30**	**11**	**45,334**
Accumulated amortisation and impairment losses on January 1	–8,006	–16,863	–30	–11	–24,911
Divestments and disposals	0	0	0	0	0
Amortisation for the year	–1,096	–2,113	0	0	–3,209
Impairment losses for the year	0	0	0	0	0
Exchange rate effect	0	58	0	0	58
Accumulated amortisation and impairment losses on December 31	**–9,102**	**–18,918**	**–30**	**–11**	**–28,062**
Residual value on December 31	**6,953**	**10,320**	**0**	**0**	**17,272**

	2016				
	Internally developed software	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	11,185	21,063	30	11	32,290
Cost of intangible assets added	3,418	5,714	0	0	9,132
Divestments and disposals	0	−818	0	0	−818
Exchange rate effect	0	−88	0	0	−88
Cost on December 31	**14,602**	**25,871**	**30**	**11**	**40,516**
Accumulated amortisation and impairment losses on January 1	−7,473	−15,199	−30	−11	−22,714
Divestments and disposals	0	0	0	0	0
Amortisation for the year	−533	−1,721	0	0	−2,254
Impairment losses for the year	0	0	0	0	0
Exchange rate effect	0	57	0	0	57
Accumulated amortisation and impairment losses on December 31	**−8,006**	**−16,863**	**−30**	**−11**	**−24,911**
Residual value on December 31	**6,596**	**9,009**	**0**	**0**	**15,605**

G25. Tangible assets

	2017	2016
Investment properties	323	343
Properties for own use	17,852	18,755
Other tangible assets	6,108	6,485
Total	**24,283**	**25,584**

	2017			2016		
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	1,021	36,019	35,811	1,029	35,437	32,199
New acquisitions	0	703	2,018	0	546	4,411
Divestments and disposals	−27	−963	−1,125	−7	−13	−386
Transfers between items	0	−30	0	0	49	0
Exchange rate effect	0	−1	−314	0	0	−414
Cost on December 31	**994**	**35,727**	**36,390**	**1,021**	**36,019**	**35,811**
Accumulated depreciation on January 1	−678	−17,264	−29,325	−678	−15,734	−27,882
Depreciation for the year	0	−1,467	−2,294	0	−1,557	−2,133
Impairment losses for the year	−19	−118	0	0	0	0
Divestments and disposals	27	972	1,034	0	19	294
Exchange rate effects	0	0	303	0	8	395
Accumulated depreciation on December 31	**−671**	**−17,876**	**−30,282**	**−678**	**−17,264**	**−29,325**
Carrying amount	**323**	**17,852**	**6,108**	**343**	**18,755**	**6,485**
of which buildings	0	15,869		0	16,769	
of which land and water	0	1,825		0	1,825	
of which shares in real estate companies	323	158		343	162	

The carrying amount of investment properties was the same as their market value.

G26. Other assets

	2017	2016
Payment intermediation receivables	1,526	0
Receivables on mutual fund settlement proceeds	21,364	12,910
Accounts receivable	6,313	4,131
Other	2,989	3,149
Total	**32,192**	**20,191**

G27. Accrued income and prepayments	2017	2016
Accrued interest income	13,194	11,491
Other accrued income	8,729	7,615
Other prepaid expenses	3,423	3,486
Total	**25,346**	**22,591**

G28. Deferred tax assets and liabilities	2017	2016
Deferred tax assets		
Provisions	206	35
Cash flow hedge	11	45
Hedging of net investment in foreign operations	88	191
Intangible assets	3,358	3,593
Debt securities issued	1	12
Pension liabilities	1,108	731
Other	332	336
Financial assets available for sale		
Shares and participations available for sale	4	10
Total deferred tax assets	**5,109**	**4,952**
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	21,438	17,213
Fair value option and hedging	154	308
Intangible assets	1,391	1,319
Tangible assets	1,767	1,823
Financial assets available for sale		
Debt securities available for sale	465	444
Total deferred tax liabilities	**25,214**	**21,106**
Net deferred taxes	**–20,105**	**–16,154**

	2017				
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes, 2017					
Provisions	35	171			206
Cash flow hedge	45		–33		11
Hedging of net investment in foreign operations	191		–103		88
Intangible assets	2,274	–226		–81	1,967
Debt securities issued	12	–10			1
Pension liabilities	731	57	328	–8	1,108
Untaxed reserves	–17,213	–4,225			–21,438
Market value hedge	–308	154			–154
Tangible assets	–1,823	56			–1,767
Debt securities available for sale	–444		–22		–465
Shares and participations available for sale	10		–6		4
Other	336	–4			332
Total	**–16,154**	**–4,027**	**164**	**–88**	**–20,105**

	2016				
	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Closing balance
Changes in deferred taxes, 2016					
Taxable losses	51	–51			0
Provisions	0	35			35
Cash flow hedge	89	0	–45		45
Hedging of net investment in foreign operations	0	0	191		191
Intangible assets	3,172	–803		–94	2,274
Debt securities issued	33	–21			12
Pension liabilities	160	37	545	–11	731
Untaxed reserves	–13,538	–3,675			–17,213
Market value hedge	–444	136			–308
Tangible assets	–1,878	56			–1,823
Pension assets	–273	8	265		0
Debt securities available for sale	–205	0	–238		–444
Shares and participations available for sale	–71	0	81		10
Other	111	225			336
Total	**–12,794**	**–4,054**	**799**	**–105**	**–16,154**

G29. Liabilities to credit institutions	2017			2016		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		130,340	130,340
Finnish credit institutions	1,887	5,000	6,887	3,892	17,800	21,692
Foreign banks and credit institutions	56,546	12,619	69,165	48,304	18,320	66,624
Total	**58,433**	**147,959**	**206,392**	**52,196**	**166,460**	**218,656**

G30. Liabilities to the public	2017			2016		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	967,163		967,163	897,841		897,841
Public sector entities	100,605		100,605	92,571		92,571
Households	1,069,116		1,069,116	1,014,673	85	1,014,758
Household interest organisations	51,121		51,121	46,224		46,224
Outside Finland	960,112		960,112	976,250		976,250
Total	**3,148,117**	**0**	**3,148,117**	**3,027,559**	**85**	**3,027,644**

G31. Debt securities issued	2017		2016	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Certificates of deposit	158,472	158,477	153,643	153,643
of which at amortised cost	158,472	158,477	153,643	153,643
Covered bonds	1,328,537	1,331,581	1,186,225	1,193,271
of which at amortised cost	580,744	582,798	332,198	330,852
of which for fair value hedge	697,000	698,014	697,000	705,523
of which for cash flow hedge	50,793	50,770	157,027	156,895
Unsecured bonds	100,000	99,878	88,982	88,942
of which at amortised cost	100,000	99,878	0	0
of which for cash flow hedge	0	0	88,982	88,942
Index bonds (structured products)	9,587	9,582	15,825	15,818
of which at amortised cost	3,588	3,595	9,619	9,648
of which for fair value hedge	5,999	5,987	6,206	6,170
Total	**1,596,597**	**1,599,518**	**1,444,676**	**1,451,673**

G32. Other liabilities	2017	2016
Payment transfer liabilities	19,944	17,690
Liabilities on mutual fund settlement proceeds	19,330	65,855
Trade payables	3,279	2,764
Other	7,336	9,418
Total	**49,889**	**95,728**

G33. Provisions	2017			2016		
	Provisions for restructuring reserves	Other provisions	Total	Provisions for restructuring reserves	Other provisions	Total
Provisions on January 1	175	0	175	0	202	202
Provisions made during the year	419	1,395	1,815	291	0	291
Amounts utilised	−342	−600	−942	−116	−202	−318
Unutilised amounts recovered	2	0	2	0		0
Exchange rate changes	−3	−17	−20	0		0
Provisions on December 31	**251**	**779**	**1,031**	**175**	**0**	**175**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. "Other provisions" consist mainly of loss provisions for IT projects at Crosskey Banking Solutions Ab Ltd.

G34. Accrued expenses and prepaid income	2017	2016
Accrued interest expenses	6,968	7,638
Other accrued expenses	20,260	14,033
Pension liabilities	5,576	3,655
Prepaid income	1,155	1,559
Total	**33,959**	**26,885**

G35. Subordinated liabilities	2017			2016		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2012	0	0	0	2,805	2,805	0
Debenture loan 1/2013	3,377	3,398	0	6,754	6,833	0
Debenture loan 1/2014	4,262	4,288	0	6,542	6,608	0
Debenture loan 2/2014	8,275	8,275	2,656	8,275	8,275	4,310
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	0	0	0
Capital loan	0	0	0	60	60	60
Total	**32,956**	**33,003**	**19,698**	**39,213**	**39,357**	**19,146**
of which for fair value hedge	7,639	7,686	0	13,297	13,441	0

	Interest rate:	Repayment:
Debenture loan 1/2013	2.30% fixed interest	July 3, 2018
Debenture loan 1/2014	2.30% fixed interest	February 3, 2019
Debenture loan 2/2014	3.00% fixed interest	August 9, 2019
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Debenture loan 1/2016	3.75% fixed interest	August 12, 2036
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037

Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2015, 1/2016 and 1/2017 were issued with write-down clauses. In the event that the Bank of Åland's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 25 per cent (debenture loan 1/2015) and 50 per cent (debenture loans 1/2016 and 1/2017).

G36. Specification of changes in equity capital	2017	2016
Change in equity capital		
Equity capital on January 1	41,674	41,501
Share-based payment, share savings programme	57	132
Share-based payment, incentive programme	218	41
Equity capital on December 31	**41,949**	**41,674**
Change in hedge reserve		
Hedge reserve on January 1	–178	–357
Unrealised changes in value during the year	133	178
Hedge reserve on December 31	**–45**	**–178**
Change in fair value reserve		
Fair value reserve on January 1	1,736	1,105
Divested or reached maturity during the year	–244	–797
Impairment loss in the income statement	1	0
Unrealised change in market value for remaining and new holdings	352	1,429
Fair value reserve on December 31	**1,846**	**1,736**
Change in translation differences		
Translation differences on January 1	–366	417
Change in translation differences attributable to branches	306	1,103
Change in translation differences due to subsidiaries	186	335
Change in translation differences related to hedging of net investment in foreign operations	–694	–2,259
Other changes	–11	38
Translation differences on December 31	**–579**	**–366**
Change in own shares		
Own shares on January 1	0	–57
Share-based payment, incentive programme	0	57
Own shares on December 31	**0**	**0**
Change in paid-up unrestricted equity capital fund		
Paid-up unrestricted equity capital fund on January 1	25 982	24,992
Share-based payment, share savings programme	326	728
Share-based payment, incentive programme	618	263
Paid-up unrestricted equity fund on December 31	**26 926**	**25,982**
Retained earnings		
Retained earnings on January 1	95,086	87,405
Shareholders’ portion of profit for the accounting period	20,704	19,687
Dividend paid	–9,201	–9,160
Re-measurement of defined benefit pension plans	–1,307	–3,236
Share savings programmes	400	400
Övrigt	–22	–10
Retained earnings on December 31	**105,660**	**95,086**

Items under "Equity capital"

"Share premium account" includes amounts that were paid at the time of new share issues for shares in addition to their nominal value before September 1, 2006.

"Reserve fund" includes components transferred from equity capital in compliance with the Articles of Association or a decision of a General Meeting.

"Hedging reserve" comprises the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred. "Fair value reserve" includes the accumulated net change in the fair value of financial assets available for sale until the asset is de-recognised from the statement of financial position.

On December 31, 2017, there were no holdings of "Own shares".

"Translation differences" comprises all exchange rate differences that arise when translating financial reports from foreign operations that have drawn up their financial reports in a currency other than the currency in which the Group's financial reports are presented.

"Unrestricted equity capital fund" comprises amounts that were paid at the time of new share issues for shares in addition to their nominal value starting on September 1, 2006.

Other notes

G37. Group structure

The Bank of Åland Plc has three subsidiaries that were essential to the Group in 2017 and 2016. The Bank of Åland Plc holds a majority of the voting power in all subsidiaries. A list of all Group companies is presented in Note P39.

	Registered office	Field of operations	Ownership, % 2017	Ownership, % 2016
Subsidiary				
Ålandsbanken Fondbolag Ab	Finland/Mariehamn	Mutual fund management	100	100
Crosskey Banking Solutions Ab Ltd	Finland/Mariehamn	Information technology	100	100
S-Crosskey Ab	Finland/Mariehamn	Information technology	60	60
Ab Compass Card Oy Ltd	Finland/Mariehamn	Issuance of credit and debit cards	100	100

The Bank of Åland has no holdings of structured entities.

Shares in associated companies

The Group has one associated company that is essential to the Group, which have been consolidated according to the equity method of accounting. For further information on shares in associated companies, see Note G22.

Holdings in real estate companies

The Group holds participations in one property for its own use and eleven investment properties, of which some are consolidated as follows.

	Business identity code	Consolidation	Ownership, % 2017	Ownership, % 2016
Properties for own use				
Fastighets Ab Godbycenter	0200423-2	Joint operation	10.55	10.55
Investment properties				
Fastighets Ab Nymars	0427316-1	Joint operation	30.03	30.03
Fastighets Ab Västernäs City	0524820-8	Joint operation	50.00	50.00
Fastighets Ab Sittkoffska Gården	0145137-2	Equity method	38.93	38.93
Fastighets Ab Horsklint	0771072-6	Equity method	20.06	20.06

Fastighets Ab Godbycenter, Fastighets Ab Nymars and Fastighets Ab Västernäs City are mutual associations and, in compliance with IFRS 11, have thus been reported as "joint operations".

G38. Actively managed assets	2017	2016
Mutual fund management	3,138,849	1,462,822
Discretionary asset management	1,697,884	1,630,667
Advisory asset management	899,788	806,046
Total	**5,736,521**	**3,899,536**
Of which own funds in discretionary and advisory asset management	432,456	410,602

G39. Assets pledged	2017	2016
Collateral pledged for own liabilities		
Lending to credit institutions	8,259	12,618
Government securities and bonds	141,425	138,686
Lending to the public	1,989,354	1,664,695
Other	3,225	1,817
Total assets pledged for own liabilities	**2,142,263**	**1,817,816**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. “Lending to the public” that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. “Other assets pledged for own liabilities” refers mainly to endowment insurance.

Other assets pledged		
Government securities and bonds	20,950	27,976
Other	22,301	123,477
Total other assets pledged	**43,251**	**151,453**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability is at the free disposal of the Bank.

G40. Contingent liabilities and commitments	2017	2016
Guarantees	39,562	12,131
Unutilised overdraft limits	215,562	85,411
Unutilised credit card limits	74,126	67,034
Unutilised credit facilities	142,353	200,473
Other commitments	13,897	49,974
Total	**485,500**	**415,022**

G41. Pension liabilities

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via the pension fund known as Ålandsbanken Abps Pensionsstiftelse (a defined benefit plan). Ålandsbanken Abps Pensionsstiftelse has been closed to new participants since June 30, 1991. Persons covered by this fund are entitled to retire at age 63–65 depending on their year of birth. The full retirement pension comprises 60 per cent of pensionable salary, which is calculated according to the same principles as in the national pension system. A family pension comprises 30–60 per cent depending on whether the surviving spouse is alone or has one or more children.

According to the Finnish collective bargaining agreement in the financial services sector, employees are partially entitled to pensions at a lower age than stipulated today by general legislation. The employer is required to provide vested pension benefits in the collective agreement for the financial services sector, which was confirmed during 2017 by a Labour Court ruling.

Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit. Starting on May 1, 2013, new employees are covered by a new defined contribution supplementary pension plan known as BTP1. The BTP plan is secured through the insurance company SPP. In Sweden, the retirement pension is payable from age 65 and the guaranteed amount consists of 10 per cent of pensionable salary below 7.5 annually indexed “income base amounts” and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 16 years and in Sweden 22 years.

	2017	2016
Carrying amount in the income statement		
Current service costs	206	131
Effects of curtailments and settlements	0	0
Interest expenses	80	4
Administrative expenses	103	162
Expenses (–)/revenue (+) recognised in the income statement	**389**	**297**
Restatement of defined benefit pension plans in "Other comprehensive income"		
Actuarial gain (+)/loss (-), demographic assumptions	0	0
Actuarial gain (+)/loss (–), financial assumptions	–485	–1,561
Actuarial gain (+)/loss (–), experience-based	–1,621	–2,542
Actuarial gain (+)/loss (–) on plan assets	473	58
Other comprehensive income	**–1,633**	**–4,045**
Total	**–2,022**	**–4,342**
Carrying amount in the balance sheet		
Pension obligations	28,473	26,618
Fair value of plan assets	22,896	22,963
Net pension assets (+)/pension liabilities (–)	**–5,576**	**–3,655**
Net pension assets (+)/pension liabilities (–) in Finland	–4,442	–2,645
Net pension assets (+)/pension liabilities (–) in Sweden	–1,134	–1,010
	–5,576	**–3,655**
Net change in pension assets		
January 1	–3,655	567
Income	–389	–297
Other comprehensive income	–1,633	–4,045
Premium payments	69	73
Exchange rate effects	32	48
On December 31	**–5,576**	**–3,655**
Pension obligations		
January 1	26,618	22,859
Current service costs	206	131
Interest expenses	504	513
Benefits paid	–838	–834
Exchange rate effect	–124	–140
Actuarial gains (–)/losses (+)	2,107	4,087
Pension obligations on December 31	**28,473**	**26,618**
Plan assets		
January 1	22,963	23,426
Interest income	426	509
Premium payments	69	73
Benefits paid	–841	–834
Actuarial gains (–)/losses (+)	475	58
Exchange rate effects	–93	–107
Administrative expenses	–103	–162
Plan assets on December 31	**22,896**	**22,963**
Breakdown of plan assets		
Listed shares and participations	6,149	6,331
Listed mutual fund units	4,781	3,510
Listed interest-bearing securities	7,378	9,092
Properties	2,467	2,294
Other plan assets	2,121	1,736
Total plan assets	**22,896**	**22,963**

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 18 K (18), bonds worth EUR 664 K (756) and bank accounts worth EUR 3,241 K (1,139).

	Outcome, 2017	Forecast, 2018
Future cash flows		
Benefits paid	68	63

	2017		2016	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	1.75	3.25	1.65	3.50
Increase in salary expenses	1.80	3.00	1.80	3.00
Pension index increase	2.10	2.00	1.90	2.00

Sensitivity of defined benefit obligations to changes in significant assumptions

	Change in assumptions, %	Increase in assumption	Decrease in assumption
Sensitivity analysis, net present value of pension obligation: increase (+)/decrease (–)			
Discount rate	0.5	–2,354	2,695
Expected increase in salaries	0.5	238	–219
Expected increase in pensions	0.5	2,362	–2,061

The sensitivity analysis is based on a change in one assumption, while all other assumptions remain constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method is used as when calculating the pension liabilities recognised in the balance sheet. The sensitivity analysis for the defined benefit plan in Sweden has been calculated using a discount rate and an expected pay increase.

The Bank is exposed to a number of risks because of its defined benefit plans. The most significant risks are described below

ASSET VOLATILITY:
Pension liabilities are calculated with the help of a discount rate based on corporate bonds with good credit ratings. If plan assets generate returns worse than the discount rate, this will cause a deficit. Plan assets include a sizeable percentage of equities, which in the long term are expected to provide a higher return than the discount rate, while providing higher volatility and risk in the short term. Because of the long-term nature of pension liabilities, the Bank believes that a continued high percentage of equities is suitable for managing the plans in an effective way.

CHANGES IN BOND YIELDS:
In case the yields on corporate bonds fall, this leads to an increase in pension obligations. Partly offsetting this is the fact that the value of the bonds that are included in plan assets will increase.

INFLATION RISK:
Pension obligations are connected to inflation. Higher inflation will lead to increased pension obligations. Plan assets are not affected by inflation to any great extent, which means that if inflation increases, this will lead to an increased deficit in pension plans.

LIFE EXPECTANCY:
Pension plans generate pensions that extend through the lifetimes of employees. This means that if life expectancy increases, pension obligations will increase.

G42. Lease liabilities and rental obligations	2017	2016
Operating leases		
under 1 year	4,713	4,505
1–5 years	7,000	8,218
over 5 years	0	1,423
Total	**11,713**	**14,147**
Finance leases, present value		
under 1 year	556	869
1–5 years	1,541	2,097
over 5 years	0	0
Total	**2,097**	**2,967**
Finance leases, minimum rents		
under 1 year	614	951
1–5 years	1,614	2,228
over 5 years	0	0
Total	**2,228**	**3,178**
Interest expenses	131	212
Machinery and equipment, recognised value	1,995	2,859

Operating leases consist of rental obligations. Rental obligations mainly include business premises with fixed-period agreements of up to ten years.

The rent level is generally tied to an index and is adjusted as specified in the lease.

The Group has financial leases on IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers and servers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a predetermined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 1,030 K excluding value-added tax.

G43. Disclosures about related parties	2017			2016		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets						
Lending to credit institutions						
Lending to the public	3,207	6,814	8,280	2,738	7,032	8,592
Other assets		17			19	
Accrued income and prepayments		66			91	
Total	**3,207**	**6,897**	**8,280**	**2,738**	**7,142**	**8,592**
Liabilities						
Liabilities to credit institutions						
Liabilities to the public	1,410	4,087	302	1,059	2,321	288
Debt securities issued						
Subordinated liabilities		660			750	
Accrued expenses and prepaid income						
Total	**1,410**	**4,747**	**302**	**1,059**	**3,071**	**288**
Income and expenses						
Interest income	32	144	131	31	158	216
Interest expenses	0	–25	0	–1	–22	
Commission income	0	45	4	0	101	7
Commission expenses						
Other income		17			17	
Other expenses		1			1	
Total	**32**	**182**	**135**	**31**	**256**	**223**

The Bank of Åland Group consists of the parent company, the Bank of Åland Plc (Ålandsbanken Abp), the subsidiaries that are consolidated in the Group, associated companies, the Executive Team and other related companies. "Board and Executive Team" includes the Managing Director, individuals on the Board of Directors and other members of the Executive Team, as well as their close family members. "Related parties" includes companies or persons with significant influence. "Related companies" also refers to companies in which an individual belonging to the Executive Team or a close family member of such an individual has significant influence. "Related parties" include the pension fund Ålandsbanken Abp:s Pensionsstiftelse r.s.

Loans to employees are granted on commercial terms. "On commercial terms" means that loans, guarantees, collateral or financing occur on the same terms and according to the same assessments applied to the Bank of Åland's customers in general. The employee interest rate is used for loans to employees. The employee interest rate is set by the Executive Team and amounted to 0.45 (0.60) per cent on December 31, 2017.

All transactions with related parties have occurred on commercial terms, aside from loans to the Executive Team, which in Finland have been granted at the employee interest rate.

For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P33.

For disclosures on Group structure, see Note G37.

G44. Offsetting of financial assets and liabilities

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Financial assets and liabilities that are subject to offsetting, netting agreements or similar agreements				
Gross amount	17,780	54,407	20,907	198,565
Offset amounts				
Total	**17,780**	**54,407**	**20,907**	**198 565**
Related amounts not offset				
Financial instruments, netting agreements	−9,576	−9,576	−17,698	−17,698
Financial instruments, collateral		−10,840		−42,101
Cash, collateral	−730	−24,831	−1,585	−126,288
Total amounts not offset	**−10,306**	**−45,247**	**−19,283**	**−186,087**
Net amount	**7,474**	**9,160**	**1,624**	**12,478**

The tables report financial instruments that were offset in the balance sheet in compliance with IAS 32 and those that were covered by legally binding master netting agreements or similar agreements not qualified for netting. The financial instruments consisted of derivatives, repurchase agreements (repos) and reverse repos, securities deposits and securities loans. Collateral consisted of financial instruments or cash received or paid for transactions covered by legally binding netting agreements or similar agreements, which allow netting of obligations to counterparties in case of default. The value of the collateral was limited to the related amount recognised in the balance sheet, so the excess value of collateral is not included. Amounts not offset in the balance sheet are presented as a reduction in the carrying amount of financial assets or liabilities in order to recognise the net exposure of the asset and liability.

G45.Important events after the close of the accounting period

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

Photo: Shutterstock

Parent Company income statement

(EUR K)

Parent Company	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Interest income		64,957	66,662
Interest expenses		–10,556	–13,477
Net interest income	P2	**54,401**	**53,185**
Commission income		48,206	43,892
Commission expenses		–8,383	–6,482
Net commission income	P3	**39,822**	**37,409**
Net income from financial items carried at fair value	P5	3,847	4,783
Income from equity capital investments	P4	1,985	1,759
Other income	P6	3,544	2,205
Total income		**103,600**	**99,341**
Staff costs	P7	–38,424	–38,200
Other expenses	P8	–33,343	–32,392
Depreciation/amortisation and impairment losses on tangible and intangible assets	P18, P19	–8,206	–7,369
Total expenses		**–79,973**	**–77,961**
Profit before impairment losses		**23,627**	**21,380**
Impairment losses on loans and other commitments	P9	–2,163	–3,557
Net operating profit		**21,463**	**17,823**
Appropriations		–21,200	–18,400
Income taxes	P10	–239	–294
Net profit for the accounting period		**24**	**–871**

Parent Company balance sheet

(EUR K)

Parent Company	Note	Dec 31, 2017	Dec 31, 2016
Assets			
Cash and deposits with central banks		523,801	513,018
Debt securities eligible for refinancing with central banks	P13	633,789	503,590
Lending to credit institutions	P14	92,897	201,152
Lending to the public	P15	3,970,774	3,800,253
Shares and participations	P16	531	522
Shares and participations in associated companies	P16	0	0
Shares and participations in Group companies	P16	11,837	11,837
Derivative instruments	P17	17,780	20,907
Intangible assets	P18	30,042	32,065
Tangible assets	P19	14,118	14,738
Other assets	P20	26,438	16,637
Accrued income and prepayments	P21	23,412	20,150
Deferred tax assets	P22	420	391
Total assets		**5,345,837**	**5,135,259**
Liabilities			
Liabilities to credit institutions	P23	206,306	215,815
Liabilities to the public	P24	3,157,061	3,035,400
Debt securities issued	P25	1,599,511	1,451,616
Derivative instruments	P17	21,642	33,126
Other liabilities	P26	47,047	91,561
Provisions	P27	1,031	175
Accrued expenses and prepaid income	P28	18,589	19,838
Subordinated liabilities	P29	33,003	39,357
Deferred tax liabilities	P22	465	444
Total liabilities		**5,084,655**	**4,887,332**
Appropriations			
General loan loss reserve[1]		106,854	85,654
Total appropriations		**106,854**	**85,654**
Equity capital			
Share capital		41,949	41,674
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve		−45	−178
Fair value reserve		1,846	1,736
Translation differences		−1,292	−1,085
Unrestricted equity capital fund		27,122	26,178
Own shares		0	0
Retained earnings		26,883	36,082
Total equity capital		**154,328**	**162,273**
Total liabilities and equity capital		**5,345,837**	**5,135,259**
Off-balance sheet obligations	P37		
Obligations to a third party on behalf of customers			
Guarantees		45,100	16,425
Irrevocable commitments given on behalf of customers		380,315	298,857

[1] Loan loss provision in compliance with the Finnish Business Income Tax Act, Section 46.

Parent Company statement of changes in equity capital

(EUR K)

Parent Company	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Unrestricted equity capital fund	Own shares	Retained earnings	Total
Dec 31, 2015	**41,501**	**32,736**	**25,129**	**–357**	**1,105**	**22**	**25,188**	**–57**	**46,123**	**171,391**
Profit for the year									–871	–871
Change in fair value				178	631					810
Translation differences						–1,107				–1,107
Dividend paid									–9,160	–9,160
Incentive programme	41						263	57	–10	351
Share savings programme	132						728			860
Dec 31, 2016	**41,674**	**32,736**	**25,129**	**–178**	**1,736**	**–1,085**	**26,178**	**0**	**36,082**	**162,273**
Profit for the year									24	24
Change in fair value				133	109					242
Translation differences						–207				–207
Dividend paid									–9,201	–9,201
Incentive programme	218						618	0	–22	813
Share savings programme	57						326			383
Dec 31, 2017	**41,949**	**32,736**	**25,129**	**–45**	**1,846**	**–1,292**	**27,122**	**0**	**26,883**	**154,328**

For further data, see Note P40 and the section entitled “Facts on Bank of Åland shares”.

Parent Company cash flow statement

(EUR K)

Parent Company	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from operating activities		
Net operating profit	21,463	17,823
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	8,206	7,369
Impairment losses on loans and other commitments	2,050	3,420
Unrealised changes in value	–1,999	600
Accrued surpluses/deficits on debt securities and bonds issued	5,028	6,640
Income from investing activities	–1	515
Dividends from associated companies and subsidiaries	–1,808	–1,750
Income taxes paid	–1,696	–1,019
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	–134,131	124,393
Lending to credit institutions	100,227	–127,019
Lending to the public and public sector entities	–208,355	–254,008
Other assets	–12,120	1,982
Increase (–) or decrease (+) in liabilities from operating activities		
Liabilities to credit institutions	4,234	–72,625
Liabilities to the public and public sector entities	145,986	538,778
Debt securities issued	–13,232	–118,934
Other liabilities	–52,128	69,954
Total cash flow from operating activities	**–138,276**	**196,118**
Cash flow from investing activities		
Divestment of shares and participations	1	375
Divestment of shares in associated companies and subsidiaries	0	–1,326
Dividends received from associated companies and subsidiaries	1,808	1,750
Investment in tangible assets	–588	–526
Divestment of tangible assets	110	94
Investment in intangible assets	–5,188	–6,045
Total cash flow from investing activities	**–3,858**	**–5,677**
Cash flow from financing activities		
Issue, share savings programme/option rights	1,219	1,164
Increase in long-term borrowings from banks	99,850	–81,615
Decrease in long-term borrowings from banks	–85,634	0
Increase in covered bonds issued	255,297	248,395
Decrease in covered bonds issued	–102,246	0
Increase in subordinated debentures	2,119	6,173
Decrease in subordinated debentures	–8,375	–9,387
Dividend paid	–9,201	–9,160
Total cash flow from financial activities	**153,028**	**155,569**
Cash and cash equivalents at beginning of year	576,546	232,728
Cash flow from operating activities	–138,276	196,118
Cash flow from investing activities	–3,858	–5,677
Cash flow from financing activities	153,028	155,569
Exchange rate differences in cash and cash equivalents	–2,867	–2,191
Cash and cash equivalents at end of year	**584,573**	**576,546**
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	523,801	513,018
Claims repayable on demand from credit institutions	60,772	63,528
Total	**584,573**	**576,546**

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

"Operating activities" included interest received of EUR 63,254 K (68,872), interest paid of EUR 11,226 K (14,256) and dividend income received of EUR 177 K (9).

Photographer: Staffan Sundström

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Notes to the Parent Company financial statements

(EUR K)

P1. Parent Company accounting principles

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervisory Authority. The financial statements of the Bank of Åland Plc have been prepared in compliance with Finnish accounting standards (FAS). The Parent Company's financial statements are presented in thousands of euros (EUR K), unless otherwise stated.

Goodwill

Goodwill is amortised over 10 years.

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2017	2016
Lending to credit institutions	791	564
of which negative interest [1]	527	269
Lending to the public	62,299	64,249
of which negative interest [1]	68	3
Debt securities	911	1,367
of which negative debt securities [1]	393	3
Derivative instruments	953	470
Other interest income	4	13
Total interest income	**64,957**	**66,662**
Liabilities to credit institutions	1,358	1,787
of which negative interest [1]	1,309	1,488
Liabilities to the public	3,860	5,258
of which negative interest [1]	25	41
Debt securities issued	3,393	4,595
Subordinated liabilities	994	1,005
Derivative instruments	952	831
Other interest expenses	0	0
Total interest expenses	**10,556**	**13,477**
Net interest income	**54,401**	**53,185**

Interest income received from Group companies was EUR 232 K (206).

Interest expenses paid to Group companies was EUR 0 K (0).

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

[1] Negative interest income from investments is recognised as interest expenses, while negative interest received for liabilities is recognised as interest income.

P3. Net commission income	2017	2016
Deposits	788	816
Lending	3,469	3,988
Payment intermediation	4,429	3,950
Mutual fund commissions	13,315	12,013
Asset management commissions	11,043	9,928
Securities brokerage	11,703	10,171
Insurance commissions	63	127
Legal services	847	766
Guarantee commissions	545	268
Other commissions	2,004	1,865
Total commission income	**48,206**	**43,892**
Payment intermediation commission expenses	2,335	1,999
Mutual fund commission expenses	4	24
Asset management commission expenses	2,810	1,605
Securities brokerage commission expenses	2,400	1,893
Other commission expenses	834	962
Total commission expenses	**8,383**	**6,482**
Net commission income	**39,822**	**37,409**

P4. Income from equity capital instruments	2017	2016
Financial assets available for sale	177	9
Associated companies	8	0
Group companies	1,800	1,750
Total	**1,992**	**1,759**

P5. Net income from financial items carried at fair value						
	2017			2016		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Debt securities	0	–158	–158	0	–258	–258
Shares and participations	57	0	57	2	–8	–6
Derivative instruments	–50	960	910	–51	11	–41
Loan receivables	0	–558	–558	0	819	819
Valuation category fair value via the income statement ("profit and loss")	**7**	**245**	**252**	**–49**	**565**	**515**
Hedge accounting						
of which hedging instruments	364	–7,026	–6,662	79	–931	–852
of which hedged item	0	7,292	7,292	515	211	726
Hedge accounting	**364**	**266**	**630**	**594**	**–720**	**–126**
Net income from foreign exchange dealing	**1,489**	**1,490**	**2,979**	**2,836**	**–140**	**2,696**
Net income from financial assets available for sale	**–12**	**–2**	**–14**	**2,003**	**–306**	**1,697**
Total	**1,848**	**1,999**	**3,847**	**5,383**	**–600**	**4,783**

P6. Other income	2017	2016
Rental income on properties	77	96
Miscellaneous income	3,507	2,148
Total	**3,584**	**2,244**
Net income from investment properties		
Rental income	11	1
Capital gains	0	1
Capital losses	0	0
Impairment losses	–19	0
Other expenses	–31	–41
Total	**–40**	**–39**

P7. Staff costs	2017	2016
Salaries and fees	28,781	28,527
Compensation in the form of shares in Bank of Åland Plc	129	111
Pension expenses	5,328	5,037
Other social security expenses	4,185	4,526
Total	**38,424**	**38,200**
Number of employees		
Permanent full-time employees	450	416
Permanent part-time employees	54	86
Total	**504**	**502**

P8. Other expenses	2017	2016
IT expenses (excluding information services)	14,823	14,437
Premises and property expenses	4,191	4,178
Marketing expenses	2,549	2,651
Informational services	1,953	2,346
Staff-related expenses	1,453	1,450
Travel expenses	811	819
Purchased services	2,292	1,837
Deposit guarantee fees	21	21
Stability fee	859	0
Other expenses	4,799	5,376
Production for own use	−408	−723
Total	**33,343**	**32,392**
Fees to the Financial Stability Authority		
Deposit guarantee fee	1,519	1,381
Paid by old deposit guarantee fund	−1,519	−1,381
Stability fee	1,391	1,040
Refund of banking taxes paid in prior years	−532	−1,040
Administration fee	31	0
Total	**890**	**0**

Based on the 2017 fee level, the Bank has prepaid deposit guarantee fees for about 11 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	216	199
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	19	15
Tax matters	5	26
Other	61	22
Total	**301**	**263**

These amounts include value-added tax (VAT).

P9. Impairment losses on loans and other commitments

	2017	2016
Individual impairment losses		
New and increased impairment losses	2,584	3,921
Reversals of provisions made earlier	−529	−968
Withdrawn for actual losses	−4,354	−2,801
Actual losses	4,593	3,470
Recoveries of actual losses	−124	−438
Total	**2,170**	**3,184**
Group impairment losses		
Net provisions for the period, receivables measured by group	−9	418
Total	**−9**	**418**
Other provisions		
Net provisions for the period, interest receivables	3	−45
Total	**3**	**−45**
Total	**2,163**	**3,557**
Doubtful receivables		
Gross doubtful receivables	14,116	21,701
Individual impairment losses	8,464	10,763
Net doubtful receivables	5,652	10,938
Gross doubtful receivables as % of total	0.35	0.57
Level of individual provisions for doubtful receivables, %	60	50

	2017 Reserve for individually assessed receivables	2017 Reserve for receivables assessed by group	2017 Total	2016 Reserve for individually assessed receivables	2016 Reserve for receivables assessed by group	2016 Total
Change in reserve for probable loan losses						
Reserve on January 1	10,763	869	11,632	10,610	451	11,061
Provisions for the year	2,584	−9	2,574	3,921	418	4,339
Recovered from earlier provisions	−529		−529	−968		−968
Withdrawn for actual losses	−4,354		−4,354	−2,801		−2,801
Exchange rate effect	0		0	0		0
Reserve on December 31	**8,464**	**860**	**9,324**	**10,763**	**869**	**11,632**

Interest received for impaired receivables amounted to EUR 77 K (135) during 2017.

P10. Income taxes

	2017	2016
Income statement		
Taxes related to prior years	−13	2
Current taxes	422	363
Changes in deferred taxes	−171	−71
Total	**239**	**294**
Nominal tax rate in Finland, %	20,0	20.0
Non-taxable income/deductible expenses, %	70.0	−72.3
Taxes related to prior years, %	0.7	0.7
Other, %	0.0	0.7
Effective tax rate, %	**90.7**	−50.9
Other comprehensive income		
Current taxes	224	374
Change in deferred taxes	164	−18
Total	**388**	**356**

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014.

P11. Fair values and carrying amounts of financial assets and liabilities and fair value levels

	2017		2016	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash	523,801	523,801	513,018	513,018
Debt securities eligible for refinancing with central banks	633,789	634,313	503,590	503,788
Lending to credit institutions	92,897	92,897	201,152	201,152
Lending to the public	3,970,774	4,005,317	3,800,253	3,825,489
Shares and participations	531	531	522	522
Shares and participations in associated companies	0	0	0	0
Shares in subsidiaries	11,837	11,837	11,837	11,837
Derivative instruments	17,780	17,780	20,907	20,907
Total financial assets	**5,251,408**	**5,286,476**	**5,051,278**	**5,076,713**
Liabilities to credit institutions	206,306	206,518	215,815	216,222
Liabilities to the public	3,157,061	3,150,706	3,035,400	3,036,157
Debt securities issued	1,599,511	1,608,487	1,451,616	1,453,934
Derivative instruments	21,642	21,642	33,126	33,126
Subordinated liabilities	33,003	34,498	39,357	42,208
Total financial liabilities	**5,017,523**	**5,021,850**	**4,775,314**	**4,781,647**

	2017			
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	494,897			494,897
Lending to the public		74,176		74,176
Shares and participations	23	4	504	531
Derivative instruments	0	17,780		17,780
Total financial assets at accrued cost	**494,920**	**91,960**	**504**	**587,384**
Liabilities				
Debt securities issued		704,755		704,755
Derivative instruments	0	21,642		21,642
Subordinated liabilities		7,794		7,794
Total financial liabilities at accrued cost	0	**734,191**	**0**	**734,191**

	2016			
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	414,176			414,176
Lending to the public		18,525		18,525
Shares and participations	32	4	486	522
Derivative instruments	0	20,907		20,907
Total	**414,208**	**39,436**	**486**	**454,130**
Liabilities				
Debt securities issued		711,729		711,729
Derivative instruments	16	33,110		33,126
Subordinated liabilities		13,454		13,454
Total	16	**758,292**	**0**	**758,309**

Level 1	Instruments with quoted market prices.
Level 2	Measurement techniques based on observable market data.
Level 3	Measurement techniques based on non-observable market data.

	2017	2016
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	486	942
New purchases	0	593
Divested/reached maturity during the year	−4	−396
Realised change in value in the income statement	0	4
Unrealised change in value in the income statement	−2	−593
Change in value recognised in other comprehensive income	24	−65
Carrying amount on December 31	**504**	**486**

No transfer occurred between Level 1 and Level 2.

P12. Assets and liabilities by currency

2017	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	473,487	50,095	46	174	523,801
Debt securities eligible for refinancing with central banks	476,837	136,269	20,683	0	633,789
Lending to credit institutions	16,157	31,027	15,790	29,923	92,897
Lending to the public	2,663,798	1,282,144	24,832	0	3,970,773
Derivative instruments	13,857	3,917	0	6	17,780
Other items not allocated by currency	106,797				106,797
Total assets	**3,750,932**	**1,503,452**	**61,351**	**30,103**	**5,345,837**
Liabilities to credit institutions	141,133	63,106	458	1,608	206,306
Liabilities to the public	2,163,697	892,807	65,554	35,003	3,157,061
Debt securities issued	962,945	636,566	0	0	1,599,511
Derivative instruments	10,448	11,158	1	35	21,642
Subordinated liabilities	33,003	0	0	0	33,003
Other items not allocated by currency, including equity capital	328,314				328,314
Total liabilities and equity capital	**3,639,541**	**1,603,637**	**66,014**	**36,646**	**5,345,837**
Other assets and liabilities allocated by currency as well as off-balance sheet items		−100,163	−4,701	−6,563	
Net position in currencies (EUR)		−22	39	21	38

2016	EUR	SEK	USD	Others	Total
Cash and deposits with central banks	469,786	42,774	110	347	513,018
Debt securities eligible for refinancing with central banks	331,830	171,759	0	0	503,590
Lending to credit institutions	25,905	144,777	16,863	13,607	201,152
Lending to the public	2,581,120	1,189,172	29,960	0	3,800,253
Derivative instruments	19,455	1,443	0	9	20,907
Other items not allocated by currency	96,339				96,339
Total assets	**3,524,436**	**1,549,926**	**46,934**	**13,963**	**5,135,259**
Liabilities to credit institutions	151,325	64,029	458	3	215,815
Liabilities to the public	2,055,896	877,870	81,457	20,177	3,035,400
Debt securities issued	885,616	566,000	0	0	1,451,616
Derivative instruments	10,007	23,109	0	10	33,126
Subordinated liabilities	39,357	0	0	0	39,357
Other items not allocated by currency, including equity capital	359,945				359,945
Total liabilities and equity capital	**3,502,146**	**1,531,007**	**81,916**	**20,190**	**5,135,259**
Other assets and liabilities allocated by currency as well as off-balance sheet items		18,911	−35,019	−6,115	
Net position in currencies (EUR)		8	37	−111	−66

P13. Holdings of debt securities	2017		2016	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Debt securities eligible for refinancing with central banks				
Assets held for trading				
Covered mortgage bonds	45,200	45,506		
Debt securities issued by credit institutions	29,800	31,585	32,900	33,355
Other debt securities	3,000	3,067		
Holdings available for sale				
Government bonds	58,525	54,400	33,770	34,526
Covered mortgage bonds	227,476	230,993	269,153	273,511
Debt securities issued by credit institutions	122,106	124,271	66,914	67,701
Other debt securities	5,000	5,074	5,000	5,082
Assets held until maturity				
Government bonds	5,587	6,437	5,758	6,831
Covered mortgage bonds	91,800	93,241	56,403	57,896
Debt securities issued by credit institutions	19,611	20,245	19,828	20,637
Other debt securities	19,000	18,970	4,000	4,050
Other debt securities	**627,106**	**633,789**	**493,726**	**503,590**

P14. Lending to credit institutions	2017			2016		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Finnish credit institutions	8,973	0	8,973	2,284	0	2,284
Foreign banks and credit institutions	83,924	0	83,924	76,370	122,498	198,868
Total	**92,897**	**0**	**92,897**	**78,654**	**122,498**	**201,152**

P15. Lending to the public	2017			2016		
	Amortised cost	Carried at fair value	Total	Amortised cost	Carried at fair value	Total
Companies	591,341		591,341	579,817		579,817
Public sector entities	1,524		1,524	2,292		2,292
Households	1,929,871	18,287	1,948,158	1,867,524	18,525	1,886,049
Household interest organisations	11,939		11,939	12,521		12,521
Outside Finland	1,417,812		1,417,812	1,319,574		1,319,574
Total	**3,952,487**	**18,287**	**3,970,774**	**3,781,728**	**18,525**	**3,800,253**
of which subordinated receivables			2,481			2,367

P16. Shares and participations	2017	2016
Holdings classified as available for sale		
Listed	23	32
Unlisted	508	490
Total	**531**	**522**
Shares and participations in associated companies	0	0
Shares and participations in Group companies	11,837	11,837
Total shares and participations	**12,367**	**12,358**

P17. Derivative instruments

	Nominal amount/maturity			2017			2016		
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	8,000	20,031	65,910	93,941	1,630	2,689	90,232	2,153	4,010
Interest rate futures	0	0	0	0	0	0	7,600	0	16
Interest rate options – purchased	0	0	0	0	0	0	1,382	0	0
Currency-related contracts									
Currency forward contracts	491,996	0	0	491,996	3,919	3,554	338,304	1,383	2,493
Equity-related contracts									
Equity options – purchased	4,505	0	0	4,505	1,211	0	6,599	935	0
Equity options – written	4,505	0	0	4,505	0	1,112	4,237	0	821
Other derivative contracts	8,062	0	0	8,062	0	0	20,060	311	302
Total	**517,069**	**20,031**	**65,910**	**603,009**	**6,760**	**7,355**	**468,414**	**4,781**	**7,642**
Derivatives for market value hedge									
Interest-related contracts									
Interest rate swaps	9,814	363,520	397,571	770,905	11,020	6,645	733,234	16,126	4,858
Total	**9,814**	**363,520**	**397,571**	**770,905**	**11,020**	**6,645**	**733,234**	**16,126**	**4,858**
Derivatives for cash flow hedge									
Currency-related contracts									
Interest rate and currency swaps	50,793	0	0	50,793	0	7,200	246,009	0	19,670
Total	**50,793**	**0**	**0**	**50,793**	**0**	**7,200**	**246,009**	**0**	**19,670**
Derivatives for hedging of net investment in foreign operations									
Currency-related contracts									
Currency swaps	54,501	0	0	54,501	0	441	47,673	0	956
Total	**54,501**	**0**	**0**	**54,501**	**0**	**441**	**47,673**	**0**	**956**
Total derivative instruments	**632,177**	**383,551**	**463,481**	**1,479,209**	**17,780**	**21,642**	**1,495,330**	**20,907**	**33,126**
of which cleared	14,314	380,176	460,451	854,941	11,122	9,334	534,600	3,591	5,858

P18. Intangible assets

2017	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	26,991	32,496	6,535	66,022
Cost of intangible assets added	4,281	0	1,275	5,557
Divestments and disposals	0	0	−959	−959
Transfers between items	0	0	−30	−30
Exchange rate effects	−169	−562	−1	−732
Cost on December 31	**31,103**	**31,934**	**6,820**	**69,857**
Accumulated amortisation and impairment losses on January 1	−14,917	−14,680	−4,361	−33,957
Divestments and disposals	0	0	959	959
Amortisation for the year	−2,301	−4,347	−468	−7,115
Impairment losses for the year	0	0	−118	−118
Exchange rate effects	93	323	0	416
Accumulated amortisation and impairment losses on December 31	**−17,125**	**−18,703**	**−3,987**	**−39,815**
Residual value on December 31	**13,978**	**13,230**	**2,833**	**30,042**

	2016			
	Other software	Goodwill	Other non-current expenditures	Total
Cost on January 1	21,237	33,246	5,968	60,451
Cost of intangible assets added	5,902	0	518	6,421
Divestments and disposals	0	0	0	0
Transfers between items	0	0	49	49
Exchange rate effects	–148	–750	0	–898
Cost on December 31	**26,991**	**32,496**	**6,535**	**66,022**
Accumulated amortisation and impairment losses on January 1	–13,625	–10,620	–3,846	–28,091
Divestments and disposals	0	0	0	0
Amortisation for the year	–1,376	–4,381	–514	–6,271
Impairment losses for the year	0	0	0	0
Exchange rate effects	84	321	0	405
Accumulated amortisation and impairment losses on December 31	**–14,917**	**–14,680**	**–4,361**	**–33,957**
Residual value on December 31	**12,074**	**17,816**	**2,175**	**32,065**

P19. Tangible assets	2017			2016		
Investment properties			411			431
Properties for own use			11,701			12,174
Other tangible assets			2,005			2,133
Total			**14,118**			**14,738**
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	1,109	14,508	18,507	1,109	14,480	18,679
New acquisitions	0	62	367	0	28	487
Divestments and disposals	–27	0	–1,063	0	0	–298
Exchange rate effects	0	0	–270	0	0	–361
Cost on December 31	**1,082**	**14,570**	**17,541**	**1,109**	**14,508**	**18,507**
Accumulated depreciation on January 1	–678	–7,624	–16,374	–678	–7,089	–16,381
Depreciation for the year	0	–535	–438	0	–535	–563
Impairment losses for the year	–19	0	0	0	0	0
Divestments and disposals	27	0	1,014	0	0	221
Exchange rate effects	0	0	262	0	0	348
Accumulated depreciation on December 31	**–671**	**–8,159**	**–15,535**	**–678**	**–7,624**	**–16,374**
Revaluations on January 1		5,289			5,289	
Revaluations for the year		0			0	
Decreases during the year		0			0	
Accumulated revaluations on December 31		**5,289**			**5,289**	
Carrying amount	**411**	**11,701**	**2,005**	**431**	**12,174**	**2,133**
of which buildings	0	11,462		0	11,935	
of which land and water	0	139		0	139	
of which shares in property companies	411	100		431	100	

The carrying amount of investment properties was the same as their market value in 2017.

P20. Other assets	2017	2016
Payment intermediation receivables	1,526	0
Receivables on mutual fund settlement proceeds	21,364	12,910
Accounts receivable	594	588
Other	2,955	3,139
Total	**26,438**	**16,637**

P21. Accrued income and prepayments	2017	2016
Accrued interest income	13,211	11,507
Other accrued income	8,083	6,838
Prepaid taxes	454	0
Other prepaid expenses	1,664	1,805
Total	**23,412**	**20,150**

P22. Deferred tax assets and liabilities	2017	2016
Deferred tax assets		
Provisions	206	35
Cash flow hedge	11	45
Hedging of net investment in foreign operations	88	191
Unused tax depreciation	103	103
Shares and participations available for sale	4	10
Other	7	7
Total deferred tax assets	**420**	**391**
Deferred tax liabilities		
Financial assets available for sale		
Debt securities available for sale	465	444
Total deferred tax liabilities	**465**	**444**
Net deferred taxes	**–46**	**–53**

Accumulated appropriations included a deferred tax liability of EUR 21,371 K (17,131).

2017	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Changes in deferred taxes				
Provisions	35	171		206
Unused tax depreciation	103			103
Other	7			7
Cash flow hedge	45		–33	11
Hedging of net investment in foreign operations	191		–103	88
Debt securities available for sale	–444		–22	–465
Shares and participations available for sale	10		–6	4
Total	**–53**	**171**	**–164**	**–46**

2016	Opening balance	Recognised in income statement	Recognised in other comprehensive income	Closing balance
Changes in deferred taxes				
Provisions	0	35		35
Unused tax depreciation	67	36		103
Other	7			7
Cash flow hedge	89		–45	45
Hedging of net investment in foreign operations	0		191	191
Debt securities available for sale	–205		–238	–444
Shares and participations available for sale	–71		81	10
Total	**–113**	**71**	**–11**	**–53**

P23. Liabilities to credit institutions

	2017 Repayable on demand	2017 Other	2017 Total	2016 Repayable on demand	2016 Other	2016 Total
Central banks		130,340	130,340		130,340	130,340
Finnish credit institutions	1,801	5,000	6,801	1,052	17,800	18,852
Foreign banks and credit institutions	56,546	12,619	69,165	48,304	18,320	66,624
Total	**58,347**	**147,959**	**206,306**	**49,355**	**166,460**	**215,815**

P24. Liabilities to the public

	2017 Amortised cost	2017 Carried at fair value	2017 Total	2016 Amortised cost	2016 Carried at fair value	2016 Total
Companies	976,107		976,107	905,603		905,603
Public sector entities	100,605		100,605	92,565		92,565
Households	1,069,116		1,069,116	1,014,757		1,014,757
Household interest organisations	51,121		51,121	46,224		46,224
Outside Finland	960,112		960,112	976,250		976,250
Total	**3,157,061**	**0**	**3,157,061**	**3,035,400**	**0**	**3,035,400**

P25. Debt securities issued

	2017 Nominal value	2017 Carrying amount	2016 Nominal value	2016 Carrying amount
Certificates of deposit	158,472	158,477	153,643	153,643
of which at amortised cost	158,472	158,477	153,643	153,643
Covered bonds	1,328,537	1,331,581	1,186,225	1,193,271
of which at amortised cost	580,744	582,798	332,198	331,762
of which for fair value hedge	697,000	698,014	697,000	704,588
of which for cash flow hedge	50,793	50,770	157,027	156,921
Unsecured bonds	100,000	99,878	88,982	88,942
of which at amortised cost	100,000	99,878	0	0
of which for cash flow hedge	0	0	88,982	88,942
Index bonds (structured products)	9,587	9,575	15,825	15,760
of which at amortised cost	3,588	3,588	9,619	9,590
of which for fair value hedge	5,999	5,987	6,206	6,170
Total	**1,596,597**	**1,599,511**	**1,444,676**	**1,451,616**

P26. Other liabilities

	2017	2016
Payment transfer liabilities	19,927	17,690
Claims on securities settlement proceeds	19,330	65,855
Trade payables	1,845	1 635
Other	5,945	6,380
Total	**47,047**	**91,561**

P27. Provisions

	2017 Provisions for restructuring reserves	2017 Other provisions	2017 Total	2016 Provisions for restructuring reserves	2016 Other provisions	2016 Total
Provisions on January 1	175	0	175	0	0	0
Provisions made during the year	419	1,395	1,815	291		291
Amounts utilised	–342	–600	–942	–116	0	–116
Unutilised amounts recovered	2	0	2	0		0
Exchange rate changes	–3	–17	–20	0		0
Provisions on December 31	251	779	1,031	175	0	175

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. Other provisions consisted of severance pay.

P28. Accrued expenses and prepaid income	2017	2016
Accrued interest expenses	6,968	7,638
Other accrued expenses	10,471	10,060
Accrued taxes	0	609
Prepaid income	1,150	1,531
Total	**18,589**	**19,838**

P29. Subordinated liabilities	2017			2016		
	Nominal amount	Carrying amount	Amount in capital base	Nominal amount	Carrying amount	Amount in capital base
Debenture loan 1/2012	0	0	0	2,805	2,805	0
Debenture loan 1/2013	3,377	3,398	0	6,754	6,833	0
Debenture loan 1/2014	4,262	4,288	0	6,542	6,608	0
Debenture loan 2/2014	8,275	8,275	2,656	8,275	8,275	4,310
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	0	0	0
Capital loan	0	0	0	60	60	60
Total	**32,956**	**33,003**	**19,698**	**39,213**	**39,357**	**19,146**
Of which market value hedge	7,639	7,686	0	13,297	13,441	0

	Interest rate:	Repayment:
Debenture loan 1/2013	2.30% fixed interest	July 3, 2018
Debenture loan 1/2014	2.30% fixed interest	February 3, 2019
Debenture loan 2/2014	3.00% fixed interest	August 9, 2019
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Debenture loan 1/2016	3.75% fixed interest	August 12, 2036
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037

Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2015, 1/2016 and 1/2017 were issued with write-down clauses. In the event that the Bank of Åland's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 25 per cent (debenture loan 1/2015) and 50 per cent (debenture loans 1/2016 and 1/2017), respectively.

P30. Maturity breakdown of financial assets and liabilities					2017				
	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Financial assets									
Cash and receivable from central banks	523,801								523,801
Debt securities eligible for refinancing with central banks		25,179	47,736	38,343	424,461	87,232		10,837	633,789
Lending to credit institutions	92,897								92,897
Lending to the public and public sector entities	188,152	175,475	171,457	305,064	1,503,959	599,442	1,025,880	1,345	3,970,774
Shares and participations								12,368	12,368
Derivative instruments		3,634	1,019	798	4,065	7,187	1,077		17,780
Intangible assets								30,042	30,042
Tangible assets								14,118	14,118
Other assets								50,269	50,269
Total financial assets	**804,850**	**204,288**	**220,213**	**344,204**	**1,932,485**	**693,861**	**1,026,957**	**118,978**	**5,345,837**
Liabilities									
Liabilities to credit institutions	58,347	17,619			130,340				206,306
Liabilities to the public	2,758,302	276,759	16,527	79,454	26,019				3,157,061
Debt securities issued		99,797	96,557	172,154	881,744	347,000		2,259	1,599,511
Derivative instruments		3,708	7,489	1,114	1,159	6,887	1,285		21,642
Other liabilities								67,132	67,132
Subordinated liabilities		2,185		3,377	10,460		16,981		33,003
Equity capital and reserves								261,182	261,182
Total	**2,816,649**	**400,068**	**120,573**	**256,099**	**1,049,722**	**353,887**	**18,266**	**330,573**	**5,345,837**

	2016								
	Repayable on demand	< 3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	> 10 yrs	Not classified by maturity	Total
Financial assets									
Cash and receivable from central banks	513,018								513,018
Debt securities eligible for refinancing with central banks		44,568	20,203	47,473	309,830	71,651		9,864	503,590
Lending to credit institutions	78,654	122,498							201,152
Lending to the public and public sector entities	201,035	183,832	155,058	266,795	1,503,438	556,295	931,799	2,001	3,800,253
Shares and participations								12,358	12,358
Derivative instruments		3,781	1,452	1,367	5,325	7,147	1,835		20,907
Intangible assets								32,065	32,065
Tangible assets								14,738	14,738
Other assets								37,178	37,178
Total financial assets	**792,707**	**354,680**	**176,713**	**315,635**	**1,818,594**	**635,093**	**933,634**	**108,204**	**5,135,259**
Liabilities									
Liabilities to credit institutions	49,355	36,120			130,340				215,815
Liabilities to the public	2,789,499	104,158	35,948	84,166	21,628				3,035,400
Debt securities issued		105,338	148,990	100,998	745,114	347,000		4,176	1,451,616
Derivative instruments		5,932	12,458		1,735	11,166	1,835		33,126
Other liabilities								112,019	112,019
Subordinated liabilities		2,185	2,805	3,377	16,022		14,968		39,357
Equity capital and reserves								247,927	247,927
Total	**2,838,854**	**253,733**	**200,201**	**188,541**	**914,839**	**358,166**	**16,803**	**364,122**	**5,135,259**

P31. Claims on Group companies	2017	2016
Lending to the public	21 643	25,875
Other assets	395	277
Accrued income and prepayments	3 027	2,847
Total	**25 064**	**28,999**

P32. Liabilities to Group companies	2017	2016
Liabilities to the public	8,896	7,725
Other liabilities	1,474	1,083
Accrued expenses and prepaid income	1,577	1,588
Total	**11,946**	**10,397**

Notes concerning staff, Board of Directors and Executive Team

P33. Salaries/fees paid to the Board of Directors and Executive Team		
	2017	2016
Lampi, Nils	55	49
Taxell, Christoffer	42	41
Ceder Åsa	43	30
Karlsson, Agneta[1]	0	15
Karlsson, Anders Å	45	39
Persson Göran	37	37
Valassi Ulrika	47	45
Woivalin Dan-Erik	37	30
Wiklöf Anders	37	31
Board members	343	318
Managing Director	357	406
Other members of the Executive Team	1,490	1,685

The amount includes the value of fringe benefits. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director are based on customary terms of employment.

[1] Resigned as Board member at the 2016 Annual General Meeting.

P34. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc
See the Board of Directors and Executive Team sections.

P35. Financial transactions with related parties
See Note G43 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P36. Assets pledged	2017	2016
Assets pledged for own liabilities		
Lending to credit institutions	8,259	12,618
Government securities and bonds	141,425	138,686
Lending to the public	1,989,354	1,664,695
Other	3,225	1,817
Total assets pledged for own liabilities	**2,142,263**	**1,817,816**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. “Lending to the public” that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. “Other assets pledged for own liabilities” refers mainly to endowment insurance.

	2017	2016
Other assets pledged		
Government securities and bonds	20,950	27,976
Other	22,301	123,477
Total other assets pledged	**43,251**	**151,453**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability are at the free disposal of the Bank.

P37. Off-balance sheet commitments	2017	2016
Guarantees	45,100	16,425
Unutilised overdraft limits	233,345	95,370
Unutilised credit card limits	4,618	3,013
Unutilised loan facilities	142,353	200,473
Other commitments	13,897	49,974
Total	**439,313**	**365,255**
Guarantees for subsidiaries	5,538	4,294
Unutilised overdraft limits for subsidiaries	17,783	9,959

P38. Rental obligations	2017	2016
Rental payments due		
Under 1 year	2,567	2,629
More than 1 and less than 5 years	4,511	4,486
Total	**7,078**	**7,115**

Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

Other notes

P39. Subsidiaries and associated companies	2017		
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
Ab Compass Card Oy Ltd	Mariehamn	100	8,491
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2,505
S-Crosskey Ab	Mariehamn	60	
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
Total			**11,837**
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	25	0
Total			**0**
Housing and real estate companies			
Properties for the Group's own use			
FAB Godby Center	Finström	11	100
Total			**100**
Investment properties			
FAB Horsklint	Kökar	20	12
FAB Nymars	Sottunga	30	30
FAB Sittkoffska gården	Mariehamn	39	0
FAB Västernäs City	Mariehamn	50	300
Total			**342**

P40. Distributable profit	2017	2016
Retained earnings	26,883	36,082
Unrestricted equity capital fund	27,122	26,178
Capitalised development expenditures	−1,357	−1,064
Total	**52,648**	**61,196**

Proposed allocation of profit

According to the financial statements, distributable profit – after subtracting capitalised development expenses – including the unrestricted equity capital fund is EUR 52,647,663.14, of which the profit for the financial year is EUR 24,452.67. No significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable profit of the Bank of Åland Plc, EUR 52,647,663.14, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2017, a dividend of EUR 0.65 per share,

totalling	10,032,953.45
To be carried forward as retained earnings	42,614,709.69

Mariehamn, March 6, 2018

Nils Lampi, Chairman	Christoffer Taxell, Deputy Chairman	Åsa Ceder
Anders Å Karlsson	Göran Persson	Ulrika Valassi
Anders Wiklöf	Dan-Erik Woivalin	Peter Wiklöf, Managing Director

Auditors' Report

This document is an English translation of the auditor's report in the Swedish language. Only the auditor's report in the Swedish language is legally binding.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the year ended December 31, 2017. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and understanding, the non-audit services that we have provided to the parent company and Group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note G 11 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTERS – HOW THESE MATTERS WERE ADDRESSED IN THE AUDIT

Valuation of lending to the public and public sector entities (Accounting Principles and Notes G12, G20, P9, P15)

- Lending to the public and public sector entities ("Lending") totaled € 3,979 million as at December 31, 2017. This comprises approximately 74 per cent of the Group's total assets.
- The Group recognises impairment provisions on a collective and on an individual basis.
- Valuation of lending is subject to management judgement, especially in respect of the amount and timing of impairment losses.
- Due to the significance of the carrying amounts involved, and the judgement involved relating to impairment recognition, lending to the public and public sector entities is considered a key audit matter.

How the areas in question have been taken into account in the audit:

- We have assessed key controls for lending regarding approval, recognition and monitoring of loans and receivables. In addition, we have assessed the risk monitoring and impairment recognition principles applied.
- Our audit procedures included testing of the above-mentioned internal controls. In addition, we have assessed the most material impairment provisions recognised during the financial year.
- We have analysed the lending to the public and public sector entities using data-analyses, in order to identify loans with a higher risk for closer review.
- The analysis of recognized credit impairments has involved a review of the impairment methods used for determining collective provisions.

Net commission income and IT income (Accounting Principles and Notes G7 and P3)

- The assets managed by the Bank of Åland entitle it to fee and commission income on the grounds of the agreements entered into with customers and the cooperation parties. The Group also derives IT income based on customer agreements. Commissions and IT income are a significant item in the Group's income statement.
- The calculation of commissions and IT income comprises manual phases and the determination of revenue recognition, which may involve management judgement.
- Due to the significance of the income amount and the judgement involved, net commission and IT income are considered a key audit matter.

How the areas in question have been taken into account in the audit:

- We assessed the methods used by the Bank of Åland for calculation of mutual fund and asset management commissions and IT income.
- Our review of the revenue recognition principles focused on key controls around the billing and fee calculation processes. Our audit procedures involved an assessment of the functionality of the revenue recognition processes for mutual fund and asset management commissions and IT income.
- Our audit procedures included, among others, testing of commission calculations on a sample basis, as well as assessment of the underlying related agreements and fund statutes where fees have been defined.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were appointed as auditors by the Annual General Meeting in 2013, and our appointment represents a total period of uninterrupted engagement of 5 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report. We have obtained the report of the Board of Directors and the Annual Report prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 6, 2018

Marcus Tötterman Authorised Public Accountant, KHT	Mari Suomela Authorised Public Accountant, KHT	Daniel Haglund Authorised Public Accountant, HT
KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki	KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki	KPMG Oy Ab Töölönlahdenkatu 3 A 00100 Helsinki

Corporate Governance Statement

Photographer: Staffan Sundström

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2017.

Finnish Corporate Governance Code

The Finnish Corporate Governance Code ("the Code"), which is available on the website *www.cgfinland.fi*, is intended to be followed by companies listed on the Nasdaq OMX Helsinki ("Helsinki Stock Exchange"). The current Code went into effect on January 1, 2016 and replaced the previous Finnish Corporate Governance Code from 2010. The Code is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Mariehamn, Finland. The Bank is subject to the Finnish Companies Act and the Bank's Articles of Association as well as applying the Code. The Corporate Governance Statement has been prepared in compliance with the Code's reporting instructions and according to the Finnish Securities Market Act, Chapter 7, Section 7.

In applying the Code, the Bank departs from Recommendation 15, "Appointment of members to committees", since the Bank's Compensation Committee includes one co-opted member who is not a member of the Bank's Board of Directors. The co-opted member is also Chairman of the Committee. The purpose of this departure is to broaden the Compensation Committee's experience and expertise base on compensation matters. The need for outside expertise is assessed separately before each appointment date.

Board of Directors

COMPOSITION OF THE BOARD

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting (AGM). The Board's term of office ends at the closing of the next AGM after the election. The Board shall consist of at least five and at most eight members. During 2017, the Board consisted of eight members. The Managing Director may not be a member of the Board.

PRESENTATION OF BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

Composition of the Board, 2017

Name, main occupation and education	Year of birth Board members since what year Place of residence	Board members' shareholdings in the Bank on December 31, 2017 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies.
Nils Lampi, Chairman CEO, Wiklöf Holding Ab Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland	Series A shares: 500 Series B shares: 700
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland	Series A shares: 0 Series B shares: 1,000
Åsa Ceder CEO, Försäkringsaktiebolaget Pensions-Alandia Master of Science in Economics	Born 1965 Member since 2016 Mariehamn, Åland	Series A shares: 0 Series B shares: 0
Anders Å Karlsson Business owner Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland	Series A shares: 3,000 Series B shares: 1,500
Göran Persson Studies at Örebro University	Born 1949 Member since 2015 Flen, Sweden	Series A shares: 0 Series B shares: 0
Ulrika Valassi Business owner Master of Business Administration	Born 1967 Member since 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Anders Wiklöf Business owner Doctor of Economics (honorary) Commercial Counsellor	Born 1946 Member since 2006 Mariehamn, Åland	Series A shares: 1,605,496 Series B shares: 1,326,549
Dan-Erik Woivalin CEO, Ålands Ömsesidiga Försäkringsbolag Master of Laws Attorney at Law	Born 1959 Member since 2013 Mariehamn, Åland	Series A shares: 0 Series B shares: 0

THE BOARD'S ASSESSMENT OF THE INDEPENDENCE OF ITS MEMBERS IN RELATION TO THE BANK AND MAJOR SHAREHOLDERS

In the assessment of the Board of Directors, the Chairman of the Board and all other Board members are independent of the Bank.

Christoffer Taxell, Anders Å Karlsson and Ulrika Valassi are also independent in relation to major shareholders. Nils Lampi, Chairman of the Board, is deemed to be dependent in relation to a major shareholder since he is CEO of Wiklöf Holding, which is a major shareholder in the Bank. Åsa Ceder is deemed to be dependent in relation to a major shareholder since she is CEO of the pension insurance company Försäkrings-aktiebolaget Pensions-Alandia, part of Alandia Försäkring, which is a major shareholder in the Bank. Göran Persson is deemed to be dependent in relation to a major shareholder in the Bank due to his position as a Board member of Wiklöf Holding Ab, which is a major shareholder in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank. Dan-Erik Woivalin is deemed to be dependent on a major shareholder, since he is CEO of Ålands Ömsesidiga Försäkringsbolag.

THE WORK OF THE BOARD

The Board of Directors oversees the administration of the Bank's affairs and is responsible for ensuring that its operations are appropriately organised. The Board is also responsible for overall policy and strategy issues and for ensuring that risk oversight is sufficient and that management systems are working. The duties of the Board also include appointing and, if necessary, dismissing the Managing Director, his deputy and other members of the Executive Team, as well as deciding their salary benefits and other employment conditions. The Board shall constitute a quorum when more than half its members are present.

The Board has established Group-wide internal Rules of Procedure for its work. These Rules of Procedure, which are evaluated annually and revised as needed, mainly regulate the division of labour between the Board, the Managing Director and other members of the Executive Team.

The Board of Directors, which meets after being convened by the Chairman of the Board, regularly discusses the economic situation in the financial markets. Supported by the Managing Director's recurrent reports on operational activities, the Board monitors the strategy, financial outcomes and overall long-term objectives of the Bank's operations. Beyond this, the Board deals with other matters raised in compliance with the Annual Accounts Act, the Articles of Association and other regulations that affect the Bank's operations and administration, as well as matters referred by individual Board members and by the Executive Team.

EVALUATION OF THE WORK OF THE BOARD

The Board of Directors conducts a yearly internal evaluation of its performance and its work. The evaluation includes a questionnaire in which each Board member assesses the work of the Board during the year. The Chairman of the Board also has individual conversations with each Board member. Led by the Chairman of the Board, the evaluation is also discussed and dealt with at a subsequent Board meeting, and decisions are made on actions to be taken as a result of the evaluation.

BOARD MEETINGS

During 2017, the Board held 16 (16) meetings. The Board members' average attendance was 95 (91) per cent. During 2017, each Board member attended Board and committee meetings as follows:

Attendance at Board meetings, 2017

Board member	Board meetings Total number: 16 Number until 2017 AGM: 4
Nils Lampi	16/16
Christoffer Taxell	16/16
Åsa Ceder	14/16
Anders Å Karlsson	16/16
Göran Persson	15/16
Ulrika Valassi	16/16
Anders Wiklöf	15/16
Dan-Erik Woivalin	13/16

DIVERSITY PRINCIPLES

The Bank of Åland seeks a good balance in the allocation of Board members, with an equal allocation between the genders. Both genders shall thus be represented in the proposal that is presented on the occasion of each nomination as a new Board member.

The committees of the Board

NOMINATION COMMITTEE

The main duty of the Nomination Committee is to prepare proposals before the AGM regarding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

Rules on how the Nomination Committee is appointed were established by the 2015 AGM. The Nomination Committee consists of four members: the Chairman of the Board and representatives of the three largest shareholders in the Bank in terms of voting power on November 1 of each year. If the Chairman of the Board represents any of the above shareholders, or in case a shareholder abstains from participating in the Nomination Committee, the right of membership is transferred to the next largest shareholder. The representative of the largest shareholder in terms of voting power is Chairman of the Nomination Committee.

Since December 2016, the Nomination Committee has consisted of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Jan Hanses, representing the insurance company Alandia Försäkring; and Dan-Erik Woivalin, representing Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is Chairman of the Nomination Committee.

Until the Annual General Meeting in April 2017, the composition of the Nomination Committee was the same.

During 2017 the Nomination Committee met 1 (5) time. The average attendance of Committee members was 100 (100) per cent.

Attendance at Nomination Committee meetings, 2017

Member	Nomination Committee meetings Total number: 1 Number until 2017 AGM: 1
Nils Lampi	1/1
Anders Wiklöf, *Chairman of the Committee*	1/1
Jan Hanses	1/1
Dan-Erik Woivalin	1/1

AUDIT COMMITTEE

The Board of Directors, which appoints the members of the Audit Committee, has established its duties in Rules of Procedure. The Audit Committee assists the Board, among other things, in fulfilling its duties in overseeing the internal control and risk management systems, reporting, the audit process and observance of laws and regulation. In addition, before the AGM the Audit Committee prepares proposals for the election of auditors and their fees. The Chairman of the Audit Committee reports regularly to the Board about the work and observations of the Committee.

Since the 2017 AGM, the Audit Committee has consisted of Nils Lampi, Chairman of the Board; and Board members Åsa Ceder, Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. During 2017 the Audit Committee met 9 (9) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Audit Committee meetings, 2017

Member	Audit Committee meetings Total number: 9 Number until 2017 AGM: 3
Nils Lampi	9/9
Åsa Ceder	9/9
Anders Å Karlsson	9/9
Ulrika Valassi, *Chairman of the Committee*	9/9

COMPENSATION COMMITTEE

The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

Since the 2017 AGM, the Compensation Committee has consisted of Nils Lampi, Chairman of the Board; Board member Christoffer Taxell and former Board member Agneta Karlsson as a co-opted member and Chairman of the Committee.During 2017 the Compensation Committee met 3 (3) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Compensation Committee meetings, 2017

Member	Audit Committee meetings Total number: 3 Number until 2017 AGM: 1
Nils Lampi	3/3
Christoffer Taxell	3/3
Agneta Karlsson, *Chairman of the Committee*	3/3

Managing Director

Since 2008 the Managing Director of the Bank has been Peter Wiklöf, Master of Laws (born 1966). The Managing Director's shareholdings in the Bank can be seen in the table to the right.

Among other things, the Managing Director is responsible for the day-to-day administration of the Bank and for ensuring that this is managed in compliance with law, the Articles of Association, other regulations and the instructions and directions of the Board. In addition, the Managing Director is responsible for ensuring that the decisions of the Board are implemented. The Managing Director reports regularly to the Board.

The Managing Director is appointed and dismissed by the Board of Directors. His employment conditions are established in a written contract that is approved by the Board.

The Group's Executive Team – other members

The Board appoints the other members of the Group-wide Executive Team.

The other members of the Executive Team advise the Managing Director, and the Executive Team deals with all major Bank-wide issues.

The Executive Team consists of the heads of the Bank's business areas and corporate units.

Their shareholdings in the Bank can see seen in the table to the right.

During 2017 the Executive Team met on 12 (12) occasions.

DISCLOSURES ABOUT EXECUTIVE TEAM MEMBERS, INCLUDING THE MANAGING DIRECTOR, AND THEIR SHAREHOLDINGS IN THE BANK

The Group-wide Executive Team, 2017–2018

Composition of the Executive Team and its members' areas of responsibility	Education Year of birth Executive Team member since what year	Shareholdings in the Bank on December 31, 2017 (direct ownership or via companies which the person controls). There are no shareholdings in other Bank of Åland Group companies.
Peter Wiklöf Managing Director, Chief Executive Chairman of the Executive Team	Master of Laws Born 1966 Member since 2008	Series A shares: 500 Series B shares: 16,540
Jan-Gunnar Eurell Chief Financial Officer Deputy Managing Director	Bachelor of Science (Economics) Master of Business Administration Born 1959 Member since 2011	Series A shares: 0 Series B shares: 17,963
Tove Erikslund Chief Administrative Officer	Master of Business Administration Born 1967 Member since 2006	Series A shares: 0 Series B shares: 2,914
Magnus Johansson Director, Sweden Business Area	Bachelor of Science (Economics) Born 1972 Member since January 16, 2017	Series A shares: 0 Series B shares: 11,740
Mikael Mörn Director, Åland Business Area	Associate of Arts in Commerce Born 1965 Member from February 1, 2017	Series A shares: 0 Series B shares: 710
Juhana Rauthovi Chief Risk & Compliance Officer	Licentiate in Laws, M.Sc. (Econ.), M.Sc. (Tech.) Master in International Management Born 1975 Member since 2012	Series A shares: 0 Series B shares: 7,883
Anne-Maria Salonius Director, Finnish Mainland Business Area	Master of Laws Attorney at Law Born 1964 Member since 2010	Series A shares: 0 Series B shares: 2,563

EVALUATION OF THE WORK OF THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

The Board of Directors, led by the Chairman of the Board, evaluates the work of the Managing Director and the rest of the Executive Team yearly. The Managing Director and other members of the Executive Team do not attend this evaluation.

Internal controls and risk management systems related to the financial reporting process

GENERAL

Internal controls and risk management in the financial reporting process are an integral element of operational systems and daily routines. To achieve this integration, the Group employs clear and easily accessible internal instructions. In developing new systems, products, services and/or routines, internal controls are taken into account.

The organisation has clearly defined responsibilities and powers as well as clear reporting mechanisms.

FINANCIAL REPORTING PROCESS

The fundamental principles of internal controls in the financial reporting process are a clear allocation of roles as well as instructions and an understanding of how financial results are achieved.

The Group's reporting is compiled centrally by Group Finance. This department is responsible for the consolidated accounts and the consolidated financial statements, accounting principles, policy documents and instructions, financial control systems, tax analysis, reporting to regulatory authorities and publication of financial information. The respective subsidiaries are responsible for ensuring that their accounts meet the Group's standards, and they report monthly to their company's management and Group Finance.

The Internal Auditing Department assists the external auditors with the examination of financial information in accordance with an audit plan drawn up in advance. Internal Auditing is an independent unit and works on behalf of the Board of Directors.

External auditors examine the Group's interim reports, half-year financial report, Annual Report and Corporate Governance Statement and submit an auditors' report to the Audit Committee and to the Group's Board of Directors.

The Group's Executive Team deals with the Group's internal financial reporting every month and with the interim reports, half-year financial report or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examining the quarterly financial reports, the half-year financial report and the annual financial statements, as well as dealing with the observations of the external and internal auditors.

The Board of Directors deals with interim reports, the half-year financial report or the Annual Report every quarter and receives the Group's internal financial reporting every month. The Board also examines the auditors' reports, audit plans and conclusions of the external auditors concerning interim reports, the half-year financial report and the Annual Report. The Board meets with the external auditors at least once a year.

RISK MANAGEMENT

The Group's ambition is to pursue its operations with reasonable and carefully considered risks. Its profitability directly depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the Group's reputation as well as contribute to higher profitability and shareholder value.

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector. These claims mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting.

The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring, compliance with regulations, portfolio analysis and the loan granting process. This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Management. The Risk Office is also responsible for informational and corporate security in the Group.

The corporate unit also ensures that risks and risk management live up to the Bank's risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. The Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the regulations and instructions of the Finnish Financial Supervisory Authority and legislation, the main foundations of the Group's risk management are the European Union's Capital Requirements Directive and Regulation, which are based on the regulations of the Basel Committee. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the "Risks and risk management" section in the Group's Annual Report.

LENDING STRUCTURE

At the Bank, the Premium Banking and Private Banking units are responsible for their respective loans. Those employees who work with lending have personal loan granting limits for those customers that they are responsible for. In Åland there is also a corporate lending unit. Customer and loan responsibility rests with the head of the office along with those responsible for employees according to the above-mentioned structure. If larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units due to their size. The largest matters are decided by the Bank's Board of Directors.

COMPLIANCE

Monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance Department, with a focus on customer protection, behaviour in the market, combating money laundering and the financing of terrorism as well as permitting and regulatory matters. The Compliance Department regularly reports its observations to the Bank's Executive Team and Board of Directors.

Internal Auditing

The Internal Auditing Department is an independent department that reports directly to the Board of Directors.

The purpose of internal auditing work is to provide the Board and the Executive Team with objective and independent assessments of operational activities, operational business and management processes and the Group's risk management, governance and controls.

Internal Auditing reports regularly to the Board, the Audit Committee and the Executive Team. The Board adopts a yearly plan for internal auditing work.

Special decision making procedure concerning related party transactions

Decisions on loans to related parties who are entitled to the employee interest rate are made by the Bank's Board of Directors.

Insider administration

In their capacities as an investment firm and a fund management company, respectively, the Bank of Åland and its subsidiary Ålandsbanken Fondbolag maintain insider registers of persons who are classified as insiders in the respective companies in accordance with the Act on Investment Services or the Act on Mutual Funds. The holdings of these insiders in listed Finnish securities are public information. Their holdings are updated automatically in the insider registers. Holdings of insiders at Ålandsbanken Fondbolag in that company's mutual funds are also public information.

Starting on July 3, 2016, when the European Union's Market Abuse Regulation entered into force, the Bank – in its capacity as a listed company – only maintains project-specific insider lists. These project-specific insider lists are established immediately when information that the Bank deems insider information arises. Persons included on project-specific insider lists are prohibited from trading in the Bank's financial instruments as long as they are included on such a list. The Bank does not maintain any permanent insider list, or any list of persons who participate in the preparation of interim reports and annual accounts. According to the EU's Market Abuse Regulation, persons discharging managerial responsibilities at the Bank and persons closely associated with them are obligated to immediately report their transactions in the Bank's financial instruments. The Bank publishes stock exchange releases on these transactions.

In accordance with the EU's Market Abuse Regulation and the insider regulations of the Helsinki Stock Exchange, the Bank of Åland Group has introduced a trading restriction, under which persons in management positions as well as all Group employees may not trade in the Bank's financial instruments during a 30-day period before and including the publication date of the Bank's financial reports. The trading restriction also includes minors for whom persons in management positions or Group employees are guardians, as well as organisations in which people in management positions or Group employees have a controlling influence.

The Bank has a silent period in relation to analysts, investors and media for one month prior to the publication of an interim report or year-end report.

For employees who participate in providing investment services, the Bank also applies Group-wide trading restrictions that are based on the trading rules established by such professional organisations as Finance Finland, the Swedish Securities Dealers Association and the Swedish Investment Fund Association.

The Bank's Legal Affairs Department regularly monitors information reported to the insider register and insider lists, as well as information about people in management positions and their related parties. The Bank's Compliance Department regularly monitors employee compliance with the trade restrictions in force.

Auditors

According to its Articles of Association, the Bank shall have at least three auditors and the necessary number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest AGM in 2016 re-elected Marcus Tötterman and Mari Suomela, Authorised Public Accountants (CGR), as auditors. Jessica Björkgren, Authorised Public Accountant (GR), was also elected as a new auditor. The CGR-affiliated firm of KPMG Oy Ab was re-elected as deputy auditor.

During the summer of 2017, Jessica Björkgren left her assignment due to parental leave. In its capacity as deputy auditor, on July 14, 2017, KPMG Oy Ab appointed Tomi Liukkonen, Authorised Public Accountant (CGR) as her successor. Since Tomi Liukkonen chose to end his employment at KPMG Oy Ab, on January 9, 2018, Daniel Haglund, Authorised Public Accountant (GR) was appointed as his replacement. During 2017, Group companies paid a total of EUR 337,711 (273,448) including value-added tax for auditing fees. In addition, they paid EUR 129,736 (116,077) including VAT for consulting assignments performed by KPMG Oy Ab.

Compensation to the Board, Managing Director and other Executive Team members

The Bank's compensation statement, including its compensation report for 2017, has been published in Swedish and Finnish on the Bank's website *www.alandsbanken.fi*.

Board of Directors

Nils Lampi

CHAIRMAN

CEO, Wiklöf Holding Ab
Bachelor of Economic Sciences
Born 1948
Chairman of the Board since 2013
Board member since 2013

Shareholdings in Bank of Åland Plc*:
Series A shares: 500 Series B shares: 700

Christoffer Taxell

DEPUTY CHAIRMAN

Master of Laws
Born 1948
Deputy Chairman of the Board since 2013
Board member since 2013

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 1,000

Åsa Ceder

CEO, Försäkringsaktiebolaget Pensions-Alandia
Master of Science in Economics
Born 1965
Board member since 2016

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Anders Å Karlsson

Business owner
Bachelor of Commerce
Born 1959
Board member since 2012

Shareholdings in Bank of Åland Plc*:
Series A shares: 3,000 Series B shares: 1,500

Göran Persson

Born 1949
Board member since 2015

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Ulrika Valassi

Business owner
Master of Business Administration
Born 1967
Board member since 2015

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Anders Wiklöf

Business owner
Doctor of Economics (honorary), Commercial Counsellor
Born 1946
Board member since 2006

Shareholdings in Bank of Åland Plc*:
Series A shares: 1,605,496 Series B shares: 1,326,549

Dan-Erik Woivalin

CEO, Ålands Ömsesidiga Försäkringsbolag
Master of Laws, Attorney at Law
Born 1959
Board member since 2013

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: None

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website *www.alandsbanken.fi*

* Shareholdings in the Bank on December 31, 2017 (direct ownership or via companies which the person controls).
There are no shareholdings in other Bank of Åland Group companies.

Executive Team

Peter Wiklöf

Managing Director. Chief Executive
Master of Laws
Born 1966
Chairman and member of the Executive Team since 2008

Shareholdings in Bank of Åland Plc*:
Series A shares: 500 Series B shares: 16,540

Jan-Gunnar Eurell

Chief Financial Officer. Deputy Managing Director
Master of Business Administration, Bachelor of Science (Economics)
Born 1959
Member of the Executive Team since 2011

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 17,963

Tove Erikslund

Chief Administrative Officer
Master of Business Administration
Born 1967
Member of the Executive Team since 2006

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 2,914

Magnus Johansson

Director, Sweden Business Area
Bachelor of Science (Economics)
Born 1972
Member of the Executive Team since 2017

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 11,740

Mikael Mörn

Director, Åland Business Area
Associate of Arts in Commerce
Born 1965
Member of the Executive Team since 2017

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 710

Juhana Rauthovi

Chief Risk & Compliance Officer
Licentiate in Laws, MSc (Econ), MSc (Tech),
Master in International Management
Born 1975
Member of the Executive Team since 2012

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 7,883

Anne-Maria Salonius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws
Born 1964
Member of the Executive Team since 2010

Shareholdings in Bank of Åland Plc*:
Series A shares: None Series B shares: 2,563

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website *www.alandsbanken.fi*

* Shareholdings in the Bank on December 31, 2017 (direct ownership or via companies which the person controls).
There are no shareholdings in other Bank of Åland Group companies.

Definitions

ACTIVELY MANAGED ASSETS
Actively managed assets include managed assets in the Bank's own mutual funds plus securities custodial accounts with discretionary and advisory asset management agreements.

ALTERNATIVE PERFORMANCE MEASURES
Alternative performance measures are financial metrics of historical or future earnings developments, financial position or cash flow that have not been defined in applicable accounting regulations (IFRSs) or capital requirements regulations (CRD/CRR).

The Bank of Åland uses alternative performance measures when they are relevant in order to monitor and describe the Bank's financial situation, to facilitate comparability between periods and to provide additional usable information to the readers of its financial reports.

These measures are not necessarily comparable to similar financial metrics that are presented by other companies.

CAPITAL BASE
Total of Tier 1 capital and Tier 2 (supplementary) capital.

CAPITAL COVER RATIO
Capital base divided by risk exposure amount.

COMMON EQUITY TIER 1 (CET1) CAPITAL
Equity capital excluding proposed dividend, deferred tax and intangible assets and certain other adjustments according to the European Union's Capital Requirements Regulation No. 575/2013 (CRR).

COMMON EQUITY TIER 1 (CET1) CAPITAL RATIO
Common equity Tier 1 (CET1) capital divided by risk exposure amount. Replaces "core Tier 1 capital" concept.

CORE FUNDING RATIO
Lending to the public divided by deposits including certificates of deposit, index bonds and debentures issued to the public plus covered bonds issued.

EARNINGS PER SHARE
Shareholders' portion of earnings for the period divided by average number of shares

EQUITY/ASSETS RATIO
Equity capital as a percentage of balance sheet total.

EQUITY CAPITAL PER SHARE
Shareholders' portion of equity capital divided by number of shares less own shares on closing day.

EXPENSE/INCOME RATIO
Total expenses divided by total income.

GROSS EQUITY/ASSETS RATIO
Tier 1 capital divided by balance sheet total plus certain off-balance sheet items recalculated using conversion factors defined in the standardised approach.

GROSS NON-PERFORMING RECEIVABLES, %
Gross doubtful receivables divided by lending to the public before provisions for impairment losses.

INVESTMENT MARGIN
Net interest income as percentage of average* balance sheet total.

LEVEL OF PROVISIONS FOR DOUBTFUL RECEIVABLES
Provisions for individual impairment losses as a percentage of gross doubtful receivables.

LIQUIDITY COVERAGE RATIO
High-quality liquid assets as a percentage of estimated net liquidity outflow during a 30-day period.

LOAN LOSS LEVEL
Net impairment losses on loan portfolio and other commitments divided by lending to the public at the beginning of the period.

NET STABLE FUNDING RATIO (NSFR)
Available stable funding as a percentage of necessary stable funding.

RETURN ON EQUITY AFTER TAXES (ROE)
Profit for the report period attributable to shareholders divided by average shareholders' portion of equity capital.

RISK EXPOSURE AMOUNT
Assets and off-balance sheet commitments, risk-weighted according to capital adequacy regulations for credit risk and market risk. Operational risks are calculated and expressed as risk exposure.

TIER 1 CAPITAL
Common equity Tier 1 (CTE1) capital including certain loss-absorbing subordinated debentures ("additional Tier 1 capital").

TIER 2 (SUPPLEMENTARY) CAPITAL
Mainly subordinated debentures that do not meet requirements to be included as additional Tier 1 capital.

* Average of 13 end-of-month figures.

Stock exchange releases, 2017

January

January 16, 2017	Changes in the Bank of Åland's Executive Team

February

February 14, 2017	Year-end Report for the period January–December 2016
February 23, 2017	Change in the number of shares and votes in the Bank of Åland Plc
February 23, 2017	Managers' transactions (Rauthovi)
February 23, 2017	Managers' transactions (Salonius)
February 23, 2017	Managers' transactions (Wiklöf)
February 23, 2017	Managers' transactions (Eurell)
February 23, 2017	Managers' transactions (Johansson)
February 23, 2017	Managers' transactions (Mörn)
February 23, 2017	Managers' transactions (Erikslund-Henriksson)

March

March 9, 2017	The 2016 Annual Report of the Bank of Åland Plc, with the future outlook for 2017
March 9, 2017	Notice to convene the Annual General Meeting
March 9, 2017	Correction: The 2016 Annual Report of the Bank of Åland Plc, with the future outlook for 2017
March 9, 2017	Targeted issue of Series B shares for implementation of incentive programme
March 27, 2017	Managers' transactions (Johansson)

April

April 3, 2017	Managers' transactions (Wiklöf)
April 6, 2017	Decisions at the 2017 Annual General Meeting of the Bank of Åland Plc
April 12, 2017	Managers' transactions (Johansson)
April 25, 2017	Interim Report for the period January–March 2017

May

May 5, 2017	Bank of Åland taking over Allra's funds in the premium pension system in Sweden*

July

July 20, 2017	Half-year Financial Report for the period January–June 2017

October

October 24, 2017	Interim Report for the period January–September 2017
October 24, 2017	Financial information and Annual General Meeting, 2018

November

November 28, 2017	Notification of an application for the admission of a security to trading in a regulated market

December

December 29, 2017	Subscription of Series B shares as part of implementation of 2014 option programme

* Published in Swedish and Finnish only.

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