Annual Report 2019

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

Table of contents

Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2020 financial year:

- January–March Interim Report — April 24, 2020
- January–June Half-Year Financial Report — July 17, 2020
- January–September Interim Report — October 22, 2020

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 6,700-island Åland archipelago has more than 29,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2019, the middle rate for EUR 1 was USD 1.1234 and SEK 10.4468.

"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: Painting by Jonas Wilén

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 two subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Fondbolag Ab and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- In the Åland Islands, the Bank of Åland is a bank for all residents and is both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®.
- 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 Åland Index, launched in 2016, has become established as an international standard for measuring the climate impact of consumption.
- 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 2019 amount, over the years the Bank's Baltic Sea Account (formerly the Environmental Account) has contributed almost EUR 2.3 M to projects that improve and protect the environment.

Bank of Åland Group	2019	2018	2017	2016	2015
EUR M					
Income					
Net operating profit	33.2	29.0	26.0	25.1	30.3
Profit for the year attributable to shareholders	26.3	22.9	20.7	19.7	24.3
Volume					
Receivables from the public and public sector entities	4,110	4,022	3,979	3,808	3,617
Deposits from the public	3,368	3,304	3,148	3,028	2,517
Actively managed assets [1]	6,343	5,177	5,737	3,900	3,927
Equity capital	258	242	234	222	213
Risk exposure amount	1,583	1,578	1,538	1,576	1,581
Financial ratios					
Return on equity after taxes (ROE), % [2]	10.7	9.8	9.1	9.1	12.0
Expense/income ratio [3]	0.73	0.77	0.78	0.76	0.73
Loan loss level, % [4]	0.08	0.02	0.06	0.11	0.09
Core funding ratio, % [5]	90	90	88	89	100
Equity/assets ratio, % [6]	4.6	4.4	4.4	4.3	4.6
Common equity Tier 1 capital ratio, % [7]	13.4	13.0	12.9	11.8	12.0
Working hours re-calculated to full-time equivalent positions	700	691	691	683	663
Earnings per share, EUR	1.69	1.48	1.35	1.29	1.60
Equity capital per share, EUR	16.61	15.67	15.14	14.50	14.00
Dividend per share, EUR	1.00	0.70	0.65	0.60	0.60

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

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

[3] Expenses/Income.

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

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

[6] Equity capital/Balance sheet total.

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

The year 2019 in brief

Financial summary of 2019

- Profit for the year attributable to shareholders increased by 15 per cent to EUR 26.3 M (22.9).
- Earnings per share increased by 14 per cent to EUR 1.69 (1.48).
- Return on equity after taxes (ROE) increased to 10.7 (9.8) per cent.
- Net interest income decreased by 1 per cent to EUR 53.9 M (54.5).
- Net commission income increased by 7 per cent to EUR 58.0 (54.3).
- Total expenses were at an unchanged level and amounted to EUR 97.5 M (97.8).
- Net impairment losses on financial assets (including recoveries) amounted to EUR 3.2 M (0.8), equivalent to a loan loss level of 0.08 (0.02) per cent.
- Actively managed assets increased by 23 per cent to EUR 6,343 M (5,177).
- Receivables from the public increased by 2 per cent to EUR 4,110 M (4,022).
- Deposits increased by 2 per cent to EUR 3,368 M (3,304).
- The common equity Tier 1 capital ratio increased to 13.4 (13.0) per cent.
- The Board of Directors proposes a regular dividend of EUR 0.80 (0.70) per share plus an anniversary dividend of EUR 0.20.

Important events in 2019

FIRST QUARTER

- For the sixth 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.
- Together with its customers, the Bank of Åland is continuing its commitment to a cleaner Baltic Sea. The Baltic Sea Project contributed EUR 300,000 to various projects that promote the health of the Baltic Sea.

SECOND QUARTER

- The Annual General Meeting on April 3, 2019 re-elected the Board of Directors consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Göran Persson, Ulrika Valassi and Anders Wiklöf. 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. Göran Persson resigned from the Board on April 29, however, in light of his nomination as Chairman of the Board of Swedbank AB (publ).
- The Bank of Åland launched a new sustainable bond fund, Ålandsbanken Green Bond ESG. The fund was granted the Nordic Swan Ecolabel, making it the first Finnish bond fund to carry this label. The fund invests in green bonds and in bonds issued by companies with the best sustainability ratings.
- The Bank of Åland signed a declaration of intent to form a new Swedish mortgage company together with a number of other parties.

THIRD QUARTER

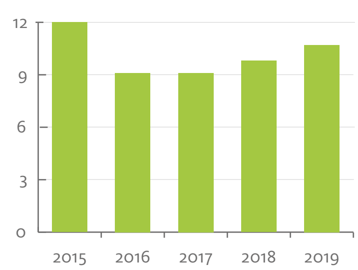
- The Bank of Åland – together with ICA Bank, Ikano Bank, Söderberg & Partners and Borgo – signed an agreement on establishing a joint mortgage company in the Swedish market. The Bank of Åland, along with its subsidiary Crosskey, will supply platform solutions for the new mortgage company, as well as contributing their existing knowledge about mortgage management.
- Compass Card was merged with the Bank of Åland, since an independent subsidiary is no longer needed in order to carry out the Bank's card business.

FOURTH QUARTER

- Crosskey acquired the Finnish software company Model IT Oy.
- Åland Index Solutions, a joint venture between the Bank of Åland and the Swedish fintech startup Doconomy, was established.
- Banks with over 40 million customers worldwide announced that thanks to Åland Index Solutions, they can now offer their customers tools to measure their climate impact.
- The Bank of Åland signed the United Nations Principles for Responsible Banking, created through cooperation between the UN Environmental Programme's Finance Initiative (UNEPFI) and the global financial services sector.
- ICA Bank began to distribute home mortgage loans in the Bank of Åland balance sheet.

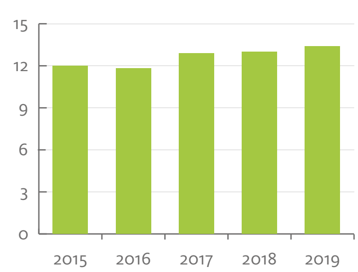
Return on equity after taxes (ROE)

Per cent



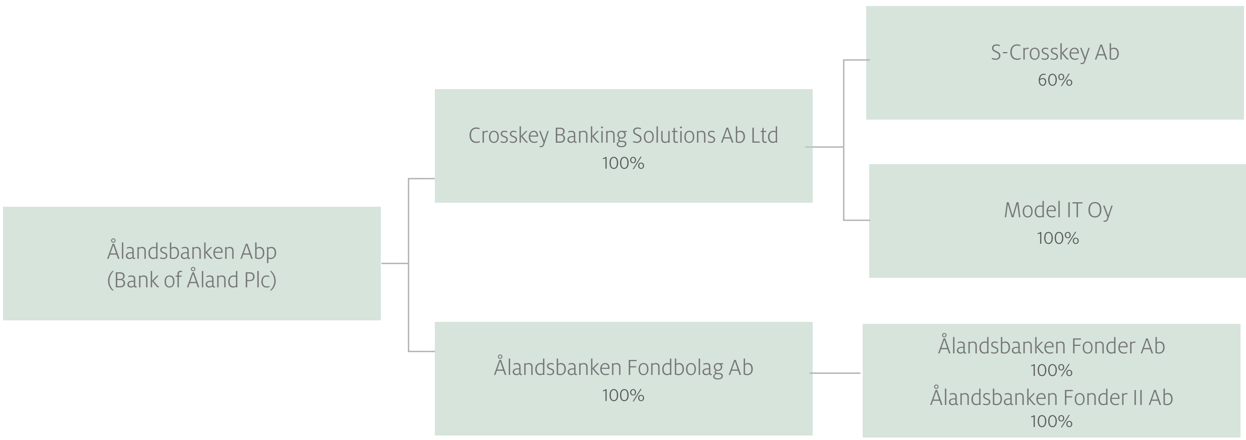
Common equity Tier 1 capital ratio

Per cent



Bank of Åland Group

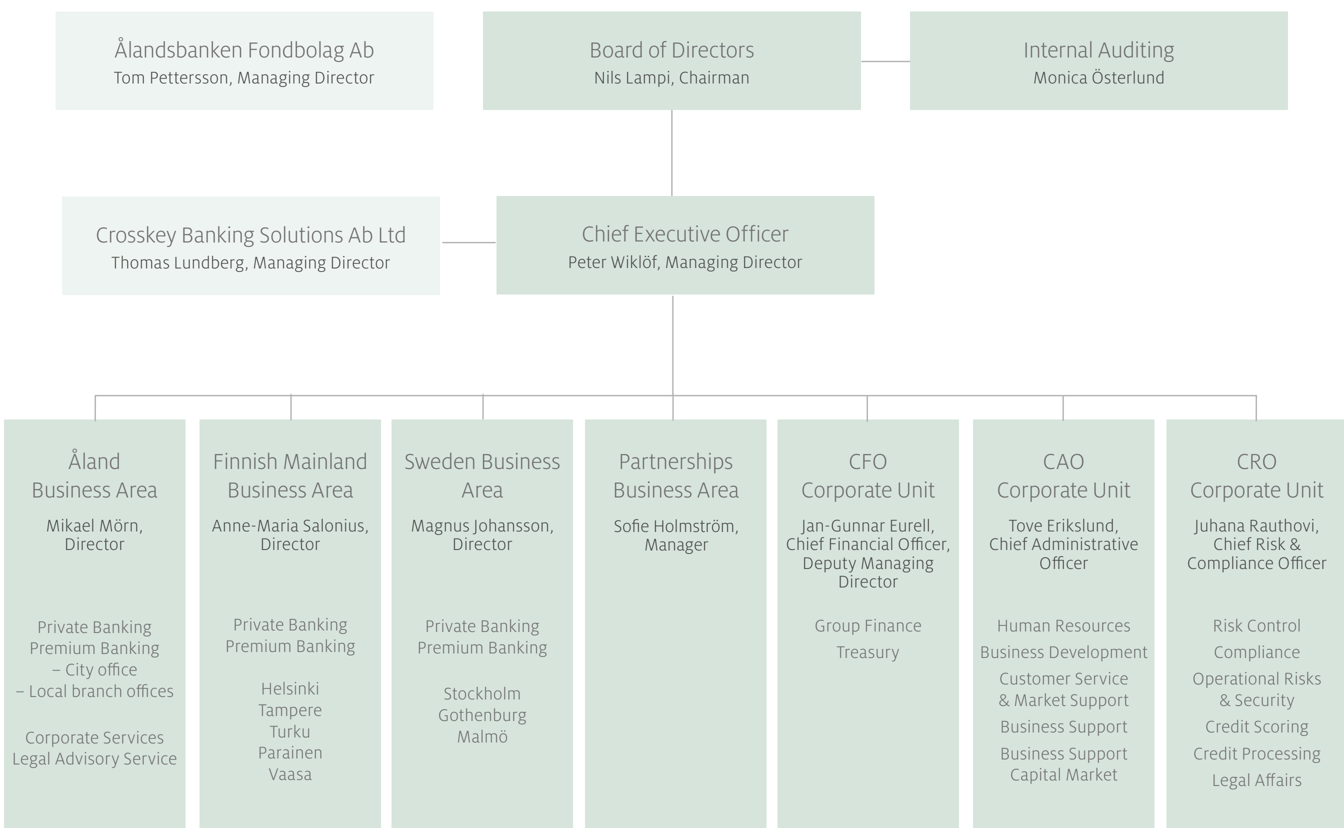
Legal structure of the Group



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

Bank of Åland Abp

Organisational chart



Our hundredth financial year was successful

Photographer: Viktor Fremling

Peter Wiklöf, Managing Director

Good earnings growth and strong increase in actively managed assets.

THE WORLD AROUND US

Last year was dominated by growth in the world's largest economies, despite greater uncertainty connected to trade conflicts, Brexit and a slowdown in expansion.

During 2019 stock markets rebounded strongly after a very weak close of 2018. The Nasdaq Helsinki exchange rose by 13 per cent and the Nasdaq Stockholm by a full 30 per cent. American and other European stock markets also grew sharply.

In fixed income markets, we saw the euro area and Sweden move in different directions. Both areas were dominated by negative market interest rates during the year. In December, however, Sweden's Riksbank hiked its key interest rate to 0 per cent, leading the 3-month Stibor – a market rate of relevance for us – to climb to levels just above 0 per cent for the first time in several years. At about the same time, the European Central Bank (ECB) chose to cut its deposit rate to –0.5 per cent, resulting in continued negative Euribor rates.

A SUCCESSFUL YEAR

In terms of earnings, the year was successful for the Bank of Åland, with a net operating profit that grew by 15 per cent to EUR 33.2 M. It is gratifying that during our hundredth anniversary year, we were thus able to present our highest net operating profit ever, and we did so in a world with extremely low interest rates.

Our deposit and lending volumes both grew by 2 per cent during 2019, to EUR 3,368 M and EUR 4,110 M respectively. The assets that we actively manage for our customers grew sharply during the year, by 23 per cent, to a new record level of EUR 6,343 M. Of this growth, 10 per cent came from net inflow and 13 per cent from increased market valuations, especially in stock markets.

HIGHER INCOME AND CONTINUED GOOD COST CONTROL

Our total income rose by 5 per cent during the year to EUR 133.9 M. Our net commission income showed especially good growth, increasing by 7 per cent to EUR 58.0 M. Higher net commission income was attributable to increased asset management volume and rising income from payment intermediation.

Our net interest income, which ended the year at EUR 53.9 M or 1 per cent lower than in 2018, rebounded during the fourth quarter of 2019 thanks to a rising volume of lending and improved pricing by the European Central Bank on part of our liquidity reserve.

The year was characterised by good cost control, with total expenses at EUR 97.5 M or essentially the same level as in 2018.

OUR SUSTAINABILITY WORK IS HAVING A RIPPLE EFFECT

We have dedicated employees who work actively on the basis of our sustainability goals. To further enhance our own sustainability work, late in 2019 the Bank of Åland chose to sign the recently established United Nations Principles for Responsible Banking. The first step in this task is to review all of our operations on the basis of the 17 UN Sustainable Development Goal and their 169 associated targets. This work is currently under way at the Bank and will result in new objectives for us to live up to.

During 2019 the Swedish-based fintech startup Doconomy, with the Bank of Åland as one of its founders, achieved success on the global scene with its efforts to engage people through sustainable financial services. One of the key elements of Doconomy's business is the Åland Index, created by the Bank of Åland. Thanks to this index, private individuals can see how their daily consumption affects carbon dioxide emissions.

During the year, the Bank of Åland and Doconomy formed the joint venture company Åland Index Solutions to spread the Åland Index to other banks all over the world. This effort started off well, since additional banks with a total of more than 40 million customers have decided to start using the Index. Doconomy and S&P Global also entered into a partnership for continued joint development of various sustainability indices. Late in 2019 Mastercard announced that it is becoming a shareholder in Doconomy, which is a sign of the international attention that Doconomy and Åland Index Solutions have attracted.

NEW BUSINESS PARTNERS

Ever since 2002, when the Bank of Åland made information technology (IT) a strategic business area, we have worked systematically with other banks and companies. Given this tradition of smooth collaboration, it is not surprising that we were the first bank in the Nordic region to also begin collaborating in financial technology, or fintech.

The most extensive new collaboration that began during 2019 was with ICA Bank, Ikano Bank and Söderberg & Partners in Sweden. Together we decided to establish a new mortgage company to manage residential loans. The Bank of Åland will manage most of the numerous processes needed to carry out mortgage operations. This is being done by building further on our subsidiary Crosskey's IT solutions. We very much look forward to implementing this collaboration with our new business partners.

FULL SPEED AHEAD INTO OUR SECOND CENTURY

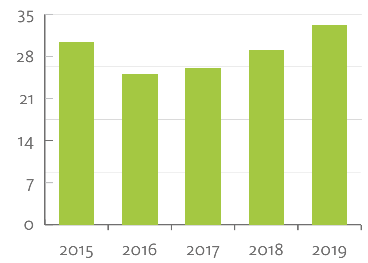
I am proud of what we accomplished during our hundredth financial year. The Bank of Åland is a vigorous 100-year-old that is moving full speed ahead – with good potential to continue its growth in earnings and total assets.

Without question, it is challenging to pilot a bank into the 2020s. What usually determines the success or failure of an organisation is its capacity to adapt to a playing field that is constantly changing. At the Bank of Åland we have demonstrated a good historical capacity for change, based on the opportunities and challenges present during every period. I know our employees well and thus feel confident that this journey of constant change will continue with good results.

At the same time as we see extensive changes occurring in technology, regulations and service development, we should not forget that the core of what we do – delivering a large bank's range of services with a small bank's thoughtfulness and good sense – has not changed in 100 years. This realisation makes us strong and well aware of our fundamental raison d'être.

In closing, I would like to thank our customers and our employees for their very fine cooperation during 2019.

Net operating profit
EUR M



Milestones during the Bank of Åland's first century

The Bank of Åland is founded.

Initial number of employees: 4

1919

1921

Expansion to Helsinki, with the W. von Bonsdorff private banking firm as agent.

1922

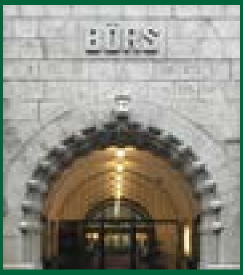
The Bank comes perilously close to bankruptcy due to bad loans.

Shipping magnate Gustav Erikson ensures that the Bank will remain Åland-owned.

The Bank of Åland's new building in Mariehamn is inaugurated.

1934

1942



The Bank's gains a listing on the Helsinki Stock Exchange.

Thorvald Eriksson begins his 33-year tenure as Managing Director.

Number of employees: 23

1954

1959

The Bank's corporate services unit is founded.

Two subsidiaries are founded: Ålands Factoring Ab for financing of corporate customers' accounts receivable and Ålands Leasing Ab for leasing of machinery and equipment to corporate customers.

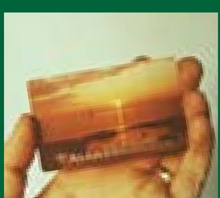
1966

1969

The Bank's logo is introduced.

The number of local offices in the Åland Islands has increased to 19.

Number of employees: 82



Finland's first bank card with a nature motif.

1979

Partner in Skandinaviska Enskilda Banken Luxembourg S.A.

1980

1982

The Bank's first Finnish mainland office of its own opens in Helsinki.

1987

Number of employees: 313

The Bank establishes Finland's first Private Banking unit.

Svenska Handelsbanken buys the banking computer system.

1993

1994

Weathers the banking crisis without government aid and decides to implement a broad expansion on the Finnish mainland.

Launches Finland's first equity index bonds.

1996

1997

Unveils the world's first Environmental Account.

Ålandsbanken Fondbolag Ab is established.

1998

Premium Banking is launched in Finland.

Crosskey Banking Solutions is established.

2004

Ab Compass Card Ltd is established.

2006

2009

The Bank establishes a presence in Sweden.

2010

Birgitta Dahlén becomes Åland's first female bank director.

2012

Premium Banking is launched in Sweden.

Begins to provide home mortgage loans.

The Bank launches Finland's first housing mutual fund.

2013

World premiere of the Baltic Sea Project.

2015

2016

The Bank joins its first fintech partnership.

The Baltic Sea Card and the Åland Index are launched.

The Bank celebrates its 100th anniversary with 720 employees.

2019

Ålandsbanken 100 Years 1919 2019 Going our own way

Eight questions about the Bank of Åland's 100th anniversary

The clichéd image of bank anniversaries is that they are all about stuffy events that are quickly forgotten. Peter Wiklöf, Managing Director of the Bank of Åland, did not intend to fall into that trap. The Bank followed its own successful strategy: daring to go its own way.

How will people remember the bank's 100th anniversary?

First, we published an unconventional history book about the Bank. It has been very favourably received, probably because it was written in easy-to-read format and we didn't try to create a glossy image. Instead, we wanted to tell about our 100 years in an honest and engaging way. That ambition required that we not only tell about successes large and small, but also about things that were painful.

Isn't a 100th anniversary a good opportunity to reflect on both history and the future?

Yes, we devoted much of the year to organising customer events that were more than the expected coffee and cake. We realised that 2019 was an excellent opportunity to tell the Bank of Åland's story. Considering how many people showed up at these events, it wasn't just the food that attracted them. We also had the opportunity to gather all our employees for a joint event in Åland. It has been 10 years since we were able to do so, since the Group has now grown to more than 700 people.

Can you summarise the message you presented at these events?

That we are sticking to our core values, while being curious about change. We continue to offer what we have always offered: a small bank's thoughtfulness and a large bank's range of services. While we are a very traditional bank, we are also a pioneer in fields like fintech. Thanks to our small size, we can be fast-footed, whether it's about spotting opportunities in fintech or committing ourselves to promoting a healthier Baltic Sea.

How do you view these various commitments, since the bank is an influencer both on sustainability and social issues?

If anyone has doubted our commitment to sustainability issues, that concern should now have subsided. Since the founding of Åland Index Solutions, we are seeing the Baltic Sea Project have a global impact that should not be underestimated. If anyone thinks that things have been moving fast, they should recall that everything is an effect of our long-term commitment that began in 1997 with the Environmental Account.

Your thoughts on community involvement?

The anniversary year was a natural time to reflect on the Åland Bank's community involvement. We are continuing to grow as an employer in Åland. Now that we have centralised Group-wide departments, we are offering even broader opportunities to our employees in Åland. We are also continuing to grow as an exporter of financial services – most recently through the new Swedish mortgage company, which will enable us to sell the services of our Group-wide departments to our business partners.

Is there anything else from the anniversary year that you want to highlight?

In fact, during 2019 we also celebrated another anniversary, which ended up being a bit obscured.

What is that?

We celebrated our first 10 years in Sweden. Today, no one either in Åland or anywhere else is questioning our presence in Sweden. It suffices to look at our earnings trend.

Finally, your closing thoughts on the anniversary year?

It would have been exciting to meet the twelve founders of the Bank of Åland and tell them what we have accomplished since 1919.

Peter Wiklöf was interviewed
by Joakim Enegren

To celebrate its 100th anniversary year, the Bank published a book, "Sanningen om Ålandsbanken: 100 berättelser genom 100 år" (The Truth About the Bank of Åland: 100 Stories Over One Century) by Joakim Enegren.

"It would have been exciting to meet the twelve founders of the Bank of Åland and tell them what we have accomplished since 1919."

Peter Wiklöf, Managing Director and Chief Executive

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 other banking services in an outstanding way.

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.

AN EVER-BROADENING RANGE OF PARTNERSHIPS

For many years, the Bank of Åland has collaborated with other market players within the IT field via its subsidiary Crosskey Banking Solutions. In the world that is now emerging, we are seeing that the Bank of Åland has the ability and the potential to offer products and services to other market players within a substantially broader field than IT services alone. In fintech, today the Bank of Åland is already a versatile and capable partner with the capacity to deliver solutions to companies in most financial service areas.


Photo: Shutterstock

An incredible ripple effect

Last year the Bank of Åland's sustainability work gained an incredible global dimension. Both Nordea and America's Bank of the West chose to launch the Åland Index. This means that more than 40 million customers will now have the opportunity to measure the climate impact of their consumption.

When we launched the Baltic Sea Project in 2016, the Åland Index was one of its cornerstones. Via our Mobile Bank, Bank of Åland customers could keep an eye on the environmental impact of their card purchases. In 2018 we began collaboration with the Swedish company Doconomy, which used the Åland Index as its business model.

This collaboration intensified during 2019, and together we founded the company Åland Index Solutions. Its purpose is to offer customers at other banks and financial institutions the same calculation model as the Bank of Åland uses.

Åland Index Solutions had a flying start during the year, signing agreements with both Nordea – a major Nordic bank – and Bank of the West, a US-based subsidiary of the French bank BNP Paribas.

Our collaboration with Bank of the West represents an interesting debut on the North American continent. Looking back at history, this global ripple effect began in 1997 when the Bank of Åland launched its Environmental Account. No one could have imagined at that time that this highly local environmental commitment would one day have such a global impact.

In 2017–2018 the United Nations 17 Sustainable Development Goals provided a source of guidance for the Bank's sustainability work. As part of our materiality analysis, in 2019 we took an important step forward: we also embraced all of the 169 targets that are included in the UN's global goals.

By analysing the underlying factors in these targets, we wanted to gain a better insight into the Bank of Åland's positive and negative impact on the global goals. One example: at present we do not take into account water-related risks when we evaluate investments. That shortcoming, in turn, has a negative impact on the global goal "Clean water and sanitation". This initial analytic effort has given us a deeper awareness and a clearer focus on what actions and adjustments we need to make in our operations.

During 2019 the UN adopted its Principles for Responsible Banking, and early in December the Bank of Åland joined forces with 192 other banks when we signed these principles. Their purpose is to adapt the financial services sector to the UN's sustainability goals and the Paris Climate Agreement by encouraging collaboration and clarifying the responsibility of the financial services sector in building up a sustainable society. Based on this common framework, the banking sector can take joint action and responsibility for speeding up positive and sustainable change.

Our overall sustainability work, which is part of the Bank's strategy, now rests mainly on the following four sets of principles and initiatives:

- The UN Principles for Responsible Investment.
- Climate Action 100+, an institutional investor-led initiative that lobbies the 100 or more corporations with the largest emissions.
- The Swedish Bankers' Association's responsible lending initiative.
- The UN Principles for Responsible Banking.

During 2019 we also began preparatory work to adapt the Bank of Åland to the European Commission's Sustainable Finance Regulation, which goes into effect during 2020. The regulation has its background in the Paris Climate Agreement and the UN's Agenda 2030. The future directives will provide a framework for the financial services sector for integrating such factors as the environment, social responsibility and corporate governance into the decision making process.

Looking at products, we achieved a milestone during 2019 when we unveiled the Ålandsbanken Green Bond ESG fund. It was the first Finnish bond fund to be granted the Nordic Swan Ecolabel and it offers fixed income returns in an environmentally sound and sustainable way.

Turning our gaze inward and looking at the environmental impact of the Bank of Åland Group, we can note that total Group energy consumption fell from 2.39 GWh in 2018 to 2.24 GWh in 2019, but our carbon dioxide emissions from energy consumption, travel and paper consumption increased. Emissions rose to 402,400 kg in 2019, compared to 344,049 kg during 2018. Our target for 2019 was a maximum of 309,480 kg.

The main reason for increased carbon dioxide emissions was that the electricity agreement, based on a standard energy mix, that we had early in 2019 ended up including more fossil energy sources than we had expected. When we realised this, we renegotiated the agreement. By the end of 2019 the share of green electricity amounted to about 80 per cent of the Group's consumption. We thus expect that this new agreement will help to significantly lower carbon dioxide emissions in 2020. The number of trips also increased during 2019, among other things because all Group employees gathered in Mariehamn to celebrate the Bank's 100th anniversary. Meanwhile we nevertheless decreased our number of air trips during the year, thereby lowering our carbon dioxide emissions from air travel by more than 4.5 per cent. As for paper consumption, our target for the year was a 5 per cent reduction, but we achieved 2.5 per cent. Yet we remain confident about the next few years, since various digitisation projects will decrease the quantity of paper-based mailings to our customers.

The Bank of Åland's sustainability strategy

The activities that make up our sustainability work are based on the strategy that we rely on daily and adapt as the Group evolves and our awareness increases.

The following is a presentation of the Bank of Åland's four focus areas, each with a brief description of our strategy and the Bank's main actions during 2019 and strategy for 2020.

Photo: Shutterstock

1. RESPONSIBLE INVESTMENTS

The Bank of Åland follows the United Nations principles for responsible investment. In order to review a company's environmental, social and governance (ESG) factors on a global basis in the Bank of Åland's investment process, we work together with the independent ESG evaluator MSCI. The evaluation conducted by MSCI includes UN guidelines, in particular the 10 Global Compact principles concerning such areas as human rights, working conditions, the environment and anti-corruption. We exclude companies that specialise in gaming, tobacco products, controversial weapons, pornography and production of thermal coal. We are selective about companies that produce alcoholic beverages.

- We have continued to train Bank employees in the field of responsible investments. We are seeing that more customers are interested in how we work with ESG issues when we conduct our investment analyses.
- We measure the carbon dioxide intensity of our mutual funds according to recommendations from the Swedish Investment Fund Association and we aim at gradually falling levels.
- We are continuously developing a range of sustainable investment products adapted to customer needs. During 2019 we unveiled Ålandsbanken Green Bond ESG, the first Finnish bond fund to be granted the Nordic Swan Ecolabel.
- Sustainability issues have been more clearly integrated into our analyses of companies before making investments.
- Climate change issues have been increasingly emphasised, both internally and externally, and the exclusion of coal from our investments is a step towards lower carbon dioxide emissions.
- Reporting of our work with responsible investments occurs by means of the annual PRI self-evaluation, which is published externally.
- In various forums both in Finland and Sweden, we have actively participated in public discourse on responsible investments.

2. RESPONSIBLE LENDING

The Bank of Åland supports the national economy by funding 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. To the Bank of Åland, the customer's repayment ability is the foundation of responsible and sustainable lending.

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

3. SOCIAL RESPONSIBILITY

The Bank of Åland works actively with social sustainability. Our focus is on inclusivity, equal value, our role as a community-involved company, sound values and practices as well as high ethical standards. We follow a policy of ethical behaviour as well as identification and management of conflicts of interest. We also work actively to combat money laundering and other criminality.

- During 2019 we saw lower employee turnover than the preceding year: 9.7 per cent compared to 12.2 per cent in 2018.
- During 2019 we continued our periodic measurement of employee commitment. We are seeing a slight increase in commitment: on a scale of 0–100 we stood at 75 in 2018 and commitment had risen to 78 in 2019. During 2019 healthy attendance fell from 94.1 per cent to 93.6 per cent.
- During the autumn of 2019 we launched the employee project "More enjoyable together". The aim of this project is to help increase job satisfaction and create the conditions for even stronger employee commitment. The project is based on research on internal and external motivational factors. Its focus is on strengthening "psychological capital", so that individuals will have a hopeful attitude towards successfully performing their duties, possess healthy self-confidence, be resilient to setbacks and feel optimistic about future opportunities.
- Within the Group's skills platform, during 2019 we started new e-courses related to the existing regulatory requirements in the financial services sector. Our objective is to transition our entire skills platform to e-learning during 2020.
- As part of the Bank's social and youth work, we continued our involvement in local immigrant integration projects. We encourage studies by donating yearly stipends to Åland schools. The Bank has also sponsored the youth activities of Åland non-profit organisations, and we actively sponsor sporting and cultural events.
- During 2019 we worked together with Medis, the City of Mariehamn's training centre, to provide language training internships for immigrants. The Bank of Åland also participated in a language café for immigrants, and during the autumn we joined in the Medis project Integration Square, which gave immigrants the opportunity to meet Åland-based employers. The percentage of employees with a native language other than Swedish is increasing, and the Bank's employees now include ten different nationalities.

- In the Group's gender equality work, we try to achieve a balance between the sexes when filling new positions. Our goal is an even gender breakdown (at least 40/60). At the team and department level, and in certain roles, imbalances may occur, but total gender representation in the Group is now 48/52, compared to 49/51 in 2018. In the Executive Team and on boards of directors, the number of people decreased from 25 to 22. The main reason is that the merger of Compass Card and the Bank led to the disappearance of one board of directors. In 2019 the breakdown is 23 per cent women and 77 per cent men (previously 28/72). In the Group's succession planning, we have a 50/50 balance.

4. ENVIRONMENTAL RESPONSIBILITY

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

- During 2019 we did not live up to all our established targets. Although the Group's energy consumption fell from 2.39 GWh in 2018 to 2.24 GWh, the carbon dioxide emissions caused by our energy consumption increased by 58,351 kg. One of the changes we implemented during 2019 was to shift from "general electricity" and instead ensure that the electricity delivered to our operations meets sustainable production criteria. We saw the effect by the end of 2019; the "green energy" share of our electricity totalled about 80 per cent. This is an important element of our sustainability work, since we have seen the energy mixes for general electricity shift from renewables towards fossil fuels, leading to higher carbon dioxide emissions from the Group's consumption. During 2020 our highest priority is to continue reducing our carbon dioxide emissions by 10 per cent. In two years, our target is that all energy that the Group uses shall be produced from renewable sources.
- Emissions from air travel decreased by more than 4.5 per cent during 2019, while emissions from all travel increased from 172,000 kg to 181,250 kg. Our target for 2019 was that we should make 25 per cent of our trips using modes of travel with lower carbon dioxide emissions than aircraft, and we achieved 32 per cent.
- Via the Baltic Sea Project, the Baltic Sea Account and the Åland Index, we engaged both customers and employees to decrease their environmental impact. Our goal of 1,600 new Baltic Sea Account depositors was greatly exceeded: we gained 2,111 new depositors in 2019, enabling the Baltic Sea Project to distribute EUR 500,000 during 2020.
- 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 part of our commitment to the community and the environment, during 2019 the Bank's employees were involved in various clean-up projects locally and on the Hanko Peninsula of the Finnish mainland. To draw attention to the state of the Baltic Sea, Bank employees organised their own event, the Baltic Sea Swim, where ten employees relay-swam from the Western Harbour to the Eastern Harbour in Mariehamn.

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 is an advisory body that was given a clearer mandate in 2019. The committee has met regularly to discuss current sustainability and investment-related issues. The ESG Committee represents all business areas and monitors developments in sustainable investments, global events, competitors, legislation and so on. It also monitors compliance with the existing policies and guidelines in the ESG field.

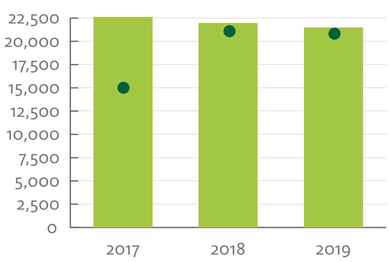
The Bank's environmental working group consists of committed employees. During 2019 the group was a driving force, for example taking the initiative for a review of the Group's electricity contract. The result of this work was that today, to a much greater extent than previously, we can rely on electricity from renewable sources.

Measuring our environment impact

The Bank of Åland works proactively to lower the direct environmental impact caused by its operations. The targets in the Group's yearly environmental plan are shown in the charts below as small circles.

Paper consumption

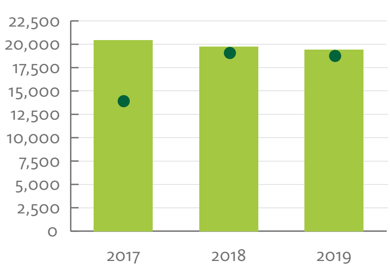
Group paper consumption
kg



● Our target

Our target is an annual decrease of at least 5 per cent. During 2019 we achieved a reduction of about 2.5 per cent compared to 2018.

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

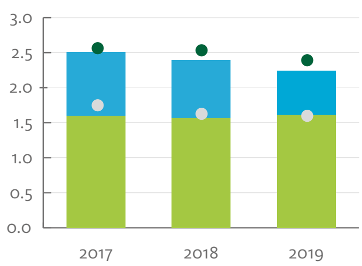


● Our total target

Decreased paper consumption during 2019 led to a carbon dioxide emissions reduction of about 330 kg, or a bit less than 2 per cent, while the target was 10 per cent.

Energy consumption

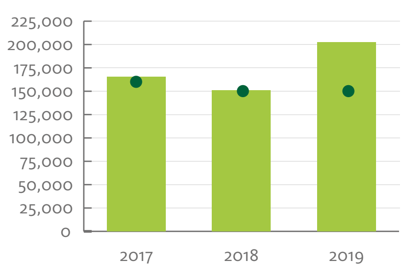
Group energy consumption
GWh



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

During 2019, total energy consumption fell from 2.39 GWh to 2.24 GWh. More than 70 per cent of the energy consumed was generated using renewal sources ("green energy"), which means that we achieved our 70 per cent target.

Indirect carbon dioxide emissions from Group energy consumption
CO_2 in kg

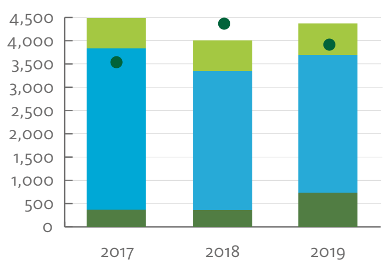


● Our target

Carbon dioxide emissions increased from 150,000 kg to more than 200,000 kg. The underlying reason was a change in the "standard" electrical energy mix.

Business travel

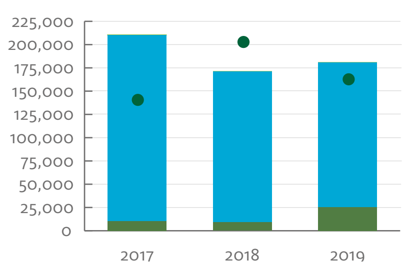
Number of business trips in the Group



● Train ● Aircraft ● Ship
● Our total target

The target for 2019 was to lower the number of air trips by 5 per cent, and the reduction was 1.3 per cent. More than 32 per cent of all trips used alternative modes of transport, while the target was 25 per cent.

Quantity of carbon dioxide emissions caused by travel
CO_2 in kg



● Train ● Aircraft ● Ship
● Our total target

The total number of trips in 2019 was higher than in the preceding year, which was also reflected in total carbon dioxide emissions. Emissions from air travel decreased by just over 4.5 per cent during 2019, while emissions from all travel increased from 172,000 kg to 181,250 kg.

Information about employees

Employee mobility	2019	2018	2017
Expansion, %	13.1	12.6	12.3
Employee turnover, %	9.7	12.2	11.9

Expansion

By gender

By age category

By region

The Group hired 92 new regular employees during 2019. Expansion was thus 13.1 per cent compared to total full-time equivalent employees, which was an increase from 12.6 per cent in 2018.

Employee turnover

By gender

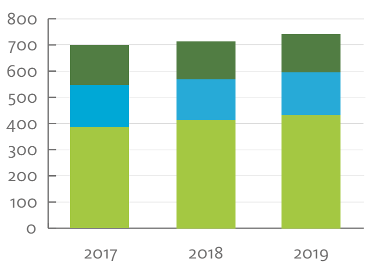
By age category

By region

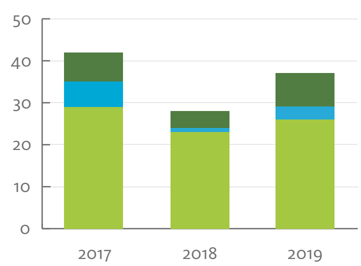
In the Bank of Åland Group, 68 people ended their regular employment. Turnover as a percentage of total full-time equivalent employees during 2019 was thus 9.7 per cent, a decrease from 12.2 per cent in 2018.

Employment contract type by region

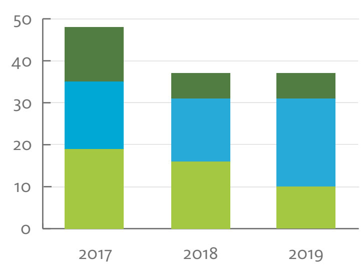
Regular



Temporary, monthly

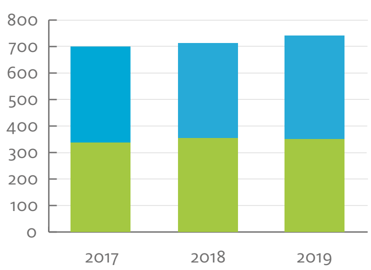


Temporary, hourly

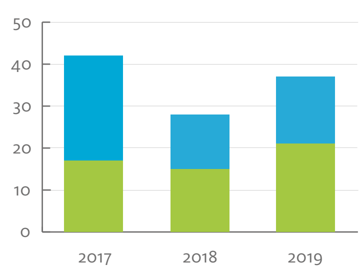


Employment contract type by gender

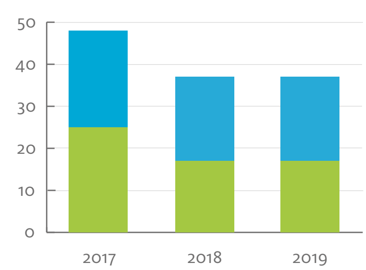
Regular



Temporary, monthly



Temporary, hourly



Part-time/full-time by gender	2019			2018			2017		
Gender	Part-time	Full-time	Total	Part-time	Full-time	Total	Part-time	Full-time	Total
Women	51	337	388	69	316	385	75	304	379
Men	35	393	428	30	363	393	31	380	411
Total	**86**	**730**	**816**	**99**	**679**	**778**	**106**	**684**	**790**

The number of jobs in the Group totalled 816 at the end of 2019, which was an increase of 38 during the year. Of these 816 employees, 742 (91 per cent) had permanent contracts and 74 (9 per cent) had temporary contracts. Women accounted for 47 per cent and men for 53 per cent of those with permanent contracts.

Women accounted for 59 per cent of all part-time jobs while men accounted for 41 per cent. Just over half the work force was stationed in Åland, while the Finnish mainland and Sweden each accounted for half of the remainder.

Healthy attendance and accidents	2019	2018	2017
Healthy attendance, %	93.6	94.1	92.8
Accidents	9	12	8

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

Information about diversity

Gender breakdown	2019		2018		2017	
Gender	Number	%	Number	%	Number	%
Governing bodies						
Women	5	23	7	28	6	24
Men	17	77	18	72	19	76
Total	**22**	**100**	**25**	**100**	**25**	**100**
Employees						
Women	388	48	385	49	379	48
Men	428	52	393	51	411	52
Total	**816**	**100**	**778**	**100**	**790**	**100**

Age breakdown	2019		2018		2017	
Age category	Number	%	Number	%	Number	%
Governing bodies						
<30	0	0	0	0	0	0
30–50	5	23	8	32	9	36
50>	17	77	17	68	16	64
Total	**22**	**100**	**25**	**100**	**25**	**100**
Employees						
<30	134	16	121	16	133	17
30–50	434	53	425	55	438	55
50>	248	30	232	30	219	28
Total	**816**	**100**	**778**	**100**	**790**	**100**

Our goal is an even gender breakdown (at least 40/60). Total gender representation in the Group was 48/52 during 2019. In the Executive Team and on boards of directors with external members, the breakdown is 23 per cent women and 77 per cent men.

The Bank of Åland's community involvement

Aside from paying income and value added taxes to the Finnish government, the Bank of Åland is a sizeable employer, especially in its Åland home market. The Bank contributes to employment by providing more than 450 jobs in Åland, which makes us the second largest private employer in the province.

By paying social security fees, the Bank of Åland helps strengthen social protection. In addition, the Bank pays fees to the government's stability fund, which helps maintain financial stability in Finland.

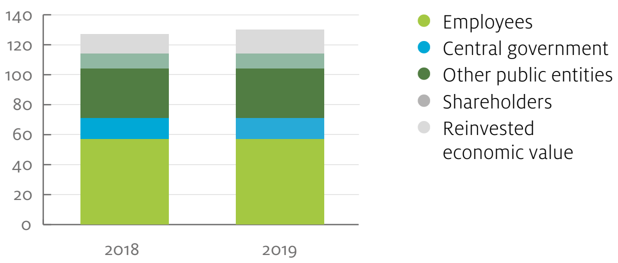
The Bank is deeply involved in the Åland community and contributes to it mainly by supporting culture and sports, as well as helping to create meaningful leisure activities for children and young people. The Bank considers it important to ensure that Åland is a vibrant community that people want to remain in, move to and return to.

Information about social commitments

Economic value-added	2019	2018
EUR M		
Total income minus impairment losses		
Value-added generated by serving the Bank's customers	**130.7**	**126.8**
Employees		
Salaries	42.5	42.1
Social security and other staff costs	14.5	15.0
Total value to employees	**57.0**	**57.1**
To central government		
Income taxes	6.9	6.1
Non-deductible value-added taxes	5.6	5.1
Deposit guarantee fees	0.0	0.0
Fees to government stability fund	1.8	2.6
Total value to central government	**14.2**	**13.8**
Suppliers[1]	32.7	32.7
Sponsorships	0.5	0.3
Total other value to society	**33.2**	**33.0**
Transactions with shareholders		
Dividend paid	10.9	10.0
New share issue	−0.6	−0.5
Total transactions with shareholders	**10.3**	**9.5**
Remaining in the Bank		
Reinvested economic value	**26.3**	**13.4**

[1] Refers to miscellaneous administrative expenses and depreciation/amortisation.

Economic value-added



From sci-fi to smarter paper shopping bags

Searching for one common theme among the projects supported by the Baltic Sea Project during 2019, it is clearly this: more and more bold ideas are seeing the light of day, but not at the expense of the many solid ideas for saving the Baltic Sea and its unique ecosystem.

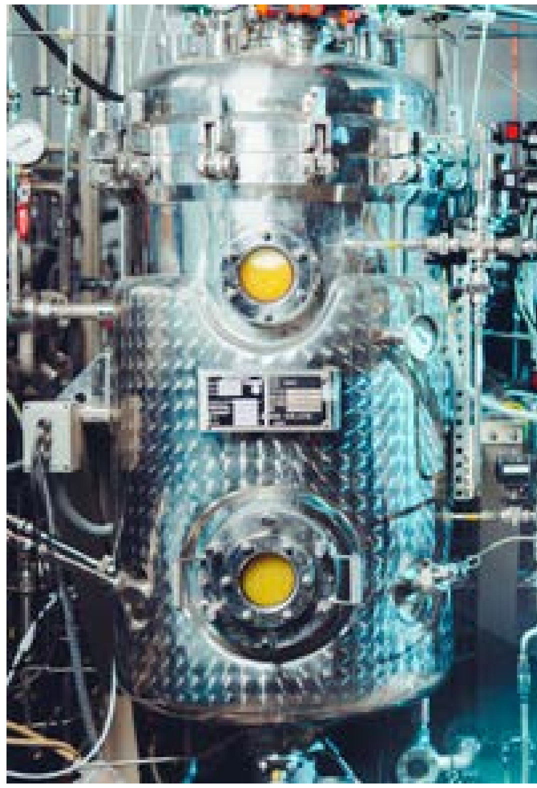
Perhaps using the air around us to create protein sounds like a science fiction novel, but for the Espoo-based company Solar Foods it is very much a reality.
The company's vision is to use bacteria and solar energy to make food protein out of carbon dioxide.

The company is already producing the protein Solein, which it expects to launch as a consumer product during 2021. For this purpose, it needs a production facility in Finland, and the Baltic Sea Project is providing EUR 50,000 towards the venture.

Another example of numerous projects is BagIt, which is run by Nora Östman and Maximilian Popovich, two young people in Örnsköldsvik, Sweden. They are developing a paper shopping bag that works well both for shopping and refuse disposal. It will fit nicely into the various waste receptacles in a home, and the bag must also withstand weight and wetness better than ordinary paper shopping bags. The BagIt project is a good example of how seemingly simple ideas can decrease the use of plastic and thereby benefit the Baltic Sea. This is why it is being granted EUR 9,500 by the Baltic Sea Project.

One organisation that has done a lot to benefit the Baltic Sea is the Baltic Sea Action Group (BSAG). BSAG is now beginning an ambitious project to protect the marine biological diversity of the Baltic Sea, working together with the University of Helsinki and Åbo Akademi University in Turku as well as the Åland Water Inventory project and the Finnish Environment Institute. The Bank of Åland's Baltic Sea Project is joining as a strategic partner while providing EUR 80,000 to fund the first year of the new project.

"The loss of biological diversity is comparable to the threat that climate change is creating for both the planet and the future of humanity. We regard our collaboration with BSAG as a unique opportunity to influence the state of the marine environment and to promote the well-being of the Baltic Sea," said Anne-Maria Salonius, Director of the Finnish Mainland Business Area at the Bank of Åland, when the partnership was announced in August 2019.



A Baltic Sea free of plastic shopping bags, helped by the unique BagIt paper shopping bag.

Promoting marine biological diversity through the Baltic Sea Action Group.

A new type of protein, thanks to Solar Foods.

A total of EUR 300,000 was awarded to various Baltic Sea-related projects during 2019. Altogether, the Bank of Åland has provided EUR 2.3 M in support to environmental projects since 1997.

NYHETER 11

”En superhäftig upplevelse”

Nya Åland newspaper wrote about the Baltic Sea Swim on August 19, 2019.

Sense of commitment drives our progress

Grand statements are common, but if there is no honest sense of commitment behind them, everything collapses like a house of cards. Luckily we foresee no such risk.

In 2019 our employees again showed their commitment to environmental and sustainability issues in many ways. For example, the Bank's environmental working group arranged a bicycle roof on the Head Office parking facility to encourage bicycling. The working group also ensured that the Bank of Åland Group renegotiated its electricity contract to make it more environmentally friendly. In addition, many employees participated in beach clean-ups in Åland and the Hanko Peninsula on the Finnish mainland.

On top of all this, Bank employees organised their own "Baltic Sea Swim" event around Mariehamn: 10 employees relay-swam a total of 25 km from the city's Western Harbour to the Eastern Harbour, under the slogan "Dreaming of an algae-free sea". There are many indications that a similar event is being planned for the summer of 2020, but exactly what? It will be announced later.

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. Sweden Åland Finnish mainland.

THE UN SDGS AND OUR SUSTAINABILITY WORK

Our sustainability work is based upon the UN's 17 sustainability development goals, including its 169 sub-targets.

THE BALTIC SEA PROJECT

2,300,000

for good environmental ideas since 1997.

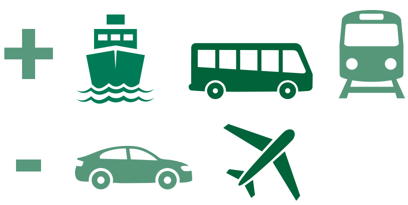
ÖSTERSJÖPROJEKTET
ITÄMERIPROJEKTI
BALTICSEAPROJECT.ORG

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

PRI Principles for Responsible Investment

We have signed the UN Principles for Responsible Banking and the Principles for Responsible Investment.

Priorities in the Bank's travel:



SVANENMÄRKET

Fond
3101 0027

In 2019 the Ålandsbanken Green Bond ESG fund became the Finnish fixed income fund to be granted the Nordic Swan Ecolabel.

MSCI

Data from MSCI on environmental, social and governance aspects of companies is integrated in our investment process in order to gain a broad understanding of the companies we invest in.

OUR VALUES

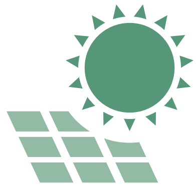
In our day-to-day work, we navigate towards sustainability through our values.

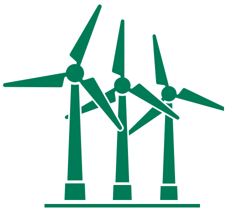
ÅLANDSBANKEN 100 YEARS

COMMUNITY INVOLVEMENT

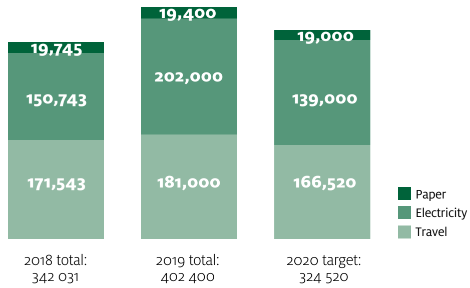
SUSTAINABLE ENERGY USE

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





CO_2 EMISSIONS BY BANK OF ÅLAND (KG)



Target for 2020: - 77,880

40,000,000

customers globally are able to track the CO_2 footprint of their purchases through Åland Index Solutions.

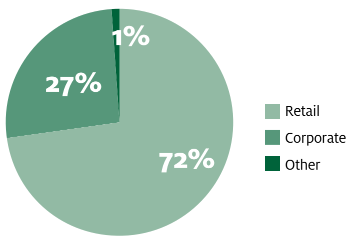
ÅLAND INDEX

INTERNAL FOCUS ON REDUCING CO_2

- SUSTAINABLE CONSUMPTION AND PRODUC-TION
- SUSTAINABLE ENERGY AND WATER USE
- SUSTAINABILITY IN TRAVEL
- INCREASED PARTICIPATION

RESPONSIBLE LENDING

Our overall loan portfolio mainly consists of private individuals ("retail" lending). Our lending is based on the Swedish Banking Association's Initiative.



Integration and diversity

93.6%

The Bank achieved 93.6% healthy attendance during 2019.

Ensure equal pay for equal work.

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

Strong growth due to high level of trust

Photographer: Viktor Fremling

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

The Private Banking business segment encompasses Private Banking operations in Åland, on the Finnish Mainland and in Sweden as well as asset management (Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab and Ålandsbanken Fonder II Ab).

Our Private Banking offering is perhaps the most important cornerstone of the Bank's business operations. Private Banking is where the Bank of Åland has its largest market share both on the Finnish mainland and in Sweden.

Net operating profit from Private Banking Sweden in 2019 amounted to EUR 21.1 M, which was equivalent to 64 per cent of the Bank's total net operating profit. Return on allocated equity was 17.4 per cent.

In Åland, Private Banking continued to attract new customers. Our securities brokerage operations also grew very rapidly in 2019. Overall, we regard this and the high level of trust we enjoy among our customers as evidence that our concept and product range are working well.

On the Finnish mainland, Private Banking business also expanded. The build-up and investment in financial planning services continued. Comprehensive solutions, in which we try to take into account our customers' relatives, other close associates and companies, are an important element. Reforms in income tax law led to changes in portfolio insurance products.

In Sweden, Private Banking operations enjoyed another year of strong growth. More and more entrepreneurs are choosing the Bank of Åland as their main Private Banking partner. The Bank's conceptual strength, especially in financial planning, continued to attract customers in the right segment.

Actively managed assets increased by 42 per cent during the year. We also saw strong growth in lending late in 2019. The team added three more people in order to meet strong demand.

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

ASSET MANAGEMENT

Ålandsbanken Fondbolag manages the Bank of Åland's mutual funds and, as an intra-Group service, delivers all material supporting the Bank's asset management services to customers: from overall market outlook reports and asset allocation recommendations to model portfolios for individual securities.

The range of mutual funds and asset management services is concentrated in those asset classes where the Bank of Åland's active asset management is expected to generate added value for customers. At present, Ålandsbanken Fondbolag is authorised for mutual fund operations including ordinary investment funds and as a manager of alternative investment funds (AIFs).

After some major changes in the Bank's mutual fund offering during 2018, we have been able to focus our best asset management resources on generating competitive returns in larger, more efficient funds. Asset management results were generally good and consistent with expectations for most products. This was true of all core asset management products: Nordic equities and mutual funds, European and global equity funds, fixed income funds, fixed income funds specialising in corporate bonds as well as dynamic asset management mandates and Premium funds that follow the Bank of Åland's market outlook.

Globally, stock markets performed strongly and offered good conditions for generating returns. Bond yields remained record-low, but the Bank of Åland's fixed income managers were nevertheless able to generate good returns in all their funds.

Returns were generated by selective investments, especially in corporate bonds from stable issuers. For the sixth 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. All of the Bank's fixed income funds received high marks from Morningstar: 4 or 5 stars out of a maximum of 5.

The allocation between equity and fixed income investments in the Premium funds and dynamic model portfolios was successful, but regional allocations within equities could have been higher for North American equities during 2019, since US equities performed more strongly than Nordic and other European equities, which were overweighted in our allocation model. Looking ahead, the proportion of American investments will be increased in Premium funds and in dynamic asset management portfolios. The Bank's property funds also performed strongly in 2019.

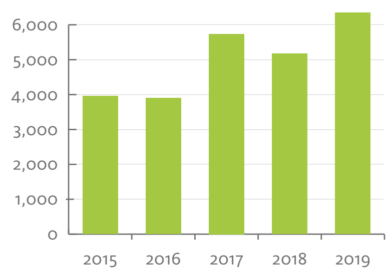
A consistent theme in the Bank of Åland's asset management during the year – as in the entire financial services sector – was continued expansion in the field of responsible investments. The Ålandsbanken Green Bond ESG fund was successfully launched in May. The fund combines investments in green bonds and in bonds issued by companies with high sustainability ratings. Last autumn, the fund was granted the Nordic Swan Ecolabel by Nordisk Miljömärkning AB for its sustainable investment strategy, making it the first Finnish bond fund to carry this label.

Inspired by Ålandsbanken Green Bond ESG, we also developed responsible investment principles for the Bank's other asset management operations. This included introducing a new methodology for sustainability analyses of new and existing investments, as well as updated criteria for businesses that are excluded from potential investments. Combined with a new analysis tool, this enabled us to create a clearer and more transparent process for choosing responsible investments. We are noticing a greater awareness and interest in responsible investments among Bank of Åland customers. This is why we are working to increase clarity and communication about our responsible investment efforts, among other things by expanding our sustainability reporting. All our investment advisors must also attend internal training courses on responsible investments.

The importance of responsible investments is reflected on the mutual fund market in Sweden, where new sustainability standards were introduced for those funds that applied for new contracts with the Swedish Pension Authority as part of Phase 1 in the reform of the Authority's premium pension fund offering for retirement savers. In a report on future reforms as part of Phase 2 of the premium pension system, the Swedish government has indicated that sustainability is a factor that will enjoy priority in selecting the future range of funds in the system.

During 2019, the Bank of Åland signed a new mutual fund agreement with the Swedish Pension Authority according to its stricter standards. All funds for which we applied received renewed agreements. This represents a welcome continuity for retirement savers, while the Bank of Åland can keep working to achieve the best returns on assets that account for a sizeable proportion of the Bank's mutual funds.

Actively managed assets
EUR M



More customers have financial investment potential

All individual customers who are not Private Banking customers are reported in the Premium Banking business segment. The Bank's Corporate Services unit in Åland is also part of this segment.

During 2019 Premium Banking increased its focus on asset management business, mainly for customers in the upper segment of its target group who have larger investable assets. Growth in actively managed assets was record-high. Deposits also continued to grow. However, increasingly tough price competition in the mortgage market led to some decrease in lending volume, since the Bank of Åland chose not to participate in the race for market share at the expense of profitability.

Net operating profit from Premium Banking totalled EUR 6.6 M in 2019. Earnings were lowered by a large write-down on a shipping-related commitment at the Corporate Services unit in Åland. Before write-downs, net operating profit amounted to EUR 9.6 M.

The number of customers with Premium Banking agreements increased by 3 per cent. The largest number of Premium Banking customers is found on the Finnish mainland.

Customer surveys continue to confirm that our customers appreciate the personalised service we provide. To a great extent, they are willing to recommend us as a bank to their friends.

During 2020, we will continue to work with customers who have financial investment potential. In the Åland and Finnish mainland markets, we will expand our range of investments by launching a share savings account.

THE ÅLAND CORPORATE SERVICES UNIT

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

The number of corporate customers continued to grow during 2019 and the level of customer activity was normal.

During 2019, the Corporate Services unit worked actively to offer our customers funding backed by a guarantee from the European Investment Fund (EIF). With the help of guarantees from the EIF, the Bank's capital and credit risk expenses are decreasing. This, in turn, benefits companies. As a result, the Bank of Åland has been able to offer better funding conditions for small and medium-sized companies that want to expand their operations or make environmental or sustainability-related investments, for example. The programme has been well-received by the Åland business community.

During 2019, the Corporate Services unit continued its involvement in projects such as Business Lab Åland and Young Entrepreneurship. It has also organised customer events with various business themes. In this way, we want to contribute to a positive view of entrepreneurship and give young business owners the opportunity to get started more easily by using effective tools for their operations.

Photographer: Staffan Sundström

Photographer: Kjell Söderlund

Sofie Holmström, Manager of the Partnerships Business Area.

Partnerships are strengthening our presence in Sweden

Today the Bank of Åland's external partnerships consist mainly of collaboration with Swedish fintech companies and a new Swedish mortgage company.

The Bank of Åland also has ownership stakes in Dreams, Doconomy and the newly established Swedish mortgage company.

Fintech and partnerships are a prioritised development area at the Bank of Åland. We are continuously looking for new business partnerships in which both parties can benefit from banking products we already produce or that generate value for our existing customers. We are well-positioned and know what is required to succeed in fintech projects, both in technical and legal terms.

We are among pioneers in fintech partnerships. As early as 2015, we began working together with Dreams Nordic AB. Via the Dreams app, people can starting saving, and the money they save is in an account at the Bank of Åland. During 2017 we achieved a new milestone by also offering mutual fund saving via the app.

During 2018, the Bank started its collaboration with Doconomy AB and the development of the DO app (onboarding of customers, savings accounts, automated direct debt payments). In December 2019 the app was launched in Sweden. DO is a mobile banking service through which customers can easily track their climate impact and compensate for it, both via certified climate compensation and sustainable savings.

Åland Index Solutions, a joint venture between Doconomy and the Bank of Åland, was established last autumn. The company enables banks, payment service companies and other financial institutions to offer their customers transaction-based climate impact calculations.

In December, banks with over 40 million customers announced that they had teamed up with the Bank of Åland's strategic partner Doconomy, and thanks to Åland Index Solutions they can now offer their customers tools to measure their climate impact. At the same time, Mastercard announced that it intends to become a shareholder in Doconomy. Bank of the West, a US-based subsidiary of France's BNP Paribas, became the first North American bank to team up with Doconomy. Nordea became the first external Nordic bank to sign a similar agreement.

Another major event during 2019 was that the Bank of Åland – together with ICA Bank, Ikano Bank, Söderberg & Partners and Borgo – will launch a joint mortgage company in the Swedish market. The new mortgage company will eventually offer Swedish consumers a complete platform of home mortgage loan products with a focus on stability, security and quality, and with a vision of helping to change the market.

Until the new mortgage company is established in Sweden, the Bank of Åland has a distribution agreement with ICA Bank, under which ICA Bank has been distributing mortgage loans to the Bank of Åland's balance sheet since December 2019.

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

An important reason behind the Bank's success

CFO Corporate Unit

Chief Financial Officer Jan-Gunnar Eurell is in charge of the Treasury and Group Finance departments. The CFO Corporate Unit has about 30 employees in Mariehamn, Helsinki and Stockholm.ees in Mariehamn, Helsinki and Stockholm.

Treasury is responsible for optimising the Bank of Åland's portfolio and liquidity management. The department is also in charge of ensuring that the Bank can meet its need for cost-effective refinancing in the short and long term. Its responsibility for portfolio management also includes managing the interest rate, foreign exchange and liquidity risks that the Bank's business operations transfer to Treasury via internal prices.

Treasury earnings in 2019 were record-high and contributed significantly to making the year's overall Group earnings the highest ever in the Bank's 100-year history.

At year-end 2019 the Treasury portfolio, which includes liquid assets and assets pledged, totalled EUR 1.3 billion. This was equivalent to about 31 per cent of the Bank's lending portfolio. At year-end, the Bank of Åland's capital market borrowings amounted to EUR 1.8 billion, equivalent to about 44 per cent of the lending portfolio. Treasury's dominant funding instrument is covered bonds, now totalling about EUR 1.1 billion. During 2019, for the first time the Bank issued a full EUR 300 M in covered bonds at the same time. The trend towards declining capital market funding costs fortunately continued in 2019 as well.

The task of Group Finance is to deliver public information to the market and regulatory authorities, but also to develop and manage the Group's financial and business control. In addition, the department has Group-wide responsibility for the purchasing process, system ownership of shared technical platforms and systems as well as workplaces and data warehousing.

The processes at Group Finance maintain high standards, with consolidated financial statements and internal financial control reports ready on the fifth banking day after each report period. A ledger project recently started in order to further enhance these processes.

A multi-year, systematic effort to streamline purchasing and supplier relationships has led to gradually lower expenses for purchased services. Expenses for IT licences, operation, administration and workplaces have also continuously decreased.

The data warehouse underwent extensive development work in 2019, and there is a clear plan for new tools that will enable a larger number of value-generating data analyses.

During 2020 the CFO Corporate Unit will continue its efforts to streamline and raise the quality of its work processes. The new Swedish mortgage company will have a major impact on the unit's service deliveries.

CAO Corporate Unit

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

The CAO Corporate Unit operates in the fields of back office services, administration, development, communications and sustainability. The subsidiary Compass Card was merged with the Bank in the autumn of 2019, and the Business Support department's operations were thus expanded to include the Bank's card business.

The Business Support Capital Market and Business Support departments are the largest clients of the Bank's prioritised development projects related to coming regulatory changes and systems development.

During 2019 the main focus was development work based on regulatory requirements. Another focus of development efforts was improving efficiency by means of digitisation and smoother work processes. The same objectives will apply during 2020. The influx of new regulatory requirements is expected to decrease during 2020, which will lead to a welcome stepwise rebalancing of development work towards efficiency improvements and the customer experience. In 2019 more than 50 per cent of the Bank's prioritised development investments were generated by regulatory requirements.

During the year, efficiency improvement projects focused on reducing licensing expenses related to IT systems, decreasing administrative time for customer advisors and reducing internal paperwork at the Bank. As one element of its efficiency improvement work, the corporate unit also conducted a robotisation pilot project.

In the digitisation field, a number of innovations and improvements were made in the Internet Office and the Mobile Bank. For example, the design of the Mobile Bank was freshened up, an option for updating customer due diligence was added and support for e-invoices was expanded. The minimum age for using digital services and applying for cards was lowered to 9. During 2019 the CAO Corporate Unit made a comprehensive effort to digitise the Bank's various customer mailings, and this work is continuing during 2020.

All new and renewed Bank of Åland debit cards are now Baltic Sea cards that are made of a biodegradable material. Every card is also connected to the Åland Index.

During the autumn the CAO Corporate Unit also put a lot of effort into starting the development of the Bank's share savings account; according to plans, such accounts will be available in Åland and on the Finnish mainland during spring 2020.

The Bank expanded its AML/CTF (Anti-Money Laundering and Combating the Financing of Terrorism) work during 2019, since we are seeing an increasing number of fraud cases in the market. During 2020 the regulations will become even clearer now that the EU's Fifth Money Laundering Directive (5AMLD) has gone into effect.

The volume of cases handled by Customer Service continued to increase during 2019. Customers can contact the Bank via telephone, the Internet Office messaging service, email or online chat. One explanation for the increase in cases is the accessibility offered by the Mobile Bank. During the year the number of cases per month averaged about 12,500, compared to 10,500 in 2018. Since November, customers have been able to identify themselves by Mobile Bank ID or Bank of Åland e-ID when they phone Customer Service.

The surveys that we continuously conduct among our customers show that Customer Service maintains high quality in its encounters with our customers. The surveys provide comparative background data on some 20 other banks in Finland and Sweden. The Bank of Åland's Net Promotor Score (NPS) of 46.2 is substantially higher than the banking sector's average of 30. General satisfaction with Customer Service was 87.3 per cent during the year, compared to 86.7 for the banking sector.

CRO Corporate Unit

Chief Risk Officer Juhana Rauthovi is in charge of the Risk Control, Compliance, Operational Risks & Security, Legal Affairs, Credit Scoring and Credit Processes departments. The corporate unit consists of about 50 people in Mariehamn, Helsinki and Stockholm.

The Risk Office Corporate Unit is primarily entrusted with protecting the Bank's assets, earnings and brand by providing a framework for risk and credit management. Its purpose is to maintain a healthy risk culture that corresponds to the Bank's risk appetite and risk-bearing ability. Risk management and monitoring processes have been strengthened. The Bank of Åland's risk level is still low, despite some weak individual loan customers.

The Risk Control department is responsible for independent oversight and reporting of the Bank's financial risks. The European Banking Authority (EBA) has published guidelines for a new definition of default, which will take effect in 2021. During 2019, Risk Control worked with an internal definition that will meet external requirements and has applied to the Financial Supervisory Authority for its approval. The Basel IV regulations, which go into effect in 2022, have been analysed. A project for implementing the regulations at the Bank of Åland was initiated. Risk Control also devoted time to refining interest rate risk models and assumptions for calculating net interest income risk and value change risk, in order to better reflect the impact of interest rate changes on the Bank's earnings.

During 2020 the Bank's credit risk models will be adapted to the new definition of default. The models will also receive a general update so that they better reflect the risk in the Bank's loan portfolios. The Risk Control department's work during 2020 will also be dominated by the new mortgage company, since new processes need to be established for the services to be delivered, while work will continue on Basel IV.

The Credit Scoring department develops and carries out credit analyses and oversight in order to ensure good credit quality in the Bank's lending. The proportion of unsettled loans in the lending portfolio rose during 2019. This increase was mainly due to a few large commitments that went into default. Assuming continued strong economic conditions and stable real estate price levels, hopefully it will be possible to decrease the proportion of unsettled loans as current problem loans are phased out. During 2020 the work of the department will be affected by the Bank of Åland's collaboration with ICA Bank and by new regulations, especially the EBA's Guidelines on Loan Origination and Monitoring, which will be implemented during the year.

The Credit Processes department is responsible for developing the Bank's lending process and ensuring that it fulfils internal and external regulations. During 2019 its focus was on streamlining the loan decision process. In December it also launched a new partnership – with ICA Bank distributing the Bank of Åland's home mortgages in the Swedish market. During 2020 the department's focus will be on the development of a new platform for home loan products for the new joint mortgage banking company, combined with adaptation to new regulations.

The Compliance department is responsible for independent oversight and reporting of the Bank's compliance risks. The department works with permit and supervisory matters, while overseeing and monitoring the Bank's compliance in the fields of customer protection, market behaviour and combating money laundering and financing of terrorism.

During 2019, the Compliance department worked with conflicts of interest and ethics, new regulations concerning investment services and payment services. The department works continuously to ensure that the Bank of Åland takes the necessary steps to combat money laundering and financing of terrorism. Internal training and advisory services related to compliance issues, the Bank's internal regulations and the implementation of various inspections were important elements of the department's work.

Operational Risks & Security is an independent department that provides back-up and advisory services and sets standards for operational risk management. The department focuses on promoting a healthy risk culture by increasing awareness of operational risk and personal information management. In practice, this has involved adaptation updating of internal regulations, training courses, further development of the incident management process and development of the Bank's new product approval process (NPAP). The department provides backup in the further development of authorisation structures at the Bank. The department also regularly organises continuity drills and security reviews.

Profitable growth at Crosskey

Crosskey had a successful year in 2019. Net operating profit amounted to EUR 2.9 M, which was 48 per cent better than in 2018. In October, the company completed the acquisition of the software company Model T, which is now a wholly owned subsidiary of Crosskey.

During the year, Crosskey managed to attract a number of new customers, with Resurs Bank, Ya Bank and Komplett Bank choosing our Open Banking system module. In addition, Fair Investments chose to initiate a partnership related to Crosskey's capital market system in Sweden. The newly established mortgage company Borgo (partnering with ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland) will launch its future mortgage loan project in the Swedish market with the help of Crosskey's banking IT system.

During the year, major business events included the following:

- Developing and launching COpen, our new Open Banking product.
- Developing and launching an automated unsecured loan process for one of our existing customers.
- Launching an entirely seamless card insurance service for our new customer Northmill, which stands behind such brands as Easycredit, Rebilla, Credway and Credigo.
- Implementation and integration of the person-to-person payment solution Mobilepay, which one of our existing customers chose to join and which is now integrated with Crosskey's banking and card systems.
- Integration of the card system for one of our existing customers with an external fraud prevention system.
- An ongoing implementation project with our new customer Garantum related to a new capital market system in Sweden.
- Technical improvement projects. We continued working on cloud solutions for some of Crosskey's apps, as well as technology harmonisation.
- Implementation of digital card applications on a card platform for existing customers in Sweden, making possible an entirely digitised application process.
- Completing several parts of the system that supports the Bank of Åland's fintech collaboration with Doconomy.
- Launching the capital market system for our new customer Fair Investments in Sweden.

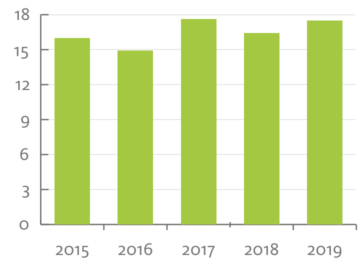
Employee satisfaction, which was measured in our yearly employee survey, climbed to the highest level in the survey's history. Meanwhile customer satisfaction also rose.

In 2020 we are also facing a number of large, important projects for the company and its customers. By far the largest project at Crosskey during 2020 will be implementation and development of the platform for the mortgage loan partnership between ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland.

Demand for our services remains very high. In order to further increase Crosskey's sales and economic growth, we have thus begun the task of reviewing what expansion of resources we can achieve with employees and consultants in order to meet this demand. We already carried out some resource expansions in 2019.

We are continuing to educate ourselves and monitor the significance of new trends in robotisation, artificial intelligence (AI), machine learning and blockchains and what impact these may have on us and our services and products. During 2019, for example, we initiated a pilot project about robotisation with the Bank of Åland, and we are continuously evaluating where we should implement these new trends in our operations.

Non-Group income, Crosskey
EUR M



Thomas Lundberg, Managing Director at Crosskey Banking Solutions Ab Ltd.

Report of the Directors

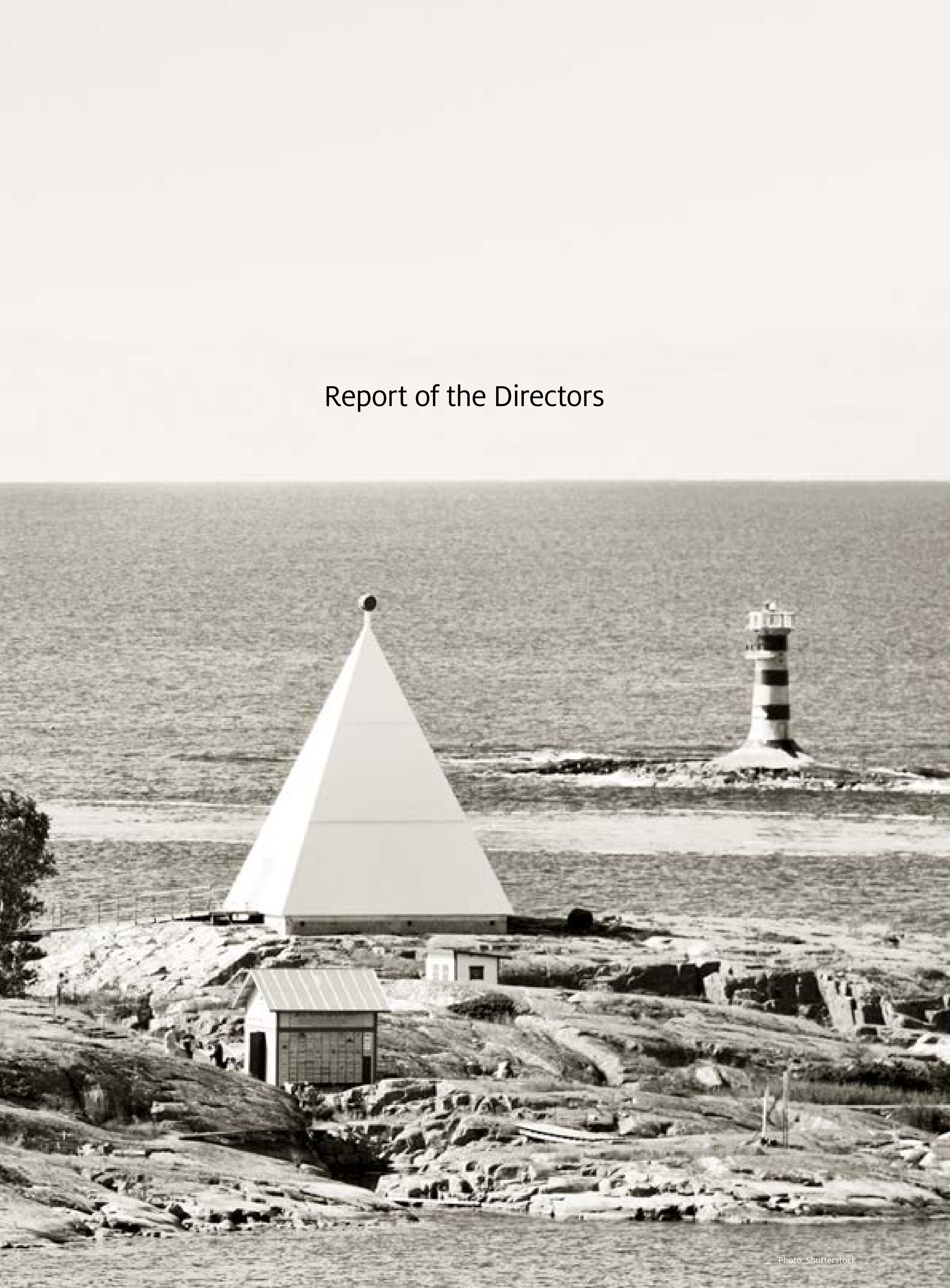
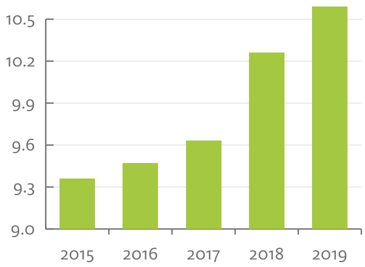


Photo: Shutterstock

Report of the Directors

Average EUR/SEK exchange rate



Macro situation

The year was dominated by uncertainty connected to trade policy, Brexit and economic performance. Inflation pressures remained subdued, and growth cooled globally.

The European Central Bank (ECB) lowered the interest rate on its deposit facility by 10 basis points (bps) to −0.50 per cent on September 12, announcing at the same time that it is resuming net purchases within its asset purchase programme at a monthly pace of EUR 20 billion. Starting on October 30, 2019, the ECB also introduced a two-tiered deposit rate in its deposit facility, where banks will receive 0.0 per cent interest instead of −0.50 per cent on balances up to six times the "minimum reserve requirement". The US Federal Reserve (Fed) cut its key rate during the fourth quarter – for the third time in 2019 – by 25 basis points to 1.50–1.75 per cent. Sweden's Riksbank went against the current, deciding on December 19 to hike its repo rate by 25 bps to 0.00 per cent.

Negative interest rates and yields in the euro area appear likely to persist during the foreseeable future, while the 3-month Stibor – an important Swedish market interest rate – reversed its trend in the fourth quarter of 2019, ending the year with a positive average value. The expectation is that the ECB's key interest rate will remain at current or lower levels until the inflation outlook approaches 2 per cent. Sweden's Riksbank also expects its repo rate to remain at the same level during the next couple of years.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2019	2018
Euribor 3 mo	−0.36	−0.32
Euribor 12 mo	−0.22	−0.17
Stibor 3 mo	−0.03	−0.39

After a shaky ending to 2018, the world's stock markets were dominated by a powerful recovery in 2019. During the year, share prices according to the Nasdaq Helsinki (OMXHPI) equity index rose by 13 per cent and share prices according to the Nasdaq Stockholm (OMXSPI) index by 30 per cent.

During 2019, the average value of the Swedish krona (SEK) in relation to the euro (EUR) was 3 per cent lower than in 2018. At year-end 2019 it was 2 per cent lower than at year-end 2018. When converting the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been converted at the exchange rate prevailing on the closing day of the report period.

Important events

During the fourth quarter of 2019, the Bank of Åland's information technology (IT) subsidiary Crosskey Banking Solutions acquired the Finnish software company Model IT Oy. The company, which is based in Helsinki, has 13 employees and mainly targets customers in asset management with its OneFactor IT platform and in the insurance sector with its cFrame system. Through this acquisition, Crosskey is strengthening its range of products and services for banks, asset managers, fund companies and insurance companies.

During the fourth quarter, Åland Index Solutions was formed. It is a joint venture between the Bank of Åland and Doconomy, a Swedish-based fintech startup. The Bank of Åland, which launched the Åland Index three years ago, regards Åland Index Solutions as a natural step in making this innovative point of reference available to the entire financial market. The Åland Index is a global index for carbon dioxide emission calculations that help individuals to make their consumption more sustainable from a climate standpoint. In collaboration with S&P Global, the index was recently updated to cover 99 per cent of the world market.

In December, banks with over 40 million customers announced that they had teamed up with the Bank of Åland's strategic partner Doconomy, and thanks to Åland Index Solutions they can now offer their customers tools to measure their climate impact. At the same time, Mastercard announced that it intends to become a shareholder in Doconomy. Bank of the West, a US-based subsidiary of France's BNP Paribas, became the first North American bank to team up with Doconomy. Nordea became the first external Nordic bank to sign a similar agreement.

As a natural step in the Bank of Åland's sustainability work, in December the Bank signed the United Nations Principles for Responsible Banking, created through cooperation between the UN Environmental Programme's Finance Initiative (UNEP FI) and the global financial services sector. The principles were recently established. Their aim is to align the financial services sector with the UN Sustainable Development Goals and the Paris Climate Agreement by engaging them in cooperation and by clarifying the sector's responsibility for creating a sustainable society.

In September the Bank of Åland – together with ICA Bank, Ikano Bank, Söderberg & Partners and Borgo – signed an agreement on establishing a joint mortgage company in the Swedish market. As one element of establishing the new company, the Bank of Åland, ICA Bank, Ikano Bank and Söderberg & Partners are acquiring a majority of the shares in Borgo AB. Borgo's management will have operational responsibility for coordinating and establishing the new mortgage company. The Bank of Åland, together with its subsidiary Crosskey, will supply platform solutions for the new mortgage company, as well as contributing their existing knowledge about mortgage management.

Until the new mortgage company has been established in Sweden, the Bank of Åland has a distribution agreement with ICA Bank, under which ICA Bank will distribute home mortgage loans in the Bank of Åland balance sheet.

The wholly owned subsidiary Compass Card was merged with the Bank of Åland, since an independent subsidiary is no longer needed in order to carry out the Bank of Åland's card business. Compass Card was established in 2006 as a company jointly owned by the Bank of Åland and Tapiola Bank for the issuance of credit and debit cards. In 2014 Compass Card became a wholly owned subsidiary of the Bank of Åland, after S-Bank (S-Pankki) had acquired Tapiola Bank and S-Bank had taken over the card business handled by Compass Card on behalf of Tapiola Bank's customers.

In April, the Bank was included for the first time in Europe's largest brand study on sustainability, the Sustainable Brand Index. Statistics for 2018 show that the Bank of Åland decreased its carbon footprint by about 14 per cent compared to the preceding year. The Bank thereby exceeded its target, which was a decrease of 10 per cent.

Together with its customers, the Bank of Åland is continuing its commitment to a cleaner Baltic Sea. In 2019 the Baltic Sea Project contributed EUR 300,000 to a number of projects that promote the health of the Baltic Sea. Since 1997 the Bank of Åland has awarded EUR 2.3 M to various environmentally related projects.

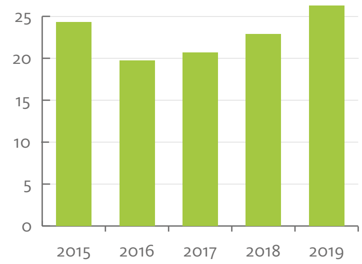
As part of its responsible investment strategy, the Bank of Åland launched a new sustainable bond fund, Ålandsbanken Green Bond ESG. The fund was granted the Nordic Swan Ecolabel, making it the first Finnish bond fund to carry this label. The fund invests in green bonds and in bonds issued by companies with the best sustainability ratings. The aim of the fund's operations is to offer an opportunity for fund investors to earn a competitive fixed income return in an environmentally sound and sustainable manner.

For the sixth 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.

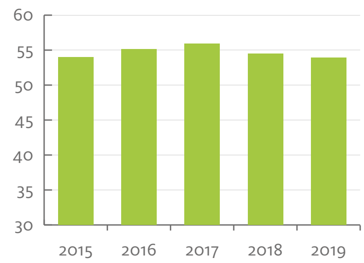
The Annual General Meeting (AGM) on April 3, 2019 re-elected the Board of Directors consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Göran Persson, Ulrika Valassi and Anders Wiklöf. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board. Göran Persson resigned from the Board on April 29, however, in light of his nomination as Chairman of the Board of Swedbank AB (publ).

During 2019 the number of Series B shares outstanding increased by 79,813 as a result of the Bank's obligations within the framework of its incentive and share savings programmes.

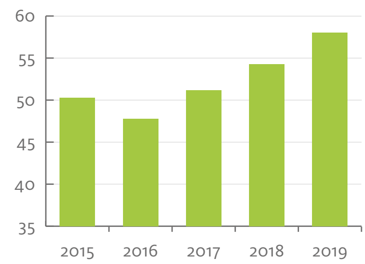
Profit attributable to shareholders
EUR M



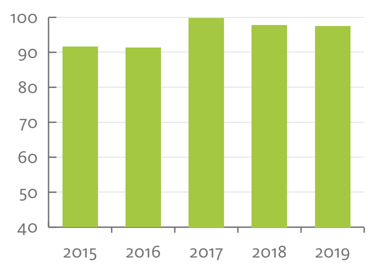
Net interest income
EUR M



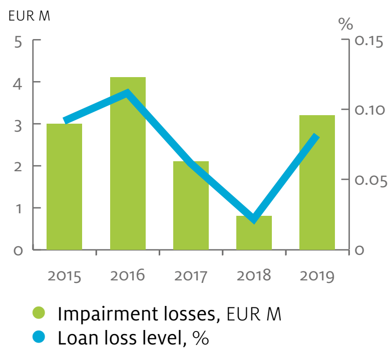
Net commission income
EUR M



Total expenses
EUR M

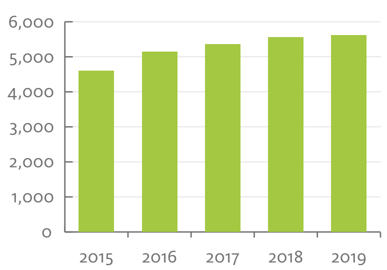


Impairment losses and loan loss level



Balance sheet total

EUR M



Earnings

Profit for the period attributable to shareholders increased by EUR 3.4 M or 15 per cent to EUR 26.3 M (22.9).

Net operating profit increased by EUR 4.2 M or 15 per cent to EUR 33.2 M (29.0).

Return on equity after taxes (ROE) increased to 10.7 per cent (9.8).

Total income rose by EUR 6.3 M or 5 per cent to EUR 133.9 M (127.6).

Net interest income fell by EUR 0.6 M or 1 per cent to EUR 53.9 M (54.5). The decrease primarily came from Swedish operations, with the depreciation of the krona together with a narrower lending margin – due to a reweighting towards lower risk in the portfolio – adversely affecting net interest income. In addition, because of IFRS 16, leases are now recognised as an estimated interest expense and an estimated depreciation, instead of as an operating expense.

Net commission income increased by EUR 3.7 M or 7 per cent to EUR 58.0 M (54.3), mainly as a consequence of higher mutual fund commissions.

Net income on financial items increased by EUR 2.4 M to EUR 3.9 M (1.5), mainly thanks to higher capital gains in the liquidity portfolio.

IT income rose by EUR 1.0 M or 6 per cent to EUR 17.4 M (16.4), primarily due to increased project income at Crosskey.

Total expenses were essentially unchanged and amounted to EUR 97.5 M (97.8). The stability fee decreased by EUR 0.8 M or 31 per cent to EUR 1.8 M (2.6). IT expenses decreased by EUR 1.0 M or 10 per cent, principally because of lower project expenses. Depreciation rose by a full EUR 4.5 M or 62 per cent, which was largely explained by reclassification of lease expenses in compliance with IFRS 16. Amortisation of intangible assets also increased.

Net impairment losses on financial assets increased by EUR 2.3 M to EUR 3.2 M (0.8), equivalent to a loan loss level of 0.08 (0.02) per cent.

Tax expense amounted to EUR 6.9 M (6.1), equivalent to an effective tax rate of 20.7 (20.9) per cent.

Strategic business areas

The Group's EUR 4.2 M increase in net operating profit to EUR 33.2 M was allocated as follows:

- Private Banking +2.1
  (higher income and lower expenses)
- Premium Banking −3.3
  (higher depreciation/amortisation)
- IT +0.9
  (higher project income)
- Corporate units & eliminations +4.5
  (higher capital gains)

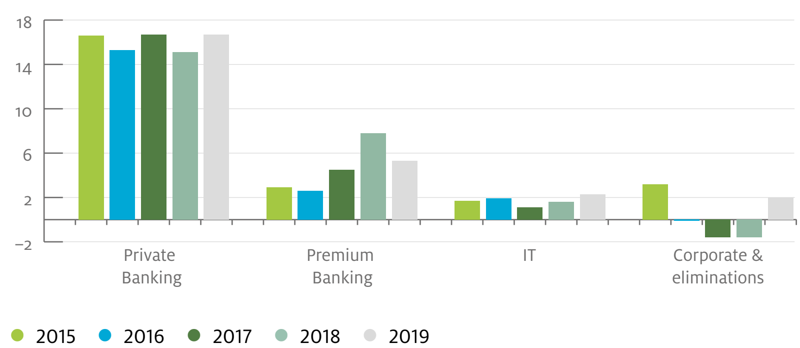
Business volume

Actively managed assets on behalf of customers increased by EUR 1,166 M or 23 per cent compared to year-end 2018 and amounted to EUR 6,343 M (5,177). The increase was due to both positive net flows and higher market values.

Deposits from the public increased by 2 per cent compared to year-end 2018 and amounted to EUR 3,368 M (3,304).

Profit attributable to shareholders, by segment

EUR M



Receivables from the public increased by 2 per cent compared to year-end 2018 and amounted to EUR 4,110 M (4,022).

Balance sheet total and off-balance sheet obligations

During 2019, the Group's balance sheet increased by EUR 49 M or 1 per cent to EUR 5,607 M (5,558). The increase was primarily related to receivables from the public. The increase in assets was funded mainly through increased deposits from the public. Off-balance sheet obligations fell by EUR 49 M or 10 per cent to EUR 444 M (493). The decrease was mainly related to guarantees and lines of credit.

Credit quality

Lending to private individuals comprised 72 per cent of the loan portfolio. Home mortgage loans accounted for 76 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. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

Stage 3 loans increased during the report period by EUR 13.6 M to EUR 33.5 M. Stage 3 loans as a share of gross receivables from the public totalled 0.81 per cent (0.49 on December 31, 2018). The level of provisions for Stage 3 loans amounted to 33 (47) per cent. Most of these loans have good collateral.

The Bank of Åland Group had EUR 12.4 M (11.3) in impairment loss provisions, of which EUR 0.5 M (0.9) in Stage 1; EUR 0.9 M (1.2) in Stage 2 and EUR 11.1 M (9.3) in Stage 3.

Liquidity and borrowing

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,129 M on December 31, 2019 (1,195). This was equivalent to 20 (22) per cent of total assets and 27 (30) per cent of receivables from the public.

Starting on October 30, 2019, the European Central Bank introduced a two-tiered deposit rate in its deposit facility, where banks will receive 0.0 per cent interest instead of −0.50 per cent on balances up to six times the "minimum reserve requirement". In the Bank of Åland's case, this represents about EUR 150 M with a zero interest rate instead of a negative interest rate.

In March, the Bank of Åland issued EUR 300 M in covered bonds with a five-year maturity. In March, SEK 1,000 M in covered bonds matured. In June, EUR 100 M in covered bonds matured. In December, a further SEK 750 M in covered bonds matured. On December 31, 2019, the average remaining maturity of bonds outstanding was about 2.5 (2.7) years.

On December 31, 2019, the Bank of Åland's core funding ratio, defined as receivables from the public divided by deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued – amounted to 90 (90) per cent.

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

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 65 (64) per cent and covered bonds issued accounted for 22 (22) per cent.

The liquidity coverage ratio (LCR) amounted to 139 (120) per cent.

The net stable funding ratio (NSFR) amounted to 115 (113) per cent.

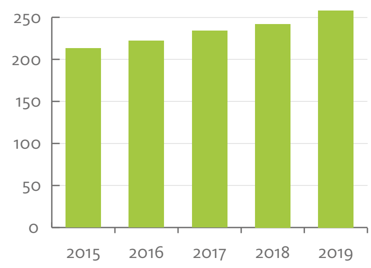
Rating

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

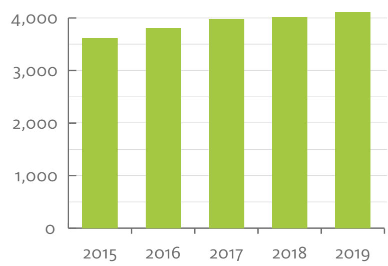
Equity and capital adequacy

During the report period, equity capital changed in the amount of profit for the period, EUR 26.3 M; other comprehensive income, EUR 0.0 M; the issuance of new shares as part of the incentive programme, EUR 0.4 M; EUR 0.2 M related to the share savings programme; and payment to shareholders of a dividend totalling EUR −10.9 M. On December 31, 2019, equity capital amounted to EUR 258.4 M (242.4).

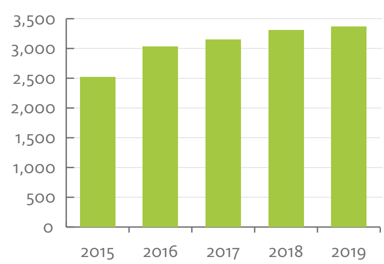
Equity capital attributable to shareholders
EUR M



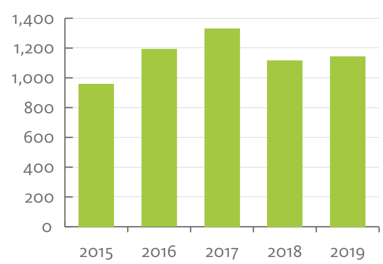
Lending
EUR M



Deposit accounts
EUR M



Covered bonds
EUR M



Other comprehensive income included re-measurements of defined-benefit pension plans by EUR –2.7 M after taxes, in compliance with IAS 19, and a change in the value of equity instruments by EUR 3.7 M.

Common equity Tier 1 capital rose by EUR 7.1 M or 3 per cent during 2019 to EUR 211.5 M (204.4), mainly thanks to comprehensive income for the period.

The risk exposure amount was at an unchanged level and amounted to EUR 1,583 M (1,578). IFRS 16 led to an increase in the risk exposure amount by EUR 14 M. The risk exposure amount for credit risk, excluding the risk weight floor for mortgage loans and IFRS 16, decreased by EUR 5 M, while the risk exposure amount for the risk weight floor related to mortgage loans increased by EUR 7 M. The operational risk exposure amount, calculated using a three-year moving average of the Group's income, increased by EUR 7 M.

The common equity Tier 1 capital ratio increased to 13.4 (13.0) 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.

The total capital ratio increased to 15.8 (15.4) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of common equity Tier 1 capital, applies in all European Union countries. The countercyclical capital buffer requirement may vary between 0–2.5 per cent. For Finnish exposures, the requirement is currently 0.0 per cent. For Swedish exposures, the requirement was raised from 2.0 per cent to 2.5 per cent starting on September 19, 2019.

The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. The Bank of Åland is not included in the buffer requirements for systemically important institutions.

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

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

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

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

In relation to the above buffer requirements, the Bank of Åland has a substantial capital surplus:

- Common equity Tier 1 capital ratio, +2.7 per cent
- Tier 1 capital ratio, +1.2 per cent
- Total capital ratio, +1.6 per cent

Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a regular divided of EUR 0.80 per share (0.70) plus an anniversary dividend of EUR 0.20 per share, equivalent to a total amount of EUR 15.6 M (10.8). The regular dividend is equivalent to a 47 per cent payout ratio, while the anniversary dividend is equivalent to a 12 per cent payout ratio.

Important events after close of report period

No important events have occurred since the close of the report period.

Risks and uncertainties

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

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

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

Future outlook

The Bank of Åland expects its net operating profit in 2020 to be better than in 2019.

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 some uncertainty in the Bank's current forecast of the future.

Long-term financial targets

- *Return on equity after taxes (ROE) shall exceed 10 per cent.*
- *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 per cent.*

This payout ratio target is subject to the condition that the capital adequacy target continues to be achieved.

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2019	2018	2017	2016	2015
EUR M					
Net interest income	53.9	54.5	55.9	55.1	54.0
Net commission income	58.0	54.3	52.9	48.0	50.1
Net income from financial items carried at fair value	3.9	1.5	−0.1	1.1	4.4
IT income	17.5	16.4	17.6	14.9	16.0
Other income	0.7	1.0	1.6	1.3	0.4
Total income	**133.9**	**127.6**	**128.0**	**120.4**	**124.9**
Staff costs	−57.0	−57.1	−59.8	−57.0	−56.0
Other expenses	−28.7	−33.4	−32.9	−28.3	−28.7
Derpreciation/amortisation and impairment losses on tangible and intangible assets	−11.8	−7.3	−7.1	−5.9	−6.9
Total expenses	**−97.5**	**−97.8**	**−99.8**	**−91.3**	**−91.6**
Profit before impairment losses	**36.4**	**29.8**	**28.2**	**29.2**	**33.3**
Impairment losses on loans and other commitments	−3.2	−0.8	−2.1	−4.1	−3.0
Net operating profit	**33.2**	**29.0**	**26.0**	**25.1**	**30.3**
Income taxes	−6.9	−6.1	−5.3	−5.4	−6.0
Profit for the report period	**26.3**	**22.9**	**20.7**	**19.7**	**24.3**
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	**26.3**	**22.9**	**20.7**	**19.7**	**24.3**
Volume					
Receivables from the public and public sector entities	4,110	4,022	3,979	3,808	3,617
Deposits from the public	3,368	3,304	3,148	3,028	2,517
Actively managed assets [1]	6,343	5,177	5,737	3,900	3,927
Equity capital	258	242	234	222	213
Balance sheet total	5,607	5,558	5,352	5,137	4,602
Risk exposure amount	1,583	1,578	1,538	1,576	1,581
Financial ratios					
Return on equity after taxes (ROE), % [2]	10.7	9.8	9.1	9.1	12.0
Expense/income ratio, % [3]	0.73	0.77	0.78	0.76	0.73
Loan loss level, % [4]	0.08	0.02	0.06	0.11	0.09
Core funding ratio, % [5]	90	90	88	89	100
Equity/assets ratio, % [6]	4.6	4.4	4.4	4.3	4.6
Common equity Tier 1 capital ratio, % [7]	13.4	13.0	12.9	11.8	12.0
Working hours re-calculated to full-time equivalent positions	700	691	691	683	663

[1] Actively managed assets include managed assets in the Bank's own mutual funds plus discretionary and advisory securities volume.

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

[3] Expenses/Income.

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

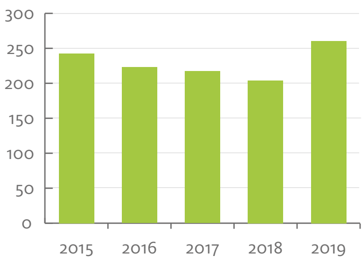
[5] Receivables from the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued.

[6] Equity capital/Balance sheet total.

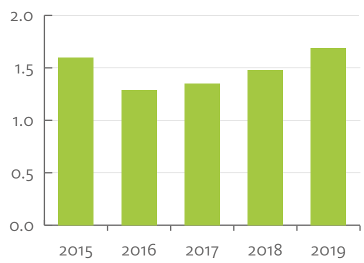
[7] (Common equity Tier 1 capital/Capital requirement) ×8% .

Facts on Bank of Åland shares

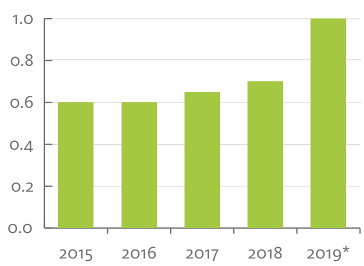
Market capitalisation
EUR M



Earnings per share
euros



Dividend per share
euros



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

Share capital

The share capital of the Bank of Åland is EUR 42,029,289.89. The shares are divided into 6,476,138 Series A and 9,075,360 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 2019, 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 3, 2024. So far 26,391 Series B shares (as of December 31, 2019) have been issued or divested as authorised, and consequently an additional 2,973,609 Series B shares may be issued or divested on the basis of the authorisation.

Share savings programme

The Bank of Åland's Board of Directors has approved two share savings programmes for all Group employees: the 2015 share savings programme and the 2016 share savings programme. Sixty-nine per cent of employees participated in the 2015 programme and 60 per cent in the 2016 programme. The share savings programmes enabled employees to save a portion of their monthly salary to invest in the Bank of Åland's Series B shares. Participation in the share savings programme was voluntary. Employees could save a maximum of five per cent of their monthly salary in order to subscribe for twice-yearly targeted issues of Series B shares. The programmes ran for one year. Three years after each respective share issue, the Bank of Åland distributes 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 were offered the opportunity to subscribe for Series B shares at a price 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. During 2018 and 2019, 76,400 matching shares were issued on the basis of the share savings programmes. During 2020 about 24,000 more shares will be issued.

Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In spring 2019, 27,367 newly issued Series B shares were disbursed. In March 2020, about 12,000 additional shares will be disbursed. Another approximately 13,000 Series B shares will be disbursed as a delayed portion of incentive programmes during the years 2021–2023, 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
2019	42,029,289.89	6,476,138	9,075,360
2018	41,974,063.28	6,476,138	8,995,547
2017	41,949,003.76	6,476,138	8,959,175
2016	41,674,226.83	6,476,138	8,823,012
2015	41,500,786.10	6,476,138	8,737,101

Trading in the Bank's shares

During 2019, the volume of trading in the Bank's Series A shares on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) was EUR 13.7 M. Their average price was EUR 14.95. The highest quotation per share was EUR 17.00, the lowest EUR 13.10. Trading in Series B shares totalled EUR 12.4 M at an average price of EUR 14.22. The highest quotation was EUR 16.75, the lowest EUR 12.70.

On December 31, 2019, the number of registered shareholders was 10,023 and they owned 14,235,645 shares. There were also a total of 1,315,853 shares registered in the names of nominees.

The ten largest shareholders, December 31, 2019

	Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1	Wiklöf Anders and companies	1,993,534	1,332,961	3,326,495	21.39	29.73
2	Alandia Insurance	754,908	302,632	1,057,540	6.80	11.11
3	OP Corporate Bank plc (nominee registered shares)	1,372	922,569	923,941	5.94	0.69
4	Fennogens Investments S.A.	569,264	152,088	721,352	4.64	8.32
5	Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	265,754	389,422	2.50	1.98
6	Nordea Bank AB (nominee registered shares)	22,008	304,475	326,483	2.10	0.54
7	Lundqvist Ben	246,111	0	246,111	1.58	3.55
8	Chilla Capital	230,000	0	230,000	1.48	3.32
9	Oy Etra Invest Ab (investment company)	0	225,000	225,000	1.45	0.16
10	Svenska Litteratursällskapet i Finland rf (literary society)	208,750	0	208,750	1.34	3.01

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

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding	Voting power, %
1–100	4,274	184,655	43	1.1
101–1,000	4,531	1,603,951	354	7.1
1,001–10,000	1,103	2,790,565	2,530	12.0
10,001–	115	10,972,327	95,412	79.8
of which nominee registered shares		1,315,853		1.5

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,735,116	36.9
Companies	4,448,626	28.6
Financial institutions and insurance companies	2,189,534	14.1
Non-profit organisations	644,537	4.1
Government organisations	1,558	0.0
Foreign investors	1,216,274	7.8
Nominee registered shares	1,315,853	8.5
Total	**15,551,498**	**100.0**

Bank of Åland share data	2019	2018	2017	2016	2015
Number of shares, thousands [1]	15,551	15,472	15,435	15,299	15,208
Number of shares after dilution, thousands	15,601	15,590	15,586	15,572	15,411
Average number of shares, thousands	15,523	15,453	15,330	15,266	15,188
Earnings per share, EUR [2]	1.69	1.48	1.35	1.29	1.60
Earnings per share after dilution, EUR	1.69	1.48	1.34	1.28	1.59
Dividend per share, EUR	0.80 [3]	0.70	0.65	0.60	0.60
Anniversary dividend per share, EUR	0.20 [3]				
Dividend payout ratio [4]	47.3	47.2	48.5	46.6	37.5
Anniversary dividend payout ratio [4]	11.8				
Equity capital per share, EUR [5]	16.61	15.67	15.14	14.50	14.00
Equity capital per share after dilution, EUR	16.59	15.58	15.02	14.37	13.94
Market price per share, closing day, EUR					
Series A	17.00	13.30	14.20	14.84	16.40
Series B	16.55	13.10	14.05	14.38	15.60
Price/earnings ratio [6]					
Series A	10.0	9.0	10.5	11.5	10.2
Series B	9.8	8.8	10.4	11.2	9.7
Effective dividend yield, % [7]					
Series A	5.9	5.3	4.6	4.0	3.7
Series B	6.0	5.3	4.6	4.2	3.8
Market capitalisation, EUR M	260.3	204.0	217.8	223.0	242.4

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
2019	A	914	14.1	17.00–13.10	14.95
2019	B	874	9.6	16.75–12.70	14.22
2018	A	81	1.3	17.10–13.20	14.11
2018	B	545	6.1	15.00–12.80	13.63
2017	A	167	2.6	15.89–13.06	14.85
2017	B	482	5.4	15.49–13.27	14.41
2016	A	208	3.2	16.99–12.11	14.45
2016	B	809	9.2	16.10–12.62	14.11
2015	A	772	11.9	19.50–11.00	16.28
2015	B	972	11.1	17.58–10.76	15.33

Financial statements

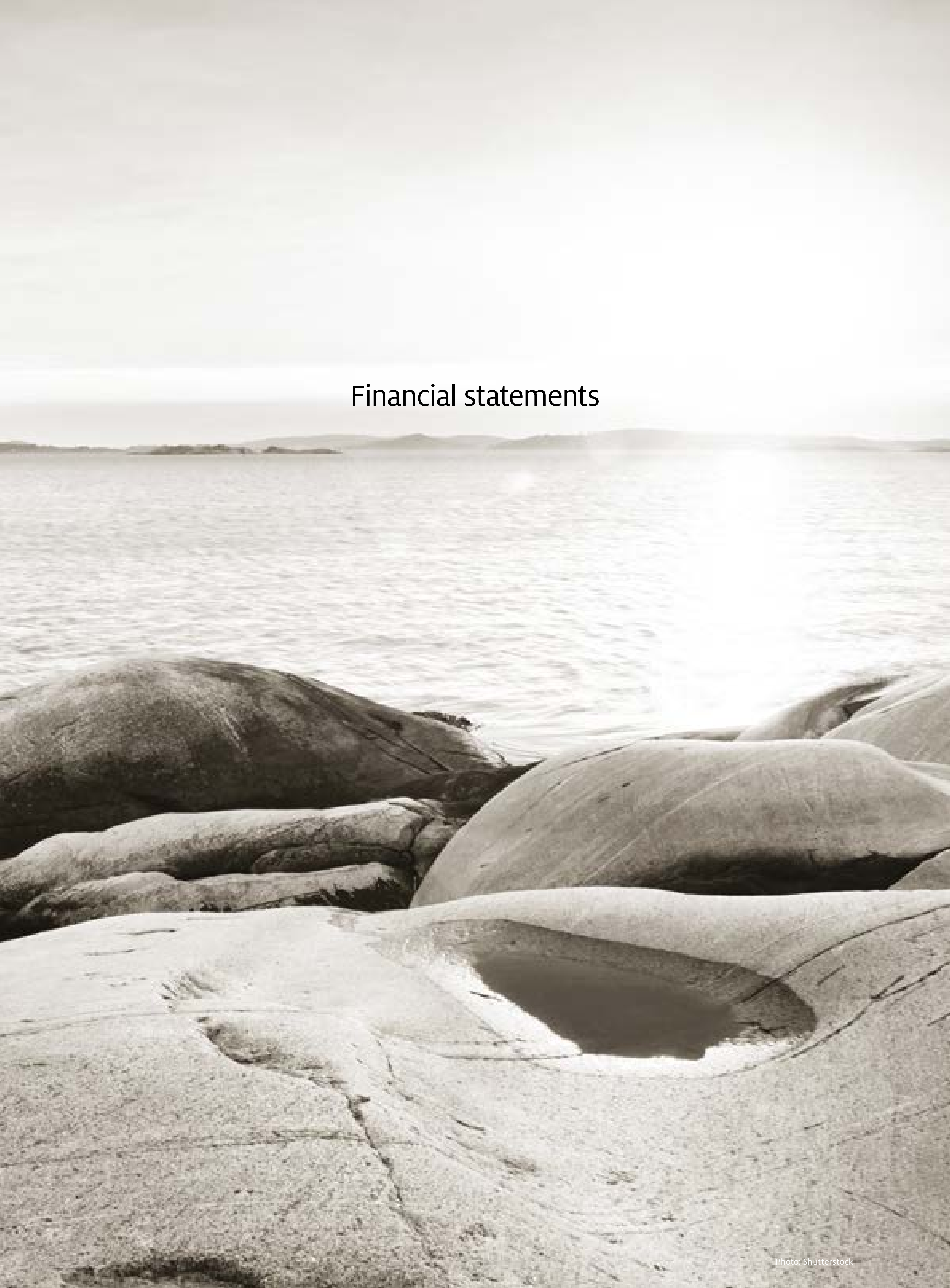


Photo: Shutterstock

Consolidated income statement

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Interest income		64,373	64,545
Interest expenses		−10,458	−10,019
Net interest income	G7	**53,915**	**54,526**
Commission income		81,647	82,233
Commission expenses		−23,670	−27,983
Net commission income	G8	**57,977**	**54,250**
Net income from financial items carried at fair value	G9	3,894	1,485
IT income		17,474	16,366
Share of income in associated companies		79	57
Other operating income	G10	575	957
Total income		**133,914**	**127,641**
Staff costs	G11	−56,970	−57,070
Other costs	G12	−28,694	−33,434
Depreciation/amortisation and impairment losses on tangible and intangible assets	G25, G26	−11,834	−7,306
Total expenses		**−97,498**	**−97,811**
Profit before impairment losses		**36,415**	**29,830**
Net impairment loss on financial assets	G13	−3,221	−841
Net operating profit		**33,195**	**28,990**
Income taxes	G14	−6,885	−6,058
Net profit for the period		**26,309**	**22,932**
Attributable to:			
Non-controlling interests		1	0
Shareholders in Bank of Åland Plc		**26,310**	**22,931**
Earnings per share, EUR	G15	1.69	1.48
Earnings per share after dilution, EUR	G15	1.69	1.48

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group	Note	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Profit for the accounting period		**26,309**	**22,932**
Cash flow hedge			
Change in valuation at fair value			118
Transferred to the income statement			–62
Assets measured via other comprehensive income			
Change in valuation at fair value		2,197	–1,771
Realised change in value		–124	2
Transferred to the income statement		–2,846	–832
Translation differences			
Gains/losses arising during the period		–943	697
of which hedging of net investment in foreign operations			2,609
Taxes on items that have been or may be reclassified to the income statement	G14	130	–13
of which cash flow hedges			–11
of which assets measured via other comprehensive income		130	520
of which hedging of net investment in foreign operations			–522
Items that have been or may be reclassified to the income statement		**–1,586**	**–1,860**
Changes in value of equity instruments		4,636	18
Re-measurements of defined benefit pension plans	G42	–2,692	370
Taxes on items that may not be reclassified to the income statement	G14	–389	–78
of which changes in value of equity instruments		–927	–4
of which re-measurements of defined-benefit pension plans		538	–74
Items that have been or may be reclassified to the income statement		**1,555**	**311**
Other comprehensive income		**–30**	**–1,549**
Total comprehensive income for the period		**26,279**	**21,382**
Attributable to:			
Non-controlling interests		–1	0
Shareholders in Bank of Åland Plc		**26,280**	**21,382**

Consolidated balance sheet

(EUR K)

Bank of Åland Group	Note	Dec 31, 2019	Dec 31, 2018
Assets			
Cash and deposits with central banks		489,886	506,897
Debt securities eligible for refinancing with central banks	G19	789,286	815,095
Receivables from credit institutions	G20	66,085	80,202
Receivables from the public and public sector entities	G21	4,110,029	4,021,654
Shares and participations	G22	9,370	2,564
Shares and participations in associated companies	G23	293	153
Derivative instruments	G24	21,240	15,347
Intangible assets	G25	25,315	21,582
Tangible assets	G26	32,000	22,217
Investment properties	G26	326	315
Current tax assets		107	915
Deferred tax assets	G27	5,120	5,428
Other assets	G28	36,831	44,426
Accrued income and prepayments	G29	21,611	20,997
Total assets		**5,607,500**	**5,557,791**
Liabilities			
Liabilities to credit institutions	G30	210,035	250,334
Liabilities to the public	G31	3,368,001	3,303,546
Debt securities issued	G32	1,603,957	1,587,888
Derivative instruments	G24	12,065	8,110
Current tax liabilities		3,246	2,327
Deferred tax liabilities	G27	30,903	27,887
Other liabilities	G33	49,678	56,952
Provisions	G34	38	191
Accrued expenses and prepaid income	G35	35,122	31,277
Subordinated liabilities	G36	36,100	46,895
Total liabilities		**5,349,145**	**5,315,407**
Equity capital and non-controlling interests	G37		
Share capital		42,029	41,974
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve		0	0
Fair value reserve		3,066	−124
Translation differences		−1,347	−403
Unrestricted equity capital fund		27,398	27,075
Retained earnings		129,330	115,983
Shareholders’ portion of equity capital		**258,343**	**242,370**
Non-controlling interests’ portion of equity capital		13	13
Total equity capital		**258,355**	**242,383**
Total liabilities and equity capital		**5,607,500**	**5,557,791**

Statement of changes in equity capital

(EUR K)

Bank of Åland Group

	Share capital	Share premium account	Reserve fund	Hedging reserve	Fair value reserve	Translation difference	Unrestricted equity capital fund	Retained earnings	Share-holders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2017	**41,949**	**32,736**	**25,129**	**−45**	**1,846**	**−579**	**26,926**	**105,660**	**233,623**	**13**	**233,636**
Transition to IFRS 9					98			−3,194	−3,096		−3,096
Equity capital, Jan 1, 2018	**41,949**	**32,736**	**25,129**	**−45**	**1,943**	**−579**	**26,926**	**102,466**	**230,526**	**13**	**230,539**
Profit for the period								22,931	22,931	0	22,932
Other comprehensive income				45	−2,068	175		298	−1,549		−1,549
Transactions with the Group's owners											
Dividend paid								−10,041	−10,041		−10,041
Incentive programme	25						149	−5	169		169
Share savings programme								334	334		334
Equity capital, Dec 31, 2018	**41,974**	**32,736**	**25,129**	**0**	**−124**	**−403**	**27,075**	**115,983**	**242,370**	**13**	**242,383**
Profit for the period								26,310	26,310	−1	26,309
Other comprehensive income					3,190	−943		−2,278	−30		−30
Transactions with the Group's owners											
Dividend paid								−10,868	−10,868		−10,868
Incentive programme	55						323	16	394		394
Share savings programme								166	166		166
Equity capital, Dec 31, 2019	**42,029**	**32,736**	**25,129**	**0**	**3,066**	**−1,347**	**27,398**	**129,330**	**258,343**	**13**	**258,355**

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

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Cash flow from operating activities		
Net operating profit	33,195	28,990
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	11,834	7,306
Impairment losses on loans and other commitments	3,809	1,147
Unrealised changes in value	–68	–472
Accrued surpluses/deficits on debt securities and bonds issued	6,599	4,174
Defined benefit pension plan	495	453
Gains/losses from investment activity	–75	–107
Income taxes paid	–2,143	–1,144
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	20,135	–187,024
Receivables from credit institutions	–9,708	9,933
Receivables from the public and public sector entities	–114,117	–98,084
Other assets	8,697	–36,518
Increase (+) or decrease (–) in liabilities from operating activities		
Liabilities to credit institutions	–33,135	63,660
Liabilities to the public	81,961	188,596
Debt securities issued	–33,895	–55,350
Other liabilities	–8,620	–9,580
Cash flow from operating activities	**–35,038**	**–84,022**
Cash flow from investing activities		
Investment in shares and participations	–2,151	–2,000
Divestment of shares and participations	29	104
Investment in shares of associated companies and subsidiaries	–4,376	–20
Investment in tangible assets	–2,438	–1,497
Divestment of tangible assets	177	168
Investment in intangible assets	–4,053	–8,684
Cash flow from investing activities	**–12,812**	**–11,930**
Cash flow from financing activities		
Share issue	378	174
Payment of principal on lease liability	–4,425	–556
Increase in unsecured bonds issued	0	249,111
Increase in covered bonds issued	297,989	0
Decrease in covered bonds issued	–267,708	–198,237
Increase in subordinated debentures	0	19,335
Decrease in subordinated debentures	–10,460	–5,454
Dividend paid	–10,868	–10,041
Cash flow from financing activities	**4,908**	**54,332**
Exchange rate differences in cash and cash equivalents	–2,368	–3,710
Change in cash and cash equivalents	**–45,310**	**–45,330**
Cash and cash equivalents at beginning of year	541,037	586,368
Cash flow from operating activities	–35,038	–84,022
Cash flow from investing activities	–12,812	–11,930
Cash flow from financing activities	4,908	54,332
Exchange rate differences in cash and cash equivalents	–2,368	–3,710
Cash and cash equivalents at end of year	**495,727**	**541,037**
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	465,185	483,353
Claims repayable on demand from credit institutions	30,542	57,685
Total cash and cash equivalents	**495,727**	**541,037**

"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 64,585 K (64,899), interest paid of EUR 11,853 K (9,721) and dividend income received of EUR 1 K (1).

Reconciliation of liabilities attributable to funding activities

	Dec 31, 2018	Cash flow from funding activities	Changes not affecting cash flows: Effect of exchange rate changes	Change in fair value	Accrual of surplus/deficit value	Other	Dec 31, 2019
Covered bonds	1,116,687	30,281	–7,425	4,930	486		1,144,959
Unsecured bonds	349,837	0	0	621	345		350,803
Subordinated debenture loans	46,895	–10,460	–358	–2	26		36,100
Leasing liabilities	15,813	–4,425	–39			429	11,779
Total liabilities attributable to funding activities	**1,529,232**	**15,397**	**–7,822**	**5,549**	**857**	**429**	**1,543,641**

Photographer: Staffan Sundström

Table of contents, notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED INCOME STATEMENT

NOTES TO THE CONSOLIDATED BALANCE SHEET

OTHER NOTES

Notes to the consolidated financial statements

(EUR K)

G1. Corporate information

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

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

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

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

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

The consolidated financial statements for the financial year ending on December 31, 2019 were approved by the Board of Directors on February 28, 2020 and will be submitted to the 2020 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

G2. Accounting principles

1. Basis for the report

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

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

2. Changes in accounting principles

The essential accounting principles used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ending December 31, 2018, except for the forward-looking application of IFRS 16, "Leases" starting on January 1, 2019.

ESSENTIAL ACCOUNTING PRINCIPLES

On January 1, 2019, IFRS 16, "Leases" replaced IAS 17, "Leases" and related interpretations. IFRS 16 removes the requirement that lessees must distinguish between finance and operating leases and requires lessees to report a "right-of-use" asset and a lease liability for most leases in the balance sheet. In the income statement, rent expenses are replaced by depreciation of the assets and interest expenses for the lease liability. This accounting model resembles the previous treatment of finance leases according to IAS 17. When transitioning to IFRS 16, the Bank of Åland chose to apply the following exemption rules for earlier operating leases.

- A single discount rate has been applied to a portfolio of leases with essentially similar characteristics
- Leases running for 12 months or less (short-term leases) or where the underlying asset is of low value are recognised as expenses in the income statement
- Initial direct measurement costs of the right-of-use asset were excluded on the first day of application
- Subsequent assessments were made in determining the lease period if the lease includes extension or termination options.
- The right-of-use asset and the lease liability for leases previously classified as finance leases were reported in the same amount as under IAS 17 at the end of 2018.

The lessor's accounting is essentially equivalent to the previous treatment according to IAS 17. The Bank of Åland is applying the modified retrospective approach, which means that the accumulated effect of the transition to IFRS 16 is recognised under retained earnings in the opening balance on January 1, 2019. No comparative figures have been restated. The most important identified effect is that the Bank of Åland is reporting new assets and liabilities for its operating leases regarding bank and office premises. Lease liabilities are initially being calculated upon transition at the present value of future lease payments, discounted using the incremental borrowing rate on the introductory date of January 1, 2019. Right-of-use assets are initially being recognised at an amount equal to the lease liability. For further disclosures about the transition to IFRS 16, see the table below.

Transition to IFRS 16

When transitioning to IFRS 16, the Bank of Åland recognised an additional EUR 14,336 K in right-of-use assets, bringing its lease liability to EUR 15,876 K on January 1, 2019.

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

	January 1, 2019
EUR K	
Operating lease obligation on December 31, 2018	7,024
Effect of discounting by the incremental borrowing rate	6,176
Finance lease liabilities on December 31, 2018	1,541
Utilisation of extension and termination options	8,366
Exemptions:	
– Short-term leases	–178
– Low asset-value leases	–29
Recognised lease liability in opening balance sheet, January 1, 2019	**15,876**

In the balance sheet, right-of-use assets were allocated upon the transition to IFRS 16 to properties for the Group's own use in the amount of EUR 13,858 K and to other tangible assets in the amount of EUR 477 K. See also Note G26.

IFRIC 23, "Uncertainty over Income Tax Treatments" (applied starting on January 1, 2019): This interpretation deals with how uncertainty regarding income tax amounts should be reported, for example how to report an existing deferred tax asset when the amount has been appealed and a discussion with a tax authority is under way. IAS 12, "Income Taxes" deals with reporting and measuring deferred tax assets and liabilities, but not how uncertainties regarding amounts should be treated. The interpretation has not had any impact on the Bank of Åland's financial reports.

The other changes in accounting rules adopted starting on January 1, 2019 have not had any significant effect on the Group's financial position, earnings or disclosures.

COMING REGULATORY CHANGES

A number of new standards and interpretations take effect for accounting years that begin after January 1, 2019 and have not been applied when preparing this financial report. These coming regulatory changes are not expected to have any significant effect on the Group's financial position, earnings or disclosures.

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.

CHANGES IN PRESENTATION OF STABILITY FEE AND RECOGNITION OF FOREIGN EXCHANGE COMMISSIONS

In accordance with the prevailing regulator-based reporting interpretations, and in line with other Finnish banks, starting in 2019 the Bank of Åland has chosen to recognise the entire annual cost of the stability fee in the first quarter, when liability for this fee arises, instead of applying a straight-line accrual of this cost over the four quarters of the year. The Bank of Åland's earnings will thus show greater seasonal variations, with weaker first quarter earnings.

During 2019, the Bank of Åland changed its reporting of foreign exchange commissions connected to customers' payments and securities trading. The Bank previously reported these under net income from financial items at fair value, but starting in 2019 it is reporting them as payment intermediation commissions and securities brokerage commissions under net commission income. For further information, see the Stock Exchange Release that was published on April 23, 2019.

4. Principles of consolidation

The consolidated financial statements are prepared in compliance with IFRS 10, "Consolidated financial statements" and encompass 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. For goodwill amounts in companies where the Group has a controlling influence, or in subsidiaries where it has significant holdings without decision-making rights, see Note G25.

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 and joint ventures are collaborative 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. All intra-Group receivables, liabilities, income and expenses – including dividends and unrealised intra-Group profits – have been eliminated in the consolidated financial statements. Unrealised gains arising from transactions with associated companies are eliminated to an extent equivalent to the Group's proportion of ownership in the company, but only to the extent that there is no impairment.

5. Items in foreign currencies

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

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

6. Recognition of assets and liabilities in the balance sheet

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

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

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

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

7. Classification of financial assets and liabilities

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

FINANCIAL ASSETS

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

FINANCIAL LIABILITIES

1. Amortised cost
2. Fair value via income statement ("profit and loss")
3. Derivative instruments not subject to hedge accounting

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

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

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

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

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

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT AMORTISED COST

Recognised in the category "Financial assets and liabilities recognised at amortised cost" are interest-bearing financial assets that the Group holds as part of a business model whose aim is to hold financial assets for the purpose of receiving contractual cash flows. On predetermined dates, the contractual terms for the financial asset give rise to cash flows that are only payments of capital amounts and interest on the capital amount outstanding. The decision to hold an investment to maturity is made on the purchase date. Investments recognised at amortised cost are impairment tested according to the model for expected loan losses.

Loans and accounts receivable are recognised at amortised cost, that is, the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the purchase date. When interest income is calculated, the effective interest rate for the recognised gross amount of a financial asset is used, except for those financial assets that have later been assigned poorer credit ratings. For these financial assets, the effective interest rate of the financial asset's amortised cost is used during subsequent report periods (minus credit reserves). Loans and receivables are impairment tested according to the model for expected loan losses. Loans and accounts receivable that are defined as belonging to Stage 3 undergo impairment testing regularly and individually for each receivable. Impairment losses are recognised in the balance sheet at their net amounts, after subtracting expected and actual loan losses. Lease liabilities are reported as financial liabilities that are recognised at amortised cost.

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

A debt instrument is measured at fair value via other comprehensive income if it meet both of the following conditions and is not identified as carried at fair value via the income statement: it is held according to a business model whose aim can be achieved both by receiving contractual cash flows and selling financial assets, and on predetermined dates its contractual terms give rise to cash flows that are only payments of capital amounts and interest on capital amounts outstanding. Recognised in this measurement category are debt instruments that are initially recognised at amortised cost in the balance sheet and are later measured at fair value. The change in value is recognised under other comprehensive income, minus deferred tax. Upon divestment or impairment loss, the portion of accumulated income previously recognised under other comprehensive income is transferred to the income statement. Impairment testing of financial assets in this measurement category is performed according to the model based on expected loan losses. Divestments are recognised under "Net income from financial assets measured via other comprehensive income" and impairment losses under "Net income from financial items". Interest attributable to this measurement category is recognised in the income statement under "Net interest income".

The Bank of Åland has made an irrevocable choice to recognise equity holdings in the measurement category "Financial assets recognised at fair value via other comprehensive income". This choice is made investment by investment. Equities are initially recognised at cost and are then measured at fair value. The change in value is recognised under other comprehensive income, minus deferred tax. Upon divestment or de-recognition from the balance sheet, the portion of accumulated income previously recognised under other comprehensive income, fair value reserve, is transferred to retained earnings. Dividends are recognised in the income statement.

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

All financial assets that are not classified as measured at amortised cost or fair value via other comprehensive income are measured at fair value via the income statement.

FINANCIAL LIABILITIES

Financial liabilities are classified as measured at amortised cost or fair value via the income statement. A financial liability is classified at fair value via the income statement if it is classified as a holding for trading purposes, as a derivative or has been identified as such on the first recognition date. Financial liabilities measured at fair value via the income statement are measured at fair value and net gains and losses, including interest expenses, are recognised in the income statement. Subsequent measurement of other financial liabilities occurs at amortised cost using the effective interest method. Interest expenses and exchange rate gains and losses are recognised in the income statement. Gains or losses upon de-recognition from the accounts are also recognised in the income statement.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

EMBEDDED DERIVATIVES

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

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

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

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

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

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

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

DEBT SECURITIES

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

EQUITY INSTRUMENTS

Shares listed in an active market are valued at market price. When measuring unlisted shares and participations, the choice of valuation model is determined by what is deemed suitable for that particular instrument. Holdings in unlisted shares mainly consist of shares with a connection to the Bank's business, such as strategic partnerships and holdings in Åland companies. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company, which is regarded as constituting a reasonable estimate of fair value. In companies that have recently carried out a new share issue without preferential rights based on previous holdings, each share is valued at this issue price, with a deduction for share illiquidity.

DERIVATIVES

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

9. Impairment losses on loans and accounts receivable

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

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

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

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

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

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

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

CASH FLOW HEDGING

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

HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS

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

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

11. Intangible assets

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

CAPITALISATION OF PRODUCTION FOR OWN USE

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

AMORTISATION

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

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

EXTERNALLY PROCURED SYSTEMS

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

ACQUIRED CONTRACTS

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

OTHER INTANGIBLE ASSETS

Other intangible assets include acquired customer contracts.

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. 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 in the income statement. See Note G25 for Group goodwill amounts.

12. Tangible assets

INVESTMENT PROPERTIES

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

PROPERTIES FOR THE GROUP'S OWN USE

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

OTHER TANGIBLE ASSETS

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

RIGHT-OF-USE ASSETS

"Right-of-use assets" refers to rental contracts and leases where the Group is the lessee and which are recognised as tangible assets in compliance with IFRS 16. When it comes to properties for the Group's own use, these right-of-use assets primarily consist of bank and office premises. When it comes to other tangible assets, they primarily consist of IT equipment and vehicles. The depreciation period is usually a fixed period of between 1-9 years, with an average lease period of 4 years. For further information on lease management, see Point 14.

DEPRECIATION

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

Buildings	40 years
Technical equipment in buildings	12 years
Renovation in rented customer premises	5 years
Renovation in other rented premises	10 years
Machinery and equipment	4–10 years
Other tangible assets	3–5 years
Right-of-use assets	1–9 years

Land is not depreciated.

IMPAIRMENT LOSSES

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

13. Provisions

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

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

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

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

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

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

14. Leases

LEASES WHERE THE BANK OF ÅLAND IS THE LESSEE

When entering into a contract, the Bank determines whether the contract is, or includes, a lease – which is defined as an agreement that, during a certain period, transfers to right to control the use of an identified asset, in exchange for compensation. Assets and liabilities that arise from leases are initially recognised at the present value of future lease payments, discounted by the incremental borrowing rate. The Bank reassesses whether a contract is, or includes, a lease only if the terms of the contract change. The Bank is exposed to possible future increases in variable lease payments based on an index or interest rate, which are not included in lease liability before they go into effect. When an adjustment in lease payments based on an index or an interest rate goes into effect, the lease liability is re-evaluated and adjusted in relation to right-of-use.

When a contract goes into effect, right-of-use assets are recognised among tangible assets and the corresponding financial lease liability among other liabilities. Assets are recognised at the beginning of a lease at the amount corresponding to the fair value of the asset or the lower present value of minimum lease charges. The lease period is determined on the basis of the irrevocable lease period together with an assessment of both periods including the option of a lease extension (and the appropriateness of doing so) and an assessment of periods that include an option to terminate the lease if there is certainty that this option will not be used. Depreciation/amortisation is carried out on the basis of service life or the shorter lease period. Interest on for lease liabilities is recognised as an interest expense according to the effective interest method.

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

LEASES WHERE THE BANK OF ÅLAND IS THE LESSOR

When the Bank of Åland is the lessor, on the initial date of the lease it determines whether the lease shall be classified as a finance or operating lease. All of the Bank of Åland's leases have been classified as operating leases. The Bank of Åland recognises fees for operating leases as income on a straight-line basis over the lease period under "Other income". See Note G10. The Bank of Åland classifies subleases on the basis of the right-of-use that arises from the main lease, not on the basis of the underlying asset.

15. Revenue

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

NET INTEREST INCOME

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

NET COMMISSION INCOME

Income and expenses for various types of services are recognised in the income statement as “Commission income” and “Commission expenses”, respectively. Commission income is recognised when the service is performed, which occurs when control of the service is transferred to the customer and the Group fulfils its performance obligation. Reported as “Commission income” are brokerage commissions, various forms of asset management fees, payment intermediation commissions and debit card fees. Foreign exchange commissions connected to customers’ payments and securities trading are reported as payment intermediation commissions and securities commissions. Individual origination fees for loans and credit line commissions totalling substantial amounts are accrued over the life of the loan and are included in net interest income. No information is provided about remaining performance obligations that have an original expected maturity of no more than one year, or if the Bank of Åland is entitled to compensation from a customer in an amount directly equivalent to the value for the customer of the Bank’s performance that has been achieved to date, which is permitted according to IFRS 15. Commission expenses are transaction-dependent and are directly related to commission income. Income is invoiced regularly. For commissions that apply for several years, only the portion related to services the customer has received during the accounting period in question is recognised.

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 AT FAIR VALUE

Under “net income from financial items 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 exchange rate differences that arise from translation of assets and liabilities to euros.

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

IT INCOME

The subsidiary Crosskey offers IT services that include design, implementation and support. Income is measured on the basis of the compensation specified in the contract with the customer. Systems sales with significant adaptations are administered as long-term projects. Contracts may include several different performance obligations, for example systems development and licences. If contracts include several performance obligations, the transaction price is allocated to each separate performance obligation based on their stand-alone sales prices. In cases where the sales price is not directly observable, the price is estimated based on expected cost plus a profit margin. 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 estimated total working hours for the project. Estimates concerning project income, expenses or degree of completion are revised if circumstances change. Increases and decreases in estimated income or expenses based on a changed assessment are recognised in the income statement during the period when the circumstances that led to the revision became known. If total expenditures will probably exceed total income for the project, the expected loss is immediately recognised as an expense. If the contract is cost-plus and based on price per hour, the income is recognised to the extent Crosskey is entitled to invoice the customer.

OTHER INCOME

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

16. Employee benefits

PENSION LIABILITIES

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

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

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

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

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

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

17. Share-based payment

In its compensation policy document, the Group has made it possible for portions of its compensation to employees to be settled through its own shares, which are recognised as share-based payment. The fair value of the shares is calculated on the distribution date and allocated over the vesting period, while the corresponding increase in equity capital is recognised. The expense is based on the fair value of the shares on the distribution date. The fair value of the shares is calculated on the distribution date on the basis of their quoted market price. An assessment of how many shares employees will earn is carried out when calculating the recognised expense of share- based payment in accordance with the terms and conditions in the Group's compensation policy (for example continued employment). At the end of each report period, the Executive Team re-assesses its judgements 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 2018 or 2019.

20. Operating segments

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

21. Cash and cash equivalents

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

22. Significant judgements and estimation uncertainty

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

MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

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

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

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

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

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

APPRAISAL OF INVESTMENT PROPERTIES AND PROPERTIES FOR OWN USE

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

LEASES

In assessing the present value of right-to-use assets and the related lease liability, estimates are made about determining the lease period and choice of discount rate. When the length of the lease is determined, the Executive Team takes into account all available information that provides an economic incentive to take advantage of an extension option or not to take advantage of an option to terminate the lease.

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 G27.

SHARE-BASED PAYMENT

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

1. General

Exposure to risk is a natural element of a bank's operations. The Bank of Åland has a low risk profile, with a conservative attitude towards risk and with the aim that all risk shall derive from its normal business operations. Consequently its main risks consist of business risk, credit risk, liquidity risk, market risk and operational risk. The size of these risks is adapted to the risk-bearing ability of the Bank. This means that the Bank shall be able to cover losses related to these risks with its own funds (capital base) and earnings. The Bank of Åland carries out no trading operations. The Bank's low risk profile is reflected in its low losses related to financial and operational risks that have arisen over the years.

Internal controls, risks and risk management including information requirements according to the European Union's Capital Requirements Regulation, Chapter 8 (Pillar 3) at the Bank of Åland are described in greater detail in the Group's "Capital and risk management report", which is being published separately at the same time as this Annual Report.

2. Internal controls and risk management

RISK ORGANISATION

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 for risk management as well as restrictions in the form of limits that operations shall stay within. The Board also approves essential methods and models that are used to measure the Bank's risks. The Audit Committee of the Board of Directors assists the Board in its oversight of risk management, methods and models for risk measurement, risk reporting and internal controls.

The Managing Director shall ensure that risk management complies with the principles and risk tolerances that the Board has approved. The Managing Director does this by setting guidelines based on the policy documents adopted by the Board. The Managing Director shall also ensure that business operations are adapted to the Bank's expertise and resources and that the Bank has sufficient resources and systems for oversight and monitoring.

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.

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

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 day-to-day operations, which means that risk-taking occurs within established limits and that there are measurement and oversight processes.

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

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

Operational Risks and Security is the unit within the Bank that is responsible for analysing and reporting the Group's operational risks in such areas as information management, data protection and physical security.

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

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

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.

RISK MANAGEMENT MODEL

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

The model consists of:

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

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

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

3. Capital management

The size of the Bank's capital requirement is stipulated in the European Union's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). The capital needs of banks are formulated in the regulations as capital requirements stating how much capital the banks need to maintain in relation to the risks found in their operations. These capital requirements are divided into Pillar 1 requirements, which are the same for all institutions, and Pillar 2 requirements, which are set individually for each institution by a regulatory authority.

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

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

The Pillar 2 capital requirements are calculated by evaluating other risks that are not covered by Pillar 1 regulations. In addition to these requirements, institutions must also maintain capital in the form of combined buffer requirements against economic downturns. These combined buffer requirements are established in the CRD.

Own funds are divided into two types: Tier 1 capital (T1) and supplementary capital (T2). Since the Bank has not issued any instruments in the "Other Tier 1 capital" category so far, its entire Tier 1 capital consists of common equity Tier 1 capital (CET1). Common equity Tier 1 capital comprises the most permanent form of capital and, put simply, is equivalent to equity capital according to the balance sheet after certain statutory adjustments.

The Bank of Åland's capital requirement for credit risks is calculated according to the IRB approach in the Finnish retail lending portfolio. For the corporate exposure class, the Bank applies the foundation method (FIRB). 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.

Table 3.1 shows a summary of the Group's Pillar 1 capital adequacy calculation at the end of 2019.

Table 3.1

Capital adequacy	2019	2018
EUR M		
Equity capital according to balance sheet	258.4	242.4
Foreseeable dividend	−15.6	−10.8
Common equity Tier 1 capital before deductions	**242.8**	**231.6**
Intangible assets	−25.0	−21.0
Non-controlling interests	0.0	0.0
Other items, net	0.0	0.0
Additional adjustments in value	−0.6	−0.6
Expected losses according to IRB approach beyond recognised losses (deficit)	−6.2	−6.1
Adjustments due to transitional rules related to IFRS 9	0.6	0.6
Common equity Tier 1 capital	**211.5**	**204.4**
Additional Tier 1 capital	0.0	0.0
Tier 1 capital	**211.5**	**204.4**
Supplementary capital instruments	36.2	37.5
Expected losses according to IRB approach beyond recognised losses (surpluses)	1.7	0.4
Supplementary capital	**37.9**	**37.9**
Total own funds	**249.4**	**242.4**
Capital requirements for credit risks according to IRB approach	40.8	42.4
Additional capital requirements for risk weight floor for mortgage loans	8.0	7.5
Capital requirements for credit risks according to standardised approach	60.2	59.3
Capital requirement for credit value adjustment risk	0.0	0.0
Capital requirement for operational risk	17.6	17.1
Capital requirement	**126.6**	**126.2**
Capital ratios, %		
Common equity Tier 1 capital ratio	13.4	13.0
Tier 1 capital ratio	13.4	13.0
Total capital ratio	**15.8**	**15.4**
Risk exposure amount	1,583.1	1,577.6
of which % comprising credit risk	86	86
of which % comprising credit-worthiness adjustment risk	0	0
of which % comprising operational risk	14	14
Requirements related to capital buffers, %		
Total common equity Tier 1 capital requirement including buffer requirement	10.7	9.5
of which common equity Tier 1 capital requirement under Pillar 1	4.5	4.5
of which common equity Tier 1 capital requirement under Pillar 2	1.5	1.5
of which capital conservation buffer requirement	2.5	2.5
of which countercyclical capital buffer requirement	1.2	1.0
of which systemic risk buffer requirement	1.0	
Common equity Tier 1 capital available to be used as a buffer	13.4	13.0

Table 3.2 below provides an overview of exposure amounts divided by exposure classes.

Table 3.2

Exposure amounts by exposure class	2019				
EUR M	Gross exposure	Exposure at default	Risk weight, %	Risk exposure amount	Capital requirement
Credit risk, IRB approach					
Without own estimates of LGD					
Corporate – Other large companies	143.9	130.5	57	75.0	6.0
Corporate – SMEs	352.6	313.6	60	189.6	15.2
Corporate – specialised lending	5.3	5.3	112	5.9	0.5
Using own estimates of LGD					
Retail – real estate as collateral, private individuals	1,817.4	1,806.4	10	175.3	14.0
Retail – real estate as collateral, SMEs	118.5	117.8	23	27.5	2.2
Retail – other SMEs	35.6	35.1	21	7.2	0.6
Retail – not SMEs	350.6	308.0	9	29.0	2.3
Total exposures, IRB approach	**2,823.8**	**2,716.7**	**19**	**509.4**	**40.8**
Credit risk, standardised approach					
Governments and central banks	516.6	608.5	0	0.0	0.0
Regional or local governments or agencies	45.2	69.9	0	0.0	0.0
Public sector entities	0.0	0.0	0	0.0	0.0
Multilateral development banks	28.8	31.9	0	0.0	0.0
International organisations	4.0	4.0	0	0.0	0.0
Institutions	325.7	276.6	22	60.4	4.8
Corporates	479.7	184.0	99	182.2	14.6
Retail	249.7	88.6	73	64.7	5.2
Secured by real estate	993.5	991.9	33	322.7	25.8
In default	3.0	2.3	124	2.8	0.2
Associated with particularly high risks	0.0	0.0		0.0	0.0
Covered bonds	503.4	503.3	10	52.1	4.2
Collective investment undertakings (funds)	0.0	0.0		0.0	0.0
Equity exposures	9.7	9.7	100	9.7	0.8
Other exposures	85.8	85.8	68	58.4	4.7
Total exposures, standardised approach	**3,245.1**	**2,856.5**	**26**	**752.9**	**60.2**
Total risk exposure amount	**6,068.9**	**5,573.1**	**23**	**1,262.3**	**101.0**

Leverage is a measure of a bank's solvency aimed at avoiding excessive debt. The leverage ratio is calculated as the ratio of Tier 1 capital to a specially defined exposure metric that includes both assets and off-balance sheet items. Unlike the capital adequacy calculation, the exposures are not risk-weighted when calculating the ratio. The Bank reports its ratio quarterly to the Finnish Financial Supervisory Authority (FIN-FSA) as part of the European Banking Authority's Common Reporting Framework (COREP) and also reports the ratio in note disclosures in its interim reports. The leverage ratio is calculated according to the situation at the end of the quarter. Tier 1 capital includes profit for the period.

Table 3.3

Leverage ratio	2019	2018
EUR M		
Tier 1 capital	211.5	204.4
Total exposure metric	5,663.4	5,635.9
of which balance sheet items	5,581.4	5,538.9
of which off-balance sheet items	82.0	97.0
Leverage ratio, %	**3.7**	**3.6**

4. Credit risk

Credit risk refers to the risk of loss due to the inability of a counterparty to fulfil obligations towards the Group and the risk that the collateral provided for the exposure will not cover the Group's receivables. Counterparties in this respect are all legal entities and physical persons as well as the public sector. Credit exposure arises through receivables and investments, including off-balance sheet commitments.

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

4.1 RISK MANAGEMENT

The internal risk classification system is the most important cornerstone of the credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for monthly risk monitoring, internal capital management, the calculation of risk-adjusted returns and reporting of credit risk to the Executive Team.

The Bank of Åland's internal risk models are using for calculating provisions for future expected credit losses (ECL) in compliance with the IFRS 9 regulation and for calculating regulatory capital requirements in the form of unexpected losses (UL) and expected losses (EL) for the Bank's IRB-approved exposures. The parameters for the last-mentioned purpose contain a higher degree of conservatism, since they include various safety margins and are supposed to encompass a whole economic cycle. Both risk classification systems are based on statistics derived from the Bank's own internal data for estimating the probability of default (PD) and the loss given default (LGD) for the Bank's loan customers. For those exposures where the Bank lacks its own loss data history, calculation of ECL employs market-based PD levels from an outside supplier.

The general risk management principles applied for managing risks that have a bearing on both ECL and capital requirements are the same in the Bank. Both ECL and regulatory capital requirements are included in the Bank's reporting to the Executive Team and the Board of Directors and have a strong connection to risk control in the Bank's risk management system. The Bank's operating units also monitor their credit risk based on these key figures on a monthly basis. The degree of loan loss provisions in relation to the volume of unsettled exposures is based on this reporting and is analysed.

4.2 MEASURING CREDIT RISK

According to the IFRS 9 regulation, credit risk exposures are divided into three stages. Stage 1 consists of exposures that are performing without any significant increase in credit risk regarded as having occurred. Exposures that are underperforming and are regarded as having undergone a significant change in credit risk are placed in Stage 2. A significant increase in credit risk is regarded as having occurred if the lifetime PD of the exposure has increased at least 3 times compared to initial lifetime PD and the absolute change is at least 10 percentage points. The Bank applies the presumption of 30 days' past due as a backstop, in keeping with the IFRS 9 regulation. Exposures with amounts that are more than 90 days past due, or that meet the Bank's definition of default in other respects, are moved to Stage 3.

An exposure that is deemed to be included in forbearance measures is moved to Stage 2, since the credit risk has increased significantly since initial recognition. Expanded forbearance measures imply that the exposure is becoming unsettled and it is thus recognised as in Stage 3.

For backward transitions to better stages, the Bank applies waiting period. For exposures in Stage 2 with at least a 30-day delay, it applies a six month period and for loans in Stage 3 it applies a two month waiting period. For exposures with forbearance, the Bank applies a waiting period of 24 months before the exposure can revert to Stage 1, assuming that forbearance measures are no longer in place.

The model for calculating ECL is based on yearly future PD. LGD and EAD values as well as the discount rate of the loan. When estimating ECL, for each exposure the Bank calculates a 12-month ECL and a lifetime ECL that is applied when an exposure is deemed to have a significant increase in credit risk. The loan loss provisions for Stages 2 and 3 are, by definition, based on lifetime ECL but diverge since certain Stage 3 exposures have individual impairment testing. In regulatory contexts, impairment amounts are regarded as specific credit risk adjustments.

Table 3.2 shows how large a percentage of exposures are foundwithin each respective stage. Exposures with lifetime PD of up to 10 per cent are viewed as "low risk", exposures from 10 up to and including 50 per cent as "medium risk" and exposures from 50 up to 100 per cent as "high risk". Defaulted exposures are always assigned a PD of 100 per cent.

Receivables that are recognised in Stage 3 according to IFRS 9 were at a higher level at the end of 2019 than at the beginning of the year. The recognised gross value of receivables reported in Stage 3 totalled EUR 33.5 M. Receivables in the balance sheet reported in Stage 3 totalled EUR 19.7 M on December 31, 2018. Most of the receivables recognised in Stage 2 consisted of receivables that were more than 30 days past due, taking waiting periods into account.

Table 4.2.1

Credit risk	2019				2018
EUR M	Stage 1	Stage 2	Stage 3	Total	Total
Receivables from the public and public sector entities					
Low risk	3,883.5	18.8	0.4	3,902.6	3,763.6
Medium risk	85.1	64.1	1.2	150.4	205.9
High risk	3.4	33.5	1.1	37.9	43.3
Ungraded[1]	0.5	0.0	0.0	0.6	1.0
Defaulted	0.0	0.0	30.9	30.9	19.2
Gross carrying amount	**3,972.5**	**116.4**	**33.5**	**4,122.5**	**4,033.0**
Provision for expected credit loss	−0.5	−0.9	−11.1	−12.4	−11.3
Net carrying amount	**3,972.0**	**115.5**	**22.5**	**4,110.0**	**4,021.7**
Unutilised credit lines and guarantees					
Low risk	394.4	1.4	0.0	395.8	412.6
Medium risk	1.9	1.2	0.0	3.1	4.3
High risk	0.0	0.1	0.0	0.1	2.0
Ungraded[1]	44.8	0.0	0.0	44.8	58.8
Defaulted	0.0	0.0	0.1	0.1	1.0
Gross nominal amount	**441.1**	**2.6**	**0.1**	**443.8**	**478.7**
Provision for expected loss	0.0	0.0	0.0	0.0	−0.1
Net carrying amount (provision)	**0.0**	**0.0**	**0.0**	**0.0**	**−0.1**
Debt securities recognised at amortised cost					
Low risk	244.9			244.9	189.2
Gross carrying amount	**244.9**	**0.0**	**0.0**	**244.9**	**189.2**
Provision for expected credit loss	−0.1			−0.1	−0.1
Net carrying amount	**244.8**	**0.0**	**0.0**	**244.8**	**189.1**
Debt securities recognised at fair value via other comprehensive income					
Low risk	356.9			356.9	556.5
Gross carrying amount	**356.9**	**0.0**	**0.0**	**356.9**	**556.5**
Provision for expected credit loss	−0.1			−0.1	−0.2
Net carrying amount	**356.8**	**0.0**	**0.0**	**356.8**	**556.3**

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

4.2.1 Collateral management and credit risk mitigation

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

Under "lending to the public" (same as "receivables from 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 is 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 70–85 per cent of the market value of residential property used as collateral. The LTV ratio on financial collateral is mainly determined on the basis of the liquidity and credit quality of the financial instrument.

Table 4.2.2

Receivables from the public and public sector entities	2019				2018
EUR M	Stage 1	Stage 2	Stage 3	Total	Total
Receivables without non-performing amounts	3,920.4	97.4	5.4	4,023.2	3,971.0
Receivables with non-performing amounts <=30 days	52.1	13.5	0.3	65.8	37.8
Receivables with non-performing amounts >30 days	0.0	5.5	27.9	33.4	24.1
Gross carrying amount	**3,972.5**	**116.4**	**33.5**	**4,122.5**	**4,033.0**

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.

In order to ensure access to liquidity even during periods without external borrowing opportunities, the Bank shall have a liquidity reserve plus a well-diversified maturity structure in its borrowing. The Bank of Åland endeavours not to be dependent on sources of funding for its lending other than customer deposits and covered bonds. Non-covered capital market funding may be used when the price situation in the market makes it appropriate.

5.1 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 by means of covered bonds even in a stressed scenario.
- A well-developed investor base.
- A liquidity reserve with high-quality assets that safeguard access to liquidity during a lengthy period of limited access to capital market borrowing.

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

5.2.1 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 (what percentage of receivables from the public is funded by customer deposits and covered bonds).

The Bank's goal is to exceed the minimum level (100 per cent) for LCR and NSFR by an ample margin.

Table 5.2.1

Remaining maturity					2019				
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	489.9								489.9
Debt securities eligible for refinancing with central banks		17.0	64.8	70.6	576.0	46.8		14.1	789.3
Receivables from credit institutions	66.1								66.1
Receivables from the public and public sector entities	214.3	158.5	128.7	273.2	1,517.3	627.1	1,171.7	19.2	4,110.0
Shares and participations								9.7	9.7
Derivative instruments		3.1	1.6		14.7	1.7			21.2
Intangible assets								25.3	25.3
Tangible assets								32.0	32.0
Other assets								64.0	64.0
Total	**770.2**	**178.6**	**195.1**	**343.8**	**2,108.1**	**675.7**	**1,171.7**	**164.3**	**5,607.5**
Liabilities									
Liabilities to credit institutions	54.7	14.7	20.8	1.5	118.4				210.0
Liabilities to the public	3,294.9	47.7	8.9	12.6	3.9				3,368.0
Debt securities issued		166.6	281.6	10.0	1,136.3			9.5	1,604.0
Derivative instruments		4.7	0.4		3.0	3.9			12.1
Other liabilities								119.0	119.0
Subordinated liabilities			8.6		8.4		19.1		36.1
Equity capital								258.4	258.4
Total	**3,349.6**	**233.7**	**320.2**	**24.1**	**1,270.0**	**3.9**	**19.1**	**386.8**	**5,607.5**

Table 5.2.1.1

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

Table 5.2.1.2

Financial ratios, liquidity risk	2019	2018
Per cent		
LCR	139	120
NSFR	115	113
Core funding ratio	90	90
Loan/Deposit ratio	122	122

5.3 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.

5.4 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 5.4.1 below shows the Bank's encumbered assets at the end of December 2019.

Table 5.3.1

Liquidity reserve	2019	2018
EUR M		
Cash and deposits with central banks	490	507
Debt securities issued by sovereigns and public authorities	83	158
Covered bonds (ratings of AA- or higher)	495	471
Accounts with other banks	20	36
Debt securities issued by financial companies	42	24
Total	**1,129**	**1,195**
of which LCR-qualified	1,014	1,053

Table 5.4.1

Disclosures on encumbered assets	2019			2018		
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	174	615	789	141	674	815
Receivables from the public	1,583	2,527	4,110	1,615	2,407	4,022
Other assets	17	571	587	26	561	587
Non-encumberable assets		121	121		134	134
Total	**1,775**	**3,834**	**5,607**	**1,782**	**3,776**	**5,558**
Per cent of total assets	**32**	**68**	**100**	**32**	**68**	**100**

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. Structural risks related to interest rate and foreign exchange risk arise as part of banking operations. The Bank of Åland does no trading for its own account.

6.1 RISK MANAGEMENT

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

6.2 INTEREST RATE RISK

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

Table 6.2.1 shows assets and liabilities that fall due for a new interest rate refixing during each respective time interval, assuming that demand deposits fall due on Day 1.

The Bank measures interest rate risk by means of sensitivity analyses of net interest income and the value of interest-bearing assets and liabilities in scenarios where the yield curve is stressed in various ways. 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 the sensitivity of the estimated present value of all existing interest-bearing items. When calculating both net interest income risk and value change risk, sight deposits are assigned an interest refixing period for modelling purposes.

6.3 FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of unfavourable results due to changes in the exchange rates of currencies that the Bank is exposed to. The Bank's operations occur mainly in its two base currencies, euros and Swedish kronor, 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 in case a foreign exchange risk remains at the end of day, the Bank adjusts the foreign exchange risk.

The Group's structural foreign exchange risk in Swedish kronor arises because its financial accounts are prepared in euros while the functional reporting currency of its Swedish branch is Swedish kronor. Structural exchange rate risk exposure consists of accrued profits/losses in the branch as well as the branch's endowment capital in Swedish kronor.

6.4 EQUITY RISK

Equity risk is the risk of decrease in value due to price changes in the stock market. Since the Bank does not carry out any trading in equities for its own account, equity risk is very limited.

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

Table 6.2.1

Interest rate refixing periods for assets and liabilities

2019 EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Total interest-bearing assets	**3,099**	**594**	**999**	**829**	**399**	**5,920**
Liabilities						
Total interest-bearing liabilities	**3,877**	**321**	**27**	**1,043**	**6**	**5,274**
Off-balance sheet items	**−947**	**323**	**−1**	**668**	**−38**	**4**
Difference between assets and liabilities	**−1,725**	**595**	**971**	**454**	**354**	**650**

7. Operational risk

Operational risk refers to the risk of losses due to inappropriate or faulty internal processes, human errors, systemic errors or external events. Legal risks are included in operational risks. Operational risks occur in all operations. It is thus neither possible nor optimal to eliminate them entirely. The important thing is that risk-taking is deliberate and suitable actions are taken when the risks that are identified are too large. What risk level is considered optimal shall be established by the Board of Directors and constitutes the Bank's risk appetite.

The Bank endeavours to minimise operational risks through yearly self-evaluations, updated continuity plans, continuity drills, incident reporting, maintenance of internal regulations and internal training courses.

7.1 RISK MANAGEMENT

The objective of operational risk management is to ensure that significant operational risks are identified and managed at a sufficient level in relation to the nature and the scope of the operations. Adequate procedures for computer protection and information security must be in place and be further developed based on the threat situation. The probability of significant unforeseen losses or threats to the Group's reputation must be minimised and the Board of Directors and management must be informed regularly about the operational risks associated with Group operations. Adequate operational risk management is important to ensure trust in the Bank's operations, especially from a customer standpoint.

The Operational Risks & Security unit is responsible for "second line of defence" analyses of the Group's operational risks and for reporting these. The "third line of defence" also analyses the Group's risks, including operational risks. To obtain a completely current picture of the Group's risks, risks mapping and analyses from all three lines of defence must be coordinated.

Internal training courses are an important element of support for operational risk management. The process for approval of new products and services (NPAP) is a key risk management process, where the Operational Risks & Security unit provides back-up and sets standards. This work also includes updating of a large proportion of internal regulations related to operational risk management.

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.

Group operational risks are mapped yearly by first defence line operations through self-evaluation. Self-evaluations assess the probability and consequences of operational risks. Risks that are identified in the yearly self-evaluation and classified as risks at a high or unacceptable level must be dealt with by the Group's Executive Team to ensure that sufficient steps are taken in order not to exceed the Group's risk appetite.

G4. Segment report

	2019					
	Private Banking	Premium Banking	IT	Corporate and other	Eliminations	Total
Net interest income	23,630	26,306	0	3,988	−8	53,915
Net commission income	41,931	12,884	−66	2,773	455	57,977
Net income from financial items carried at fair value	45	91	−22	3,780	1	3,894
IT income	0	0	33,281	114	−15,921	17,474
Other income	75	15	932	920	−1,288	654
Total income	**65,681**	**39,295**	**34,125**	**11,574**	**−16,761**	**133,914**
Staff costs	−14,777	−6,306	−17,015	−18,872	0	−56,970
Other expenses	−8,322	−4,677	−11,623	−18,088	14,016	−28,694
Depreciation/amortisation and impairment losses on intangible and tangible assets	−863	−326	−2,629	−10,409	2,394	−11,834
Internal allocation of expenses	−20,694	−18,403	0	39,097	0	0
Total expenses	**−44,656**	**−29,713**	**−31,267**	**−8,273**	**16,411**	**−97,498**
Profit before impairment losses	**21,025**	**9,582**	**2,858**	**3,301**	**−351**	**36,415**
Impairment losses on loans and other commitments	49	−2,968	0	−301	0	−3,221
Net operating profit	**21,073**	**6,614**	**2,858**	**3,000**	**−351**	**33,195**
Income taxes	−4,337	−1,356	−590	−602	0	−6,885
Non-controlling interests	0	0	1	0	0	1
Profit for the period attributable to shareholders in Bank of Åland Plc	**16,736**	**5,258**	**2,268**	**2,398**	**−351**	**26,310**
Net commission income						
Deposits	74	475	0	304	0	854
Lending	520	2,056	0	7	−2	2,581
Payment intermediation	1,246	4,829	0	3,611	525	10,210
Mutual fund commissions	40,643	3,742	0	650	−4,323	40,712
Asset management commissions	10,699	683	0	−40	−49	11,293
Securities brokerage	11,206	697	0	927	1	12,831
Other commissions	454	2,191	0	575	−54	3,166
Total commission income	**64,841**	**14,673**	**0**	**6,034**	**−3,901**	**81,647**
Commission expenses	−22,910	−1,788	−66	−3,261	4,356	−23,670
Total net commission income	**41,931**	**12,884**	**−66**	**2,773**	**455**	**57,977**
Business volume, December 31						
Receivables from the public and public sector entities	1,875,540	2,220,801	0	13,688	0	4,110,029
Deposits from the public	1,709,835	1,620,502	0	51,383	−13,718	3,368,001
Actively managed assets	5,921,715	417,490	0	3,443	0	6,342,648
Risk exposure amount	704,402	603,533	36,118	239,053	0	1,583,106
Shareholders’ portion of equity capital	102,947	83,277	21,273	50,845	0	258,343
Financial ratios etc.						
Return on equity (ROE), %	17.4	6.0	16.7	4.9		10.7
Expense/income ratio	0.68	0.76	0.92	0.71		0.73

2018	Private Banking	Premium Banking	IT	Corporate and other	Eliminations	Total
Net interest income	24,574	26,410	−58	3,608	−9	54,526
Net commission income	40,104	12,341	−64	1,619	250	54,250
Net income from financial items carried at fair value	−18	−19	−37	1,575	−17	1,485
IT income	0	0	32,456	0	−16,090	16,366
Other income	166	228	516	1,494	−1,390	1,014
Total income	**64,826**	**38,960**	**32,814**	**8,297**	**−17,256**	**127,641**
Staff costs	−15,342	−6,506	−16,144	−19,077	0	−57,070
Other expenses	−8,372	−4,711	−11,683	−23,077	14,410	−33,434
Depreciation/amortisation and impairment losses on intangible and tangible assets	−260	−403	−3,056	−5,381	1,794	−7,306
Internal allocation of expenses	−21,992	−17,097	0	39,089	0	0
Total expenses	**−45,967**	**−28,718**	**−30,883**	**−8,446**	**16,204**	**−97,811**
Profit before impairment losses	**18,859**	**10,242**	**1,930**	**−149**	**−1,052**	**29,830**
Impairment losses on loans and other commitments	132	−383	0	−590	0	−841
Net operating profit	**18,990**	**9,860**	**1,930**	**−739**	**−1,052**	**28,990**
Income taxes	−3,913	−2,019	−353	227	0	−6,058
Non-controlling interests	0	0	0	0	0	0
Profit for the period attributable to shareholders in Bank of Åland Plc	**15,077**	**7,841**	**1,577**	**−512**	**−1,052**	**22,931**
Net commission income						
Deposits	72	446	0	294	0	813
Lending	608	2,368	0	8	0	2,984
Payment intermediation	1,384	3,313	0	4,117	162	8,976
Mutual fund commissions	41,180	3,778	0	622	−4,318	41,263
Asset management commissions	10,692	628	0	−7	−50	11,264
Securities brokerage	12,415	587	0	279	0	13,282
Other commissions	577	2,650	0	490	−64	3,653
Total commission income	**66,929**	**13,772**	**0**	**5,803**	**−4,271**	**82,233**
Commission expenses	−26,825	−1,431	−64	−4,184	4,521	−27,983
Total net commission income	**40,104**	**12,341**	**−64**	**1,619**	**250**	**54,250**
Business volume, December 31						
Receivables from the public and public sector entities	1,738,756	2,280,362	0	24,869	−22,333	4,021,654
Deposits from the public	1,730,173	1,550,799	0	44,647	−22,073	3,303,546
Actively managed assets	4,850,636	325,361	0	1,115	0	5,177,112
Risk exposure amount	669,753	645,388	42,722	219,723	0	1,577,587
Shareholders' portion of equity capital	81,724	91,322	13,898	55,426		242,370
Financial ratios etc.						
Return on equity after taxes (ROE), %	17.9	8.7	12.2	−1.1		9.8
Expense/income ratio	0.71	0.74	0.94	1.02		0.77

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, as well as asset management. "IT" encompasses the subsidiary Crosskey Banking Solutions Ab Ltd including Model IT Oy and S-Crosskey Ab. "Corporate and Other" encompasses all central corporate units in the Group, including Treasury and partnerships. Ab Compass Card Oy Ltd was part of "Corporate and Other" until the end of August 2019. Starting in September 2019, when Ab Compass Card Oy Ltd was merged with the Parent Company, the Bank of Åland's card business has been part of Private Banking and Premium Banking, while card business with partnerships is part of "Corporate and Other".

G5. Product areas

2019	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	7,017	44,576	0	−118	2,441	53,915
Net commission income	9,280	2,773	45,839	−66	152	57,977
Net income from financial items carried at fair value	0	74	0	−22	3,842	3,894
IT income	0	0	0	17,474	0	17,474
Other income	0	0	0	19	635	654
Total income	**16,296**	**47,422**	**45,839**	**17,286**	**7,070**	**133,914**

2018	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	8,253	45,058	0	−58	1,273	54,526
Net commission income	7,855	3,496	42,769	−64	194	54,250
Net income from financial items carried at fair value	0	−22	0	−37	1,544	1,485
IT income	0	0	0	16,366	0	16,366
Other income	0	0	0	18	997	1,014
Total income	**16,108**	**48,531**	**42,769**	**16,225**	**4,008**	**127,641**

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 and securities brokerage. Income from deposit accounts and loans that may be part of a customer's asset management were reported under daily banking services and financing services, respectively.

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

G6. Geographic distribution

	2019			2018		
	Finland	Sweden	Total	Finland	Sweden	Total
Net interest income	32,340	21,575	53,915	33,908	20,617	54,526
Net commission income	45,924	12,053	57,977	41,793	12,457	54,250
Net income from financial items carried at fair value	4,001	−108	3,894	1,560	−75	1,485
IT income	16,013	1,461	17,474	15,110	1,257	16,366
Other income	585	69	654	810	204	1,014
Total income	**98,863**	**35,050**	**133,914**	**93,181**	**34,460**	**127,641**
Staff costs	−43,395	−13,575	−56,970	−42,986	−14,084	−57,070
Other expenses	−13,874	−14,820	−28,694	−18,992	−14,443	−33,434
Depreciation/amortisation	−10,543	−1,291	−11,834	−5,839	−1,467	−7,306
Total expenses	**−67,811**	**−29,687**	**−97,498**	**−67,817**	**−29,994**	**−97,811**
Profit before impairment losses	**31,052**	**5,364**	**36,415**	**25,364**	**4,466**	**29,830**
Impairment losses on loans and other commitments	−3,236	16	−3,221	−858	18	−841
Net operating profit	**27,815**	**5,379**	**33,195**	**24,505**	**4,484**	**28,990**
Income taxes	−5,770	−1,116	−6,885	−5,121	−937	−6,058
Non-controlling interests	1	0	1	0	0	0
Profit for the period attributable to shareholders in Bank of Åland Plc	**22,046**	**4,263**	**26,310**	**19,384**	**3,547**	**22,931**
Business volume, December 31						
Receivables from the public and public sector entities	2,751,887	1,358,142	4,110,029	2,743,015	1,278,639	4,021,654
Deposits from the public	2,443,877	924,124	3,368,001	2,351,085	952,461	3,303,546
Actively managed assets	3,638,064	2,704,583	6,342,648	2,994,579	2,182,534	5,177,112
Risk exposure amount	1,033,877	549,229	1,583,106	1,021,470	556,116	1,577,587
Allocated equity capital	205,586	52,757	258,343	194,361	48,009	242,370
Financial ratios etc.						
Return on equity (ROE), %	11.2	8.6	10.7	10.5	7.0	9.8
Expense/income ratio	0.69	0.85	0.73	0.73	0.87	0.77

G7. Net interest income	2019			2018		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Receivables from credit institutions and central banks	519,875	−143	−0.03	561,220	−909	−0.16
of which negative interest [1]		−740			−1,147	
Receivables from the public and public sector entities	4,008,195	61,281	1.53	3,981,795	61,888	1.55
of which negative interest [1]		−3			−55	
Debt securities	841,936	550	0.07	688,480	679	0.10
of which negative interest [1]		−811			− 537	
Interest-bearing assets	**5,370,006**	**61,689**	**1.15**	**5,231,495**	**61,657**	**1.18**
Derivative instruments	21,614	995		18,186	644	
Other assets	133,019	30		139,651	4	
Total assets	**5,524,639**	**62,713**		**5,389,331**	**62,305**	
of which negative interest [1]		−1,554			−1,739	
Liabilities to credit institutions and central banks	200,718	−506	−0.25	214,942	−510	−0.24
of which negative interest [1]		−583			−584	
Liabilities to the public	3,235,900	3,439	0.11	3,131,828	3,283	0.10
of which negative interest [1]		−282			−376	
Debt securities issued	1,661,438	3,276	0.20	1,605,055	2,761	0.17
of which negative interest [1]		−803			−486	
Subordinated liabilities	41,331	1,259	3.05	41,466	1,201	2.90
Interest-bearing liabilities	**5,139,387**	**7,469**	**0.15**	**4,993,292**	**6,735**	**0.13**
Derivative instruments	10,987	1,196		17,697	986	
Other liabilities	128,765	135		144,053	58	
Total liabilities	**5,279,139**	**8,800**		**5,155,042**	**7,780**	
Total equity capital	245,500			234,289		
Total liabilities and equity capital	**5,524,639**			**5,389,331**		
of which negative interest [1]		−1,668			−1,446	
Net interest income		**53,915**			**54,526**	
Interest margin			1.00			1.04
Investment margin			0.98			1.01

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) .

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

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

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

G8. Net commission income	2019	2018
Deposits	854	813
Lending	2,581	2,984
Payment intermediation	10,210	8,976
Mutual fund commissions	40,712	41,263
Asset management commissions	11,293	11,264
Securities brokerage	12,831	13,282
Insurance commissions	2	253
Legal services	664	821
Guarantee commissions	192	512
Other commissions	2,308	2,067
Total commission income	**81,647**	**82,233**
Payment commission expenses	−4,021	−4,024
Mutual fund commission expenses	−16,642	−20,562
Asset management commission expenses	−810	−941
Securities brokerage commission expenses	−1,628	−1,861
Other commission expenses	−569	−595
Total commission expenses	**−23,670**	**−27,983**
Net commission income	**57,977**	**54,250**

G9. Net income from financial items carried at fair value	2019			2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement (“profit and loss”)						
Debt securities	0	0	0	0	−106	−106
Derivative instruments	0	−11	−11	104	−108	−5
Valuation category fair value via the income statement (“profit and loss”)	**0**	**−11**	**−11**	**104**	**−214**	**−110**
Hedge accounting						
of which hedging instruments	−477	3,468	2,991	8	17	25
of which hedged item	522	−3,413	−2,890	0	414	414
Hedge accounting	**46**	**55**	**101**	**8**	**431**	**439**
Net income from foreign currency revaluation	**0**	**162**	**162**	**0**	**386**	**386**
Net income from valuation category fair value via other comprehensive income	**3,528**	**113**	**3,641**	**856**	**−86**	**770**
Total	**3,574**	**319**	**3,894**	**968**	**517**	**1,485**

G10. Other income	2019	2018
Income from equity capital investments	1	1
Net income from investment properties	−43	84
Rental income on properties	65	64
Miscellaneous income	552	808
Total	**575**	**957**
Specification of net income from investment properties		
Rental income	14	11
Capital gains	0	107
Other expenses	−56	−33
Total	**−43**	**84**

G11. Staff costs

G11. Staff costs	2019	2018
Salaries and fees	44,219	44,076
Compensation in the form of shares in Bank of Åland Plc	259	163
Pension expenses	7,834	7,808
Other social security expenses	4,658	5,023
Total	**56,970**	**57,070**
of which variable staff costs	2,259	2,097
of which staff outplacement expenses	79	608

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

	2019	2018
Salaries and fees		
Boards of Directors	357	381
Senior executives	2,733	2,437
Others	41,389	41,421
Total	**44,479**	**44,239**

"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.

	2019	2018
Salaries and fees to senior executives		
Salaries and fees	2,499	2,339
Share-based payment	234	98
Total	**2,733**	**2,437**

	2019	2018
Pension expenses		
Senior executives	71	62
Managing Director	405	408
Others	7,358	7,337
Total	**7,834**	**7,808**

	2019	2018
Pension expenses		
Defined benefit plan	944	913
Defined contribution plan	6,890	6,895
Total	**7,834**	**7,808**

	Men 2019	Women 2019	Total 2019	Men 2018	Women 2018	Total 2018
Number of employees						
Åland	247	222	469	225	230	455
Finnish Mainland	83	103	186	72	97	169
Sweden	98	63	161	96	60	156
Total	**428**	**388**	**816**	**393**	**387**	**780**

	2019	2018
Hours worked, recalculated to full-time equivalent positions		
Bank of Åland Plc	434	429
Crosskey Banking Solutions Ab Ltd	238	228
Ab Compass Card Oy Ltd	2	9
Ålandsbanken Fondbolag Ab	26	25
Total number of positions, recalculated from hours worked	**700**	**690**

	Men 2019	Women 2019	Men 2018	Women 2018
Gender breakdown, per cent				
Board of Directors	67	33	71	29
Senior executives	82	18	83	17

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

	2019				2018			
	Managing Director	Senior executives	Other risk-takers	Others	Managing Director	Senior executives	Other risk-takers	Others
Total compensation								
Fixed compensation earned	331	1,850	10,764	29,640	296	1,784	10,499	29,928
Provisions for pensions	71	405	2,072	5,224	62	408	1,949	5,388
Variable compensation earned	114	437	1,098	244	77	282	1,146	227
Total	**517**	**2,692**	**13,933**	**35,171**	**436**	**2,475**	**13,594**	**35,543**
of which postponed variable compensation	46	142	172	0	31	49	196	0
of which variable compensation paid	68	295	925	244	46	234	950	227
Number of persons who received only fixed compensation	0	5	89	734	0	5	73	737
Number of persons who received both fixed and variable compensation	1	7	59	44	1	7	64	47
Total	**1**	**12**	**148**	**778**	**1**	**12**	**137**	**784**
Postponed variable compensation, January 1	211	531	823	0	216	613	776	0
Variable compensation postponed during the year	46	142	172	0	31	49	196	0
Disbursed during the year	–113	–362	–307	0	–37	–122	–152	0
Adjusted during the year	–4	–13	–11	0	0	–9	3	0
Postponed variable compensation, December 31	**139**	**299**	**677**	**0**	**211**	**531**	**823**	**0**
2015–2016 share savings programmes								
2015 programme								
Recognised expense related to payment in the form of shares in the Bank of Åland Plc				11				151
Recognised expense for social security fees related to share-based portion				2				6
2016 programme								
Recognised expense related to payment in the form of shares in the Bank of Åland Plc				156				183
Recognised expense for social security fees related to share-based portion				10				7
Total recognised expense				**179**				**347**

CONDITIONS AND COMPENSATION

General

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

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

Board of Directors

The fees of the Board members are established by the General Meeting. During the period from the 2019 Annual General Meeting to the end of the 2020 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 26,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2019, the Managing Director was paid compensation totalling EUR 504,098 including fringe benefits and variable compensation. Of the variable compensation paid in 2019, EUR 81,792 was paid in cash and EUR 77,312 in Bank shares, in compliance with external regulations.

The Managing Director's minimum retirement age is 63 and his maximum retirement age is 68. 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 risktakers must be paid in fund units. The allocated shares/fund units must be held for at least 12 months (deferral period) before the recipient of the compensation may have access to them. The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual. The Bank is entitled to abstain from disbursing postponed earning-based compensation if the Group's financial position has substantially deteriorated.

Share savings programmes

Since 2015 the Bank of Åland has had two ongoing share savings programmes that encompass all Group employees. The programmes consist of share-based payment that is delayed by 3 years. The share-based payment is allocated in the form of performance rights (future shares in the Bank of Åland Plc) for those participants who still have their share savings in a specially designated custody account at the close of the share savings programme. The objective of the programme is to further strengthen employee motivation, participation and long-term affinity with the Group by offering all employees the opportunity to obtain shares in the Bank on favourable terms. In March 2019 the Bank of Åland issued new Series B shares to fulfil its obligations as part of the first share savings programme that began in 2015. In September 2019 the Bank issued new Series B shares to fulfil its obligations as part of the second share savings programme that began in 2016.

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

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

G12. Other expenses	2019	2018
IT expenses (excluding market data)	9,853	10,943
Rents	447	3,924
Other costs of premises and property	1,410	1,293
Marketing expenses	2,030	2,167
Information services	2,395	2,336
Staff-related expenses	2,572	2,132
Travel expenses	1,211	1,214
Purchased services	2,049	2,223
Guarantee fee[1]	4	4
Stability fee	1,762	2,552
Other expenses	7,511	6,961
Production for own use	−2,549	−2,314
Total	**28,694**	**33,434**

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

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,132	1,042
Paid by old deposit guarantee fund	−1,132	−1,042
Stability fee	1,762	2,552
Administration fee	32	30
Total	**1,794**	**2,582**

Based on the 2019 fee level, the Bank has prepaid deposit guarantee fees for about 13 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	407	358
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	76	13
Tax matters	80	
Other	76	139
Total	**639**	**510**

These amounts include value-added tax (VAT).

Fees paid to KPMG OY Ab for expenses other than auditing totalled EUR 109 K.

G13. Expected credit (loan) losses	2019					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Receivables from the public and public sector entities	10,649	−7,540	−1,982	2,685	−588	3,224
Off-balance sheet obligations	82	−108	−2	0	0	−27
Debt securities	291	−267	0	0	0	24
Total expected loan losses	**11,023**	**−7,916**	**−1,983**	**2,685**	**−588**	**3,221**
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	578	−598				−21
Total expected loan losses via other comprehensive income	**578**	**−598**	**0**	**0**	**0**	**−21**

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

Expected loan losses via other comprehensive income are recognised in the income statement under “Net income from financial items at fair value”.

	2019				2018			
	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total
Change in impairment loss reserve								
Reserve on January 1	11,308	65	111	11,485	12,479	243	56	12,778
New and increased individual impairment losses	10,649	82	291	11,023	9,181	187	91	9,460
Recovered from earlier provisions	−7,540	−108	−267	−7,916	−8,255	−365	−36	−8,656
Utilised for actual losses	−1,982	−2	0	−1,983	−2,084	0	0	−2,084
Exchange rate differences	9	0		9	−12	−1		−13
Reserve on December 31	**12,445**	**38**	**135**	**12,618**	**11,308**	**65**	**111**	**11,485**
Receivables with forbearance measures								
Receivables from the public and public sector entities								
Receivables without past-due amounts and receivables with past-due amounts <=30 days				23,748				26,856
Receivables with past-due amounts >30 days				378				1,047
Defaulted receivables				1,061				1,232
Gross carrying amount				**25,188**				**29,135**

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

G14. Income taxes	2019	2018
Income statement		
Taxes related to prior years	−113	−23
Current taxes	4,332	2,686
Changes in deferred taxes	2,666	3,395
Total	**6,885**	**6,058**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	0.3	0.4
Swedish tax rate, %	0.4	0.5
Taxes related to prior years, %	−0.3	−0.1
Other, %	0.4	0.0
Effective tax rate, %	**20.7**	**20.9**
Other comprehensive income		
Current taxes		434
Changes in deferred taxes	259	−343
Total	**259**	**90**

The tax rate in Sweden is 21.4 per cent; in 2018 it was 22 per cent.

G15. Earnings per share	2019	2018
Profit for the period attributable to shareholders	**26,310**	**22,931**
Average number of shares before dilution	15,523,141	15,452,680
Average dilution effect	23,845	78,215
Average number of shares after dilution	15,546,986	15,530,895
Earnings per share, EUR	**1.69**	**1.48**
Earnings per share after dilution, EUR	**1.69**	**1.48**

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

Notes to the consolidated balance sheet

G16. Classification of financial assets and liabilities 2019	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost			
	Held for trading	Hedge accounting	Hedge accounting[1]	Other	Hedge accounting[1]	Other	Total carrying amount	Fair value
Cash and deposits with central banks						489,886	489,886	489,886
Debt certificates eligible for refinancing with central banks			187,696	356,807		244,783	789,286	790,787
Receivables from credit institutions						66,085	66,085	66,085
Receivables from the public and public sector entities					101,680	4,008,349	4,110,029	4,130,215
Shares and participations				9,370			9,370	9,370
Shares and participations in associated companies						293	293	293
Derivative instruments	5,467	15,773					21,240	21,240
Accrued interest income						9,044	9,044	9,044
Receivables on mutual fund settlement proceeds						20,194	20,194	20,194
Total financial assets	**5,467**	**15,773**	**187,696**	**366,176**	**101,680**	**4,838,635**	**5,515,428**	**5,537,115**
Non-financial assets							92,072	
Total assets							**5,607,500**	

[1] The interest component in the contract is subject to hedge accounting.

2019

	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost			
	Held for trading	Hedge accounting	Hedge accounting[1]	Other	Hedge accounting[1]	Other	Total carrying amount	Fair value
Liabilities to credit institutions						210,035	210,035	209,088
Liabilities to the public						3,368,001	3,368,001	3,368,100
Debt securities issued					1,155,208	448,749	1,603,957	1,618,022
Derivative instruments	6,912	5,153					12,065	12,065
Subordinated liabilities						36,100	36,100	38,479
Accrued interest expenses						5,033	5,033	5,033
Liabilities on mutual fund settlement proceeds						13,041	13,041	13,041
Total financial liabilities	**6,912**	**5,153**			**1,155,208**	**4,080,959**	**5,248,232**	**5,263,828**
Non-financial liabilities							100,913	
Total liabilities							**5,349,145**	

[1] The interest component in the contract is subject to hedge accounting.

2018

	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost			
	Held for trading	Hedge accounting	Hedge accounting[1]	Other	Hedge accounting[1]	Other	Total carrying amount	Fair value
Cash and deposits with central banks						506,897	506,897	506,897
Debt certificates eligible for refinancing with central banks			69,711	556,294		189,090	815,095	815,757
Receivables from credit institutions						80,202	80,202	80,202
Receivables from the public and public sector entities					99,992	3,921,662	4,021,654	4,035,304
Shares and participations				2,564			2,564	2,564
Shares and participations in associated companies						153	153	153
Derivative instruments	2,341	13,007					15,347	15,347
Accrued interest income						9,003	9,003	9,003
Receivables on mutual fund settlement proceeds						35,316	35,316	35,316
Total financial assets	**2,341**	**13,007**	**69,711**	**558,857**	**99,992**	**4,742,322**	**5,486,230**	**5,500,542**
Non-financial assets							71,561	
Total assets							**5,557,791**	
Liabilities to credit institutions						250,334	250,334	250,334
Liabilities to the public						3,303,546	3,303,546	3,303,918
Debt securities issued					950,456	637,432	1,587,888	1,593,802
Derivative instruments	2,295	5,815					8,110	8,110
Subordinated liabilities					2,187	44,708	46,895	53,485
Accrued interest expenses						6,213	6,213	6,213
Liabilities on mutual fund settlement proceeds						15,948	15,948	15,948
Total financial liabilities	**2,295**	**5,815**			**952,643**	**4,258,180**	**5,218,934**	**5,231,811**
Non-financial liabilities							96,473	
Total liabilities							**5,315,407**	

[1] The interest component in the contract is subject to hedge accounting.

G17. Measurement of financial assets and liabilities carried at fair value

2019

	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	544,503			544,503
Receivables from the public and public sector entities		101,680		101,680
Shares and participations	8	4	9,358	9,370
Derivative instruments		21,240		21,240
Total financial liabilities carried at fair value	**544,510**	**122,924**	**9,358**	**676,793**

	Level 1	Level 2	Level 3	Total
Debt securities issued		1,155,208		1,155,208
Derivative instruments	0	12,065		12,065
Total financial liabilities carried at fair value	**0**	**1,167,273**	**0**	**1,167,273**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and deposits with central banks	489,886		489,886		489,886
Debt securities eligible for refinancing with central banks	244,783		246,284		246,284
Receivables from credit institutions	66,085		66,085		66,085
Shares in associated companies	293			293	293
Receivables from the public and public sector entities	4,008,349		4,028,535		4,028,535
Total financial assets at amortised cost	**4,809,397**	**0**	**4,830,791**	**293**	**4,831,084**
Liabilities					
Liabilities to credit institutions	210,035		209,088		209,088
Liabilities to the public	3,368,001		3,368,100		3,368,100
Debt securities issued	1,603,957		462,814		462,814
Subordinated liabilities	36,100		38,479		38,479
Total financial liabilities at amortised cost	**5,218,093**	**0**	**4,078,481**	**0**	**4,078,481**

2018

	Level 1	Level 2	Level 3	Total
Debt securities eligible for refinancing with central banks	626,005			626,005
Receivables from the public and public sector entities		99,992		99,992
Shares and participations	21	4	2,538	2,564
Derivative instruments		15,347		15,347
Total financial liabilities carried at fair value	**626,026**	**115,343**	**2,538**	**743,907**

	Level 1	Level 2	Level 3	Total
Debt securities issued		953,456		953,456
Derivative instruments	0	8,110		8,110
Subordinated liabilities		2,187		2,187
Total financial liabilities carried at fair value	**0**	**963,754**	**0**	**963,754**

	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
Cash and deposits with central banks	506,897		506,897		506,897
Debt securities eligible for refinancing with central banks	189,090		189,752		189,752
Receivables from credit institutions	80,202		80,202		80,202
Shares in associated companies	153			153	153
Receivables from the public and public sector entities	3,921,662		3,935,312		3,935,312
Total financial assets at amortised cost	**4,698,004**	**0**	**4,712,163**	**153**	**4,712,316**
Liabilities					
Liabilities to credit institutions	250,334		250,334		250,334
Liabilities to the public	3,303,546		3,303,918		3,303,918
Debt securities issued	1,587,888		640,346		640,346
Subordinated liabilities	46,895		51,298		51,298
Total financial liabilities at amortised cost	**5,188,662**	**0**	**4,245,896**	**0**	**4,245,896**

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

	2019	2018
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	2,538	504
New purchases	2,823	2,145
Divested/reached maturity during the year	−641	–130
Realised change in value	151	
Change in value recognised in other comprehensive income	4,488	19
Carrying amount on December 31	**9,358**	**2,538**

No transfer between Level 1 and 2 has occurred.

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

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

THE MEASUREMENT HIERARCHY

Financial instruments that are measured according to quoted prices in an active market for identical assets/liabilities are categorised as Level 1. Financial instruments that are measured using measurement models that are, in all essential respects, based on market data are categorised as Level 2. Financial instruments that are measured with the help of models based on incoming data that cannot be verified with external market information are categorised in Level 3. These assets essentially consist of unlisted shares. Such equity capital holdings for which the Bank of Åland, on the initial recognition date or upon transition to IFRS 9, has made an irrevocable choice to recognise subsequent changes in fair value under other comprehensive income.

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

G18. Assets and liabilities by currency	2019				
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	440,684	48,929	99	175	489,886
Debt securities eligible for refinancing with central banks	488,737	300,549	0	0	789,286
Receivables from credit institutions	20,515	31,258	2,847	11,465	66,085
Receivables from the public and public sector entities	2,723,728	1,359,551	26,749	0	4,110,029
Derivative instruments	17,693	3,547	0	0	21,240
Other items not allocated by currency	130,973				130,973
Total assets	**3,822,330**	**1,743,835**	**29,695**	**11,640**	**5,607,500**
Liabilities to credit institutions	176,326	29,346	1,672	2,691	210,035
Liabilities to the public	2,327,265	938,392	82,957	19,388	3,368,001
Debt securities issued	1,278,342	325,615	0	0	1,603,957
Derivative instruments	7,049	3,810	1,206	0	12,065
Subordinated liabilities	16,955	19,145	0	0	36,100
Other items not allocated by currency, including equity capital	377,342				377,342
Total liabilities and equity capital	**4,183,279**	**1,316,308**	**85,835**	**22,078**	**5,607,500**
Other assets and liabilities allocated by currency as well as off-balance sheet items		427,266	−56,146	−10,591	
Net position in currencies (EUR)		262	5	152	419

	2018				
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	412,136	94,523	52	187	506,897
Debt securities eligible for refinancing with central banks	501,315	286,998	21,748	5,034	815,095
Receivables from credit institutions	25,512	32,539	12,775	9,377	80,202
Receivables from the public and public sector entities	2,717,182	1,280,158	24,313	0	4,021,654
Derivative instruments	14,583	750	2	13	15,347
Other items not allocated by currency	118,596				118,596
Total assets	**3,789,323**	**1,694,968**	**58,890**	**14,610**	**5,557,791**
Liabilities to credit institutions	178,779	71,553	0	1	250,334
Liabilities to the public	2,206,804	1,003,099	61,697	31,946	3,303,546
Debt securities issued	1,051,819	536,069	0	0	1,587,888
Derivative instruments	7,357	747	5	2	8,110
Subordinated liabilities	27,392	19,503	0	0	46,895
Other items not allocated by currency, including equity capital	361,018				361,018
Total liabilities and equity capital	**3,833,169**	**1,630,971**	**61,702**	**31,949**	**5,557,791**
Other assets and liabilities allocated by currency as well as off-balance sheet items		64,024	−2,800	−17,410	
Net position in currencies (EUR)		−26	−13	71	32

G19. Holdings of debt securities

	2019		
	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks			
Holdings at fair value via other comprehensive income			
Government bonds	10,000	10,166	7
Covered mortgage bonds	325,236	333,076	68
Debt securities issued by credit institutions	150,245	151,527	82
Other debt securities	48,874	49,738	6
Holdings at amortised cost			
Government bonds	15,265	15,710	1
Covered mortgage bonds	164,847	168,040	44
Debt securities issued by credit institutions	37,201	37,317	87
Other debt securities	23,530	23,713	2
Total	**775,196**	**789,286**	**298**

	2018		
	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks			
Holdings at fair value via other comprehensive income			
Government bonds	21,834	21,748	0
Covered mortgage bonds	363,695	368,791	89
Debt securities issued by credit institutions	179,204	181,352	101
Other debt securities	53,256	54,113	10
Holdings at amortised cost			
Government bonds	15,363	16,004	1
Covered mortgage bonds	119,941	122,471	34
Debt securities issued by credit institutions	31,326	31,649	69
Other debt securities	19,000	18,966	8
Total	**803,620**	**815,095**	**311**

The entire holding consists of publicly listed debt securities.

G20. Receivables from credit institutions

	2019				2018			
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Provision for expected loss	Total
Finnish credit institutions	1,535	0	0	1,535	2,377	0	0	2,377
Foreign banks and credit institutions	64,550	0	0	64,550	77,825	0	0	77,825
Total	**66,085**	**0**	**0**	**66,085**	**80,202**	**0**	**0**	**80,202**

G21. Receivables from the public and public sector entities

	2019			2018		
	Gross carrying amount	Provision for expected loss (IFRS 9)	Net carrying amount	Gross carrying amount	Provision for expected loss (IAS 39)	Net carrying amount
Companies	569,893	−1,165	568,728	589,730	−1,939	587,792
Public sector entities	377	0	377	747	−1	746
Households	2,009,860	−7,161	2,002,699	2,013,104	−8,737	2,004,367
Household interest organisations	12,756	−1	12,754	11,749	−1	11,747
Outside Finland	1,529,588	−4,117	1,525,471	1,417,633	−630	1,417,003
Total	**4,122,474**	**−12,445**	**4,110,029**	**4,032,963**	**−11,308**	**4,021,654**
of which subordinated receivables			920			1,594

G22. Shares and participations

	2019	2018
Listed	8	21
Unlisted	9,362	2,542
Total shares and participations	**9,370**	**2,564**

The entire holding is classified as financial assets at fair value via other comprehensive income.

G23. Shares in associated companies

	2019	2018
Carrying amount on January 1	**153**	**119**
Share of profit for the year	79	57
Acquisitions		20
Shareholder contributions	120	
Dividends	−58	−44
Carrying amount on December 31	**293**	**153**

The following associated companies and joint ventures were consolidated according to the equity method of accounting on December 31, 2019:

	Registered office	Ownership, %
Mäklarhuset Åland Ab	Mariehamn	29
IISÅ Holdco AB	Stockholm	25
Åland Index Solutions AB	Stockholm	50

Combined financial information about these associated companies:

	2019	2018
Assets	1,333	724
Liabilities	214	198
Sales	1,380	1,249
Profit for the year	271	196

G24. Derivative instruments				2019			2018		
	Nominal amount/maturity								
	Under 1 yr	1–5 yrs	over 5 yrs	Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	525	58,050	6,060	64,635	3,246	3,306	55,135	2,272	2,547
Currency-related contracts									
Currency forward contracts	716,125	0	0	716,125	3,554	5,028	383,163	767	756
Total	**716,650**	**58,050**	**6,060**	**780,760**	**6,800**	**8,334**	**438,298**	**3,039**	**3,303**
Derivatives for fair value hedges									
Interest-related contracts									
Interest rate swaps	250,000	1,068,151	37,580	1,355,731	14,440	3,731	1,052,708	12,309	4,807
Total	**250,000**	**1,068,151**	**37,580**	**1,355,731**	**14,440**	**3,731**	**1,052,708**	**12,309**	**4,807**
Total derivative instruments	**966,650**	**1,126,201**	**43,640**	**2,136,491**	**21,240**	**12,065**	**1,491,005**	**15,347**	**8,110**
of which cleared	250,263	1,123,201	40,610	1,414,074	15,773	6,927	1,101,500	13,007	7,030

Derivatives are recognised together with their associated accrued interest.

G25. Intangible assets			2019		
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	24,705	20,071	30	6,334	51,141
Cost of intangible assets added	2,549	609	0	944	4,101
Increase through acquisitions of businesses[1]			2,901	1,802	4,703
Impairment losses for the year	0	–333	0	0	–333
Divestments and disposals	0	–33	0	0	–33
Exchange rate effect	–48	–104	0	0	–152
Cost on December 31	**27,206**	**20,210**	**2,932**	**9,080**	**59,427**
Accumulated amortisation and impairment losses on January 1	–12,961	–16,402	–30	–165	–29,559
Divestments and disposals	0	32	0	0	32
Amortisation for the year	–2,784	–1,026	0	–816	–4,626
Increase through acquisitions of businesses[1]				–1	–1
Exchange rate effect	13	29	0	0	41
Accumulated amortisation and impairment losses on December 31	**–15,733**	**–17,368**	**–30**	**–982**	**–34,112**
Residual value on December 31	**11,473**	**2,842**	**2,901**	**8,099**	**25,315**

[1] Attributable to the acquisition of Model IT.

"Other intangible assets" include acquired contracts.

	2018				
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	24,530	20,128	30	646	45,334
Cost of intangible assets added	2,314	357	0	5,700	8,370
Divestments and disposals	−2,029	−326	0	−11	−2,367
Exchange rate effect	−109	−88	0	0	−197
Cost on December 31	**24,705**	**20,071**	**30**	**6,334**	**51,141**
Accumulated amortisation and impairment losses on January 1	−12,300	−15,720	−30	−11	−28,062
Divestments and disposals	2,029	326	0	11	2,367
Amortisation for the year	−2,711	−1,069	0	−165	−3,946
Exchange rate effect	21	60	0	0	82
Accumulated amortisation and impairment losses on December 31	**−12,961**	**−16,402**	**−30**	**−165**	**−29,559**
Residual value on December 31	**11,744**	**3,669**	**0**	**6,169**	**21,582**

"Other intangible assets" include acquired contracts.

G26. Tangible assets

	2019	2018
Investment properties	326	315
Properties for own use	15,817	16,699
Other tangible assets	4,657	5,516
Right-of-use assets	11,526	
Total	**32,326**	**22,530**

	2019			2018		
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	484	35,856	35,428	994	35,727	36,390
Adjustment for application of IFRS 16[2]	0	0	−7 110	0	0	0
Adjusted carrying amount on January 1	**484**	**35,856**	**28,318**	**994**	**35,727**	**36,390**
New acquisitions	12	370	2,176	0	192	1,487
Increase through acquisitions of businesses[1]			29			
Impairment losses	0	0	0	0	−2	0
Divestments and disposals	0	−5	−608	−510	−62	−2,026
Exchange rate effect	0	−4	−155	0	−2	−423
Cost on December 31	**496**	**36,217**	**29,760**	**484**	**35,854**	**35,428**
Accumulated depreciation	−169	−19,155	−29,912	−671	−17,876	−30,282
Adjustment for application of IFRS 16[2]			5,676	0	0	0
Adjusted accumulated depreciation on January 1	**−169**	**−19,155**	**−24,236**	**−671**	**−17,876**	**−30,282**
Depreciation for the year	0	−1,261	−1,436	0	−1,347	−2,012
Increase through acquisitions of businesses[1]			−2			0
Impairment losses for the year	0	0	0	0	−2	0
Divestments and disposals	0	16	430	501	69	1,980
Exchange rate effects	0	0	143	0	0	401
Accumulated depreciation on December 31	**−169**	**−20,400**	**−25,102**	**−169**	**−19,155**	**−29,912**
Carrying amount	**326**	**15,817**	**4,657**	**315**	**16,699**	**5,516**
of which buildings	0	13,844		0	14,721	
of which land and water	0	1,825		0	1,825	
of which shares in real estate companies	326	148		315	153	

The carrying amount of investment properties was the same as their market value.

[1] Attributable to the acquisition of Model IT.

[2] "Adjustment for application of IFRS 16" refers to financial leases which, in compliance with IAS 17, "Leases", was recognised as part of "Other tangible assets" in 2018.

2019	Properties for own use	Other tangible assets
Right-of-use assets		
Adjustment for application of IFRS 16[2]		7,110
Cost on January 1, 2019	13,858	477
Exchange rate effects	–101	–1
Cost on December 31	**13,757**	**7,586**
Adjustment for application of IFRS 16[2]		–5,676
Depreciation for the year	–3,245	–880
Exchange rate effects	–17	0
Accumulated depreciation on December 31	**–3,262**	**–6,556**
Carrying amount	**10,496**	**1,030**

[2] "Adjustment for application of IFRS 16" refers to financial leases which, in compliance with IAS 17, "Leases", was recognised as part of "Other tangible assets" in 2018.

The assets, which consisted of IT equipment, were presented in 2018 as part of "Other tangible assets" and were recognised separately starting in 2019 together with added right-of-use assets in compliance with IFRS 16. The table concerning right-of-use assets provides information about the leases where the Group is the lessee. The Group recognises right-of-use for properties for the Group's own use, primarily consisting of bank and office premises, and for other tangible assets primarily consisting of IT equipment and vehicles. The average lease period is 4 years. The Group's largest lease related to property for the Group's own use expired on December 31, 2019. The expired lease was replaced by a new lease in January 2020 for the underlying asset. This resulted in an increase of EUR 6,356 K in right-of-use assets. In some cases, especially for IT equipment, the Group has options to buy the leased assets at the end of the lease period. Some of the leases related to bank and office premises include both options to extend the leases and index clauses. A maturity analysis of lease liabilities is presented in Note G43.

	2019
Amounts recognised in the income statement	
Depreciation of right-to-use assets	–3,609
Interest expenses for lease liabilities	–405
Expenses attributable to short-term leases	–392
Expenses attributable to low-value leases	–26
Income from subleasing right-of-use assets	79

Total cash flow related to leases during 2019 was EUR 4,425 K.

G27. Deferred tax assets and liabilities	2019	2018
Deferred tax assets		
Taxable losses		20
Provisions	8	25
Fair value hedge		289
Intangible assets	2,762	3,072
Pension liabilities	1,750	1,115
Impairment losses		481
Other	408	358
Financial assets measured via other comprehensive income		
Debt securities	193	68
Total deferred tax assets	**5,120**	**5,428**
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	26,660	24,797
Intangible assets	1,661	1,379
Tangible assets	1,655	1,711
Financial assets measured via other comprehensive income		
Shares and participations	927	
Total deferred tax liabilities	**30,903**	**27,887**
Net deferred taxes	**–25,783**	**–22,459**

	2019					
	Dec 31, 2018	Acquisitions of businesses	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2019
Changes in deferred taxes, 2018						
Taxable losses	20		−20			0
Provisions	25		−17			8
Fair value hedging	289		−289			0
Intangible assets	1,693	−360	−201		−30	1,101
Pension liabilities	1,115		99	541	−6	1,750
Impairment losses	481		−479		−2	0
Untaxed reserves	−24,797		−1,864			−26,660
Tangible assets	−1,711		88		1	−1,622
Debt securities measured via other comprehensive income	68			126		193
Shares and participations measured via other comprehensive income	0			−927		−927
Other	358		16			374
Total	**−22,459**	**−360**	**−2,666**	**−261**	**−37**	**−25,783**

	2018					
	Dec 31, 2017	Transitional effect, IFRS 9	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2018
Changes in deferred taxes, 2018						
Taxable losses	0		20			20
Provisions	206		−181			25
Cash flow hedge	11			−11		0
Fair value hedging		289				289
Hedging of net investment in foreign operations	88			−88		0
Intangible assets	1,967		−197		−77	1,693
Debt securities issued	1		−1			0
Pension liabilities	1,108		91	−74	−9	1,115
Impairment losses		481				481
Untaxed reserves	−21,438		−3,359			−24,797
Fair value option and hedge	−154	2	151			0
Tangible assets	−1,767		56			−1,711
Debt securities measured via other comprehensive income	−465			533		68
Shares and participations measured via other comprehensive income	4			−4		0
Other	332		26			358
Total	**−20,105**	**772**	**−3,396**	**356**	**−86**	**−22,459**

	2019	2018
Tax loss carry-forwards and their expiration year		
2028	0	20

G28. Other assets	2019	2018
Payment intermediation receivables	1,381	1,451
Receivables on mutual fund settlement proceeds	26,145	35,706
Accounts receivable	5,156	5,273
Other	4,148	1,997
Total	**36,831**	**44,426**

G29. Accrued income and prepayments	2019	2018
Accrued interest income	9,044	9,003
Other accrued income	8,672	8,508
Other prepaid expenses	3,895	3,487
Total	**21,611**	**20,997**

G30. Liabilities to credit institutions	2019			2018		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		130,340	130,340
Finnish credit institutions	2,342	4,950	7,292	19,412	6,100	25,512
Foreign credit institutions	38,043	34,360	72,403	65,218	29,264	94,482
Total	**40,385**	**169,650**	**210,035**	**84,630**	**165,704**	**250,334**

G31. Liabilities to the public	2019	2018
Companies	929,877	932,683
Public sector entities	48,270	63,944
Households	1,249,222	1,153,968
Household interest organisations	46,857	49,584
Outside Finland	1,093,775	1,103,366
Total	**3,368,001**	**3,303,546**

G32. Debt securities issued	2019		2018	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Certificates of deposit	108,194	108,194	121,344	121,364
of which at amortised cost	108,194	108,194	121,344	121,364
Covered bonds	1,136,308	1,144,959	1,111,440	1,116,687
of which at amortised cost	239,308	240,566	414,440	416,129
of which for fair value hedge	897,000	907,393	697,000	703,557
Unsecured bonds	350,000	350,803	350,000	349,837
of which at amortised cost	100,000	99,989	100,000	99,938
of which for fair value hedge	250,000	250,815	250,000	249,899
Total	**1,594,501**	**1,603,957**	**1,582,784**	**1,587,888**

”Fair value hedge” refers to hedge accounting of the interest component in the debt security.

G33. Other liabilities	2019	2018
Payment intermediation liabilities	9,159	19,357
Liabilities on mutual fund settlement proceeds	13,041	15,948
Trade payables	3,026	3,462
Lease liabilities	11,779	1,541
Acquired contract		5,000
Other	12,673	11,645
Total	**49,678**	**56,952**
Lease liabilities		
Short-term	3,550	537
Long-term	8,229	1,003
Total	**11,779**	**1,541**

G34. Provisions	2019				2018			
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total
Provisions on December 31 of the previous year	36	65	89	191	251	0	779	1,031
Transitional effect, IFRS 9						243		243
Provisions made during the year	24	82	60	167	84	187	0	271
Amounts utilised	−59	−2	−91	−151	−296	0	−604	−901
Unutilised amounts recovered	−1	−108	−56	−165	0	−365	−54	−419
Exchange rate changes	−1		−3	−4	−3	−1	−31	−35
Provisions on December 31	**0**	**38**	**0**	**38**	**36**	**65**	**89**	**191**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. ”Provision for off-balance sheet obligations” refers to expected credit losses related to guarantees issued and unutilised credit lines. ”Other provisions” consist of severance pay.

G35. Accrued expenses and prepaid income	2019	2018
Accrued interest expenses	5,033	6,213
Other accrued expenses	19,563	18,545
Pension liabilities	8,785	5,614
Prepaid income	1,741	905
Total	**35,122**	**31,277**

G36. Subordinated liabilities	2019			2018		
	Nominal amount	Carrying amount	Amount in own funds	Nominal amount	Carrying amount	Amount in own funds
Debenture loan 1/2014	0	0	0	2,185	2,187	0
Debenture loan 2/2014	0	0	0	8,275	8,275	1,002
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,145	19,058	19,145	19,503	19,391	19,503
Total	**36,187**	**36,100**	**36,187**	**47,005**	**46,895**	**37,547**
of which for fair value hedge	0	0	0	2,185	2,187	0

	Interest rate:	Repayment:
Debenture loan 1/2015	3.75% fixed interest	May 5, 2035
Debenture loan 1/2016	3.75% fixed interest	August 12, 2036
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037
Debenture loan 1/2018	3-month Stibor +2.40%	May 15, 2038

Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2015, 1/2016, 1/2017 and 1/2018 were issued with write-down clauses. In the event that the Bank of Åland's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 25 per cent (debenture loan 1/2015) and 50 per cent (debenture loans 1/2016, 1/2017 and 1/2018).

G37. Specification of changes in equity capital	2019	2018
Change in equity capital		
Equity capital on January 1	41,974	41,949
Share-based payment, incentive programme	55	25
Equity capital on December 31	**42,029**	**41,974**
Change in hedge reserve		
Hedge reserve on January 1	0	−45
Unrealised changes in value during the year	0	45
Hedge reserve on December 31	**0**	**0**
Change in fair value reserve		
Fair value reserve on January 1	−124	1,846
Transitional effect, IFRS 9		98
Divested or reached maturity during the year	30	−479
Impairment loss in the income statement	−17	50
Unrealised change in market value for remaining and new holdings	3,177	−1,638
Fair value reserve on December 31	**3,066**	**−124**
Change in translation differences		
Translation differences on January 1	−403	−579
Change in translation differences attributable to branches	−1,020	−2,177
Change in translation differences due to subsidiaries	94	228
Change in translation differences related to hedging of net investment in foreign operations	0	2,088
Other changes	−17	36
Translation differences on December 31	**−1,346**	**−403**

	2019	2018
Change in paid-up unrestricted equity capital fund		
Paid-up unrestricted equity capital fund on January 1	27,075	26,926
Share-based payment, incentive programme	323	149
Paid-up unrestricted equity fund on December 31	**27,398**	**27,075**
Retained earnings		
Retained earnings on December 31 of previous year	115,984	105,660
Transitional effect, IFRS 9		−3,194
Shareholders' portion of profit for the accounting period	26,310	22,931
Dividend paid	−10,868	−10,041
Re-measurement of defined benefit pension plans	−2,154	296
Share savings programmes	166	334
Other	−108	−4
Retained earnings on December 31	**129,330**	**115,983**

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.

The fair value fund includes accumulated net change in fair value of debt instruments and equity instruments carried at fair value via other comprehensive income, until the asset is derecognised from the balance sheet. For debt instruments, the realised gain from a divestment is shown in the income statement. When equity instruments are sold, the revaluation amount of the instrument is transferred to retained earnings without affecting either income or other comprehensive income.

"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.

Changes in number of shares	2019		2018	
	Series A shares	Series B shares	Series A shares	Series B shares
Number of shares on January 1	6,476,138	8,995,547	6,476,138	8,959,175
Shares issued, share savings programme		52,446		23,954
Shares issued, incentive programme		27,367		12,418
Number of shares on December 31	**6,476,138**	**9,075,360**	**6,476,138**	**8,995,547**

See the "Facts on Bank of Åland shares" section for more detailed information.

G38. Group structure

The Bank of Åland Plc has two subsidiaries that were essential to the Group in 2019. The Bank of Åland Plc holds a majority of the voting power in all subsidiaries. A list of all Group companies is presented in Note P39.

	Registered office	Field of operations	Ownership, %
Subsidiary			
Ålandsbanken Fondbolag Ab	Finland/Mariehamn	Mutual fund management	100
Ålandsbanken Fonder Ab	Finland/Helsinki	Mutual fund management	100
Ålandsbanken Fonder II Ab	Finland/Helsinki	Mutual fund management	100
Crosskey Banking Solutions Ab Ltd	Finland/Mariehamn	Information technology	100
Model IT Oy	Finland/Helsinki	Information technology	100
Promodus Oy	Finland/Kauniainen	Information technology	100
Puiretti Oy	Finland/Espoo	Information technology	100
S-Crosskey Ab	Finland/Mariehamn	Information technology	60

The Bank of Åland has no holdings of structured entities. Ålandsbanken Fondbolag manages mutual funds and alternate investment funds with a total value of EUR 3.1 billion.

Changes in Group structure

During 2019 the wholly owned subsidiary Ab Compass Card Oy Ltd was merged with the Parent Company. During the fourth quarter of 2019, Crosskey Banking Solutions acquired 100% of the software company Model IT Oy, including ownership of Promodus Oy and Puiretti Oy (in liquidation).

Together with ICA Bank, Ikano Bank and Söderberg & Partners, IISÅ Holdco AB was formed in order to establish a new mortgage company in the Swedish market. The Bank of Åland's holding is 25 per cent.

Together with Doconomy AB, Åland Index Solutions was formed in order to launch the Åland Index. The Bank of Åland's holding is 50 per cent.

Below is a breakdown of compensation transferred and net assets acquired on the acquisition date:

Breakdown of compensation transferred	Model IT Oy
Cash	4,177
Contingent purchase price	821
Total compensation transferred	**4,997**
Fair value of acquired net assets	–2,096
Goodwill	**2,901**
Acquired net assets	
Intangible assets	1,441
Tangible assets	26
Other assets	346
Accrued income and prepayments	109
Cash and cash equivalents	565
Miscellaneous liabilities	–392
Acquired assets at fair value	**2,096**

Upon acquisition, intangible assets in the form of IT systems and customer relationships were reported separately. The remaining goodwill is mainly attributable to cost synergies and synergies related to the company's technical know-how. The acquisition is expected to supplement Crosskey's IT services and increase the Group's sales to customers in asset management with the OneFactor platform and in the insurance sector with the CFrame system. The acquisition would not have had any significant impact on the Group's income or earnings if it had occurred at the beginning of the year.

Shares in associated companies and joint ventures	Registered office	Field of operations	Ownership, %
Mäklarhuset Åland Ab	Finland/Mariehamn	Estate agents	29
IISÅ Holdco AB	Sweden/Stockholm	Holding company	25
Åland Index Solutions AB	Sweden/Stockholm	Intangible service	50

Holdings in real estate companies

The Group holds participations in one property for its own use and ten investment properties, of which some are consolidated as follows.

	Business identity code	Consolidation	Ownership, %
Properties for own use			
Fastighets Ab Godbycenter	0200423-2	Joint operation	11
Investment properties			
Fastighets Ab Nymars	0427316-1	Joint operation	30
Fastighets Ab Västernäs City	0524820-8	Joint operation	50
Fastighets Ab Horsklint	0771072-6	Equity method	20

Fastighets Ab Godbycenter, Fastighets Ab Nymars and Fastighets Ab Västernäs City are mutual associations and, in compliance with IFRS 11, have thus been reported as ”joint operations”.

G39. Actively managed assets	2019	2018
Mutual fund management	3,057,045	2,539,331
Discretionary asset management	1,827,925	1,529,600
Advisory asset management	1,457,677	1,108,181
Total	**6,342,648**	**5,177,112**
of which own funds in discretionary and advisory asset management	508,168	407,478

G40. Assets pledged	2019	2018
Collateral pledged for own liabilities		
Receivables from credit institutions	10,242	6,060
Government securities and bonds	140,862	115,505
Receivables from the public	1,583,625	1,614,798
Other	2,795	3,280
Total assets pledged for own liabilities	**1,737,524**	**1,739,643**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. “Receivables from 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	33,977	25,223
Other	25,363	16,521
Total other assets pledged	**59,340**	**41,743**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability is at the free disposal of the Bank.

G41. Off-balance sheet obligations	2019	2018
Guarantees	8,562	43,351
Unutilised overdraft limits	240,983	228,269
Unutilised credit card limits	79,274	75,945
Unutilised credit facilities	92,425	131,177
Other commitments	22,546	14,494
Total	**443,789**	**493,236**
Provision for expected loss	39	65

G42. Pension liabilities

Pension coverage for employees in Finland has been arranged partly through the Finnish national pension system (a defined contribution plan) and partly via the pension fund known as Ålandsbanken Abps Pensionsstiftelse (a defined benefit plan). Ålandsbanken Abps Pensionsstiftelse has been closed to new participants since June 30, 1991. Persons covered by this fund are entitled to retire at age 63–65 depending on their year of birth. The full retirement pension comprises 60 per cent of pensionable salary, which is calculated according to the same principles as in the national pension system. A family pension comprises 30–60 per cent depending on whether the surviving spouse is alone or has one or more children.

According to the Finnish collective bargaining agreement in the financial services sector, employees are partially entitled to pensions at a lower age than stipulated today by general legislation. The employer is required to provide vested pension benefits in the collective agreement for the financial services sector, which was confirmed during 2017 by a Labour Court ruling.

Pension coverage for employees in Sweden follows the so-called BTP multi-employer plan for banking employees and historically is largely defined benefit. Starting on May 1, 2013, new employees are covered by a new defined contribution supplementary pension plan known as BTP1. The BTP plan is secured through the insurance company SPP. In Sweden, the retirement pension is payable from age 65 and the guaranteed amount consists of 10 per cent of pensionable salary below 7.5 annually indexed “income base amounts” and 65 per cent of the portion of salary between 20 and 30 income base amounts. The guaranteed amount of a family pension is 32.5 per cent of the portion of salary between 7.5 and 20 income base amounts and 16.25 per cent of the portion of salary between 20 and 30 income base amounts.

The duration of defined benefit plans in Finland is 16 years and in Sweden 23.5 years.

	2019	2018
Carrying amount in the income statement		
Current service costs	292	292
Effects of curtailments and settlements	0	0
Interest expenses	123	113
Administrative expenses	136	109
Expenses (+)/revenue (–) recognised in the income statement	**551**	**514**
Restatement of defined benefit pension plans in “Other comprehensive income”		
Actuarial gain (+)/loss (–), demographic assumptions	29	0
Actuarial gain (+)/loss (–), financial assumptions	–4,604	1,086
Actuarial gain (+)/loss (–), experience-based	621	–190
Actuarial gain (+)/loss (–) on plan assets	1,261	–526
Other comprehensive income	**–2,692**	**370**
Total	**–3,244**	**–144**
Carrying amount in the balance sheet		
Pension obligations	31,396	27,422
Fair value of plan assets	22,611	21,808
Net pension assets (+)/pension liabilities (–)	**–8,785**	**–5,614**
Net pension assets (+)/pension liabilities (–) in Finland	–6,195	–4,021
Net pension assets (+)/pension liabilities (–) in Sweden	–2,590	–1,593
	–8,785	**–5,614**

	2019	2018
Net change in pension assets		
January 1	−5,614	−5,576
Income	−551	−514
Other comprehensive income	−2,692	370
Premium payments	56	61
Exchange rate effects	16	45
On December 31	**−8,785**	**−5,614**
Pension obligations		
January 1	27,421	28,473
Current service costs	292	292
Interest expenses	564	547
Benefits paid	−768	−828
Exchange rate effect	37	−168
Actuarial gains (+)/losses (−)	3,953	−896
Pension obligations on December 31	**31,499**	**27,421**
Plan assets		
January 1	21,808	22,896
Interest income	441	434
Premium payments	56	61
Benefits paid	−768	−828
Actuarial gains (+)/losses (−)	1,261	−526
Exchange rate effects	−52	−121
Administrative expenses	−136	−109
Plan assets on December 31	**22,611**	**21,808**
Breakdown of plan assets		
Listed shares and participations	6,777	5,324
Listed mutual fund units	4,384	4,215
Listed interest-bearing securities	7,787	7,738
Properties	2,267	2,374
Other plan assets	1,395	2,156
Total plan assets	**22,610**	**21,808**

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 22 K (18), bonds worth EUR 614 K (635) and bank accounts worth EUR 438 K (1,246).

	Outcome, 2019	Forecast, 2020
Future cash flows		
Benefits paid	56	62

	2019		2018	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	0.80	1.80	1.95	2.85
Increase in salary expenses	1.30	3.00	1.60	3.00
Pension index increase	1.60	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	−2,657	3,061
Expected increase in salaries	0.5	228	−221
Expected increase in pensions	0.5	2,668	−2,350

The sensitivity analysis is based on a change in one assumption, while all other assumptions remain constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method is used as when calculating the pension liabilities recognised in the balance sheet. The sensitivity analysis for the defined benefit plan in Sweden has been calculated using a discount rate and an expected pay increase.

The Bank is exposed to a number of risks because of its defined benefit plans. The most significant risks are described below.

ASSET VOLATILITY

Pension liabilities are calculated with the help of a discount rate based on corporate bonds with good credit ratings. If plan assets generate returns worse than the discount rate, this will cause a deficit. Plan assets include a sizeable percentage of equities, which in the long term are expected to provide a higher return than the discount rate, while providing higher volatility and risk in the short term. Because of the long-term nature of pension liabilities, the Bank believes that a continued high percentage of equities is suitable for managing the plans in an effective way.

CHANGES IN BOND YIELDS

In case the yields on corporate bonds fall, this leads to an increase in pension obligations. Partly offsetting this is the fact that the value of the bonds that are included in plan assets will increase.

INFLATION RISK

Pension obligations are connected to inflation. Higher inflation will lead to increased pension obligations. Plan assets are not affected by inflation to any great extent, which means that if inflation increases, this will lead to an increased deficit in pension plans.

LIFE EXPECTANCY

Pension plans generate pensions that extend through the lifetimes of employees. This means that if life expectancy increases, pension obligations will increase.

G43. Lease liabilities	2019			2018		
Financial lease liabilities will be paid as follows:	Minimum rents	Interest	Present value	Minimum rents	Interest	Present value
Under 1 year	3,881	331	3,550	578	41	537
1–5 years	7,794	562	7,233	1,036	33	1,003
Over 5 years	1,035	40	996	0	0	0
Total	**12,711**	**932**	**11,779**	**1,614**	**73**	**1,541**

Leases that were classified under IAS 17 as right-of-use assets and lease liabilities were recognised on January 1, 2019 in the same amounts as under IAS 17 at the end of 2018.

The table below shows rental obligations for operating leases as they were presented in 2018.

	2018
Operating leases	
Under 1 year	3,944
1–5 years	3,080
Over 5 years	0
Total	**7,024**

Rental obligations in 2018 mainly consisted of business premises with fixed-period agreements of up to 10 years.

G44. Disclosures about related parties

	2019			2018		
	Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets						
Receivables from the public and public sector entities	4,092	6,601	293	3,794	6,722	237
Other assets		2			1	
Accrued income and prepayments		64			67	
Total	**4,092**	**6,666**	**293**	**3,794**	**6,789**	**237**
Liabilities						
Liabilities to the public	2,098	2,342	589	1,962	2,922	441
Subordinated liabilities		600			630	
Accrued expenses and prepaid income		11			12	
Total	**2,098**	**2,953**	**589**	**1,962**	**3,564**	**441**
Income and expenses						
Interest income	36	113	8	31	157	20
Interest expenses	–1	–34		–1	–23	0
Commission income	4	74	2	0	71	1
Other income		19			9	
Other expenses		1			1	
Total	**39**	**193**	**10**	**31**	**215**	**21**

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 0.25 (0.45) per cent on December 31, 2019.

All transactions with related parties have occurred on commercial terms, aside from loans to the Executive Team, which in Finland have been granted at the employee interest rate.

For disclosures on salaries and fees paid to the Board of Directors and the Executive Team, see Note P33.

For disclosures on Group structure, see Note P39.

	2019	2018
Salaries and other short-term compensation[1]	1,961	1,729
Share-based compensation	344	150
Total	**2,295**	**1,879**

"Senior executives" refers to the Executive Team including the Managing Director.

[1] Includes salary, benefits and variable compensation paid in cash.

G45. Offsetting of financial assets and liabilities

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Financial assets and liabilities that are subject to offsetting, netting agreements or similar agreements				
Gross amount	21,240	51,215	15,347	38,901
Offset amounts				
Total	**21,240**	**51,215**	**15,347**	**38,901**
Related amounts not offset				
Financial instruments, netting agreements	–7,790	–7,790	–7,391	–7,391
Financial instruments, collateral		–13,850		–14,334
Cash, collateral	–1,980	–25,907		–14,992
Total amounts not offset	**–9,770**	**–47,547**	**–7,391**	**–36,717**
Net amount	**11,470**	**3,668**	**7,956**	**2,184**

The tables report financial instruments that were offset in the balance sheet in compliance with IAS 32 and those that were covered by legally binding master netting agreements or similar agreements not qualified for netting. The financial instruments consisted of derivatives, repurchase agreements (repos) and reverse repos, securities deposits and securities loans. Collateral consisted of financial instruments or cash received or paid for transactions covered by legally binding netting agreements or similar agreements, which allow netting of obligations to counterparties in case of default. The value of the collateral was limited to the related amount recognised in the balance sheet, so the excess value of collateral is not included. Amounts not offset in the balance sheet are presented as a reduction in the carrying amount of financial assets or liabilities in order to recognise the net exposure of the asset and liability.

G46. Important events after the close of the accounting period

No important events have occurred after the close of the period.

Parent Company income statement

(EUR K)

Parent Company	Note	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Interest income		63,562	63,273
Interest expenses		−10,013	−9,968
Net interest income	P2	**53,549**	**53,305**
Commission income		39,585	39,460
Commission expenses		−6,404	−6,336
Net commission income	P3	**33,181**	**33,124**
Net income from financial items carried at fair value	P4	3,875	2,286
Income from equity capital investments	P5	4,759	2,295
Other income	P6	14,435	12,223
Total income		**109,800**	**103,232**
Staff costs	P7	−35,302	−35,362
Other expenses	P8	−36,478	−36,775
Depreciation/amortisation and impairment losses on tangible and intangible assets	P18, P19	−9,545	−8,507
Total expenses		**−81,326**	**−80,644**
Profit before loan losses		**28,474**	**22,589**
Expected loan losses from financial assets recognised at amortised cost	P9	−2,953	−361
Expected loan losses from other financial assets and impairment losses	P9	−24	−55
Net operating profit		**25,497**	**22,173**
Appropriations		−9,463	−16,684
Income taxes	P10	−2,701	−1,290
Net profit for the accounting period		**13,333**	**4,198**

Parent Company balance sheet

(EUR K)

Parent Company	Note	Dec 31, 2019	Dec 31, 2018
Assets			
Cash and deposits with central banks		489,886	506,897
Debt securities eligible for refinancing with central banks	P13	789,286	815,095
Receivables from credit institutions	P14	65,179	79,933
Receivables from the public and public sector entities	P15	4,110,029	4,016,108
Shares and participations	P16	9,370	2,563
Shares and participations in associated companies	P16	140	20
Shares and participations in Group companies	P16	3,346	11,837
Derivative instruments	P17	21,240	15,347
Intangible assets	P18	25,008	29,088
Tangible assets	P19	14,652	15,132
Other assets	P20	32,551	45,814
Accrued income and prepayments	P21	25,317	26,842
Deferred tax assets	P22	351	933
Total assets		**5,586,355**	**5,565,611**
Liabilities			
Liabilities to credit institutions	P23	209,962	250,254
Liabilities to the public	P24	3,381,772	3,325,680
Debt securities issued	P25	1,603,957	1,587,888
Derivative instruments	P17	12,065	8,110
Other liabilities	P26	36,811	54,821
Provisions	P27	39	194
Accrued expenses and prepaid income	P28	23,069	24,547
Subordinated liabilities	P29	36,100	46,895
Deferred tax liabilities	P22	927	0
Total liabilities		**5,304,703**	**5,298,388**
Appropriations			
General loan loss reserve[1]		133,001	123,538
Total appropriations		**133,001**	**123,538**
Equity capital			
Share capital		42,029	41,974
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve		0	0
Fair value reserve		3,066	−124
Translation differences		−2,302	−1,342
Unrestricted equity capital fund		27,595	27,271
Retained earnings		20,398	18,040
Total equity capital		**148,651**	**143,684**
Total liabilities and equity capital		**5,586,355**	**5,565,611**
Off-balance sheet obligations	P37		
Obligations to a third party on behalf of customers			
Guarantees		10,555	45,354
Irrevocable commitments given on behalf of customers		419,108	380,532

[1] Loan loss provisions in compliance with Finland's 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	Retained earnings	Total
Dec 31, 2017	**41,949**	**32,736**	**25,129**	**−45**	**1,846**	**−1,292**	**27,122**	**26,883**	**154,328**
Transition to IFRS 9					98			−2,996	−2,899
Jan 1, 2018	**41,949**	**32,736**	**25,129**	**−45**	**1,943**	**−1,292**	**27,122**	**23,886**	**151,430**
Profit for the year								4,198	4,198
Change in fair value				45	−2,068			2	−2,021
Translation difference						−51			−51
Dividend paid								−10,041	−10,041
Incentive programme	25						149	−5	169
Dec 31, 2018	**41,974**	**32,736**	**25,129**	**0**	**−124**	**−1,342**	**27,271**	**18,040**	**143,684**
Profit for the year								13,333	13,333
Change in fair value					3,190			−124	3,066
Translation difference						−960			−960
Dividend paid								−10,868	−10,868
Incentive programme	55						323	16	394
Dec 31, 2019	**42,029**	**32,736**	**25,129**	**0**	**3,066**	**−2,302**	**27,595**	**20,398**	**148,651**

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, 2019	Jan 1–Dec 31, 2018
Cash flow from operating activities		
Net operating profit	25,497	22,173
Adjustment for net operating profit items not affecting cash flow		
Depreciation/amortisation and impairment losses on intangible and tangible assets	9,545	8,507
Impairment losses on loans and other commitments	3,529	599
Unrealised changes in value	–45	–1,212
Accrued surpluses/deficits on debt securities and bonds issued	6,599	4,174
Income from investing activities	–71	–107
Dividends from associated companies and subsidiaries	–4,758	–2,294
Income taxes paid	27	–119
Increase (–) or decrease (+) in receivables from operating activities		
Debt securities eligible for refinancing with central banks	20,135	–186,968
Receivables from credit institutions	–15,789	9,933
Receivables from the public and public sector entities	–113,656	–95,531
Other assets	14,665	–51,044
Increase (+) or decrease (–) in liabilities from operating activities		
Liabilities to credit institutions	–33,127	63,666
Liabilities to the public and public sector entities	77,699	201,786
Debt securities issued	–33,895	–55,343
Other liabilities	–9,044	–2,476
Total cash flow from operating activities	**–52,689**	**–84,256**
Cash flow from investing activities		
Investment in shares and participations	–2,151	–2,000
Divestment of shares and participations	29	104
Investment in shares of associated companies and subsidiaries	–120	–20
Dividends received from associated companies and subsidiaries	4,758	2,294
Investment in tangible assets	–797	–2,088
Divestment of tangible assets	152	168
Investment in intangible assets	–4,189	–7,089
Total cash flow from investing activities	**–2,318**	**–8,632**
Cash flow from financing activities		
Share issue	378	174
Increase in uncovered bonds issued	0	249,111
Increase in covered bonds issued	297,989	0
Decrease in covered bonds issued	–267,708	–198,237
Increase in subordinated debentures	0	19,335
Decrease in subordinated debentures	–10,460	–5,454
Dividend paid	–10,868	–10,041
Total cash flow from financial activities	**9,332**	**54,888**
Cash and cash equivalents at beginning of year	542,863	584,573
Cash flow from operating activities	–52,689	–84,256
Cash flow from investing activities	–2,318	–8,632
Cash flow from financing activities	9,332	54,888
Exchange rate differences in cash and cash equivalents	–2,368	–3,710
Cash and cash equivalents at end of year	**494,821**	**542,863**
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	465,185	483,353
Claims repayable on demand from credit institutions	29,635	59,511
Total	**494,821**	**542,863**

"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 63,960 K (63,756), interest paid of EUR 11,580 K (9,808) and dividend income received of EUR 1 K (1).

Table of contents, notes to the Parent Company financial statements

Notes to the Parent Company financial statements

(EUR K)

P1. Parent Company accounting principles

The financial statements of the Bank of Åland Plc have been drawn up in accordance with the Finnish Credit Institutions Act, the Ministry of Finance ordinance on annual accounts and consolidated annual accounts of financial institutions and securities companies and the regulations of the Financial Supervisory Authority. The financial statements of the Bank of Åland Plc have been prepared in compliance with Finnish accounting standards (FAS). The Parent Company's financial statements are presented in thousands of euros (EUR K), unless otherwise stated.

Goodwill

Goodwill is amortised over 10 years.

Appropriations

Voluntary provisions that the Bank of Åland has made based on Section 46 of the Finnish Business Income Tax Act are recognised under "Appropriations".

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2019	2018
Receivables from credit institutions	1,180	822
of which negative interest [1]	583	584
Receivables from the public	60,757	61,046
of which negative interest [1]	296	376
Debt securities	601	757
of which negative interest [1]	803	486
Derivative instruments	995	644
Other interest income	30	4
Total interest income	**63,562**	**63,273**
Liabilities to credit institutions	817	1,221
of which negative interest [1]	740	1,147
Liabilities to the public	3,724	3,713
of which negative interest [1]	3	55
Debt securities	3,017	2,847
of which negative interest [1]	811	537
Subordinated liabilities	1,259	1,201
Derivative instruments	1,196	986
Total interest expenses	**10,013**	**9,968**
Net interest income	**53,549**	**53,305**

Interest income received from Group companies was EUR 167 K (238).

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	2019	2018
Deposits	854	813
Lending	2,583	2,984
Payment intermediation	8,445	6,943
Mutual fund commissions	359	458
Asset management commissions	11,293	11,264
Securities brokerage	12,831	13,282
Insurance commissions	2	253
Legal services	664	821
Guarantee commissions	241	563
Other commissions	2,312	2,080
Total commission income	**39,585**	**39,460**
Payment intermediation commission expenses	−3,399	−2,935
Asset management commission expenses	−810	−941
Securities brokerage commission expenses	−1,555	−1,793
Other commission expenses	−639	−667
Total commission expenses	**−6,404**	**−6,336**
Net commission income	**33,181**	**33,124**

P4. Net income from financial items carried at fair value	2019			2018		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Debt securities	0	0	0	0	−106	−106
Derivative instruments	0	−11	−11	104	−108	−5
Valuation category fair value via the income statement ("profit and loss")	**0**	**−11**	**−11**	**104**	**−214**	**−110**
Hedge accounting						
of which hedging instruments	−477	3,468	2,991	8	17	25
of which hedged item	522	−3,413	−2,890	0	1,170	1,170
Hedge accounting	**46**	**55**	**101**	**8**	**1,188**	**1,195**
Net income from foreign currency revaluation	**0**	**143**	**143**	**0**	**431**	**431**
Net income from valuation category fair value via other comprehensive income	**3,528**	**113**	**3,641**	**856**	**−86**	**770**
Total	**3,574**	**300**	**3,875**	**968**	**1,318**	**2,286**

P5. Income from equity instruments	2019	2018
Holdings recognised at fair value via other comprehensive income	1	1
Associated companies	58	44
Group companies, dividend paid	4,700	2,250
Total	**4,759**	**2,295**

P6. Other income	2019	2018
Rental income on properties	65	64
Intra-Group services	10,800	10,952
Income from acquired contracts	1,500	
Merger gain	1,186	
Miscellaneous income	885	1,207
Total	**14,435**	**12,223**
Net income from investment properties		
Rental income	14	11
Capital gains	0	107
Other expenses	−56	−33
Total	**−43**	**84**

P7. Staff costs	2019	2018
Salaries and fees	27,152	27,045
Compensation in the form of shares in Bank of Åland Plc	214	163
Pension expenses	4,670	4,727
Other social security expenses	3,266	3,426
Total	**35,302**	**35,362**
Number of employees		
Permanent full-time employees	433	404
Permanent part-time employees	17	41
Temporary employees	64	52
Total	**514**	**497**

P8. Other expenses	2019	2018
IT expenses (excluding market data)	14,881	14,920
Rents	2,788	2,719
Other costs of premises and property	1,154	999
Marketing expenses	2,471	2,462
Market data	1,726	1,887
Staff-related expenses	1,657	1,290
Travel expenses	698	722
Purchased services	1,974	2,188
Guarantee fee [1]	4	4
Stability fee	1,762	2,552
Other expenses	7,363	7,031
Total	**36,478**	**36,775**

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

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,132	1,042
Paid by old deposit guarantee fund	−1,132	−1,042
Stability fee	1,762	2,552
Administration fee	32	30
Total	**1,794**	**2,582**

Based on the 2019 fee level, the Bank has prepaid deposit guarantee fees for about 13 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	322	231
Consulting fees paid		
In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2	76	6
Tax matters	50	0
Other	43	83
Total	**492**	**320**

These amounts include value-added tax (VAT).

Fees paid to KPMG OY Ab for expenses other than auditing totalled EUR 47 K.

P9. Expected credit (loan) losses	2019					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Receivables from the public and public sector entities	9,626	−6,321	−1,895	2,132	−552	2,990
Off-balance sheet obligations	85	−119	−2	0	0	−36
Debt securities	291	−267	0	0	0	24
Total expected loan losses	**10,002**	**−6,707**	**−1,896**	**2,132**	**−552**	**2,977**
Expected losses from financial assets recognised at fair value via other comprehensive income						
Debt securities	578	−598				−21
Total	**578**	**−598**	**0**	**0**	**0**	**−21**

	2018					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Receivables from the public and public sector entities	7,373	−6,832	−1,929	2,096	−165	542
Off-balance sheet obligations	182	−363	0	0	0	−182
Debt securities	91	−36	0	0	0	55
Total expected loan losses	**7,645**	**−7,231**	**−1,929**	**2,096**	**−165**	**416**
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	240	−177				63
Total	**240**	**−177**	**0**	**0**	**0**	**63**

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

	2019				2018			
	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total
Change in impairment loss reserve								
Reserve on January 1	9,793	70	111	9,974	11,194	252	56	11,502
Merger effect, Compass Card	1,232	5	0	1,237				
New and increased individual impairment losses	9,626	85	291	10,002	7,373	182	91	7,645
Recovered from earlier provisions	−6,321	−119	−267	−6,707	−6,832	−363	−36	−7,231
Utilised for actual losses	−1,895	−2	0	−1,896	−1,929	0	0	−1,929
Exchange rate differences	9	0		9	−12	−1		−13
Reserve on December 31	**12,444**	**39**	**135**	**12,618**	**9,793**	**70**	**111**	**9,974**

P10. Income taxes	2019	2018
Income statement		
Taxes related to prior years	−113	−23
Current taxes	2,066	1,140
Changes in deferred taxes	747	173
Total	**2,701**	**1,290**
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	−3.9	1.5
Swedish tax rate 22%	0.8	2.6
Taxes related to prior years, %	−0.7	−0.6
Other, %	0.6	0.0
Effective tax rate, %	**16.8**	**23.5**

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014.
The tax rate in Sweden is 21.4 per cent; in 2018 it was 22 per cent.

Notes to the balance sheet

P11. Fair values and carrying amounts of financial assets, liabilities and fair value levels

	2019		2018	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash	489,886	489,886	506,897	506,897
Debt securities eligible for refinancing with central banks	789,286	790,787	815,095	815,757
Receivables from credit institutions	65,179	65,179	79,933	79,933
Receivables from the public and public sector entities	4,110,029	4,130,215	4,016,108	4,029,681
Shares and participations	9,370	9,370	2,563	2,563
Shares and participations in associated companies	140	140	20	20
Shares in subsidiaries	3,346	3,346	11,837	11,837
Derivative instruments	21,240	21,240	15,347	15,347
Total financial assets	**5,488,476**	**5,510,163**	**5,447,801**	**5,462,035**
Liabilities to credit institutions	209,962	209,015	250,254	250,254
Liabilities to the public	3,381,772	3,381,871	3,303,546	3,303,918
Debt securities issued	1,603,957	1,618,022	1,587,888	1,593,802
Derivative instruments	12,065	12,065	8,110	8,110
Subordinated liabilities	36,100	38,479	46,895	53,485
Total financial liabilities	**5,243,856**	**5,259,452**	**5,196,693**	**5,209,570**

	2019			
	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	544,503			544,503
Receivables from the public and public sector entities		101,680		101,680
Shares and participations	8	4	9,358	9,370
Derivative instruments		21,240		21,240
Total	**544,510**	**122,924**	**9,358**	**676,793**
Liabilities to the public				
Debt securities issued		1,155,208		1,155,208
Derivative instruments		12,065		12,065
Total	0	**1,167,273**	**0**	**1,167,273**

	2018			
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	626,005			626,005
Receivables from the public and public sector entities		99,992		99,992
Shares and participations	21	4	2,538	2,563
Derivative instruments		15,347		15,347
Total	**626,026**	**115,343**	**2,538**	**743,907**
Liabilities				
Debt securities issued		953,456		953,456
Derivative instruments	0	8,110		8,110
Subordinated liabilities		2,187		2,187
Total	0	**963,754**	**0**	**963,754**

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.

	2019	2018
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	2,538	504
New purchases	2,823	2,145
Divested/reached maturity during the year	−641	−130
Unrealised foreign exchange valuation	151	0
Realised change in value	4,488	19
Carrying amount on December 31	**9,358**	**2,538**

No transfer occurred between Level 1 and Level 2.

P12. Assets and liabilities by currency

2019	EUR	SEK	USD	Others	Total
Cash and cash equivalents	440,684	48,929	99	175	489,886
Debt securities eligible for refinancing with central banks	488,737	300,549	0	0	789,286
Receivables from credit institutions	20,029	30,837	2,847	11,465	65,179
Receivables from the public	2,723,728	1,359,551	26,749	0	4,110,029
Derivative instruments	17,693	3,547	0	0	21,240
Other items not allocated by currency	110,734				110,734
Total assets	**3,801,606**	**1,743,414**	**29,695**	**11,640**	**5,586,355**
Liabilities to credit institutions	176,254	29,346	1,672	2,691	209,962
Liabilities to the public	2,337,218	942,210	82,957	19,388	3,381,772
Debt securities issued	1,278,342	325,615	0	0	1,603,957
Derivative instruments	7,049	3,810	1,206	0	12,065
Subordinated liabilities	16,955	19,145	0	0	36,100
Other items not allocated by currency, including equity capital	342,498				346,784
Total liabilities and equity capital	**4,158,316**	**1,320,126**	**85,835**	**22,078**	**5,586,355**
Other assets and liabilities allocated by currency as well as off-balance sheet items		423,027	−56,146	−10,591	
Net position in currencies (EUR)		262	5	152	419

2018	EUR	SEK	USD	Others	Total
Cash and cash equivalents	412,136	94,523	52	187	506,897
Debt securities eligible for refinancing with central banks	501,315	286,998	21,748	5,034	815,095
Receivables from credit institutions	25,243	32,539	12,775	9,377	79,933
Receivables from the public	2,711,637	1,280,158	24,313	0	4,016,108
Derivative instruments	14,583	750	2	13	15,347
Other items not allocated by currency	132,230				132,230
Total assets	**3,797,143**	**1,694,968**	**58,890**	**14,610**	**5,565,611**
Liabilities to credit institutions	178,700	71,553	0	1	250,254
Liabilities to the public	2,222,819	1,009,217	61,697	31,946	3,325,680
Debt securities issued	1,051,819	536,069	0	0	1,587,888
Derivative instruments	7,357	747	5	2	8,110
Subordinated liabilities	27,392	19,503	0	0	46,895
Other items not allocated by currency, including equity capital	346,784				346,784
Total liabilities and equity capital	**3,834,870**	**1,637,089**	**61,702**	**31,949**	**5,565,611**
Other assets and liabilities allocated by currency as well as off-balance sheet items		57,906	−2,800	−17,410	
Net position in currencies (EUR)		−26	−13	71	32

P13. Holdings of debt securities

2019	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks			
Holdings at fair value via other comprehensive income			
Government bonds	10,000	10,166	7
Covered mortgage bonds	325,236	333,076	68
Debt securities issued by credit institutions	150,245	151,527	82
Other debt securities	48,874	49,738	6
Holdings at amortised cost			
Government bonds	15,265	15,710	1
Covered mortgage bonds	164,847	168,040	44
Debt securities issued by credit institutions	37,201	37,317	87
Other debt securities	23,530	23,713	2
Total	**775,196**	**789,286**	**298**

The entire holding consists of publicly listed debt securities.

	2018		
	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks			
Holdings at fair value via other comprehensive income			
Government bonds	21,834	21,748	0
Covered mortgage bonds	363,695	368,791	89
Debt securities issued by credit institutions	179,204	181,352	101
Other debt securities	53,256	54,113	10
Holdings at amortised cost			
Government bonds	15,363	16,004	1
Covered mortgage bonds	119,941	122,471	34
Debt securities issued by credit institutions	31,326	31,649	69
Other debt securities	19,000	18,966	8
Total	**803,620**	**815,095**	**311**

The entire holding consists of publicly listed debt securities.

P14.Receivables from credit institutions	2019				2018			
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Provision for expected loss	Total
Finnish credit institutions	1,073	0	0	1,073	2,357	0	0	2,357
Foreign banks and credit institutions	64,105	0	0	64,105	77,576	0	0	77,576
Total	**65,179**	**0**	**0**	**65,179**	**79,933**	**0**	**0**	**79,933**

P15. Receivables from the public and public sector entities	2019			2018		
	Gross carrying amount	Provision for expected loss	Net carrying amount	Gross carrying amount	Provision for expected loss	Net carrying amount
Companies	569,893	−1,165	568,728	612,063	−1,971	610,092
Public sector entities	377	0	377	747	−1	746
Households	2,009,860	−7,161	2,002,699	1,983,710	−7,190	1,976,520
Household interest organisations	12,756	−1	12,754	11,749	−1	11,747
Outside Finland	1,529,588	−4,117	1,525,471	1,417,633	−630	1,417,003
Total	**4,122,473**	**−12,445**	**4,110,029**	**4,025,902**	**−9,793**	**4,016,108**
of which subordinated receivables			920			1,594

P16. Shares and participations	2019	2018
Holdings recognised at fair value via other comprehensive income		
Listed	8	21
Unlisted	9,362	2,542
Total	**9,370**	**2,563**
Shares and participations in associated companies	140	20
Shares and participations in Group companies	3,346	11,837
Total shares and participations	**12,856**	**14,400**

P17. Derivative instruments

	Nominal amount/maturity			2019			2018		
	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	525	58,050	6,060	64,635	3,246	3,306	55,135	2,272	2,547
Currency-related contracts									
Currency forward contracts	716,125	0	0	716,125	3,554	5,028	383,163	767	756
Total	**716,650**	**58,050**	**6,060**	**780,760**	**6,800**	**8,334**	**438,298**	**3,039**	**3,303**
Derivatives for fair value hedges									
Interest-related contracts									
Interest rate swaps	250,000	1,068,151	37,580	1,355,731	14,440	3,731	1,052,708	12,309	4,807
Total	**250,000**	**1,068,151**	**37,580**	**1,355,731**	**14,440**	**3,731**	**1,052,708**	**12,309**	**4,807**
Total derivative instruments	**966,650**	**1,126,201**	**43,640**	**2,136,491**	**21,240**	**12,065**	**1,491,005**	**15,347**	**8,110**
of which cleared	250,263	1,123,201	40,610	1,414,074	15,773	6,927	1,101,500	13,007	7,030

Derivatives are recognised together with their associated accrued interest.

P18. Intangible assets

2019	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	1,448	32,472	31,195	6,334	71,448
Cost of intangible assets added	0	3,279	0	944	4,223
Impairment losses for the year	0	−479	0	0	−479
Divestments and disposals		−289	0	0	−289
Merger effect		388	0	0	388
Exchange rate effects	−6	−115	−325	0	−446
Cost on December 31	**1 441**	**35 256**	**30 870**	**7 278**	**74 846**
Accumulated amortisation and impairment losses on January 1	−310	−19,394	−22,490	−165	−42,360
Divestments and disposals	0	288	0	0	288
Merger effect	0	−161		0	−161
Amortisation for the year	−205	−2,676	−4,178	−816	−7,875
Exchange rate effects	1	63	206	0	270
Accumulated amortisation and impairment losses on December 31	**−515**	**−21,880**	**−26,462**	**−981**	**−49,838**
Residual value on December 31	**927**	**13,376**	**4,408**	**6,297**	**25,008**

2018	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	1,462	29,642	31,934	634	63,671
Cost of intangible assets added	0	3,178	0	5,700	8,877
Divestments and disposals	0	−98	0	0	−98
Exchange rate effects	−14	−250	−739	0	−1,002
Cost on December 31	**1,448**	**32,472**	**31,195**	**6,334**	**71,448**
Accumulated amortisation and impairment losses on January 1	−104	−17,007	−18,703	0	−35,815
Divestments and disposals	0	98	0	0	98
Amortisation for the year	−207	−2,615	−4,233	−165	−7,221
Exchange rate effects	1	131	446	0	578
Accumulated amortisation and impairment losses on December 31	**−310**	**−19,394**	**−22,490**	**−165**	**−42,360**
Residual value on December 31	**1,137**	**13,077**	**8,705**	**6,169**	**29,088**

In the note, amounts for “Renovation in rented premises” have been reclassified from intangible to tangible assets, also for 2018.
“Other intangible assets” include acquired contracts.

P19. Tangible assets

P19. Tangible assets	2019			2018		
Investment properties			411			411
Properties for own use			12,402			12,951
Other tangible assets			1,839			1,770
Total			**14,652**			**15,132**
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	581	20,712	15,368	1,082	20,756	17,541
New acquisitions	0	348	453	0	0	141
Impairment losses	0	0	0	0	−2	0
Divestments and disposals	0	0	−493	−501	−40	−1,955
Merger effect	0	0	79	0	0	0
Exchange rate effects	0	0	−126	0	−2	−359
Cost on December 31	**581**	**21,060**	**15,281**	**581**	**20,712**	**15,368**
Accumulated depreciation on January 1	−169	−13,051	−13,598	−671	−12,159	−15,535
Depreciation for the year	0	−897	−295	0	−933	−352
Impairment losses for the year	0	0	0	0	−2	0
Divestments and disposals	0	0	411	501	42	1,944
Merger effect	0	0	−79	0	0	0
Exchange rate effects	0	0	118	0	0	346
Accumulated depreciation on December 31	**−169**	**−13,947**	**−13,442**	**−169**	**−13,051**	**−13,598**
Revaluations on January 1		5,289			5,289	
Accumulated revaluations on December 31		**5,289**			**5,289**	
Carrying amount	**411**	**12,402**	**1,839**	**411**	**12,951**	**1,770**
of which buildings	0	12,163		0	12,712	
of which land and water	0	139		0	139	
of which shares in property companies	411	100		411	100	

The carrying amount for investment properties is the same as market value.

P20. Other assets

P20. Other assets	2019	2018
Payment intermediation receivables	1,381	1,451
Receivables on mutual fund settlement proceeds	26,145	35,706
Accounts receivable	925	884
Other	4,099	7,773
Total	**32,551**	**45,814**

P21. Accrued income and prepayments

P21. Accrued income and prepayments	2019	2018
Accrued interest income	9,044	9,018
Other accrued income	13,965	14,282
Prepaid taxes	0	725
Other prepaid expenses	2,308	2,817
Total	**25,317**	**26,842**

P22. Deferred tax assets and liabilities	2019	2018
Deferred tax assets		
Provisions	8	25
Fair value hedge	0	289
Unused tax depreciation	123	100
Impairment losses	2	433
Debt securities measured via other comprehensive income	193	68
Other	27	18
Total deferred tax assets	**351**	**933**
Deferred tax liabilities		
Financial assets measured via other comprehensive income		
Debt securities	927	0
Total deferred tax liabilities	**927**	**0**
Net deferred taxes	**–576**	**933**

Accumulated appropriations included a deferred tax liability of EUR 26,600 K (24,708).

	2019			
	Dec 31, 2018	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2019
Changes in deferred taxes				
Provisions	25	–17		8
Unused tax depreciation	100	23		123
Other	18	9		27
Fair value hedge	289	–289		0
Debt securities measured via other comprehensive income	68		126	193
Shares and participations measured via other comprehensive income	0		–927	–927
Impairment losses	433	–431		2
Total	**933**	**–706**	**–801**	**–574**

	2018				
	Dec 31, 2017	Transitional effect, IFRS 9	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2018
Changes in deferred taxes					
Provisions	206		–181		25
Unused tax depreciation	103		–3		100
Other	7			11	18
Cash flow hedge	11			–11	0
Fair value hedge		289			289
Hedging of net investment in foreign operations	88			–88	0
Debt securities measured via other comprehensive income	–465			533	68
Shares and participations measured via other comprehensive income	4			–4	0
Impairment losses		433			433
Total	**–46**	**722**	**–184**	**441**	**933**

P23. Liabilities to credit institutions	2019			2018		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		130,340	130,340		130,340	130,340
Finnish credit institutions	2,270	4,950	7,220	19,332	6,100	25,432
Foreign banks and credit institutions	38,043	34,360	72,403	65,218	29,264	94,482
Total	**40,312**	**169,650**	**209,962**	**84,550**	**165,704**	**250,254**

P24. Liabilities to the public	2019	2018
Companies	943,648	954,817
Public sector entities	48,270	63,944
Households	1,249,222	1,153,968
Household interest organisations	46,857	49,584
Outside Finland	1,093,775	1,103,366
Total	**3,381,772**	**3,325,680**

P25. Debt securities issued	2019		2018	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	108,194	108,194	121,344	121,364
of which at amortised cost	108,194	108,194	121,344	121,364
Covered bonds	1,136,308	1,144,959	1,111,440	1,116,687
of which at amortised cost	239,308	240,566	414,440	416,129
of which fair value hedge	897,000	907,393	697,000	703,557
Unsecured bonds	350,000	350,803	350,000	349,837
of which at amortised cost	100,000	99,989	100,000	99,938
of which fair value hedge	250,000	250,815	250,000	249,899
Total	**1,594,501**	**1,603,957**	**1,582,784**	**1,587,888**

"Fair value hedge" refers to hedge accounting of the interest component in the debt security.

P26. Other liabilities	2019	2018
Payment intermediation liabilities	9,216	19,357
Fund settlement liabilities	13,041	15,948
Trade payables	2,715	1,551
Acquired contracts		5,000
Other	11,839	12,966
Total	**36,811**	**54,821**

P27. Provisions	2019				2018			
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total
Provisions on December 31 of the previous year	34	70	89	194	251		779	1,031
Transitional effect, IFRS 9						252		252
Provisions during the year	24	85		109	71	182		253
Amounts utilised	−58	−2	−31	−90	−285		−604	−890
Unutilised amounts recovered	0	−119	−56	−175		−369	−54	−417
Merger effect		5		5				
Exchange rate changes	−1		−3	−4	−3	−1	−31	−35
Provisions on December 31	**0**	**39**	**0**	**39**	**34**	**70**	**89**	**194**

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. "Provision for off-balance sheet obligations" refers to expected credit losses related to guarantees issued and unutilised credit lines. "Other provisions" consist of severance pay.

P28. Accrued expenses and prepaid income	2019	2018
Accrued interest expenses	5,033	6,213
Other accrued expenses	10,247	10,719
Accrued taxes	2,564	1,715
Prepaid income	5,225	5,899
Total	**23,069**	**24,547**

P29. Subordinated liabilities	2019			2018		
	Nominal amount	Carrying amount	Amount in own funds	Nominal amount	Carrying amount	Amount in own funds
Debenture loan 1/2014	0	0	0	2,185	2,187	0
Debenture loan 2/2014	0	0	0	8,275	8,275	1,002
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,145	19,058	19,145	19,503	19,391	19,503
Total	**36,187**	**36,100**	**36,187**	**47,005**	**46,895**	**37,547**
of which market value hedge	0	0	0	2,185	2,187	0

	Interest rate:	Repayment:
Debenture loan 1/2015	3.75% fixed interest	May 25, 2035
Debenture loan 1/2016	3.75% fixed interest	August 12, 2036
Debenture loan 1/2017	3.75% fixed interest	August 18, 2037
Debenture loan 1/2018	3-month Stibor +2.40%	May 15, 2038

Since the Basel 3 regulations went into effect on January 1, 2014, subordinated debentures issued after January 1, 2012 and running with repayments of up to five years are no longer included in supplementary capital. During the final five years of their contractual life, subordinated debentures are included as supplementary capital items in relation to the remaining calendar days in the final five-year period.

The loans may be repurchased in advance, but this is possible only with the permission of the Finnish Financial Supervisory Authority. In case the Bank is dissolved, the loans are subordinate to the Bank's other obligations.

Debenture loans 1/2015, 1/2016, 1/2017 and 1/2018 were issued with write-down clauses. In the event that the Bank of Åland's common equity Tier 1 (CET1) capital ratio falls below 7 per cent, the loan principal is written down by 25 per cent (debenture loan 1/2015) and 50 per cent (debenture loans 1/2016, 1/2017 and 1/2018), respectively.

P30. Maturity breakdown of assets and liabilities

2019	Undiscounted contractual cash flows								
	Repayable on demand	<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	489,886								489,886
Debt securities eligible for refinancing with central banks		17,000	64,789	70,616	575,991	46,800		14,090	789,286
Receivables from credit institutions	65,179								65,179
Receivables from the public and public sector entities	214,259	158,485	128,664	273,181	1,517,334	627,148	1,171,722	19,236	4,110,029
Shares and participations								12,856	12,856
Derivative instruments		3,133	1,638		14,744	1,724			21,240
Intangible assets								25,008	25,008
Tangible assets								14,652	14,652
Other assets								58,219	58,219
Total	**769,324**	**178,619**	**195,091**	**343,798**	**2,108,069**	**675,672**	**1,171,722**	**144,061**	**5,586,355**
Liabilities									
Liabilities to credit institutions	54,745	14,613	20,754	1,500	118,350				209,962
Liabilities to the public	3,308,647	47,674	8,865	12,638	3,949				3,381,772
Debt securities issued		166,605	281,589	10,000	1,136,308			9,455	1,603,957
Derivative instruments		4,705	434		2,991	3,935			12,065
Other liabilities								193,847	193,847
Subordinated liabilities			8,603		8,439		19,058		36,100
Equity capital and reserves								148,651	148,651
Total	**3,363,392**	**233,597**	**320,244**	**24,138**	**1,270,036**	**3,935**	**19,058**	**351,953**	**5,586,355**

	2018								
	Undiscounted contractual cash flows								
	Repayable on demand	<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	506,897								506,897
Debt securities eligible for refinancing with central banks		38,900	49,734	43,332	598,201	73,453		11,475	815,095
Receivables from credit institutions	79,933								79,933
Receivables from the public and public sector entities	197,497	131,782	151,868	300,696	1,518,019	664,909	1,059,531	−8,194	4,016,108
Shares and participations								14,420	14,420
Derivative instruments		753	533	2	9,016	5,043			15,347
Intangible assets								29,088	29,088
Tangible assets								15,132	15,132
Other assets								73,590	73,590
Total	**784,327**	**171,435**	**202,135**	**344,030**	**2,125,235**	**743,405**	**1,059,531**	**135,512**	**5,565,611**
Liabilities									
Liabilities to credit institutions	86,244	20,182	9,888	3,600	130,340				250,254
Liabilities to the public	3,125,364	119,833	18,395	47,928	14,160				3,325,680
Debt securities issued		170,652	133,580	87,764	1,190,788			5,104	1,587,888
Derivative instruments		753			4,375	2,982			8,110
Other liabilities								79,563	79,563
Subordinated liabilities		2,187		8,275			36,433		46,895
Equity capital and reserves								267,222	267,222
Total	**3,211,608**	**313,607**	**161,863**	**147,567**	**1,339,663**	**2,982**	**36,433**	**351,889**	**5,565,611**

P31. Claims on Group companies	2019	2018
Receivables from the public	0	22,349
Other assets	591	211
Accrued income and prepayments	9,601	16,523
Total	**10,192**	**39,083**

P32. Liabilities to Group companies	2019	2018
Liabilities to the public	13,718	22,175
Other liabilities	1,989	2,755
Accrued expenses and prepaid income	4,076	7,662
Total	**19,783**	**32,592**

Notes concerning staff, Board of Directors and Executive Team

P33. Salaries/fees paid to the Board of Directors and Executive Team		
	2019	2018
Lampi, Nils	58	54
Taxell, Christoffer	44	42
Ceder, Åsa	47	43
Karlsson, Anders Å	47	43
Persson, Göran[1]	11	37
Valassi, Ulrika	49	45
Woivalin, Dan-Erik[2]	0	12
Wiklöf, Anders	40	37
Board members	296	312
Managing Director	504	405
Other members of the Executive Team	1,791	1,474

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 of his own volition on April 29, 2019. Election of new Board member postponed until the 2020 Annual General Meeting.

[2] Resigned as Board member at the 2018 Annual General Meeting.

P34. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc

See the Board of Directors and Executive Team sections.

P35. Financial transactions with related parties

See Note G44 in the notes to the consolidated financial statements.

Notes concerning assets pledged and contingent liabilities

P36. Assets pledged	2019	2018
Assets pledged for own liabilities		
Receivables from credit institutions	10,242	6,060
Government securities and bonds	140,862	115,505
Receivables from the public	1,583,625	1,614,798
Other	2,795	3,280
Total assets pledged for own liabilities	**1,737,524**	**1,739,643**

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	33,977	25,223
Other	25,363	16,521
Total other assets pledged	**59,340**	**41,743**

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks and credit institutions for payment systems, securities trading and clearing.

Assets were not pledged for the liabilities or commitments of others.

Except for loan receivables comprising the collateral pool for covered bonds, where legislation regulates minimum requirements for over-collateralisation, collateral that exceeds the nominal value of the liability are at the free disposal of the Bank.

P37. Off-balance sheet obligations	2019	2018
Guarantees	10,555	45,354
Unutilised overdraft limits	247,409	244,279
Unutilised credit card limits	79,274	5,075
Unutilised credit lines	92,425	131,177
Other commitments	22,546	14,494
Total	**452,209**	**440,380**
Provision for expected loss	39	62
Guarantees for subsidiaries	1,993	2,003
Unutilised overdraft limits for subsidiaries	8,066	16,011

P38. Rental obligations	2019	2018
Rental payments due		
Under 1 year	2,297	2,519
More than 1 and less than 5 years	1,398	2,270
Total	**3,695**	**4,789**

Rental obligations were equivalent to the rental expenses that would arise upon termination of all rental agreements.

Other notes

P39. Subsidiaries and associated companies	2019		
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2 505
Model IT Oy	Helsinki	100	
Promodus Oy	Kauniainen	100	
Puiretti Oy	Espoo	100	
S-Crosskey Ab	Mariehamn	60	
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
Ålandsbanken Fonder Ab	Mariehamn	100	
Ålandsbanken Fonder II Ab	Mariehamn	100	
Total			**3 346**
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	29	20
IISÅ Holdco AB	Stockholm	25	118
Åland Index Solutions AB	Stockholm	50	2
Total			**140**
Housing and real estate companies			
Properties for the Group's own use			
FAB Godby Center	Finström	11	100
Total			**100**
Investment properties			
FAB Horsklint	Kökar	20	12
FAB Nymars	Sottunga	30	30
FAB Västernäs City	Mariehamn	50	300
Total			**342**

P40. Distributable profit	2019	2018
Retained earnings	20,398	18,040
Unrestricted equity capital fund	27,595	27,271
Capitalised development expenditures	−927	−1,137
Total	**47,066**	**44,174**

Proposed allocation of profit

According to the financial statements, distributable profit – after subtracting capitalised development expenses – including the unrestricted equity capital fund is EUR 47,065,717.76, of which the profit for the financial year is EUR 13,333,000.00. 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 47,065,717.76, be allocated as follows:

For Series A and Series B shares outstanding, a regular dividend of EUR 0.80 per share and an anniversary dividend of EUR 0.20 per share from retained earnings,

totalling	15,551,498.00
To be carried forward as retained earnings	31,514,219.76

Mariehamn, February 28, 2020

Nils Lampi, Chairman	Christoffer Taxell, Deputy Chairman	Åsa Ceder
Anders Å Karlsson	Ulrika Valassi	Anders Wiklöf
Peter Wiklöf, Managing Director		

Auditors' note

A report on the audit performed has been issued today.

Helsinki, February 28, 2020

Marcus Tötterman KHT	Mari Suomela KHT	Fredrik Westerholm KHT

To the Annual General Meeting of Ålandsbanken Abp

Auditors' Report

This document is an English translation of the auditors' report in the Swedish language. Only the auditors' report in the Swedish language is legally binding.

Opinion

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the accounting period.

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the accounting period January 1 – December 31, 2019. 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 to the financial statements, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of changes in equity capital, cash flow statement and notes to the financial statements.

In our opinion

— the consolidated financial statements give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice, are further described in the 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 12 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

During our audit, we have also addressed the risk of management override of internal controls. This includes consideration of whether there was any evidence of management bias that represented a risk of material misstatement due to fraud.

— Receivables from the public and public sector entities amounted to 4,110 million euros. This comprises approximately 73 per cent of the Group's total assets.

Key audit matters

Key audit matters	How these matters were addressed in the audit
Valuation of receivables from the public and public sector entities (Accounting Principles and Notes G3, G13, G21, P9, P15)	

The Bank of Åland applies IFRS 9 Financial Instruments and recognises expected credit losses (impairment losses on customer receivables) in compliance with the IFRS 9 standard. Calculation of expected credit losses involves assumptions, estimates and management judgement, for example in respect of the probability and amount of the expected credit losses as well as determining the significant increases in credit risk.

— Due to the significance of the carrying amount involved, complexity of the accounting methods used for measurement purposes and management judgement involved, receivables from the public and public sector entities are addressed as a key audit matter.

— We have assessed the principles and controls applied for lending regarding approval, recognition and monitoring of loans and receivables. In addition, we have assessed the credit risk monitoring and impairment recognition principles applied. We utilised data analysis in our audit focusing on the lending process and loans.

— We have assessed the models and the key assumptions for calculating expected credit losses as well as tested the controls related to the calculation process for expected credit losses. Our audit procedures included an analysis of the most significant individual impairments recognised during the financial period. Our IFRS and financial instruments specialists at KPMG were involved in the audit.

How the areas in question have been taken into account in the audit:

- We have assessed the models and the key assumptions for calculating expected credit losses as well as tested the controls related to the calculation process for expected credit losses. Our audit procedures included an analysis of the most significant individual impairments recognised during the financial period. Our IFRS and financial instruments specialists at KPMG were involved in the audit.
- Furthermore, we considered the appropriateness of the notes provided by the Bank of Åland in respect of loans and other receivables and expected credit losses.

Net commission income and IT income (Accounting Principles and Notes G8 and P3)

- The assets managed by the Bank of Åland entitle the Bank to fee and commission income on the grounds of the agreements entered into with customers and the cooperation parties. The Group also derives IT income based on customer agreements. Commissions and IT income are a significant item in the Group's income statement.
- The calculation of commissions and IT income comprises manual phases and the determination of the commission amount and revenue recognition may involve management judgement.
- Due to the significance of the income amount and the judgement involved, net commission and IT income are considered a key audit matter.
- We assessed the methods used by the Bank of Åland for calculation of mutual fund and asset management commissions and IT income.
- Our review regarding the accounting of mutual fund and asset management commissions and IT income focused on controls in the billing and fee calculation processes. Our audit procedures involved an assessment of the functionality and effectiveness of these controls.
- Our audit procedures included testing of commission calculations on a sample basis, as well as an assessment of the underlying related agreements and fund statutes where fees have been defined. We also utilised data analysis of the fees that were charged.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the Group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

Employees of KPMG Oy Ab have served as auditors elected by the Annual General Meeting since the spring of 2013, representing an uninterrupted engagement of 7 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 auditors' report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, February 28, 2020

Marcus Tötterman
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3 A
00100 Helsinki

Mari Suomela
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3 A
00100 Helsinki

Fredrik Westerholm
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3 A
00100 Helsinki

Corporate Governance Statement

Photo: Shutterstock

Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2019.

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, 2020 and replaced the previous Finnish Corporate Governance Code from 2015. 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 2019, the Board consisted of seven members until April 29, 2019, when Board member Göran Persson resigned. Since Persson's resignation, the Board has consisted of six 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, 2019

Name, main occupation and education	Year of birth Board members since what year Place of residence	Board members' shareholdings in the Bank on December 31, 2018 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies.
Nils Lampi, Chairman CEO, Wiklöf Holding Ab Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland	Series A shares: 500 Series B shares: 4,387
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland	Series A shares: 0 Series B shares: 1,833
Åsa Ceder Master of Science in Economics Actuary	Born 1965 Member since 2016 Mariehamn, Åland	Series A shares: 0 Series B shares: 0
Anders Å Karlsson Business owner Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland	Series A shares: 3,000 Series B shares: 1,500
Göran Persson* Studies at Örebro University	Born 1949 Member since 2015 Flen, Sweden	Series A shares: 0 Series B shares: 30,000
Ulrika Valassi Business owner Master of Business Administration	Born 1967 Member since 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Anders Wiklöf Business owner Doctor of Economics (honorary) Commercial Counsellor	Born 1946 Member since 2006 Mariehamn, Åland	Series A shares: 1,993,534 Series B shares: 1,332,961

*Resigned from the Board on April 29, 2019.

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, Ulrika Valassi and Åsa Ceder 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.

Göran Persson is deemed to be dependent in relation to a major shareholder in the Bank due to his position as a Board member of Wiklöf Holding Ab, which is a major shareholder in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank.

THE WORK OF THE BOARD

The Board of Directors oversees the administration of the Bank's affairs and is responsible for ensuring that its operations are appropriately organised. The Board is also responsible for overall policy and strategy issues and for ensuring that risk oversight is sufficient and that management systems are working. The duties of the Board also include appointing and, if necessary, dismissing the Managing Director, his deputy and other members of the Executive Team, as well as deciding their salary benefits and other employment conditions. The Board shall constitute a quorum when more than half its members are present.

The Board has established Group-wide internal Rules of Procedure for its work. These Rules of Procedure, which are evaluated annually and revised as needed, mainly regulate the division of labour between the Board, the Managing Director and other members of the Executive Team.

The Board of Directors, which meets after being convened by the Chairman of the Board, regularly discusses the economic situation in the financial markets.

Supported by the Managing Director's recurrent reports on operational activities, the Board monitors the strategy, financial outcomes and overall long-term objectives of the Bank's operations. Beyond this, the Board deals with other matters raised in compliance with the Annual Accounts Act, the Articles of Association and other regulations that affect the Bank's operations and administration, as well as matters referred by individual Board members and by the Executive Team.

EVALUATION OF THE WORK OF THE BOARD

The Board of Directors conducts a yearly internal evaluation of its performance and its work. The evaluation includes a questionnaire in which each Board member assesses the work of the Board during the year. The Chairman of the Board also has individual conversations with each Board member.

Led by the Chairman of the Board, the evaluation is also discussed and dealt with at a subsequent Board meeting, and decisions are made on actions to be taken as a result of the evaluation.

BOARD MEETINGS

During 2019, the Board held 19 (16) meetings. The Board members' average attendance was 97 (96) per cent. During 2019, each Board member attended Board and committee meetings as follows:

Attendance at Board meetings, 2019

Board member	Board meetings Total number: 19
Nils Lampi	19/19
Christoffer Taxell	19/19
Åsa Ceder	19/19
Anders Å Karlsson	19/19
Göran Persson	3/5
Ulrika Valassi	19/19
Anders Wiklöf	18/19

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 re-garding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

Rules on how the Nomination Committee is appointed were established by the 2015 AGM. The Nomination Committee consists of four members: the Chairman of the Board and representatives of the three largest shareholders in the Bank in terms of voting power on November 1 of each year. If the Chairman of the Board represents any of the above shareholders, or in case a shareholder abstains from participating in the Nomination Committee, the right of membership is transferred to the next largest shareholder. The representative of the largest shareholder in terms of voting power is Chairman of the Nomination Committee.

The Nomination Committee consists of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Roger Lönnberg, representing the insurance company Alandia Försäkring; and Ulf Toivonen, representing Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is Chairman of the Nomination Committee.

During 2019 the Nomination Committee met 2 (3) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Nomination Committee meetings, 2019

Member	Nomination Committee meetings Total number: 2
Anders Wiklöf, *Chairman of the Committee*	2/2
Nils Lampi	2/2
Roger Lönnberg	2/2
Ulf Toivonen	2/2

AUDIT COMMITTEE

The Board of Directors, which appoints the members of the Audit Committee, has established its duties in Rules of Procedure. The Audit Committee assists the Board, among other things, in fulfilling its duties in overseeing the internal control and risk management systems, reporting, the audit process and observance of laws and regulation. In addition, before the AGM the Audit Committee prepares proposals for the election of auditors and their fees. The Chairman of the Audit Committee reports regularly to the Board about the work and observations of the Committee.

The Audit Committee consists of Nils Lampi, Chairman of the Board; and Board members Åsa Ceder, Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. During 2019 the Audit Committee met 9 (8) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Audit Committee meetings, 2019

Member	Audit Committee meetings Total number: 9
Ulrika Valassi, *Chairman of the Committee*	9/9
Åsa Ceder	9/9
Anders Å Karlsson	9/9
Nils Lampi	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.

The Compensation Committee consists of Nils Lampi, Chairman of the Board; Board member Christoffer Taxell and former Board member Agneta Karlsson as a co-opted member and Chairman of the Committee.

During 2019 the Compensation Committee met 3 (3) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Compensation Committee meetings, 2019

Member	Audit Committee meetings Total number: 3
Agneta Karlsson, *Chairman of the Committee*	3/3
Nils Lampi	3/3
Christoffer Taxell	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.

Disclosures about their shareholdings in the Bank can be seen in the table to the right.

During 2019 the Executive Team met on 11 (13) occasions.

DISCLOSURES ABOUT EXECUTIVE TEAM MEMBERS, INCLUDING THE MANAGING DIRECTOR, AND THEIR SHAREHOLDINGS IN THE BANK

The Group-wide Executive Team, 2019

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, 2019 (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: 28,103
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: 29,570
Tove Erikslund Chief Administrative Officer	Master of Business Administration Born 1967 Member since 2006	Series A shares: 0 Series B shares: 5,853
Magnus Johansson Director, Sweden Business Area	Bachelor of Science (Economics) Born 1972 Member since 2017	Series A shares: 0 Series B shares: 18,936
Mikael Mörn Director, Åland Business Area	Associate of Arts in Commerce Born 1965 Member since 2017	Series A shares: 0 Series B shares: 4,822
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: 11,080
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: 6,279

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 Audit Committee of the Board meets with the external auditors at least quarterly.

RISK MANAGEMENT

The Group's ambition is to pursue its operations with reasonable and carefully considered risks. Its profitability directly depends on the ability of the organisation to identify, manage and price risks. The purpose of risk management is to reduce the probability of unforeseen losses and/or threats to the Group's reputation as well as contribute to higher profitability and shareholder value.

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses receivables from private individuals, companies, institutions and the public sector. These receivables mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure.

The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring, compliance with regulations, portfolio analysis and the loan granting process. This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Management. The Risk Office is also responsible for informational and corporate security in the Group.

The corporate unit also ensures that risks and risk management live up to the Bank's risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. The Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the regulations and instructions of the Finnish Financial Supervisory Authority and legislation, the main foundations of the Group's risk management are the European Union's Capital Requirements Directive and Regulation, which are based on the regulations of the Basel Committee. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the "Capital and risk management report".

LENDING STRUCTURE

At the Bank, the Private Banking and Premium Banking units in Åland, on the Finnish mainland and in Sweden bear responsibility for lending via mandates. Those employees who work with lending have personal loan granting limits for those customers that they are responsible for. In Åland there is also a corporate lending unit. Loan responsibility rests with the head of each respective unit along with those responsible for customers according to the above-mentioned structure. If decisions regarding larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit

Committee of the Executive Team for credit matters that cannot be decided by the country-specific units due to their size. The largest commitments are decided by the Bank's Board of Directors.

During 2019 the subsidiary Compass Card was merged with the Bank of Åland, which means that the Bank took over credit card operations in Finland. During 2019 the Bank also began collaboration with Swedish-based ICA Bank, in which ICA Bank distributes mortgage loans to the Bank of Åland.

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 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. 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 observes a silent period of at least 14 days prior to the publication of an interim report or year-end report.

For employees who participate in providing investment services, the Bank also applies Group-wide trading restrictions that are based on the trading rules established by such professional organisations as Finance Finland, the Swedish Securities Dealers Association and the Swedish Investment Fund Association.

The Bank's Legal Affairs department regularly monitors information reported to the insider register and insider lists, as well as information about people in management positions and their related parties.

The Bank's Compliance department regularly monitors employee compliance with the trade restrictions in force.

Regulations for related-party transactions

The Bank has established internal regulations for identification and decision making concerning transactions with related parties. The internal regulations govern such matters as identification, reporting and oversight of related-party transactions as well as the decision making process and management of conflicts of interest.

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 2019 re-elected Marcus Tötterman and Mari Suomela, Authorised Public Accountants (CGR), and Daniel Haglund, Authorised Public Accountant (GR), as auditors. The CGR-affiliated firm of KPMG Oy Ab was re-elected as deputy auditor.

During 2019, Group companies paid a total of EUR 406,839 (357,895) including value-added tax for auditing fees. In addition, they paid EUR 109,428 (151,750) 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 2019, has been published in Swedish and Finnish on the Bank's website, *www.alandsbanken.fi*

Board of Directors

Nils Lampi

CHAIRMAN

CEO, Wiklöf Holding Ab
Bachelor of Economic Sciences
Born 1948
Chairman of the Board since 2013
Board member since 2013

Christoffer Taxell

DEPUTY CHAIRMAN

Master of Laws
Born 1948
Deputy Chairman of the Board since 2013
Board member since 2013

Åsa Ceder

Master of Science in Economics
Actuary
Born 1965
Board member since 2016

Anders Å Karlsson

Business owner
Bachelor of Commerce
Born 1959
Board member since 2012

Ulrika Valassi

Business owner
Master of Business Administration
Born 1967
Board member since 2015

Anders Wiklöf

Business owner
Doctor of Economics (honorary), Commercial Counsellor
Born 1946
Board member since 2006

Further information in Swedish and Finnish about the members of the Board can be found on the Bank’s website *www.alandsbanken.fi*

Executive Team

Peter Wiklöf

Managing Director. Chief Executive
Master of Laws
Born 1966
Chairman and member of the Executive Team since 2008

Jan-Gunnar Eurell

Chief Financial Officer. Deputy Managing Director
Master of Business Administration, Bachelor of Science (Economics)
Born 1959
Member of the Executive Team since 2011

Tove Erikslund

Chief Administrative Officer
Master of Business Administration
Born 1967
Member of the Executive Team since 2006

Magnus Johansson

Director, Sweden Business Area
Bachelor of Science (Economics)
Born 1972
Member of the Executive Team since 2017

Mikael Mörn

Director, Åland Business Area
Associate of Arts in Commerce
Born 1965
Member of the Executive Team since 2017

Juhana Rauthovi

Chief Risk & Compliance Officer
Licentiate in Laws, MSc (Econ), MSc (Tech),
Master in International Management
Born 1975
Member of the Executive Team since 2012

Anne-Maria Salonius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws
Born 1964
Member of the Executive Team since 2010

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website *www.alandsbanken.fi*

Definitions

Actively managed assets

Managed assets in the Bank's own mutual funds plus securities custodial accounts with discretionary and advisory asset management agreements.

Alternative performance measures

Alternative performance measures are financial metrics of historical or future earnings developments, financial position or cash flow that have not been defined in applicable accounting regulations (IFRSs) or capital requirements regulations (CRD/CRR).

The Bank of Åland uses alternative performance measures when they are relevant in order to monitor and describe the Bank's financial situation, to facilitate comparability between periods and to provide additional usable information to the readers of its financial reports.

These measures are not necessarily comparable to similar financial metrics that are presented by other companies.

Capital cover ratio

Own funds divided by risk exposure amount.

Common equity Tier 1 (CET1) capital

Equity capital excluding proposed dividend, deferred tax and intangible assets and certain other adjustments according to the European Union's Capital Requirements Regulation No. 575/2013 (CRR).

Common equity Tier 1 (CET1) capital ratio

Common equity Tier 1 (CET1) capital divided by risk exposure amount. Replaces "core Tier 1 capital" concept.

Core funding ratio

Receivables from the public divided by deposits including certificates of deposit, index bonds and debentures issued to the public plus covered bonds issued.

Earnings per share

Shareholders' portion of earnings for the period divided by average number of shares.

Equity/assets ratio

Equity capital as a percentage of balance sheet total.

Equity capital per share

Shareholders' portion of equity capital divided by number of shares less own shares on closing day.

Expected credit loss (ECL)

The present value of expected future credit (loan) losses on financial assets. ECL is a product of PD, LGD and exposure at default.

Expense/income ratio

Total expenses divided by total income.

Gross equity/assets ratio

Tier 1 capital divided by balance sheet total plus certain off-balance sheet items recalculated using conversion factors defined in the standardised approach.

Gross receivables from the public in Stage 3, %

Gross receivables from the public in Stage 3, divided by receivables from the public before provisions for impairment losses.

Investment margin

Net interest income as percentage of average* balance sheet total.

Level of provisions for receivables from the public in Stage 3

Provisions for impairment losses in Stage 3 as a percentage of gross receivables from the public in Stage 3.

Liquidity coverage ratio (LCR)

High-quality liquid assets as a percentage of estimated net liquidity outflow during a 30-day period.

Loan/deposit ratio

Receivables from the public divided by deposits from the public.

Loan loss level

Net impairment losses on loan portfolio and other commitments in receivables from the public divided by receivables from the public at the beginning of the period.

Loss given default (LGD)

LGD specifies the percentage of loss in an exposure, in the event of a default.

Net stable funding ratio (NSFR)

Available stable funding as a percentage of necessary stable funding.

Own funds (replaces capital base concept)

Total of Tier 1 capital and Tier 2 (supplementary) capital.

Payout ratio

Dividend per share as a percentage of earnings per share.

Probability of default (PD)

The probability that a counterparty or a contract will default within 12 months.

Return on equity after taxes (ROE)

Profit for the report period attributable to shareholders divided by average shareholders' portion of equity capital.

Risk exposure amount

Assets and off-balance sheet commitments, risk-weighted according to capital adequacy regulations for credit risk and market risk. Operational risks are calculated and expressed as risk exposure.

Tier 1 capital

Common equity Tier 1 (CET1) capital including certain loss-absorbing subordinated debentures ("additional Tier 1 capital").

Tier 2 (supplementary) capital

Mainly subordinated debentures that do not meet requirements to be included as additional Tier 1 capital.

* Average of 13 end-of-month figures.

Stock exchange releases, 2019

FEBRUARY

February 8, 2019	Year-end Report for the period January–December 2018

MARCH

March 1, 2019	The 2018 Annual Report of the Bank of Åland Plc
March 4, 2019	Targeted issue of Series B shares for implementation of incentive programme
March 4, 2019	Notice to convene the Annual General Meeting
March 4, 2019	Change in the number of Series B shares and votes in the Bank of Åland
March 6, 2019	Managers' Transactions (Mörn)
March 6, 2019	Managers' Transactions (Eurell)
March 7, 2019	Managers' Transactions (Salonius)
March 7, 2019	Managers' Transactions (Rauthovi)
March 7, 2019	Managers' Transactions (Wiklöf)
March 8, 2019	Managers' Transactions (Lampi)
March 8, 2019	Managers' Transactions (Johansson)
March 8, 2019	Managers' Transactions (Erikslund)
March 15, 2019	Notification of an application for the admission of a security to trading in a regulated market
March 27, 2019	Managers' Transactions (Johansson)
March 29, 2019	Managers' Transactions (Wiklöf)
March 29, 2019	Managers' Transactions (Rauthovi)

APRIL

April 1, 2019	Managers' Transactions (Salonius)
April 1, 2019	Managers' Transactions (Erikslund)
April 1, 2019	Managers' Transactions (Eurell)
April 3, 2019	Decisions at the 2019 Annual General Meeting of the Bank of Åland Plc
April 23, 2019	The Bank of Åland's new operating segments and changed accounting principles in interim reports
April 25, 2019	Bank of Åland Plc: Interim Report for the period January-March 2019
April 29, 2019	Göran Persson is resigning from the Board of the Bank of Åland

MAY

May 15, 2019	Bank of Åland Plc to lower prime rate
May 15, 2019	Disclosure of change in shareholdings pursuant to Chapter 9, Section 10 of the Securities Markets Act
May 16, 2019	Managers' Transactions
May 16, 2019	Managers' Transactions
May 21, 2019	Disclosure of change in shareholdings pursuant to Chapter 9, Section 10 of the Securities Market Act
May 28, 2019	Managers' Transactions (Mörn)

JUNE

June 27, 2019	The Bank of Åland has signed a declaration of intent to form a new Swedish mortgage company

JULY

July 18, 2019	Bank of Åland Plc: Half-Year Financial Report for the period January-June 2019

AUGUST

August 30, 2019	Bank of Åland signs new distribution agreement on mortgage loans in Sweden

SEPTEMBER

September 2, 2019	Bank of Åland's first Nordic Swan-labelled bond fund*
September 3, 2019	Change in the number of Series B shares and votes in the Bank of Åland
September 6, 2019	Managers' Transactions (Mörn)
September 6, 2019	Managers' Transactions (Johansson)
September 6, 2019	Managers' Transactions (Salonius)
September 6, 2019	Managers' Transactions (Wiklöf)
September 6, 2019	Managers' Transactions (Eurell)
September 9, 2019	Managers' Transactions (Lampi)
September 9, 2019	Managers' Transactions (Erikslund)
September 20, 2019	Bank of Åland, ICA Bank, Ikano Bank, Söderberg & Partners and Borgo starting mortgage company together in Sweden
September 23, 2019	Managers' Transactions
September 23, 2019	Managers' Transactions

OCTOBER

October 8, 2019	Bank of Åland's net operating profit better than last year
October 23, 2019	Bank of Åland Plc: Interim Report for the period January–September 2019
October 23, 2019	Bank of Åland Plc: Financial information and Annual General Meeting, 2020
October 29, 2019	Bank of Åland Plc's subsidiary Crosskey Banking Solutions Ab Ltd is acquiring Model IT Oy

NOVEMBER

November 20, 2019	Åland Index Solutions – a game changer tackling climate crisis at every transaction

DECEMBER

December 2, 2019	The Bank of Åland has signed the UN Principles for Responsible Banking
December 10, 2019	The Åland Index reaches 40 million customers globally
December 30, 2019	Disclosure of change in shareholdings pursuant to Chapter 9, Section 10 of the Securities Markets Act
December 30, 2019	Managers' Transactions (Wiklöf Holding Ab)
December 30, 2019	Managers' Transactions

* Not available in English.

Address list

Bank of Åland Plc

Mariehamn
HEAD OFFICE
Street address: Nygatan 2
Postal address: PB 3
AX-22100 Mariehamn
Åland, Finland
Telephone +358 204 29 011
city@alandsbanken.ax

STRANDNÄS
Strandhagsvägen 11
AX-22100 Mariehamn
Åland, Finland
Tfn +358 204 291 925
strandnas@alandsbanken.ax

Finström
Von Knorringsvägen 1
AX-22410 Finström
Åland, Finland
Telephone +358 204 291 660
godby@alandsbanken.ax

Kumlinge
– cooperation with Åland Post
Kumlingeby
AX-22820 Kumlingeby
Åland, Finland
Telephone +358 18 636 772
aland@alandsbanken.ax

Kökar
– cooperation with Åland Post
Karlby
AX-22730 Karlby
Åland, Finland
Telephone +358 18 636 773
aland@alandsbanken.ax

info@alandsbanken.ax
www.alandsbanken.ax

Helsinki
Bulevardi 3
FI-00120 Helsinki, Finland
Telephone +358 204 293 600
bulevarden@alandsbanken.fi

PRIVATE BANKING
Yrjönkatu 9 A, 3rd floor
FI-00120 Helsinki, Finland
Telephone +358 204 293 600
private.banking@alandsbanken.fi

Tampere
Hämeenkatu 8
FI-33100 Tampere, Finland
Telephone +358 204 293 200
tammerfors@alandsbanken.fi

Vaasa
Hovioikeudenpuistikko 11
FI-65100 Vaasa, Finland
Telephone +358 204 293 300
vasa@alandsbanken.fi

Turku
Hansakortteli
Eerikinkatu 17
FI-20100 Turku, Finland
Telephone +358 204 293 100
abo@alandsbanken.fi

Parainen
Kauppiaskatu 24
FI-21600 Parainen, Finland
Telephone +358 204 293 150
pargas@alandsbanken.fi

info@alandsbanken.fi
www.alandsbanken.fi

Stockholm
Stureplan 19
SE-107 81 Stockholm, Sweden
Telephone +46 8 791 48 00
bankkontoret@alandsbanken.se

Gothenburg
Kungsportsavenyen 1
SE-411 36 Gothenburg, Sweden
Telephone +46 31 333 45 00
goteborg@alandsbanken.se

Malmö
Carlsgatan 3
SE-211 20 Malmö, Sweden
Telephone +46 40 600 21 00
malmo@alandsbanken.se

info@alandsbanken.se
www.alandsbanken.se

ÅLANDSBANKEN FONDBOLAG AB

Mariehamn
PB 3
AX-22101 Mariehamn
Åland, Finland
Telephone +358 204 29 088
fond@alandsbanken.fi

CROSSKEY BANKING SOLUTIONS AB LTD

Mariehamn
HEAD OFFICE
Elverksgatan 10
AX-22100 Mariehamn
Åland, Finland
Telephone +358 204 29 022

Helsinki
Gate8 Business Park – Piano
Äyritie 12A
FI-01510 Vantaa, Finland
Telephone +358 204 29 022

Turku
Lemminkäisenkatu 32
FI-20520 Turku, Finland
Telephone +358 204 29 022

information@crosskey.fi
www.crosskey.fi

Stockholm
Rådmansgatan 40
SE-113 58 Stockholm, Sweden
Telephone +46 8 791 49 00
information@crosskey.se
www.crosskey.se

Bank of Åland Plc
Street address: Nygatan 2, Mariehamn

Postal address: PB 3, AX-22101 Mariehamn, Åland, Finland. Telephone +358 204 29011. Fax +358 204 291 228.
BIC: AABAFI22 www.alandsbanken.fi info@alandsbanken.fi

ÅLANDSBANKEN
100
1919 YEARS 2019
GOING OUR OWN WAY