

# Annual Report 2016

Bank of Åland Plc

**ÅLANDSBANKEN**

Going our own way



# Contents

|  |    |
|--|----|
| About the Bank of Åland .....            | 2  |
| The year 2016 in brief .....             | 3  |
| Legal structure of the Group .....       | 4  |
| Organisational chart .....               | 5  |
| Statement by the Managing Director ..... | 6  |
| Strategy .....                           | 8  |
| Sustainability .....                     | 10 |
| Private Banking .....                    | 20 |
| Premium Banking .....                    | 22 |
| Asset Management .....                   | 24 |
| Corporate units .....                    | 26 |
| Subsidiaries .....                       | 28 |

## REPORT OF THE DIRECTORS

|                                     |    |
|-------------------------------------|----|
| Report of the Directors .....       | 30 |
| Facts on Bank of Åland shares ..... | 36 |
| Definitions .....                   | 39 |

## FINANCIAL STATEMENTS

|   |     |
|---|-----|
| Consolidated income statement .....                                       | 42  |
| Consolidated statement of comprehensive income .....                      | 43  |
| Consolidated balance sheet .....  | 44  |
| Statement of changes in equity capital .....                              | 45  |
| Consolidated cash flow statement .....                                    | 46  |
| Risks and risk management .....   | 47  |
| Table of contents, notes to the consolidated financial statements .....   | 89  |
| Notes to the consolidated financial statements .....                      | 90  |
| Parent Company income statement .....                                     | 128 |
| Parent Company balance sheet .....  | 129 |
| Parent Company statement of changes in equity capital ..                  | 130 |
| Parent Company cash flow statement .....                                  | 131 |
| Table of contents, notes to the Parent Company financial statements ..... | 133 |
| Notes to the Parent Company financial statements .....                    | 134 |
| Proposed allocation of profit .....                                       | 151 |
| Auditors' Report .....  | 152 |

## CORPORATE GOVERNANCE STATEMENT

|                                       |     |
|---------------------------------------|-----|
| Corporate Governance Statement .....  | 156 |
| Board of Directors .....              | 162 |
| Executive Team .....                  | 164 |
| Stock exchange releases in 2016 ..... | 166 |
| Address list .....                    | 167 |

## Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2017 financial year:

- January–March Interim Report April 25, 2017
- January–June Interim Report July 20, 2017
- January–September Interim Report October 24, 2017

The Annual Report and all Interim Reports will be published on the Bank's website: [www.alandsbanken.fi](http://www.alandsbanken.fi)

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

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

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2016, the middle rate for EUR 1 was USD 1.0533 and SEK 9.5268.

"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 Kayfet, SCAN EDIT, Oakland, CA  
Cover photo: Erkki Santamala

## 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 five offices in the Åland Islands and five offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has a total of three subsidiaries whose operations are connected in various ways with banking. They are Ålandsbanken Fondbolag Ab, Ab Compass Card Oy Ltd and Crosskey Banking Solutions Ab Ltd, the latter with its own subsidiary S-Crosskey Ab.
- In the Åland Islands, the Bank of Åland is a bank for all residents, both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®. We also offer asset management services for institutional investors.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2016 amount, over the years the Bank's Baltic Sea Account (formerly the Environmental Account) has contributed more than EUR 1.5 M to projects that improve and protect the environment.

| Bank of Åland Group   | 2016  | 2015  | 2014  | 2013  | 2012  |
|---|-------|-------|-------|-------|-------|
| <b>EUR M</b>  |       |       |       |       |       |
| <b>Income</b>   |       |       |       |       |       |
| Net operating profit  | 25.1  | 30.3  | 22.4  | 10.4  | 9.9   |
| Profit for the year attributable to shareholders              | 19.7  | 24.3  | 16.1  | 6.7   | 11.3  |
| <b>Volume</b>   |       |       |       |       |       |
| Actively managed capital <sup>1</sup>                         | 3,900 | 3,927 | 3,696 | 3,231 | 3,219 |
| Lending to the public   | 3,808 | 3,617 | 3,343 | 3,104 | 2,905 |
| Deposits from the public <sup>2</sup>                         | 3,100 | 2,675 | 2,391 | 2,460 | 2,442 |
| Risk exposure amount  | 1,576 | 1,581 | 1,554 | 1,475 | 1,401 |
| Equity capital  | 222   | 213   | 196   | 184   | 179   |
| <b>Financial ratios</b>                                       |       |       |       |       |       |
| Return on equity after taxes (ROE), % <sup>3</sup>            | 9.1   | 12.0  | 8.7   | 3.8   | 6.6   |
| Expense/income ratio <sup>4</sup>                             | 0.76  | 0.73  | 0.80  | 0.86  | 0.85  |
| Loan loss level, % <sup>5</sup>                               | 0.11  | 0.09  | 0.06  | 0.14  | 0.23  |
| Core funding ratio, % <sup>6</sup>                            | 89    | 100   | 105   | 103   | 104   |
| Equity/assets ratio, % <sup>7</sup>                           | 4.3   | 4.6   | 4.6   | 4.7   | 4.9   |
| Common equity Tier 1 capital ratio, % <sup>8</sup>            | 11.8  | 12.0  | 10.9  | 10.8  | 10.9  |
| Working hours re-calculated to full-time equivalent positions | 683   | 663   | 644   | 617   | 640   |

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

<sup>2</sup> Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public

<sup>3</sup> Profit for the report period attributable to shareholders/Average shareholders' portion of equity capital

<sup>4</sup> Expenses/Income

<sup>5</sup> Impairment losses on loans and other commitments/Lending to the public at the beginning of the period

<sup>6</sup> Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

<sup>7</sup> Equity capital/Balance sheet total

<sup>8</sup> (Common equity Tier 1 capital/Capital requirement)×8%

# The year 2016 in brief

## Financial summary of 2016

- Profit for the year attributable to shareholders decreased by 19 per cent to EUR 19.7 M (24.3).
- Earnings per share decreased by 19 per cent to EUR 1.29 (1.60).
- Return on equity after taxes (ROE) decreased to 9.1 (12.0) per cent.
- Net interest income increased by 2 per cent to EUR 55.1 M (54.0).
- Net commission income decreased by 3 per cent to EUR 44.9 M (46.5).
- Total expenses decreased to EUR 91.3 M (91.6).
- Net impairment losses on loans (including recoveries) increased by 33 per cent to EUR 4.1 M (3.0), equivalent to a loan loss level of 0.11 (0.09) per cent.
- Actively managed assets decreased by 1 per cent to EUR 3,900 M (3,927).
- Lending increased by 5 per cent to EUR 3,808 M (3,617).
- Deposits increased by 16 per cent to EUR 3,100 M (2,675).
- The core Tier 1 capital ratio decreased to 11.8 (11.9) per cent.
- The Board of Directors proposes an unchanged dividend of EUR 0.60 (0.60).

## Important events in 2016

### FIRST QUARTER

- The fund management subsidiary Ålandsbanken Fondbolag launched a new specialised mutual fund, Tomtfonden, the first of its kind in Finland. The fund invests in housing sites intended for leasing.
- The information technology (IT) subsidiary Crosskey and the Swedish-based savings bank card company Sparbankernas Kort AB entered into a long-term business relationship, in which Crosskey together with Compass Card will provide comprehensive service for the card business of Sparbankernas Kort AB.
- S-Bank, which is one of Finland's largest card issuers, began using Crosskey's card system in March.
- Crosskey's data migration project, which merged the banking systems of S-Bank (S-Pankki). LocalTapiola (LähiTapiola) Bank och FIM during 2013–2015, won the Best IT Project of the Year award at Management Events' Executive IT event in Helsinki.

### SECOND QUARTER

- The Annual General Meeting (AGM) elected Åsa Ceder as a new member of the Board of Directors. The AGM reelected Board

members Nils Lampi, Christoffer Taxell, Anders Å. Karlsson, Göran Persson, Ulrika Valassi, Anders Wiklöf and Dan-Erik Woivalin.

- The Swedish-based financial technology (fintech) company Dreams, in collaboration with the Bank of Åland, launched an app that focuses on healthy personal finances and the realisation of dreams through saving.
- The Bank of Åland launched a completely new type of biodegradable credit card – the Baltic Sea Card – which allows its users to see how much carbon dioxide emissions their purchases result in, on average.
- The Bank of Åland received permission from the Finnish Financial Supervisory Authority (FSA) to recognise its corporate portfolio in Finland according to the internal ratings-based (IRB) approach instead of the standardised approach in capital adequacy reporting.
- The Bank of Åland issued a profit warning before publishing its January-June accounts, lowering the earnings forecast by stating that full-year 2016 net operating profit would be about the same or lower than in 2015."

### THIRD QUARTER

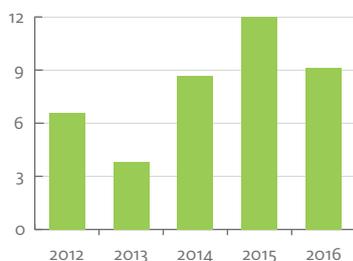
- For the third consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category and received the prestigious Lipper Fund Award Nordic. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years.

### FOURTH QUARTER

- For the second consecutive year, the Bank of Åland won first place in TNS Sifo Prospera's survey of Private Banking market participants in Finland.
- In the personal finance magazine *Privata Affärer's* evaluation of Private Banking services in Sweden, which is conducted every two years, the Bank of Åland came in at second place.
- Standard & Poor's Global Ratings raised the Bank of Åland's credit rating for short-term borrowing from A-3 to A-2 on the basis of the Bank's improved liquidity and funding metrics. At the same time, it changed the Bank's outlook from negative to stable.
- The Ålandsbanken Euro High Yield bond fund received a fifth star from Morningstar, which is that company's highest rating.

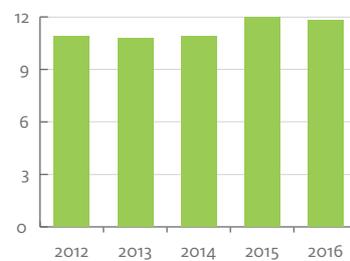
Return on equity after taxes (ROE)

Per cent

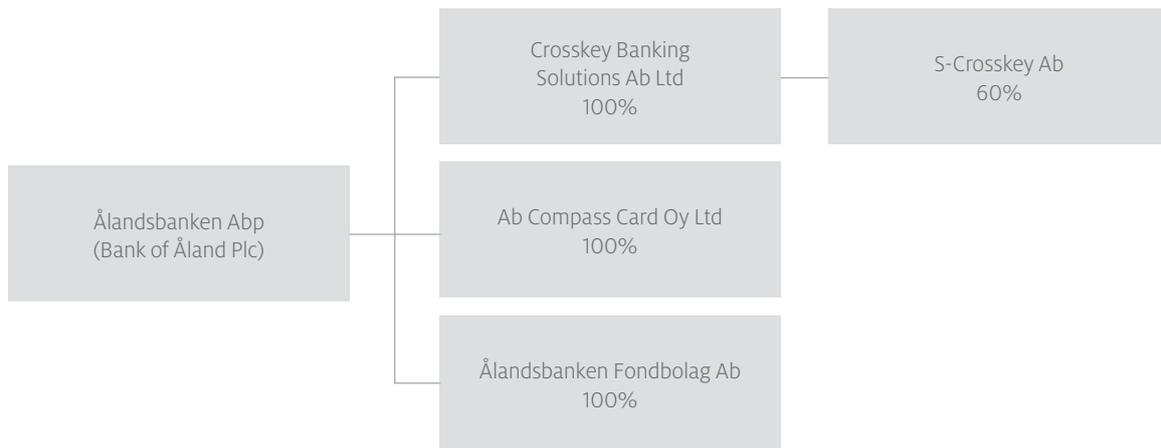


Common equity Tier 1 capital ratio

Per cent



## Legal structure of the Group

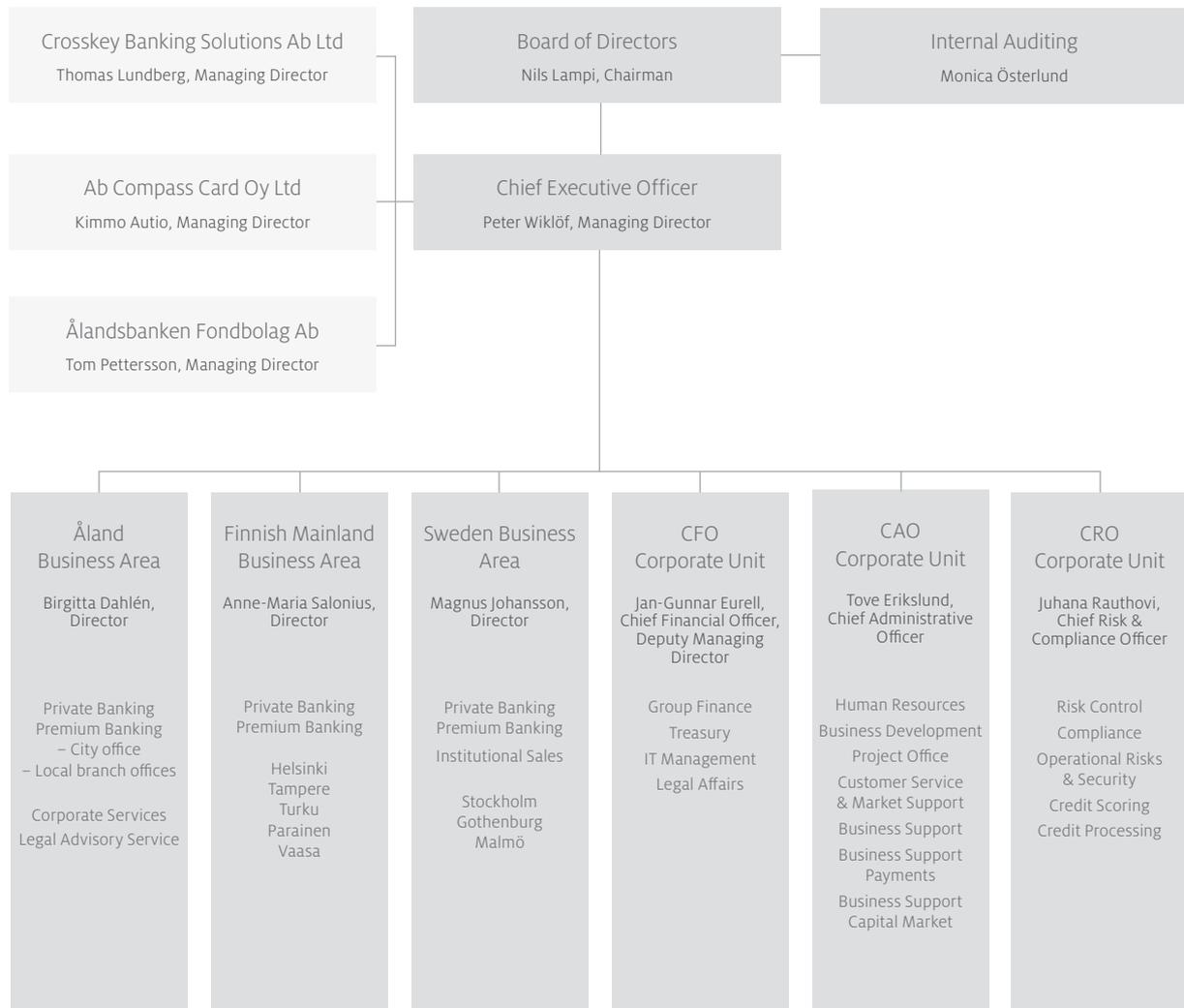


Associated companies consolidated in the Group:

Mäklarhuset Åland Ab, 25%

There is also one small property company,  
in which the Bank of Åland has 50% ownership.

## Organisational chart



## A year of steady advances



Photographer: Viktor Femling

Peter Wiklöf, Managing Director

**Last year was a period of stability for the Bank of Åland. We generated a net operating profit of EUR 25.1 M and took further steps forward along our own path, both in terms of volume growth and awareness of our offering in Finland and Sweden. Although we have reasons to be proud of our own success, there is cause for humility. Once again, the world around us is showing examples of bizarre unpredictability.**

The year began with stock market turmoil and falling share prices. The world economy was plagued by slow growth and little capital spending, deflationary pressures and decreased trade.

In Finland an economic recovery slowly but surely began to appear. Consumption rose, capital spending grew and industrial production increased. Yet export figures

remained modest and growth relied on the domestic market. In Sweden we saw continued strong growth, and the business community showed encouraging optimism.

Short-term market interest rates in both Finland and Sweden fell further during 2016. With their negative interest rates, both the European Central Bank and Sweden's Riksbank are forcing banks to pay to deposit money with them. Both these central banks have continued to stimulate the economy by making very large-scale bond purchases from the market.

Late in the year, long-term bond yields began to climb and the US Federal Reserve hiked its most important key interest rate. Overall, this may be seen as an indication that we are approaching the end of a 30-year cycle of constantly falling interest rates and yields.

Stock markets were inconsistent in 2016, which began weakly with sharply falling share prices. During the spring and summer, prices began climbing and investors once again showed a clearly bigger risk appetite.

The year was dominated by some momentous events. When 2016 began, most observers considered it highly unlikely that British voters would choose "Brexit" (withdrawal from the European Union) in a referendum and that Donald Trump would win the US presidential election. These two events made it certain that changes will occur both in Europe and the US that may affect global cooperation and international trade, but it is too early to see what the concrete results of these changes will be. Combined with coming elections in France, Germany and the Netherlands, the events of 2016 mean we are facing a world of greater political risks than for a very long time.

## A STRONGER BANK

Despite the above-mentioned international factors, 2016 was a completely satisfying year during which we achieved steady advances in all business areas. We are now a stronger bank than at the start of last year. We did not achieve the record earnings of 2015 but the quality of our earnings was at least as high, since the biggest change was limited to lower capital gains in the Bank's Treasury unit.

Thanks to rising loan volume and more favourable funding, we managed to boost our net interest income by 2 per cent to EUR 55.1 M despite a continued decline in market interest rates. On average, the Euribor 3-month rate was 0.24 percentage points lower than in 2015. The corresponding figure for the Stibor 3-month rate was 0.30 points lower.

Lending to private individuals grew by 9 per cent. The corporate loan portfolio shrank by 2 per cent, since we proactively chose to reduce our exposure to commercial properties. During the year, our lending to this segment fell by EUR 82 M, equivalent to 24 per cent, as part of our efforts to lower the risk level in the overall loan portfolio.

During 2016, we saw deposits in the Bank grow sharply (+20 per cent) thanks to new customers and greater caution among our financial investment customers.

Due to lower brokerage commissions (EUR -1.4 M) and decreased income from our Compass Card subsidiary (EUR -1.2 M), net commission income fell by 3 per cent to EUR 44.9 M. Our card business shrank as planned, since S-Bank's customers left Compass Card when Crosskey – our information technology (IT) subsidiary – completed the implementation of its card system for S-Bank. Brokerage commissions mainly fell early in 2016, when the stock market began the year with falling prices.

We saw a continued heavy inflow into our property-related mutual funds during the year: EUR +190 M. Together with our other mutual funds, this gave us a higher market share among Finnish fund management companies. Because of increased volume, commission income from mutual funds and other investment advisory services for our customers climbed during the year.

Total expenses during 2016 were entirely as planned, ending up at EUR 91.3 M: about the same level as in 2015.

Loan losses climbed by more than a million euros to EUR 4.1 M, which we feel is too high a level for the Bank of Åland in the long term. A majority of these loan losses were attributable to a couple of corporate customers on the Finnish mainland. Yet during 2016 non-performing loans fell sharply, by 44 per cent. I thus expect lower loan losses over the next few years if property prices remain largely where they are today.

## RESPONSIBILITY AND KNOW-HOW STIMULATE INTEREST

During 2016 the Bank of Åland also benefited from favourable attention in the newspapers, and I am pleased to share a few items:

As a result of our systematic efforts, customers named us Finland's best Private Banking provider for the second consecutive year. The Bank of Åland's Euro High Yield fund became the third of our fixed income funds to be awarded five stars, the top score from the rating company Morningstar. Our Euro Bond mutual fund was also named the best Nordic fund in its category for the third straight year by the analytics company Thomson Reuters Lipper.

We all have cause to be proud of these results. But we also have reason to be proud of something completely different.

A year ago, I wrote that we remain firmly principled. Today I see that we have succeeded in achieving important goals by following our moral compass. We have structured and refined the Bank of Åland's corporate responsibility work. We have made a collective effort to clarify how we will achieve our goal of contributing to a more sustainable world.

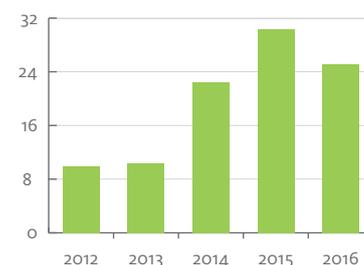
Our foremost contributions during 2016 were the Baltic Sea Card and the Åland Index, as part of the Baltic Sea Project. It feels meaningful that we can offer our customers the opportunity to see how much carbon dioxide emissions their day-to-day consumption generates.

For us at the Bank of Åland, the Baltic Sea Project has become our compass needle. Now we must continue to maintain a steady course towards a better world. And we will not allow climate change deniers to distract us.

In closing, I would like to take this opportunity to thank our employees for their good work during 2016. I know that because of their strong commitment to the Bank and our customers, we stand well equipped for the years ahead.

## Net operating profit

EUR M



## Daring to go our own way

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

### OUR VISION

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

### OUR POSITION

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

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

### A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

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

### CUSTOMER RELATIONSHIPS AND TRUST

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

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

### GOOD SERVICE VIA ALL CHANNELS

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

### OUR THREE MARKETS

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

### GOING OUR OWN WAY IS EMBEDDED IN OUR GENES

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

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



## The Bank of Åland's sustainable development action plan

During 2016, reporting of the Bank of Åland's sustainability work gained a clearer structure. We began this task so that in 2017 we can report our corporate responsibility efforts even more consistently with Global Reporting Initiative (GRI) recommendations. The GRI framework has helped us analyse our sustainability work at a deeper level and also view our operations from a materiality perspective.

As early as 1997 the Bank of Åland took its first steps towards a materiality analysis, when the Board of Directors decided to clarify the Bank's environmental commitment by creating the Environmental Account.

The internal advantages of the Environmental Account cannot be overstated. The account became a natural starting point for an engaged discussion about our shared environmental responsibility. At the same time, the account became a moral compass that helped us to make concrete changes, among other things in how we consume resources and what expectations we have on our suppliers and business partners.

To our customers, the Environmental Account and its support of environmental projects were proof that our commitment was wholehearted and long-term. The response we have received during 20 years from our shareholders and customers has confirmed one thing: that this compass has always pointed the right way and that we also have reasons and support for increasing our corporate responsibility.

During 2016 we tied the conclusions of our informal materiality analysis even more clearly to the Bank of Åland's strategy – by launching the Baltic Sea Project and the Åland Index.

If the Environmental Account, now the Baltic Sea Account, was the starting point of our sustainability work, the Baltic Sea Project has elevated the Bank's commitment to a level few people associate with financial industry players.

The Baltic Sea Project has led to a completely new kind of dialogue with the Bank of Åland's stakeholders. Aside from a continuous dialogue with our customers, shareholders and investors as well as our employees, during 2016 we held engaging discussions about corporate responsibility with representatives of public authorities, environmental organisations and the business community. But our customers provided the most encouraging response:

*"I appreciate that as a bank, you don't just talk but also do something. Thank you!"*

*"I read in the latest Åland Banking magazine about your environmental projects and just want to let you know that I feel really proud of being a customer at the Bank of Åland. How many Finnish bank customers say that about their bank?"*

### The Bank of Åland's sustainability strategy, 2016

| RESPONSIBLE INVESTMENTS   | RESPONSIBLE LENDING   | SOCIAL RESPONSIBILITY  | ENVIRONMENTAL RESPONSIBILITY   |
|---|---|--|--|
| <ol style="list-style-type: none"> <li>1. We shall have a good knowledge of the companies we invest in, and we follow the United Nations' responsible investment principles.</li> <li>2. Our analyses and reviews of companies' social and environmental responsibility actions are performed on the basis of UN guidelines. We follow a best-in-class model and prioritise the companies in each sector that have the highest sustainability scores.</li> <li>3. We exclude companies that specialise in gaming, tobacco and alcohol products, weapons and pornography.</li> </ol> | <ol style="list-style-type: none"> <li>1. We support the national economy by financing sound projects that can be successfully realised. This is the reason why our lending is based on knowing the customer well.</li> <li>2. We make lending decisions based on an objective, responsible assessment of the customer's repayment capacity. In case of difficulties, we take immediate action to minimise financial loss to the customer and the Bank.</li> <li>3. Every lending decision shall be consistent with our policies, sound risk management and legislation.</li> </ol> | <ol style="list-style-type: none"> <li>1. We are a bank that works for the development of people, businesses and society. We respect and strive for social and cultural diversity among employees. By providing a healthy workplace, we want to be the first choice of the best talents in the market.</li> <li>2. We follow a policy of ethical behaviour as well as identification and management of conflicts of interest.</li> <li>3. We work actively to combat money laundering and criminality. We follow industry standards and regulations. We maintain good customer relationships and make sure we understand our customers' banking transactions.</li> </ol> | <ol style="list-style-type: none"> <li>1. We work towards an awareness and reduction of our resource consumption and environmental impact. We make an active effort to achieve the established targets in the Bank's environmental plan.</li> <li>2. We contribute actively to offsetting our resource consumption and environmental impact by distributing funds yearly for Baltic Sea environmental projects.</li> <li>3. We pursue a dialogue about sustainability and environmental responsibility with our suppliers and business partners. As a customer we can make demands but also inspire others to adopt more sustainable working methods and business models.</li> </ol> |

A scenic view of a rocky coastline. The foreground is dominated by large, dark, textured rocks. Waves are crashing against the shore, creating white foam and spray. The ocean extends to the horizon under a bright, hazy sky with some light clouds. The overall atmosphere is serene and natural.

*“Thank you for what you do for the Baltic Sea. Our family lives in the archipelago all summer and we truly share your now-it’s-time-to-do-something feeling.”*

**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 implementation.

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.

Activities during 2016

**ENVIRONMENTAL RESPONSIBILITY**

During the year we focused on two of the UN’s global goals: 1) Sustainable consumption and production and 2) Life below water.

The Baltic Sea Project was launched. It includes three components: the Baltic Sea Card, the Åland Index and distribution of funds from the Baltic Sea Account (see the article on page 14). In 2016 we provided EUR 200,000 in support for environmental projects. This means that the Bank of Åland has distributed EUR 1.5 M altogether through the Baltic Sea Card’s environmental bonus.

Thanks to the Baltic Sea Project’s tangible and clear nature, from the beginning it has encouraged involvement and led to increased

awareness. The Baltic Sea Project was introduced to Bank of Åland customers as an integral element of our business concept. Our employees have received training and become involved through internal campaigns.

The Bank of Åland’s continued its global commitment to water-related issues by means of support to the Stockholm International Water Institute (SIWI) and involvement in this organisation.

**RESPONSIBLE INVESTMENTS**

We have continued our efforts to integrate environmental, social and governance factors (“ESG” factors) in the Bank’s investment decision making process. This involves analysis and review of corporate social and environmental responsibility commitments.

To improve internal awareness and governance, we have appointed an ESG Committee consisting of the Bank’s chief investment officer, head of equity investments, head of fixed income investments and head of institutional sales.

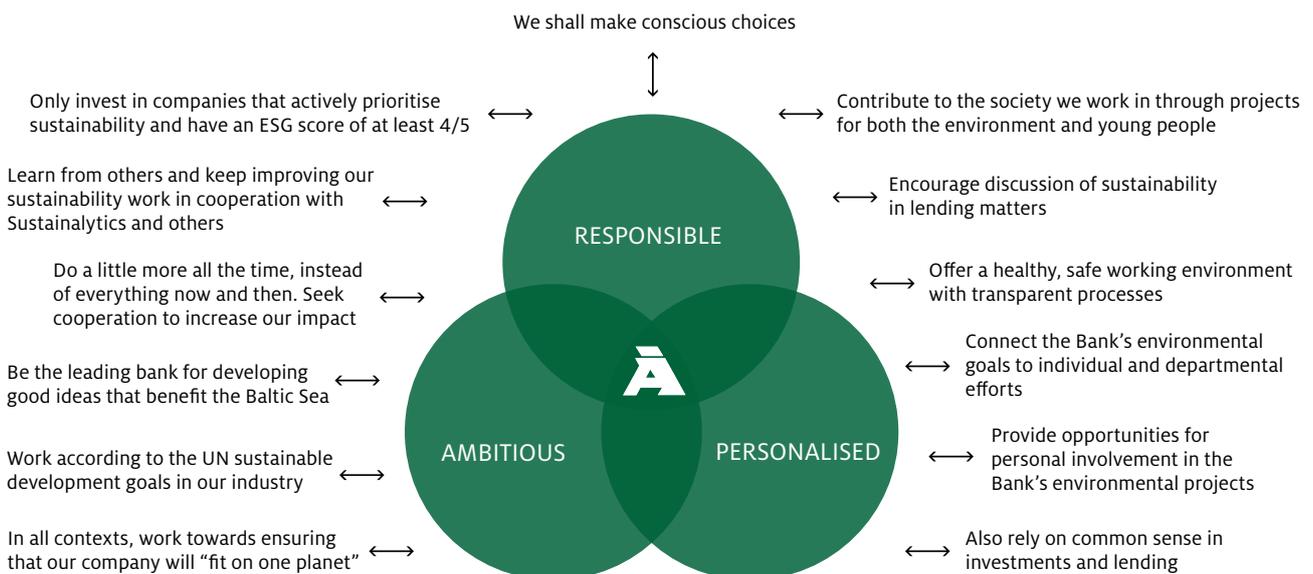
According to the 2016 Private Banking survey from the research organisation TNS Sifo Prospera, the Bank of Åland has the best reputation in Finland with regard to responsible investment.

**RESPONSIBLE LENDING**

We have continued our focus on granting loans to sound projects and ensuring good repayment capacity. One fundamental component of this effort is to provide our account managers with the tools and prerequisites for building good relationships with the Bank’s customers.

In Sweden, new principal repayment requirements were introduced for mortgage loans, and we chose to further tighten our requirement concerning what loan-to-value ratio and pace of

Our values permeate our sustainability work



repayment we will accept. Finland has introduced a cap on mortgage loans, with a limit on the loan-to-value ratio, which we view as further underscoring sustainability in lending.

We also performed preparatory work ahead of the new Mortgage Credit Directive that went into effect in both countries on January 1, 2017. The directive increases requirements for documented advice and information to the customer before he or she signs a mortgage loan contract.

#### **SOCIAL RESPONSIBILITY**

During 2016 the Bank helped create new workplaces, both within the Group and through Bostadsfonden, a mutual fund that invests in housing.

Encouragingly, our yearly survey shows that 83 per cent of employees feel highly or very highly committed to their work. Our yearly leadership index also shows increasing satisfaction with the quality of leadership.

There was a focus on issues related to combating such problems as money laundering and IT-related crime during 2016. We believe that standards and industry regulations are good tools, combined with our long-term customer relationships.

We improved the Bank's internal training platform, to ensure that it supports our strategy to a great extent. We offer leadership programmes and internal training programmes for new employees as well as "employee empowerment" programmes to develop skills. All employees are offered yearly performance review dialogues in order to establish individual goals and professional development plans.

#### **SOCIAL COMMITMENTS AND DONATIONS**

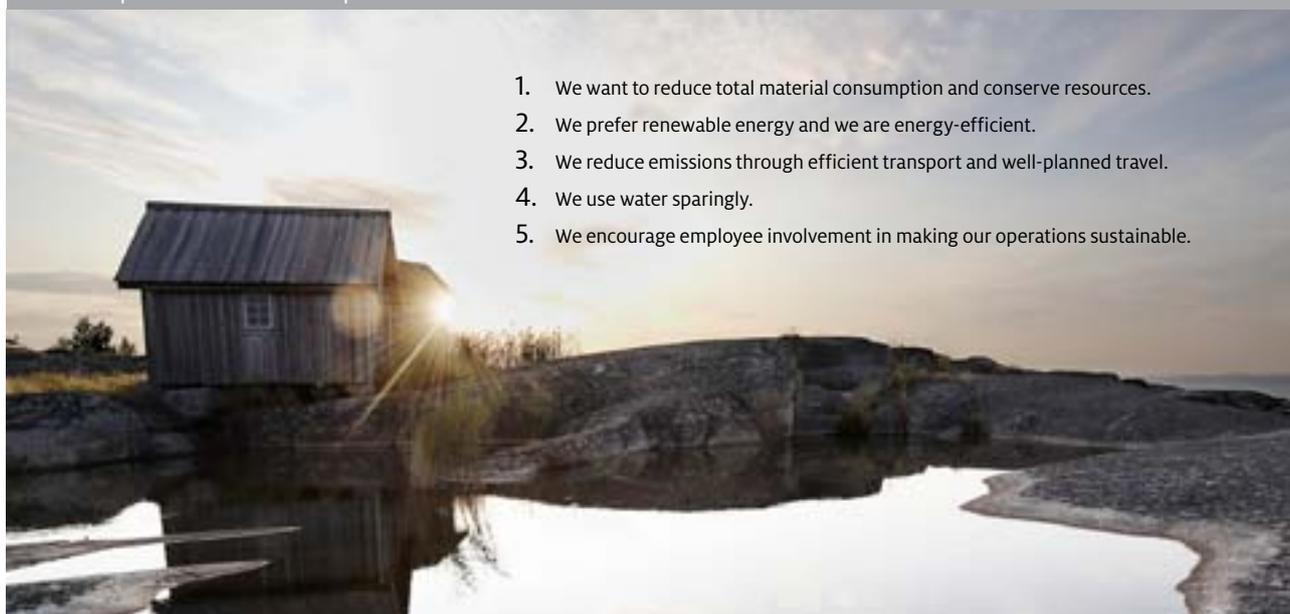
During 2016 our social commitment was marked by sports and cultural sponsorships, reflecting our desire to contribute to meaningful leisure activities for children and youth. The Bank has also provided support to young people through the Young Entrepreneurship and Business Lab Åland projects, which are aimed at college and university students.

#### **Environmental work**

We take into account the UN's global goals related to consumption and production. We work actively towards improving the health of the Baltic Sea. Via the Baltic Sea Project, we convey information and sustainability initiatives to our customers and business partners.

We shall reduce our ecological footprint by being a responsible company. We believe in sustainable consumption and prefer production that provides environmental benefits. We monitor how we spend various resources. We want to continuously improve our know-how and our working methods.

#### **Our five-point environmental plan**



1. We want to reduce total material consumption and conserve resources.
2. We prefer renewable energy and we are energy-efficient.
3. We reduce emissions through efficient transport and well-planned travel.
4. We use water sparingly.
5. We encourage employee involvement in making our operations sustainable.

Photographer: Daniel Eriksson



Photographer: Viktor Fremling

## Can a bank actually do things like this?



### A shower of prizes

The Baltic Sea Project had hardly been launched when it began to attract international interest.

The Design and Art Direction (D&AD) Impact competition highlights corporate communication with a clear social impact. During the D&AD autumn 2016 award ceremony in New York, the Baltic Sea Project and the Åland Index received prizes in four categories: Communication & Interaction, Financial Empowerment, Industry Evolution and Responsible Production & Consumption.

The project also received a Bronze award in the Eurobest competition and was nominated in the innovation category for the Cannes Lions creativity awards.

“My first thought was ‘Wow, here we have a market player that wants to make a difference.’”  
Anders Richtnér, professor at the Stockholm School of Economics

### The Baltic Sea Project

During 2016 both the Bank of Åland’s customers and outside experts expressed amazement at the scale and ambition of the Baltic Sea Project. Both its magnitude and rapid launch awakened surprise. What is the secret?

“Decisiveness and persistence,” says Anne-Maria Salenius, Director of the Bank’s Finnish Mainland Business Area.

The saying “*No one can stop an idea whose time has come*” could be a slogan for the Baltic Sea Project, because no one could slam on the brakes once the project team had decided that something must be done for the Baltic Sea.

“Some of our business partners were probably shocked when we came roaring in. But we didn’t meet a single one that was not interested. Enthusiasm is contagious. Our almost impossible timetable had to be adjusted a few times, but on the whole, everything worked smoothly,” Ms. Salenius says.

When the Baltic Sea Project was launched in the spring of 2016, the Bank made it abundantly clear that it lives according to its own motto, “*We go our own way.*” But how was the Åland Index received?

“We had created a way for our customers to easily monitor how their own consumption impacts the environment, which was something that many people thought sounded too good to be true,” says Crista Tammela, Market Coordinator at the Bank of Åland.

One of those who raised his eyebrows was Professor Anders Richtnér at the Stockholm School of Economics.

“My first thought was ‘Wow, here we have a market player that wants to make a difference.’ My next thought was ‘Wait a minute, can and should a bank do something like this?’”

When Professor Richtnér had read through all the project material, he knew what he wanted to do. He would use the Baltic Sea Project as his first case in a new course called Global Challenges Contextual Studies. “We want to highlight path-breaking corporate initiatives,” he says.

# A one-minute sustainability overview

## THREE BUSINESS AREAS

The Bank of Åland has operations in fifteen locations, of which seven are in the Åland Islands.



**Sports and cultural sponsorships** in Åland to contribute to meaningful leisure activities for children and youth.



**-10%**

Our target is to reduce our annual paper consumption by at least 10%.



**15,000**

**Bostadsfonden**  
This housing construction fund generated 15,000 working years during 2013-2016.

## DUAL RESPONSIBILITY

The Bank shall make measurable efforts and individuals shall make conscious choices.



## THE BALTIC SEA PROJECT



EUR 1,500,000 for good environmental ideas since 1997.

**1,500,000**



Responsible lending: Financing of activities to promote good sustainability, such as Green Key certification for the hospitality industry and fish farming on land.

## INVESTING

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



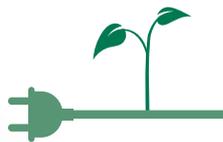
**Best in Class** means investing only in businesses with high ESG ratings in their peer group.



## GREENER BUSINESS TRAVEL

The number of trips where we chose a mode of transport with lower carbon dioxide emissions totalled 23% (target 25%). The number of air trips fell 15% (target 5%).

**-15%**



## GREEN ELECTRICITY

At least 60% of the Bank's electricity consumption today consists of green electricity.

## THE BALTIC SEA CARD

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



... calculated using the

**ÅLAND INDEX**



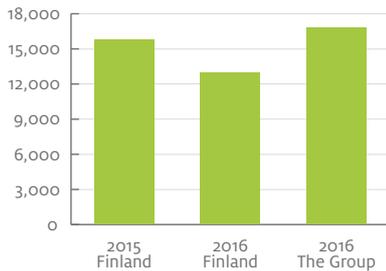
## ONE PLANET

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

Measuring our environment impact

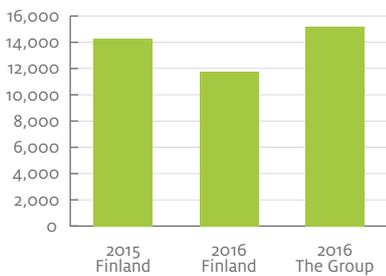
Paper consumption

The Group's paper consumption kg



Paper consumption includes both paper used internally and materials sent to others. The Group uses only environmentally certified paper. Consumption in the Group's Finnish units decreased by 18.2 per cent during 2016 (the target was 5 per cent). Operations in Sweden are included in the statistics starting in 2016, with consumption in Sweden totalling 3,626 kg. The Group consumed 16,800 kg of paper in all.

Quantity of carbon dioxide emissions caused by paper consumption CO<sub>2</sub>/kg



Since overall paper consumption decreased in Finnish operations, correlated carbon dioxide emissions decreased by 2,385 kg. There were no available figures for Sweden. In 2016, paper consumption in the entire Group resulted in carbon dioxide emissions of 15,204 kg.

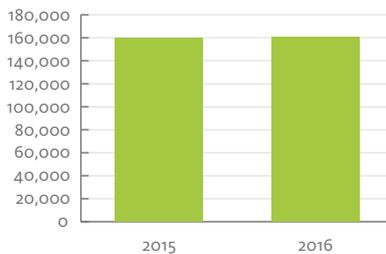
Energy consumption

Energy consumption GWh



Estimated energy consumption includes electricity in all units of the Group. Over 60 per cent of total consumption is generated using renewable sources ("green energy"). Total consumption increased by 5 per cent, from 2.46 GWh to 2.57 GWh, between 2015 and 2016 (the target was a decrease). The Group has some high-consumption units such as computer operations centres in Mariehamn.

Indirect carbon dioxide emissions from Group energy consumption CO<sub>2</sub>/kg



Since energy consumption increased by about 0.11 GWh from 2015 to 2016, carbon dioxide emissions also rose by about 1,470 kg. Thanks to high usage of renewable sources, this increase is moderate. Our ambition is to increase our use of renewable energy.

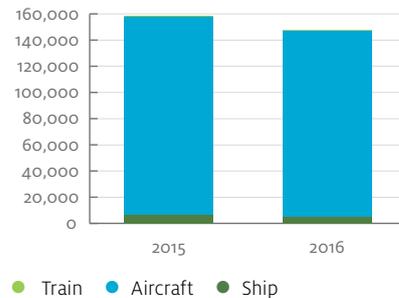
Business travel

Number of business trips in the Group



The Bank of Åland Group operates in three geographic areas – the Åland Islands, the Finnish mainland and Sweden – so as employees we unavoidably do some travelling. There is also travel outside the Group's core areas. Air travel decreased by about 15 per cent between 2015 and 2016 (the target was 5 per cent). Otherwise trips using lower-emission modes of transport amounted to 23 per cent of all travel (the target was 25 per cent). These figures include estimates, since the Group has not previously been measured as a whole and we thus have not had access to complete detailed information.

Quantity of carbon dioxide emissions caused by travel CO<sub>2</sub>/kg



In 2016 carbon dioxide emissions from Group travel decreased by 7 per cent. In 2015 emissions were 158,000 kg of carbon dioxide, while in 2016 they were 147,200 kg. These figures include estimates, since the Group has not previously been measured as a whole and we thus have not had access to complete detailed information.

## Information about employees

| Employee mobility    | 2016 | 2015 |
|----------------------|------|------|
| Expansion, %         | 10.7 | 7.7  |
| Employee turnover, % | 8.8  | 6.3  |

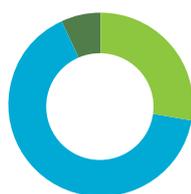
### Expansion

By gender



● Men  
● Women

By age category



● >30  
● 30-50  
● 50+

By region

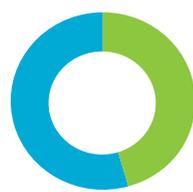


● Åland  
● Finnish mainland  
● Sweden

The Group hired 72 new regular employees during 2016. This expansion totalled 10.7 per cent, which was an increase from 7.7 per cent in 2015. The Group seeks an even distribution by age, gender and region in filling new positions. Expansion refers to the number of new full-time positions as a percentage of total full-time equivalent employment during the year.

### Employee turnover

By gender



● Men  
● Women

By age category



● >30  
● 30-50  
● 50+

By region



● Åland  
● Finnish mainland  
● Sweden

In the Group, 59 people ended their regular employment. Employee turnover was 8.8 per cent, an increase from 6.3 per cent in 2015. The number of retirements in the Group was 8, accounting for 1.2 percentage points of the 8.8 per cent employee turnover. The Group seeks the lowest possible employee turnover. Employee turnover refers to the number of people leaving regular positions as a percentage of total full-time equivalent employment during the year.

| Health attendance     | 2016 | 2015 |
|-----------------------|------|------|
| Healthy attendance, % | 93.7 | 95.2 |
| Accidents             | 11   | 7    |

Of all 768 employees, 48 were absent due to illness for at least one continuous 2-week period during the year, which translates to 94 per cent "healthy attendance". The accident rate was 1.4 per cent among employees. This refers to reported accidents at work or on the way to/from work that caused bodily injury.

### Contract type by gender

| Gender       | Regular    | Temporary, monthly | Temporary, hourly | Total      |
|--------------|------------|--------------------|-------------------|------------|
| Men          | 358        | 19                 | 18                | 395        |
| Women        | 331        | 24                 | 18                | 373        |
| <b>Total</b> | <b>689</b> | <b>43</b>          | <b>36</b>         | <b>768</b> |

### Contract type by region

| Region           | Regular    | Temporary, monthly | Temporary, hourly | Total      |
|------------------|------------|--------------------|-------------------|------------|
| Åland            | 372        | 28                 | 13                | 413        |
| Finnish mainland | 167        | 7                  | 13                | 187        |
| Sweden           | 150        | 8                  | 10                | 168        |
| <b>Total</b>     | <b>689</b> | <b>43</b>          | <b>36</b>         | <b>768</b> |

### Full-time/part-time by gender

| Gender       | Full-time  | Part-time  | Total      |
|--------------|------------|------------|------------|
| Men          | 25         | 370        | 395        |
| Women        | 84         | 289        | 373        |
| <b>Total</b> | <b>109</b> | <b>659</b> | <b>768</b> |

The number of jobs in the Group totalled 768 at the end of 2016, which was an increase of 24 during the year. Of these 768 employees, 90 per cent had permanent employment contracts and 10 per cent had temporary contracts. Women accounted for 77 per cent of part-time jobs while men accounted for 23 per cent. Just over half of the work force is stationed in Åland, while the Finnish mainland and Sweden each account for about half the remainder. In addition, 89 consultants worked in the Group at year-end.

## Information about diversity

| Gender breakdown, governing bodies |           |            |           |            |
|------------------------------------|-----------|------------|-----------|------------|
|                                    | 2016      |            | 2015      |            |
| Gender                             | Number    | %          | Number    | %          |
| Men                                | 18        | 72         | 20        | 74         |
| Women                              | 7         | 28         | 7         | 26         |
| <b>Total</b>                       | <b>25</b> | <b>100</b> | <b>27</b> | <b>100</b> |

| Gender breakdown, employees |            |            |            |            |
|-----------------------------|------------|------------|------------|------------|
|                             | 2016       |            | 2015       |            |
| Gender                      | Number     | %          | Number     | %          |
| Men                         | 395        | 51         | 379        | 51         |
| Women                       | 373        | 49         | 365        | 49         |
| <b>Total</b>                | <b>768</b> | <b>100</b> | <b>744</b> | <b>100</b> |

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

| Gender breakdown, employees |            |            |            |            |
|-----------------------------|------------|------------|------------|------------|
|                             | 2016       |            | 2015       |            |
| Age category                | Number     | %          | Number     | %          |
| <30                         | 111        | 15         | 105        | 14         |
| 30–50                       | 425        | 55         | 436        | 59         |
| 50>                         | 232        | 30         | 203        | 27         |
| <b>Total</b>                | <b>768</b> | <b>100</b> | <b>744</b> | <b>100</b> |

The goal of the Group is to eliminate all obstacles that contribute to employees not being able to utilise their full potential. Everyone shall have equal opportunities to a successful career in the Group. Equality should thus be the rule regardless of gender, age or other factors. "Governing bodies" refers here to members of the Board of Directors of the Group and the Boards of subsidiaries, the Group's Executive Team plus the Managing Directors and Deputy Managing Directors of subsidiaries.

## Information about social commitments

| Economic value-added   | 2016         | 2015         |
|--|--------------|--------------|
| EUR M  |              |              |
| Total income minus loan losses                               |              |              |
| <b>Value-added generated by serving the Bank's customers</b> | <b>116.4</b> | <b>121.8</b> |
| Employees  |              |              |
| Salaries   | 41.6         | 40.3         |
| Social security and other staff costs                        | 15.4         | 15.7         |
| <b>Total value to employees</b>                              | <b>57.0</b>  | <b>56.0</b>  |
| To central government  |              |              |
| Income taxes   | 5.4          | 6.0          |
| Non-deductible value-added taxes                             | 6.5          | 5.6          |
| Deposit guarantee fees                                       | 0.0          | 0.0          |
| Fees to government stability fund/banking taxes              | 0.0          | 0.0          |
| <b>Total value to central government</b>                     | <b>11.9</b>  | <b>11.6</b>  |
| Suppliers  | 27.5         | 27.0         |
| Sponsorships   | 0.5          | 0.4          |
| <b>Total other value to society</b>                          | <b>27.9</b>  | <b>27.4</b>  |
| Transactions with shareholders                               |              |              |
| Dividend paid  | 9.2          | 9.2          |
| New share issue  | -1.2         | -0.4         |
| <b>Total transactions with shareholders</b>                  | <b>8.0</b>   | <b>8.8</b>   |
| Remaining in the Bank  |              |              |
| <b>Reinvested economic value</b>                             | <b>9.3</b>   | <b>14.8</b>  |

During 2016, the Bank of Åland expanded its reporting of corporate responsibility. In addition to the above comparisons, we are also reporting on the following GRI indicators elsewhere in this Annual Report. See the pages listed in the table below.

| GRI content |  |         |
|-------------|--|---------|
|             |  | Page    |
| 102-1       | Name of the reporting organisation                         | 4       |
| 102-2       | Main brands, products and services                         | 2       |
| 102-3       | Location of headquarters                                   | 2       |
| 102-4       | Location of operations                                     | 2       |
| 102-5       | Ownership and legal form                                   | 4, 36   |
| 102-6       | Markets served   | 99      |
| 102-7       | Scale of the reporting organisation                        | 2       |
| 102-14      | Statement from senior decision maker                       | 6       |
| 102-18      | Governance structure and committees                        | 156     |
| 102-45      | Entities included in the consolidated financial statements | 90, 156 |
| 102-50      | Reporting period   | 152     |



## Strong response to high customer expectations



Photographer: Daniel Eriksson

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

**About 100 people work in the Bank of Åland's Private Banking operations in Åland, on the Finnish mainland and in Sweden. Our Private Banking offering is one of the cornerstone's of the Bank's business.**

When we closed the books for 2016, Private Banking customers accounted for 66 per cent of the Bank's actively managed assets, 54 per cent of deposit volume and 45 per cent of borrowing volume. Net operating profit from Private Banking in 2016 amounted to EUR 18.3 M, which was

equivalent to 73 per cent of the Bank's total net operating profit. Return on allocated equity was 21 per cent.

During the year, Private Banking achieved major advances in all three markets. One important task has been to create a uniform way of working. We now have a coherent Private Banking model with which we ensure that our efforts related to needs analysis, wealth management, financial planning and personalised service follow the same strategy. This model gives our work a clear structure and quality.

In addition to our Group-wide efforts, we are also seeing impressive initiatives in our three markets.

On the Finnish mainland, the integration of the former Asset Management subsidiary was successfully completed. This included terminating a few small unfavourable business arrangements, which enables us to strengthen customer relationships. Beyond these initiatives, the Private Banking team on the Finnish mainland has worked systematically with customer outreach, using classic legwork. The Bank of Åland

consequently has a larger geographic presence on the Finnish mainland than ever before.

In Åland, we reported a strong growth year for the Private Banking unit, which had the privilege of helping many new customers with their asset management. The number of discretionary asset management mandates increased by 18 per cent, while actively managed assets rose by 17 per cent. Since both the Bostadsfond and the new Tomtfond – our housing-related mutual funds – were popular financial investment alternatives, fund savings increased by 42 per cent.

We also presented a number of heavily attended, well-planned and highly informative customer events. One direct consequence of this work was that many customers became aware of the Bank of Åland's broad array of legal services.

In Sweden, the Bank of Åland's Private Banking operations continue to grow and gain increased respect. We are pleased that the Swedish personal finance magazine *Privata Affärer* named the Bank of Åland the country's second best Private Banking provider. This good score was based on an in-depth review that included anonymous test individuals that the editors sent out on visits to various banks.

We also strengthened our Private Banking offering in the Swedish market. During the year, equity trading was integrated into Private Banking and the result is a broader selection of financial investment services, combined with the addition of important expertise.

Successful recruitments, especially on the Finnish mainland and in Sweden, enabled us to respond to the inflow of

customers and deepen our expertise. We also broadened the legal proficiency of our Private Banking units. We see an increasing need for legal advice as our customer relationships deepen and more and more customers request comprehensive solutions.

As a direct consequence of our increasingly strong and long-lasting customer relationships, during 2016 we noted a growing need for planning related to changes of generation. On the Finnish mainland, where we carried out an initial pilot project based on the Family Office concept during 2016, we further refined ideas about tax issues and inheritance law. We consequently can now offer a broad information package for 16–25-year-olds. With local adaptations, this information can work in all three of our markets.

For the second straight year, the Bank of Åland was selected as the best Private Banking provider in Finland. According to the yearly TNS Sifo Prospera survey, customers appreciate our personalised service, our broad range of services and the quality of our financial investment advice. The Bank of Åland also rose to first place in terms of good reporting practices, distribution of relevant market news to investors and recurrent advisory services related to wealth management.

The same survey also gave Bank of Åland Private Banking a top score for its ethical approach. This provides further encouragement that our sustainability work can help us live up to the expectations of our Private Banking customers as a socially responsible bank.

## Taking good service to the next level

All customers who are not Private Banking or asset management customers are reported in the Premium Banking business segment. The Bank of Åland's corporate unit in Åland and the special funding unit in Helsinki are also part of the Premium Banking segment.

The number of customers with Premium Banking agreements rose by 9 per cent in 2016. The largest number of Premium Banking customers is found on the Finnish mainland, but the growth rate remains fastest in Sweden.

We are pleased to have had the privilege of welcoming more new Premium customers in our home market of Åland. The increase was a full 9 per cent. In response to the number of new Åland resident customers, we added two new customer advisors.

Especially in Åland and on the Finnish mainland, interest in mutual fund investments is continuing to grow. In these markets, customers with regular fund savings increased by 5 per cent during the year. Both Bostadsfonden and Tomtfonden, the latter introduced in 2016, were sought-after investment alternatives. In the Swedish market, our Premium Funds have proved to be attractive investment alternatives for our customers, and their fund savings increased by 40 per cent.

In the insurance field, we supplemented the Bank's offering in Åland with Alandia's life and medical expense insurance. In Sweden we began a partnership with the life insurance company SEB Trygg Liv.

Among the year's most important efforts to improve the personalised customer experience was the establishment of the Premium Academy, an employee training programme. The programme has a high level of ambition: we intend to give our customers world-class personalised banking service. During 2016 all customer advisors in our three markets attended this training programme.

We made strategic adjustments in Premium Banking services during the year, winnowing out supplementary services that we see no longer being requested or used. Instead we added two new services: ID theft support and ID theft insurance. With these two services, we offer our Premium customers one of the strongest ID protection packages in the market.

In Sweden a law requiring repayments on many new mortgage loans went into effect on July 1. The Bank of Åland also further tightened its already strict down payment and income requirements for mortgage loan customers, in light of sharply rising property prices in Sweden.

### THE ÅLAND CORPORATE SERVICES UNIT

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

The target group is broad and includes small and medium-sized businesses as well as large corporations with international operations.

The number of corporate customers continued to increase during 2016, and the level of customer activity was high. We also received a large number of inquiries from the corporate customers of other banks.

Deposits increased in 2016 by 5 per cent, while loans outstanding totalled EUR 333 M at year-end. Lending to maritime shipping companies continued to decline during 2016 and accounted for 1.5 per cent of total Group lending at year-end. Our customers in the maritime shipping sector have their vessels chartered out and are servicing their borrowing obligations as planned.

The customer survey conducted late in 2016 revealed that our Corporate Services customers are happy to recommend us to other business owners. Customers appreciate the way they are treated and the service they receive. They also have great confidence in their customer advisor.

During 2016 the Corporate Services unit continued its involvement in Business Lab Åland, Young Entrepreneurship and the RoslandsMinglet networking project, among other initiatives. The Bank of Åland is thus contributing to a positive view of entrepreneurship and the potential for young entrepreneurs to get started in business more easily by using effective tools.



## New organisation performed well under stress



Photographer: Daniel Eriksson

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

**Asset Management supplies comprehensive asset management services to the Bank of Åland's Private and Premium Banking segments and to institutional customers. It is also in charge of the Bank's mutual funds.**

### New structure in 2016

During the autumn of 2016, all asset management employees were moved to Ålandsbanken Fondbolag. This reorganisation was primarily a consequence of UCITS V, a new European Union directive.

The fundamental concept of the Bank's asset management operations remains

unchanged. One indication that this concept has been well-received by Bank customers is that the TNS Sifo Prospera survey of Private Banking market players in Finland gave the Bank of Åland's asset management services its highest rating.

### Active investment strategy

The Bank of Åland is a distinctly active asset manager. Our ambition is that our activity will generate returns in strong market situations and preserve capital as well as possible in weak market situations. The value-added of such a strategy should be viewed over a market cycle, that is, a period

of 5-7 years. In the short term, this active strategy may mean that returns diverge substantially from underlying market performance.

This active asset management strategy is most prominent in the Bank's own asset management funds and its discretionary asset management mandates.

### Asset management results, 2016

Our fundamental view during 2016 was a cautious attitude towards the stock market. Our asset allocation included a focus on replacing equity risk with alternative investments such as gold and silver.

The most surprising events of the year included the outcomes of the Brexit referendum and the US presidential election. Both events affected stock markets. The main initial impact of the Brexit vote was short-term market turbulence, after which the situation quickly stabilised. Looking further ahead, however, the consequences of the Brexit process may prove more significant. A Donald Trump victory in the US election was expected to hurt the stock market, among other things because of worries about protectionism, but after the election the US stock market climbed sharply and ended the year at new historical highs.

We believe that our cautious attitude was justified in order to keep risk in portfolios at an acceptable level in a situation where the market was characterised by uncertainty, even if this cost some returns.

#### FIXED INCOME FUNDS

Returns on fixed income funds were good, given generally low prevailing bond yields. All of the Bank of Åland's euro-denominated fixed income funds had full five-star ratings from Morningstar at year-end. For the third consecutive year, the Ålandsbanken (Bank of Åland) Euro Bond Fund was named the best Nordic fund in its category in the Lipper Fund Awards competition

#### EQUITY FUNDS

Of the Bank's equity funds, Ålandsbanken Europe Value and Ålandsbanken Norden Aktie (Nordic equities) beat their benchmark indices. Ålandsbanken Sverige Aktie

(Swedish equities) paid returns in line with its index, while Ålandsbanken Kina Aktie (Chinese equities) and Emerging Markets were slightly below index.

#### PROPERTY MUTUAL FUNDS

For the fourth consecutive year Ålandsbanken Bostadsfond Specialplaceringsfond, a special housing mutual fund, provided returns that were well above long-term expectations. During its first year of operations Ålandsbanken Tomtfond Specialplaceringsfond, a special mutual fund that invests in housing sites, far exceeded its return target.

#### ASSET MANAGEMENT FUNDS

Our underweighting of equity investments, especially in the US, caused the Bank's asset management funds some loss of returns, but their selections of European companies and investments in gold and silver made positive contributions. Their foreign exchange positioning, including British pound investments, also made positive contributions. The funds produced returns with generally lower risk (volatility) than market averages. This outcome is consistent with our active strategy in an uncertain market situation.

#### DISCRETIONARY ASSET MANAGEMENT MANDATES

These operations include a total of some 40 model portfolios focusing on different asset classes. Their performance was generally affected by the same factors as described above.

#### Volume trend

During 2016, fund assets increased by 15 per cent to about EUR 1.5 billion. This exceeded the growth of the fund market in Finland and Sweden, which was 8 per cent. This favourable trend was mainly explained by customers' great interest in the Bank's property-related mutual funds.

The sale of Ålandsbanken LCR Ränta Placeringsfond (Bank of Åland LCR Income Fund) to United Bankers' fund management company decreased the Bank's assets by EUR 57 M.

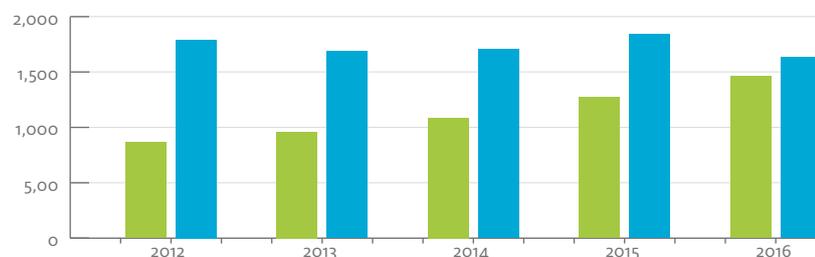
The number of direct fund unit owners increased by 4 per cent to about 31,000. In addition to these direct unit owners, the funds have about 40,000 additional owners via foreign distributors, insurance savings and the Swedish Pensions Agency.

Assets under discretionary management fell by 11 per cent to EUR 1.6 billion. The decrease occurred mainly because a few large institutional customers in Sweden chose to terminate their asset management mandates. Meanwhile the Bank terminated its collaboration with outside market players on the Finnish mainland. In Åland, there was substantial growth in assets under discretionary management during the year.

Assets under advisory management increased by 6 per cent to EUR 806 M.

### Managed assets

EUR M



● Own mutual funds ● Discretionary asset management

## Efficiency is based on smooth teamwork



Photographer: Daniel Eriksson

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

### CFO Corporate Unit

*Chief Financial Officer Jan-Gunnar Eurell is in charge of the Treasury, Group Finance, IT Management and Legal Affairs departments. The CFO Corporate Unit has more than 40 employees. As with the other corporate units, they are stationed in Mariehamn, Helsinki and Stockholm.*

Treasury is continuing to grow in importance to the Bank. Its portfolio, which is primarily consists of the Bank's liquidity reserve, now exceeds EUR 1 billion. Meanwhile low interest rates and yields are making it increasingly challenging to earn good returns on this growing portion of the Bank's balance sheet. The Bank of Åland's dependence on capital market funding is growing but remains comparatively low. Treasury's dominant funding instrument is covered bonds, which now total about EUR 1.2 billion.

The trend towards declining capital market funding costs, measured as the spread above the 6-month Euribor, fortunately continued in 2016, further strengthening our net interest income.

Group Finance was established during 2016 by placing the Business Control and Accounting Departments under a single management in order to take better advantage of coordination gains. The task of shortening and automating the process of compiling financial statements continued successfully, as did the project to further refine the operational planning and monitoring process. Also under way are preparations for IFRS 9, the new international regulation for accounting of financial instruments.

IT Management had a key role to play during 2016 in developing the architecture, collection procedures and testing

procedures for a large-scale project that will result in a new Group-wide IT solution for the Bank's securities business. The first phase, the creation of a Group-wide data warehouse, was achieved. Efforts to ensure efficient ordering procedures and a steady reduction in operational and administrative expenses in the IT field were successful.

The Legal Affairs Department participated in the creation of a large number of new business agreements and updates of customer agreements based on new legislation. The new mortgage principal repayment requirements in Sweden and the EU's Mortgage Credit Directive, the Payment Accounts Directive and the Market Abuse Regulation are among the more far-reaching regulatory requirements.

During 2017 the CFO Corporate Unit will continue its efforts to streamline and raise the quality of its work processes.

## CAO Corporate Unit

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

The CAO Corporate Unit is responsible for back office and systems support for securities administration, deposits and payment intermediation. The unit also includes customer service and marketing support, digital business development, business partnerships, project management resources and the human resources department.

The development and implementation of the Group's new capital market system, our biggest IT project ever, was under way during 2016 and will continue during 2017. The new system will give customers a more modern environment with better digital interfaces. At the same time, it will enable cost-cutting by merging several IT platforms and simplifying and centralising back office processes. The system will first go into service in the Swedish market.

Another resource-intensive task is the European Central Bank's Target2 Securities project. This project will continue during 2017 and its goal is to harmonise the clearing of securities trading in Europe.

We are seeing more customers relying on the Bank of Åland's digital services, especially mobile banking. To ensure our ability to work in a focused way on our services, the CAO unit added a digital business development department. One established goal is to make the Bank of Åland's mobile banking services for Private Banking customers the best in the industry.

Our other digital projects include securities trading and mutual fund savings as part of mobile banking and via the Internet Office for our customers in Sweden. The project is dependent on the transition to the new capital market system, which is expected to occur in 2017.

To combat card abuse, during 2016 we introduced geographic and amount-related limitations on mobile banking in Finland. We

also increased information to our customers about how they can protect their debit cards. Efforts to prevent money laundering and funding of terrorism intensified by means of increased monitoring of payment flows.

The use of real-time payments is increasing, and the Bank of Åland has a project under way to link up with the Swedish-based Swish mobile phone service early in 2017. Concurrently, we are planning a similar project for the Finnish market.

The volume of cases handled by Customer Service, which customers can contact via telephone and the Internet, is continuing to increase. During 2016, Customer Service expanded its availability. Its tasks were also expanded in the fields of customer communication and customer contact outreach.

A project to create a Group-wide human resource administration system began, and salary management for Sweden was moved to the same supplier that handles it in Finland.

The main projects in sustainability and brand development were the environmentally friendly Baltic Sea Card and the Åland Index. This index enables customers to see their carbon dioxide impact on the invoices for their purchases using the Baltic Sea Card.

## CRO Corporate Unit

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

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

During 2016, the Finnish Financial Supervisory Authority (FSA) approved the use of the IRB approach for the Bank's corporate Åland and Finnish mainland corporate portfolios. This approval means that we can now rely on our own risk classification system to calculate capital requirements. We also participated in the FSA's large-scale review of asset quality and have conducted an examination of our

balance sheet that was as in-depth as those conducted by the major banks.

The percentage of non-performing loans in the lending portfolio was halved during 2016, since the Bank worked effectively with problem loans, especially in Finland. Furthermore, the entire Group is increasingly using internal risk categories to help determine loan approvals. Loan loss levels in the Bank's Swedish operations remained non-existent.

Our field of lending is affected by various new regulatory requirements. This included the introduction of a principal repayment requirement on home mortgage loans in Sweden. At the same time, the Bank of Åland chose to tighten its requirements for permissible loan-to-value ratios and the pace of repayment. In Finland a cap on mortgage loans was introduced, and this new directive was implemented by the Bank at the end of 2016. As part of the European Central Bank's Analytic Credit Dataset (AnaCredit) project, we began the task of extensive credit reporting.

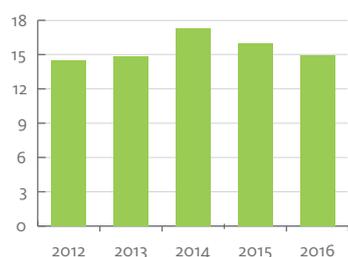
The Bank's pricing calculation system was also modified to accommodate coming changes in regulations. Modelling of expected losses in compliance with the IFRS 9 standard is a new task for the Bank's credit risk modelling specialists. Having completed the data warehouse project, during 2016 we built up capital adequacy content that enables even more efficient and reliable common reporting (COREP) for capital adequacy purposes.

The Compliance Department is responsible for customer protection, monitoring market behaviour, permitting and supervisory matters and counteracting money laundering and the financing of terrorism. During 2016 the department's work included market abuse regulation and projects for combating money laundering. We also participated in employee training courses, worked with internal regulations and carried out various inspections.

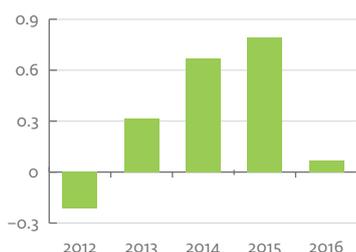
The Operational Risk & Security Department further developed its continuity planning, expanded its risk-mapping work, organised continuity drills and security reviews, was responsible for projects related to e-training tools, created models for updating the Bank's authorisation structure and also implemented a related pilot project.

## Crosskey and Compass Card

Non-Group IT income, Crosskey  
EUR M



Net operating profit, Compass Card  
EUR M



### Crosskey Banking Solutions Ab Ltd

Early in 2016 Crosskey's and S-Bank's joint data migration project was named the IT Project of the Year in Finland. The project involved a merger of the banking systems of S-Bank (S-Pankki) and LocalTapiola (LähiTapiola) Bank, and we are pleased that outside observers also viewed this work as a model for other projects.

Crosskey also launched the Dreams savings application, which is a collaboration between the Bank of Åland in Sweden and the totally digital Dreams financial service. As one element of this partnership, Crosskey developed a basic banking system for the Bank of Åland and integrated the Dreams app. Because of this, Crosskey's banking system is one of the few in the Nordic market that already has functioning integrations with "fintech" market players. Later in 2016, another fintech player was integrated with the Crosskey basic banking system, when Trusty – which supplies payment solutions for the e-commerce sector – began its partnership with the Bank of Åland in Sweden.

During the Easter weekend of 2016, Crosskey implemented a conversion to its card system for S-Bank, one of Finland's largest card issuers. The project was completed without any disruptions for customers, and we regard this as a very successful launch.

During 2016 Crosskey continued the development of its new capital market offering in collaboration with our technology partner Model IT. The new system will go into service at the Bank of Åland in Sweden during 2017 and later in Finland.

Late in the year, Crosskey added two customers in the Swedish market. Since November we have delivered a complete card service via the savings bank card company Sparbankernas Kort to more than 20 independent Swedish savings banks and several other banks that have joined the partnership. In November, Crosskey also launched collaboration with Remium Finance, which offers financial services to small and medium-sized companies. Remium Finance is relying on Crosskey's basic banking system and Internet banking solutions. The complete implementation project was carried out in an impressive five months.

Net operating profit during the year amounted to nearly EUR 2.4 M. This was an increase compared to 2015, when the

corresponding figure was about EUR 2.1 M. Crosskey maintained its high level of quality, and after the year's audits the company was re-certified according to both the ISO and PCI DSS standards,

Crosskey's annual employee satisfaction survey showed continued high satisfaction. Customer satisfaction also remained high. One third of Crosskey customers who were surveyed recommended the company as a supplier of banking systems during 2016. Half of those surveyed stated that Crosskey is their most valuable business partner.

### Ab Compass Card Oy Ltd

Compass Card underwent changes during 2016. The biggest single event was the long-planned transfer of about 100,000 S-Bank/LocalTapiola Bank customers to S-Bank's new card system, which was delivered by the Bank of Åland's subsidiary Crosskey.

Because a larger proportion of the customer base was transferred from Compass Card, earnings fell noticeably. Other factors that affected earnings were structural changes in transaction processing and lower card processing fees. The impact of these external factors on earning was softened because the company lowered its fixed costs.

In cooperation with Crosskey, Compass Card gained its first customer in Sweden during 2016. It also began collaboration with Euroloan, a credit company. This collaboration is expected to improve Compass Card's 2017 volume and earnings.

# Report of the Directors

# Report of the Directors

## Macro situation and regulatory requirements

The central banks in Europe are continuing their expansionary monetary policies in the form of asset purchases and low key interest rates in the hope of generating economic growth and inflation. During 2016, Sweden's Riksbank lowered its key rate by 15 basis points to -0.50 per cent, while the European Central Bank (ECB) lowered its key rate by 5 points to 0.00 per cent and its deposit rate for banks by 10 points to -0.40 per cent. Late in the year, after the American presidential election, there was a turnaround in the trend of long-term yields, which rose. Low interest rates squeeze the net interest income of banks and increase the risks of asset bubbles in national economies.

### BENCHMARK INTEREST RATES, AVERAGES, PER CENT

|               | 2016  | 2015  |
|---------------|-------|-------|
| Euribor 3 mo  | -0.26 | -0.02 |
| Euribor 12 mo | -0.03 | 0.17  |
| Stibor 3 mo   | -0.49 | -0.19 |

The year began with falling share prices and low share trading activity by customers. During the second half of 2016, share prices rebounded, with both the Nasdaq Helsinki (OMXHPI) index and the Nasdaq Stockholm (OMXSPI) index rising by about 13 per cent. In 2016 as a whole, the Helsinki and Stockholm indices rose by about 6 per cent.

The average value of the Swedish krona in relation to the euro was 1 per cent lower during 2016 than in 2015. On December 31, 2016, the krona was worth 4 per cent less than one year earlier. When translating the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been translated at the exchange rate prevailing on the closing day.

## Important events

Outstanding personal service, a broad range of services and top-quality investment advice won the Bank of Åland first place in

TNS Sifo Prospera's survey of Private Banking market participants in Finland for the second consecutive year.

In the personal finance magazine *Privata Affärer*'s evaluation of Private Banking services in Sweden, which is conducted out every two years, the Bank of Åland came in at second place.

In November, Standard & Poor's Global Ratings raised the Bank of Åland's credit rating for short-term borrowing from A-3 to A-2 on the basis of the Bank's improved liquidity and funding metrics. At the same time, it changed the Bank's outlook from negative to stable.

The Bank of Åland is launching a completely new type of biodegradable credit card – the Baltic Sea Card – which allows its users to see how much carbon dioxide emissions their purchases result in, on average. Baltic Sea Card users receive an estimate of the environmental impact of their consumption via the Bank's Internet Office or mobile app. When it is time to pay the bill, the customer also has the opportunity to donate money to various environmental projects. By making clear how consumers influence the environment, the Bank of Åland hopes to enable them to make conscious decisions in their everyday lives. The environmental accounting they receive is based on the unique Åland Index, developed by the Bank of Åland.

As part of the Bank of Åland's Baltic Sea Project, nine good environmental ideas were able to share EUR 113,000.

Joining the Baltic Sea Project's jury during the year were Ilkka Paananen, CEO of the gaming company Supercell, and Niklas Zennström, co-founder of Skype.

During 2016 the Ålandsbanken Euro High Yield bond fund received a fifth star from Morningstar, which is that company's highest rating. This is continued proof of a well-functioning asset management philosophy at the Bank's bond funds. The Ålandsbanken Cash Manager and Ålandsbanken Euro Bond funds also have five stars from Morningstar.

For the third 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.

Early in 2016 Ålandsbanken Fondbolag launched a new specialised mutual fund, Tomtfonden, which is the first of its kind in Finland. The fund invests in housing sites intended for leasing. The sites are leased out to construction companies and limited liability housing companies. The fund invests in growth regions of Finland with a well-functioning property market.

The information technology (IT) subsidiary Crosskey and the Swedish-based savings bank card company Sparbankernas Kort AB entered into a long-term business relationship, in which Crosskey together with Compass Card will provide comprehensive service for the card business of Sparbankernas Kort AB.

S-Bank, which is one of Finland's largest card issuers, began using Crosskey's card system in March.

Crosskey's data migration project, which merged the banking systems of S-Bank (S-Pankki). LocalTapiola (LähiTapiola) Bank och FIM during 2013-2015, won the Best IT Project of the Year award at Management Events' Executive IT event in Helsinki.

In April, the Swedish-based financial technology (fintech) company Dreams, in collaboration with the Bank of Åland, launched an app that focuses on healthy personal finances and the realisation of dreams through saving. On December 31, the Bank of Åland had about 10,000 customers with Dreams accounts.

The Annual General Meeting (AGM) on April 14, 2016 elected Åsa Ceder as a new member of the Board of Directors. The AGM reelected Board members Nils Lampi, Christoffer Taxell, Anders Å. Karlsson, Göran Persson, Ulrika Valassi, Anders Wiklöf and DanErik Woivalin. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board. The AGM approved the payment of a dividend of EUR 0.60 per share for the financial year 2015.

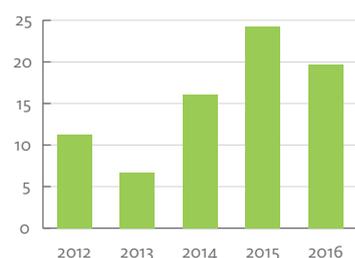
## Earnings

Profit for the period attributable to shareholders amounted to EUR 19.7 M (24.3), which was a decrease of EUR 4.6 M or 19 per cent from the year-earlier period. Net operating profit fell by EUR 5.2 M or 17 per cent to EUR 25.1 M (30.3). The main explanations for the lower net operating profit were:

- Lower net income on financial items at fair value (EUR 3.8 M)
- Lower brokerage commission income (EUR 1.4 M)
- Higher impairment losses on loans (EUR 1.0 M)
- Lower card business-related income from Compass Card (EUR 0.7 M)
- The nonrecurring effect of the final purchase price reduction (EUR 0.5 M)

### Profit attributable to shareholders

EUR M



Return on equity after taxes amounted to 9.1 (12.0) per cent.

Total income decreased by EUR 4.5 M or 4 per cent to EUR 120.4 M (124.9) despite higher net interest income.

Due to re-pricing in the loan portfolio, lower funding costs and volume growth, net interest income increased by EUR 1.1 M or 2 per cent to EUR 55.1 M (54.0), but the effect of negative central bank interest rates is increasingly making itself felt.

Net commission income fell by EUR 1.6 M or 3 per cent to EUR 44.9 M (46.5), mainly due to lower income from brokerage commissions and lower card-related income from Compass Card. Lower card-related income from Compass Card was partly due to lower interchange fees in compliance with new EU rules but primarily to the end of collaboration with S-Bank as agreed

earlier. Mutual fund commission income increased thanks to the Bank's housing-related funds.

Net income on financial items at fair value fell by EUR 3.8 M or 48 per cent to EUR 4.2 M (8.0), mainly due to lower net income on foreign exchange dealing and lower capital gains in the liquidity portfolio.

IT income fell by EUR 1.1 M or 7 per cent to EUR 14.9 M (16.0) due to lower project income.

Total expenses decreased by EUR 0.3 M to EUR 91.3 M (91.6). These expenses included EUR 0.5 M as a finally determined reduction in purchase price related to the Swedish subsidiary that was sold in 2012. Staff costs rose by EUR 1.0 M or 2 per cent. Total expenses were favourably affected by lower depreciation and amortisation as well as higher production for own use. Production for own use largely refers to capitalised development expenses for the Bank's new securities platform, which is being developed by Crosskey.

Impairment losses on loans amounted to EUR 4.1 M, equivalent to a loan loss level of 0.11 per cent, compared to EUR 3.0 M and 0.09 per cent in the year-earlier period. Of these impairment losses, EUR 2.9 M was related to further provisions for two corporate commitments at the Special Funding unit in Helsinki.

Tax expenses amounted to EUR 5.4 M (6.0), equivalent to an effective tax rate of 21.5 (19.7) per cent.

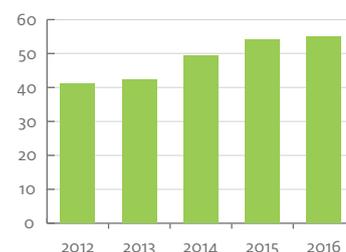
## Strategic business areas

The decrease in the Group's net operating income by EUR 5.2 M to EUR 25.1 M in 2016 was allocated as follows:

- **Private Banking –2.4** (lower brokerage commissions, higher expenses)
- **Premium Banking –0.1** (higher income, higher impairment losses on a few corporate loans)
- **Asset Management +0.6** (lower expenses)
- **IT +0.3** (lower expenses)
- **Corporate units incl. eliminations –3.6** (Treasury, Compass Card, purchase price reduction)

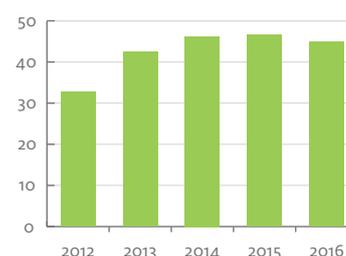
## Net interest income

EUR M



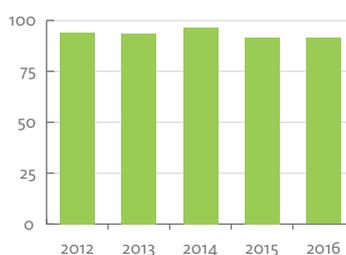
## Net commission income

EUR M

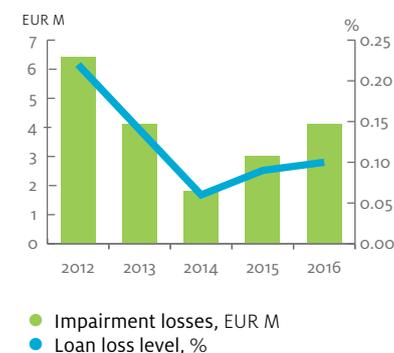


## Total expenses

EUR M

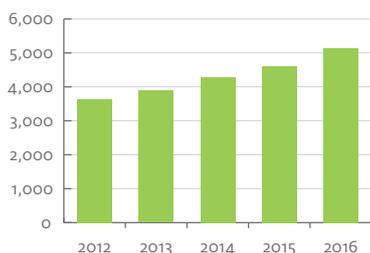


## Impairment losses and loan loss level



## Balance sheet total

EUR M



## Business volume

Actively managed assets increased both in Private Banking and Premium Banking, but decreased overall in the Group by EUR 27 M or 1 per cent to EUR 3,900 M (3,927). Assets under discretionary management fell by EUR 208 M or 11 per cent to EUR 1,631 M (1,839). The main reason for the decrease is that a few large institutional customers in Sweden chose to end their management mandates. Meanwhile the Bank ended partnerships with external actors in Finland. Managed assets in the Group's own mutual funds increased by EUR 191 M or 15 per cent to EUR 1,463 M, despite the sale of the Bank of Åland LCR Income Fund, with its EUR 57 M in managed assets. There was continued heavy interest in the Bank of Åland's housing-related mutual funds. Net inflow into Bostadsfonden and Tomtfonden was EUR 190 M.

Deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public – increased by EUR 425 M or 16 per cent during 2016 and amounted to EUR 3,100 M (2,675).

Lending to the public rose by EUR 191 M or 5 per cent to EUR 3,808 M (3,617).

All volume figures were adversely affected by the 4 per cent depreciation of the Swedish krona against the euro during 2016.

## Balance sheet total and off-balance sheet obligations

During 2016, the Group's balance sheet increased by EUR 535 M or 12 per cent to EUR 5,137 M. Aside from lending to the public,

the increase was primarily related to cash and balances with central banks. The increase in assets was funded through increased deposits from the public. Off-balance sheet obligations decreased by EUR 74 M or 17 per cent to EUR 365 M. The decrease was mainly related to credit card limits and lines of credit.

## Credit quality

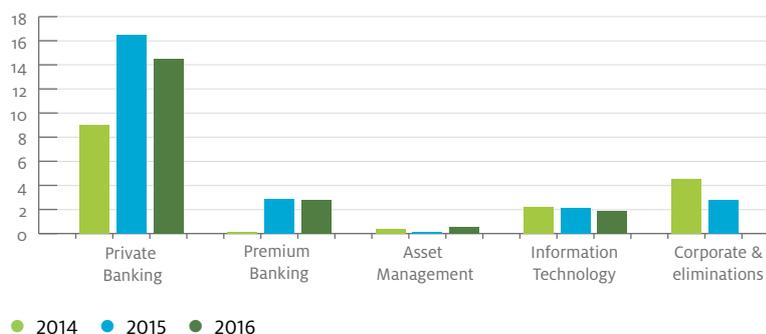
Lending to private individuals comprises about 70 per cent of the loan portfolio. Home mortgage loans account for 71 per cent of lending to private individuals. Loans for the purchase of securities, with market-listed securities as collateral, comprise the second-largest type of lending to private individuals. Loan-to-value ratios are conservative. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the household portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

Gross doubtful receivables decreased by EUR 9.7 M or 31 per cent to EUR 21.7 M (31.4) during 2016. As a share of lending to the public, doubtful receivables decreased to 0.57 (0.87) per cent during the period. The level of provisions for doubtful receivables, i.e. individual impairment losses as a proportion of all doubtful receivables, was 50 per cent compared to 34 per cent at year-end 2015.

The Bank of Åland Group had EUR 12.6 M (11.8) in impairment loss provisions, of which individual impairments totalled EUR 10.8 M (10.6) and group impairments EUR 1.8 M (1.2).

## Profit attributable to shareholders, by segment

EUR M



## 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 906 M on December 31, 2016 (805). This was equivalent to 18 (18) per cent of total assets and 24 (22) per cent of lending to the public.

During September, the Bank of Åland issued EUR 250 M in covered bonds with a maturity of 7 years.

On December 31, 2016, the average remaining maturity on outstanding bonds was about 3.4 years (3.3). During the first quarter, SEK 750 M in unsecured bonds reached maturity. During the third quarter EUR 100 M in covered bonds reached maturity. During 2017, SEK 1 billion in covered bonds will mature in June and SEK 850 M in unsecured bonds will mature in November.

The Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, plus covered bonds issued, amounted to 89 (100) per cent at the end of 2016.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 64 (59) per cent and covered bonds issued accounted for 25 (22) per cent on December 31, 2016.

The liquidity coverage ratio (LCR) amounted to 97 (91) per cent.

The net stable funding ratio (NSFR) amounted to 128 (108) per cent.

## Rating

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

## Equity and capital adequacy

Equity capital changed in the amount of total comprehensive income for the period, EUR 16.5 M; the share savings programme, EUR 1.3 M; the transfer of own shares and the issuance of new shares within the framework of

incentive programmes, EUR 0.4 M; plus the payment of EUR 9.2 M in dividends to shareholders. On December 31, 2016, equity capital totalled EUR 221.8 M (212.9).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR -3.2 M after taxes, in compliance with IAS 19.

Starting on June 30, 2016 the Bank of Åland's corporate portfolio is being recognised according to the internal ratings-based (IRB) approach in the capital adequacy report. On the transition date, this credit risk exposure amounted to EUR 472 M. Compared to the standardised approach, this represented a decrease of EUR 14 M in the risk exposure amount, while expected losses beyond recognised losses increased by EUR 5.8 M. The probability of default (PD) and loss given default (LGD) risk parameters that are used in calculating the expected loss and the risk exposure amount include cyclical as well as safety margin add-ons plus corrections for limited underlying data. These add-ons were determined by the Finnish Financial Supervisory Authority (FSA). The transition from the standardised approach to the IRB approach lowered the Bank of Åland's core Tier 1 capital ratio by 0.3 percentage points.

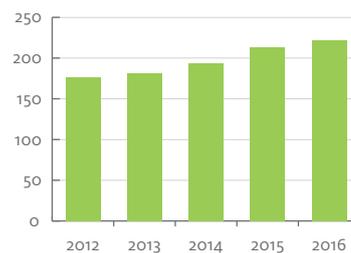
According to the simplified model, 0.1 per cent of the value of assets and liabilities was carried at fair value on the reduced capital base on the closing day. This decreased the Bank of Åland's core Tier 1 capital by EUR 1.3 M.

Core Tier 1 capital decreased by EUR 3.5 M or 2 per cent during 2016 to EUR 186.0 M (189.5), mainly due to the transition to the IRB approach for the corporate portfolio in Finland and increased intangible assets. Before negative items, core Tier 1 capital rose by EUR 8.8 M.

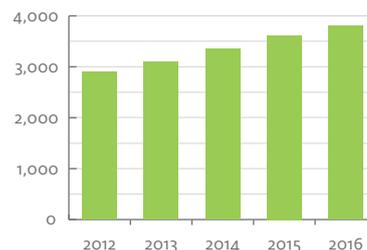
The risk exposure amount fell by EUR 5 M during 2016 to EUR 1,576 M (1,581). The credit risk exposure amount fell by EUR 21 M. Of this, the transition to the IRB approach for the Finnish corporate portfolio represented a decrease of EUR 14 M. The operational risk exposure amount, calculated using a three-year rolling average of the Group's income, increased by EUR 16 M.

The core Tier 1 capital ratio amounted to 11.8 per cent (12.0). Since the Bank of Åland has no hybrid capital, its core Tier 1 capital ratio is the same as its Tier 1 capital ratio.

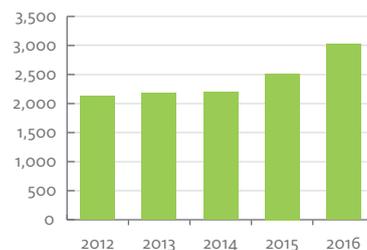
## Equity capital attributable to shareholders



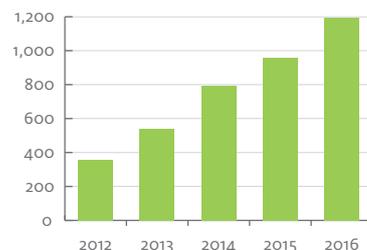
## Lending



## Deposit accounts



## Covered bonds



In addition to the basic capital requirement, various buffer requirements are being introduced, mainly imposed by national regulatory authorities. The capital conservation buffer requirement, 2.5 per cent of core Tier 1 capital, applies in all European Union countries starting in 2015. The countercyclical capital buffer requirement may vary between 0-2.5 per cent. The decision concerning the size of a countercyclical capital buffer in Finland is made quarterly by the Board of the Financial Supervisory Authority (FSA) on the basis of a macroeconomic stability analysis. So far, the FSA has not imposed any countercyclical buffer requirement related to Finnish exposures. As for Sweden, the Swedish FSA imposed a requirement of 1.5 per cent of Swedish exposures starting in June 2016. The Finnish FSA has identified systemically important institutions in Finland and has imposed individual buffer requirements for them. These requirements went into effect at the beginning of 2016. The Bank of Åland is not included in the buffer requirements for systemically important institutions.

During the third quarter, the Bank of Åland issued subordinated debentures (supplementary capital) with a write-down clause. The subordinated debentures, which were issued with 3.75 per cent fixed interest, have a maturity of 20 years with a possible early redemption after five years. In the event that the Bank of Åland's core Tier 1 capital ratio falls below 7 per cent, the principal is written down by 50 per cent. The issue volume was EUR 6.1 M.

The total capital ratio amounted to 13.0 (12.9) per cent.

One of the Bank of Åland's three long-term financial targets is that its capital adequacy, primarily defined as the core Tier 1 capital ratio, shall clearly exceed all regulatory requirements. As communicated earlier, for the time being the Bank of Åland is choosing not to interpret what this target may mean in the future in terms of an exact percentage figure, considering the prevailing uncertainty about the effects of new accounting rules as well as new capital adequacy requirements. Given its core Tier 1 capital ratio of 11.8 per cent on December 31,

the Bank of Åland clearly exceeds all regulatory requirements and will thus receive a one-step upgrade on the Standard & Poor's credit rating scale.

## Dividend

The Board of Directors proposes that the Annual General Meeting approve the payment of a dividend of EUR 0.60 per share (0.60), equivalent to a total amount of EUR 9.2 M (9.2). The proposed dividend is equivalent to a 47 (38) per cent payout ratio.

## Important events after close of report period

Mikael Mörn was appointed as a new Executive Team member at the Bank of Åland because he assumed the position of Director of the Åland Business Area on February 1, 2017. Mörn has worked at the Bank of Åland for nearly 30 years and was previously responsible for its Private Banking operations in Åland. He replaced the Director of the Åland Business Area, Birgitta Dahlén, who resigned from the Executive Team at the Bank of Åland Plc due to her retirement.

Magnus Johansson was appointed as a new Executive Team member because he assumed the position of Director of the Sweden Business Area on January 16, 2017. Johansson has worked at the Bank of Åland since the Bank began its Swedish operations in 2009 and was previously responsible for its Private Banking operations in Sweden. He replaced the Director of the Sweden Business Area, Magnus Holm, who resigned from the Executive Team at the Bank of Åland on January 16, 2017 because he stepped down as Director of the Sweden Business Area.

In February the Bank of Åland issued 28,198 shares for the fulfilment of the Bank's commitments as part of the Bank of Åland share savings programme for employees.

## 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.

The Bank of Åland has no direct exposure to the "GIIPS" countries (Greece, Italy, Ireland, Portugal and Spain) or to Cyprus, Russia or Ukraine.

## Future outlook

The Bank of Åland expects its net operating profit in 2017 to be about the same as in 2016.

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

## Long-term financial targets

- *Return on equity after taxes (ROE) shall exceed 10 percent.*
- *The Bank's capital adequacy, primarily defined as the core Tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.*
- *The payout ratio shall eventually amount to 50 percent.*

This payout ratio target is subject to the condition that the capital adequacy target continues to be achieved. At present, the Bank of Åland is prioritising balanced growth.

## FIVE-YEAR GROUP SUMMARY

| Bank of Åland Group  | 2016         | 2015         | 2014         | 2013         | 2012         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>EUR M</b>   |              |              |              |              |              |
| Net interest income  | 55.1         | 54.0         | 49.3         | 42.4         | 41.2         |
| Net commission income  | 44.9         | 46.5         | 46.2         | 42.4         | 32.7         |
| Net income from financial items carried at fair value                              | 4.2          | 8.0          | 6.8          | 7.4          | 6.9          |
| IT income  | 14.9         | 16.0         | 17.3         | 14.8         | 14.5         |
| Other income   | 1.3          | 0.4          | 1.0          | 1.0          | 1.2          |
| Nonrecurring items   | 0.0          | 0.0          | 0.0          | 0.0          | 13.9         |
| <b>Total income</b>  | <b>120.4</b> | <b>124.9</b> | <b>120.6</b> | <b>108.0</b> | <b>110.4</b> |
| Staff costs  | -57.0        | -56.0        | -52.5        | -51.1        | -51.2        |
| Derpreciation/amortisation and impairment losses on tangible and intangible assets | -5.9         | -6.9         | -8.2         | -8.0         | -8.1         |
| Other expenses   | -27.8        | -28.7        | -34.7        | -32.4        | -33.6        |
| Nonrecurring items   | -0.5         | 0.0          | -1.0         | -2.0         | -1.1         |
| <b>Total expenses</b>  | <b>-91.3</b> | <b>-91.6</b> | <b>-96.4</b> | <b>-93.5</b> | <b>-94.1</b> |
| <b>Profit before loan losses etc.</b>  | <b>29.2</b>  | <b>33.3</b>  | <b>24.2</b>  | <b>14.5</b>  | <b>16.3</b>  |
| Impairment losses on loans and other commitments                                   | -4.1         | -3.0         | -1.8         | -4.1         | -6.4         |
| <b>Net operating profit</b>  | <b>25.1</b>  | <b>30.3</b>  | <b>22.4</b>  | <b>10.4</b>  | <b>9.9</b>   |
| Income taxes   | -5.4         | -6.0         | -4.8         | -2.7         | 2.0          |
| <b>Profit for the report period</b>  | <b>19.7</b>  | <b>24.3</b>  | <b>17.6</b>  | <b>7.7</b>   | <b>11.9</b>  |
| Attributable to:   |              |              |              |              |              |
| Non-controlling interests  | 0.0          | 0.0          | 1.5          | -1.0         | -0.6         |
| <b>Shareholders in Bank of Åland Plc</b>   | <b>19.7</b>  | <b>24.3</b>  | <b>16.1</b>  | <b>6.7</b>   | <b>11.3</b>  |
| <b>Volume</b>  |              |              |              |              |              |
| Lending to the public  | 3,808        | 3,617        | 3,343        | 3,104        | 2,905        |
| Deposits from the public <sup>1</sup>  | 3,100        | 2,675        | 2,391        | 2,460        | 2,442        |
| Actively managed assets <sup>2</sup>   | 3,900        | 3,927        | 3,696        | 3,231        | 3,219        |
| Equity capital   | 222          | 213          | 196          | 184          | 179          |
| Balance sheet total  | 5,137        | 4,602        | 4,292        | 3,887        | 3,633        |
| Risk exposure amount   | 1,576        | 1,581        | 1,554        | 1,475        | 1,401        |
| <b>Financial ratios</b>  |              |              |              |              |              |
| Return on equity after taxes (ROE), % <sup>3</sup>                                 | 9.1          | 12.0         | 8.7          | 3.8          | 6.6          |
| Expense/income ratio, % <sup>4</sup>   | 0.76         | 0.73         | 0.80         | 0.86         | 0.85         |
| Loan loss level, % <sup>5</sup>  | 0.11         | 0.09         | 0.06         | 0.14         | 0.23         |
| Core funding ratio, % <sup>6</sup>   | 89           | 100          | 105          | 103          | 104          |
| Equity/assets ratio, % <sup>7</sup>  | 4.3          | 4.6          | 4.6          | 4.7          | 4.9          |
| Common equity Tier 1 capital ratio, % <sup>8</sup>                                 | 11.8         | 12.0         | 10.9         | 10.8         | 10.9         |
| Working hours re-calculated to full-time equivalent positions                      | 683          | 663          | 644          | 617          | 640          |

<sup>1</sup> Deposits from the public and public sector entities, including certificates of deposit, index bonds and debentures issued to the public

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

<sup>3</sup> Profit for the report period attributable to shareholders/Average shareholders' portion of equity capital

<sup>4</sup> Expenses/Income

<sup>5</sup> Impairment losses on loans and other commitments/Lending to the public at the beginning of the period

<sup>6</sup> Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued

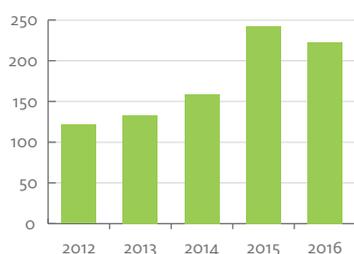
<sup>7</sup> Equity capital/Balance sheet total

<sup>8</sup> (Common equity Tier 1 capital/Capital requirement)×8%

# Facts on Bank of Åland shares

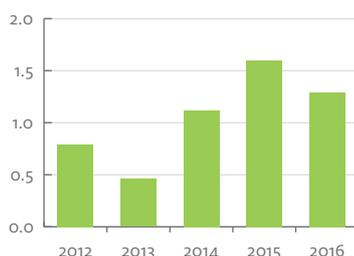
## Market capitalisation

EUR M



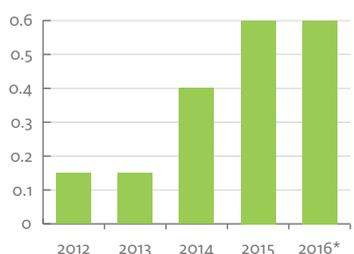
## Earnings per share

euros



## Dividend per share

euros



\* Proposed by the Board of Directors for approval by the 2017 Annual General Meeting.

## Share capital

The share capital of the Bank of Åland is EUR 41,674,226.83. The shares are divided into 6,476,138 Series A and 8,823,012 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a General Meeting may vote for more than one fortieth of the number of shares represented at the Meeting.

In April 2014, the Annual General Meeting voted to authorise the Board to decide on the issuance of shares, option rights and other special rights entitling their holders to shares, as provided by the Finnish Companies Act, Chapter 10, Section 1. The authorisation concerns Series B shares. The total number of shares that may be issued with the support of the authorisation may not exceed 3,000,000 Series B shares. The authorisation covers one or more issues in exchange for payment or without payment and may also cover divestment of the Company's own shares. The authorisation replaces all of the Annual Meeting's earlier unutilised authorisations of shares, option rights and other special rights entitling their holders to shares. The Board's mandate is in force until April 10, 2019. So far 900,722 Series B shares (as of December 31, 2016) have been issued or divested as authorised, and consequently an additional 2,099,278 Series B shares may be issued or divested on the basis of the authorisation.

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

## Share savings programme

The Bank of Åland's Board of Directors have approved two share savings programmes for all Group employees: the 2015 share savings programme and the 2016 share savings programme. Sixty-nine per cent of employees participated in the 2015 programme and 60 per cent in the 2016 programme. The share savings

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

## Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In March 2016, 5,394 Series B shares in the Bank that were purchased and 20,291 newly issued Series B shares will be disbursed. In March 2017, 7,965 newly issued Series B shares will be disbursed. An additional 45,442 Series B shares will be distributed as a delayed portion of incentive programmes and may be issued and disbursed during the years 2018–2020, provided that the recipient remains an employee.

## Changes in share capital

| Year | Share capital, EUR | Series A shares | Series B shares |
|------|--------------------|-----------------|-----------------|
| 2016 | 41,674,226.83      | 6,476,138       | 8,823,012       |
| 2015 | 41,500,786.10      | 6,476,138       | 8,737,101       |
| 2014 | 29,103,547.58      | 6,476,138       | 7,944,015       |
| 2013 | 29,103,547.58      | 6,476,138       | 7,944,015       |
| 2012 | 29,103,547.58      | 6,476,138       | 7,944,015       |

## Trading in the Bank's shares

During 2016, the volume of trading in the Bank's Series A shares on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) was EUR 3.0 M. Their average price was EUR 14.45. The highest quotation per share was EUR 16.99, the lowest EUR 12.11. Trading in Series B shares totalled EUR 11.4 M at an average price of EUR 14.11. The highest quotation was EUR 16.10, the lowest EUR 12.62.

On December 31, 2016, the number of registered shareholders was 9,599 and they owned 13,964,940 shares. There were also a total of 1,334,210 shares registered in the names of nominees.

## The ten largest shareholders, December 31, 2016

| Shareholder   | Series A shares | Series B shares | Total     | % of shares | % of votes |
|---|-----------------|-----------------|-----------|-------------|------------|
| 1 Wiklöf Anders and companies   | 1,605,496       | 1,326,549       | 2,932,045 | 19.16       | 24.17      |
| 2 Alandia Insurance   | 917,358         | 406,432         | 1,323,790 | 8.65        | 13.56      |
| 3 OP Corporate Bank Plc (nominee registered shares)                   | 325             | 918,790         | 919,115   | 6.01        | 0.67       |
| 4 Ålands Ömsesidiga Försäkringsbolag (mutual insurance company)       | 794,566         | 111,201         | 905,767   | 5.92        | 11.57      |
| 5 Fennogens Investments S.A.  | 474,264         | 152,088         | 626,352   | 4.09        | 6.97       |
| 6 Pensionsförsäkringsaktiebolaget Veritas (pension insurance company) | 123,668         | 165,954         | 289,622   | 1.89        | 1.91       |
| 7 Palcmills Oy (financial service company)                            | 100,000         | 150,000         | 250,000   | 1.63        | 1.55       |
| 8 Svenska Litteratursällskapet i Finland rf (literary society)        | 208,750         | 0               | 208,750   | 1.36        | 3.02       |
| 9 Oy Etra Invest Ab (investment company)                              | 0               | 200,000         | 200,000   | 1.31        | 0.14       |
| 10 Nordea Bank AB (nominee registered shares)                         | 26,398          | 151,533         | 177,931   | 1.16        | 0.49       |

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

## Shareholders by size of holding

| Number of shares                    | Number of shareholders | Total number of shares held, | Average holding | Voting power, % |
|-------------------------------------|------------------------|------------------------------|-----------------|-----------------|
| 1-100                               | 3,990                  | 175,638                      | 44              | 1.1             |
| 101-1,000                           | 4,376                  | 1,505,256                    | 344             | 7.1             |
| 1,001-10,000                        | 1,122                  | 2,866,214                    | 2,555           | 12.3            |
| 10,001-                             | 111                    | 10,752,042                   | 96,865          | 79.5            |
| Of which, nominee registered shares |                        | 1,334,210                    |                 | 3.8             |

## Shareholders by category

| Category                                       | Number of shares  | % of shares  |
|--|-------------------|--------------|
| Private individuals                            | 5,033,861         | 32.9         |
| Companies                                      | 4,726,229         | 30.9         |
| Financial institutions and insurance companies | 2,620,674         | 17.1         |
| Non-profit organisations                       | 678,174           | 4.4          |
| Government organisations                       | 9,196             | 0.1          |
| Foreign investors                              | 896,806           | 5.9          |
| Nominee registered shares                      | 1,334,210         | 8.7          |
|  | <b>15,299,150</b> | <b>100.0</b> |

| Bank of Åland share data                     | 2016   | 2015   | 2014   | 2013   | 2012   |
|--|--------|--------|--------|--------|--------|
| Number of shares, thousands <sup>1</sup>     | 15,299 | 15,208 | 14,398 | 14,395 | 14,395 |
| Number of shares after dilution, thousands   | 15,572 | 15,411 | 14,498 | 14,395 | 14,395 |
| Average number of shares, thousands          | 15,266 | 15,188 | 14,398 | 14,395 | 14,396 |
| Earnings per share, EUR <sup>2</sup>         | 1.29   | 1.60   | 1.12   | 0.46   | 0.79   |
| Earnings per share after dilution, EUR       | 1.28   | 1.59   | 1.12   | 0.46   | 0.79   |
| Dividend per share, EUR <sup>3</sup>         | 0.60   | 0.60   | 0.40   | 0.15   | 0.15   |
| Dividend payout ratio <sup>4</sup>           | 46.6   | 37.5   | 35.7   | 32.3   | 19.1   |
| Equity capital per share, EUR <sup>5</sup>   | 14.50  | 14.00  | 13.49  | 12.54  | 12.21  |
| Equity capital per share after dilution, EUR | 14.37  | 13.94  | 13.46  | 12.54  | 12.21  |
| Market price per share, closing day, EUR     |        |        |        |        |        |
| Series A                                     | 14.84  | 16.40  | 11.27  | 10.88  | 10.04  |
| Series B                                     | 14.38  | 15.60  | 10.87  | 7.94   | 7.10   |
| Price/earnings ratio <sup>6</sup>            |        |        |        |        |        |
| Series A                                     | 11.5   | 10.2   | 10.1   | 23.4   | 12.8   |
| Series B                                     | 11.2   | 9.7    | 9.7    | 17.1   | 9.0    |
| Effective dividend yield, % <sup>7</sup>     |        |        |        |        |        |
| Series A                                     | 4.0    | 3.7    | 3.5    | 1.4    | 1.5    |
| Series B                                     | 4.2    | 3.8    | 3.7    | 1.9    | 2.1    |
| Market capitalisation, EUR M                 | 223.0  | 242.4  | 159.1  | 133.3  | 121.2  |

1 Number of registered share minus own shares on closing day

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

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

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

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

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

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

#### Bank of Åland shares traded, Helsinki Stock Exchange

| Year |   | Thousands of shares | Volume as % of shares | Price paid, EUR: Highest/Lowest | Average price, EUR |
|------|---|---------------------|-----------------------|---------------------------------|--------------------|
| 2016 | A | 208                 | 3.2                   | 16.99–12.11                     | 14.45              |
| 2016 | B | 809                 | 9.2                   | 16.10–12.62                     | 14.11              |
| 2015 | A | 772                 | 11.9                  | 19.50–11.00                     | 16.28              |
| 2015 | B | 972                 | 11.1                  | 17.58–10.76                     | 15.33              |
| 2014 | A | 194                 | 3.0                   | 12.24–10.00                     | 11.09              |
| 2014 | B | 1,129               | 14.2                  | 11.30–7.86                      | 9.03               |
| 2013 | A | 83                  | 1.3                   | 13.67–10.02                     | 11.60              |
| 2013 | B | 605                 | 7.6                   | 9.00–7.01                       | 8.11               |
| 2012 | A | 177                 | 2.7                   | 15.22–9.34                      | 13.45              |
| 2012 | B | 430                 | 5.4                   | 11.19–6.95                      | 8.39               |

# Definitions

## ACTIVELY MANAGED ASSETS

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

## ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures are financial metrics of historical or future earnings developments, financial position or cash flow that have not been defined in applicable accounting regulations (IFRSs) or capital requirements regulations (CRD/CRR).

The Bank of Åland uses alternative performance measures when they are relevant in order to monitor and describe the Bank's financial situation, to facilitate comparability between periods and to provide additional usable information to the readers of its financial reports.

These measures are not necessarily comparable to similar financial metrics that are presented by other companies.

## CAPITAL BASE

Total of Tier 1 capital and Tier 2 (supplementary) capital.

## CAPITAL COVER RATIO

Capital base divided by risk exposure amount.

## COMMON EQUITY TIER 1 (CET1) CAPITAL

Equity capital excluding proposed dividend, deferred tax and intangible assets and certain other adjustments according to the European Union's Capital Requirements Regulation No. 575/2013 (CRR).

## COMMON EQUITY TIER 1 (CET1) CAPITAL RATIO

Common equity Tier 1 (CET1) capital divided by risk exposure amount. Replaces "core Tier 1 capital" concept.

## CORE FUNDING RATIO

Lending to the public divided by deposits including certificates of deposit, index bonds and debentures issued to the public plus covered bonds issued.

## EARNINGS PER SHARE

Shareholders' portion of earnings for the period divided by average number of shares

## EQUITY/ASSETS RATIO

Equity capital as a percentage of balance sheet total.

## EQUITY CAPITAL PER SHARE

Shareholders' portion of equity capital divided by number of shares less own shares on closing day.

## EXPENSE/INCOME RATIO

Total expenses divided by total income.

## GROSS EQUITY/ASSETS RATIO

Tier 1 capital divided by balance sheet total plus certain off-balance sheet items recalculated using conversion factors defined in the standardised approach.

## GROSS NON-PERFORMING RECEIVABLES, %

Gross doubtful receivables divided by lending to the public before provisions for impairment losses.

## INVESTMENT MARGIN

Net interest income as percentage of average\* balance sheet total.

## LEVEL OF PROVISIONS FOR DOUBTFUL RECEIVABLES

Provisions for individual impairment losses as a percentage of gross doubtful receivables.

## LIQUIDITY COVERAGE RATIO

High-quality liquid assets as a percentage of estimated net liquidity outflow during a 30-day period.

## LOAN LOSS LEVEL

Net impairment losses on loan portfolio and other commitments divided by lending to the public at the beginning of the period.

## NET STABLE FUNDING RATIO (NSFR)

Available stable funding as a percentage of necessary stable funding.

## RETURN ON EQUITY AFTER TAXES (ROE)

Profit for the report period attributable to shareholders divided by average shareholders' portion of equity capital.

## RISK EXPOSURE AMOUNT

Assets and off-balance sheet commitments, risk-weighted according to capital adequacy regulations for credit risk and market risk. Operational risks are calculated and expressed as risk exposure.

## TIER 1 CAPITAL

Common equity Tier 1 (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.



# Financial statements

# Consolidated income statement

(EUR K)

| Bank of Åland Group   |          | Jan 1–Dec 31, 2016 | Jan 1–Dec 31, 2015 |
|---|----------|--------------------|--------------------|
|   | Note     |                    |                    |
| Interest income   |          | 68,635             | 73,984             |
| Interest expenses   |          | -13,544            | -20,010            |
| <b>Net interest income</b>  | G6       | <b>55,091</b>      | <b>53,974</b>      |
| Commission income   |          | 55,310             | 57,964             |
| Commission expenses   |          | -10,386            | -11,501            |
| <b>Net commission income</b>  | G7       | <b>44,925</b>      | <b>46,463</b>      |
| Net income from financial items carried at fair value                             | G8       | 4,204              | 8,035              |
| IT income   |          | 14,923             | 16,003             |
| Share of income in associated companies   |          | 18                 | -34                |
| Other operating income  | G9       | 1,248              | 426                |
| <b>Total income</b>   |          | <b>120,408</b>     | <b>124,868</b>     |
| Staff costs   | G10      | -56,979            | -56,024            |
| Other costs   | G11      | -28,332            | -28,653            |
| Depreciation/amortisation and impairment losses on tangible and intangible assets | G24, G25 | -5,943             | -6,882             |
| <b>Total expenses</b>   |          | <b>-91,255</b>     | <b>-91,559</b>     |
| <b>Profit before impairment losses</b>  |          | <b>29,153</b>      | <b>33,308</b>      |
| Impairment losses on loans and other commitments                                  | G12      | -4,053             | -3,049             |
| <b>Net operating profit</b>   |          | <b>25,100</b>      | <b>30,259</b>      |
| Income taxes  | G13      | -5,412             | -5,955             |
| <b>Net profit for the period</b>  |          | <b>19,687</b>      | <b>24,304</b>      |
| Attributable to:  |          |                    |                    |
| Non-controlling interests   |          | 0                  | 1                  |
| <b>Shareholders in Bank of Åland Plc</b>  |          | <b>19,687</b>      | <b>24,303</b>      |
| Earnings per share, EUR   | G14      | 1.29               | 1.60               |

# Consolidated statement of comprehensive income

(EUR K)

| Bank of Åland Group  |      | Jan 1–Dec 31, 2016 | Jan 1–Dec 31, 2015 |
|--|------|--------------------|--------------------|
|  | Note |                    |                    |
| <b>Profit for the accounting period</b>                                      |      | <b>19,688</b>      | <b>24,304</b>      |
| Cash flow hedge  |      | 223                | 130                |
| Assets available for sale  |      | 789                | -2,017             |
| Translation differences  |      | -132               | 47                 |
| <i>of which hedging of net investment in foreign operations</i>              | G13  | 2,338              | -901               |
| Taxes on items that have been or may be reclassified to the income statement |      | -853               | 702                |
| <i>of which cash flow hedges</i>   |      | -45                | -26                |
| <i>of which assets available for sale</i>                                    |      | -158               | 403                |
| <i>of which hedging of net investment in foreign operations</i>              |      | -650               | 324                |
| <b>Items that have been or may be reclassified to the income statement</b>   |      | <b>27</b>          | <b>-1,139</b>      |
| Re-measurements of defined benefit pension plans                             | G41  | -4,045             | 1,665              |
| Taxes on items that may not be reclassified to the income statement          | G13  | 809                | -333               |
| <b>Items that have been or may be reclassified to the income statement</b>   |      | <b>-3,236</b>      | <b>1,332</b>       |
| <b>Other comprehensive income</b>  | G36  | <b>-3,209</b>      | <b>193</b>         |
| <b>Total comprehensive income for the period</b>                             |      | <b>16,479</b>      | <b>24,497</b>      |
| Attributable to:   |      |                    |                    |
| Non-controlling interests  |      | 0                  | 1                  |
| <b>Shareholders in Bank of Åland Plc</b>                                     |      | <b>16,479</b>      | <b>24,497</b>      |

# Consolidated balance sheet

(EUR K)

| Bank of Åland Group   |      | Dec 31, 2016     | Dec 31, 2015     |
|---|------|------------------|------------------|
|   | Note |                  |                  |
| <b>Assets</b>   |      |                  |                  |
| Cash and balances with central banks                        |      | 513,018          | 199,461          |
| Debt securities eligible for refinancing with central banks | G18  | 503,590          | 632,675          |
| Lending to credit institutions                              | G19  | 201,360          | 44,972           |
| Lending to the public and public sector entities            | G20  | 3,808,199        | 3,616,981        |
| Shares and participations                                   | G21  | 522              | 957              |
| Holdings recognised according to the equity method          | G22  | 58               | 634              |
| Derivative instruments                                      | G23  | 20,907           | 19,362           |
| Intangible assets   | G24  | 15,605           | 9,576            |
| Tangible assets   | G25  | 25,241           | 24,020           |
| Investment properties                                       | G25  | 343              | 351              |
| Current tax assets  |      | 217              | 613              |
| Deferred tax assets   | G28  | 4,952            | 4,361            |
| Other assets  | G26  | 20,191           | 23,795           |
| Accrued income and prepayments                              | G27  | 22,591           | 24,447           |
| <b>Total assets</b>   |      | <b>5,136,794</b> | <b>4,602,204</b> |
| <b>Liabilities</b>  |      |                  |                  |
| Liabilities to credit institutions                          | G29  | 218,656          | 321,604          |
| Liabilities to the public                                   | G30  | 3,027,644        | 2,516,635        |
| Debt securities issued                                      | G31  | 1,451,673        | 1,411,966        |
| Derivative instruments                                      | G23  | 33,126           | 18,952           |
| Current tax liabilities                                     |      | 631              | 1,249            |
| Deferred tax liabilities                                    | G28  | 21,106           | 17,155           |
| Other liabilities   | G32  | 95,728           | 33,180           |
| Provisions  | G33  | 175              | 202              |
| Accrued expenses and prepaid income                         | G34  | 26,885           | 25,699           |
| Subordinated liabilities                                    | G35  | 39,357           | 42,679           |
| <b>Total liabilities</b>                                    |      | <b>4,914,982</b> | <b>4,389,322</b> |
| <b>Equity capital and non-controlling interests</b>         |      |                  |                  |
| Share capital   |      | 41,674           | 41,501           |
| Share premium account                                       |      | 32,736           | 32,736           |
| Reserve fund  |      | 25,129           | 25,129           |
| Hedging reserve   | G36  | -178             | -357             |
| Fair value reserve  | G36  | 1,736            | 1,105            |
| Translation differences                                     | G36  | -366             | 417              |
| Own shares  |      | 0                | -57              |
| Unrestricted equity capital fund                            |      | 25,982           | 24,992           |
| Retained earnings   | G36  | 95,086           | 87,405           |
| <b>Shareholders' portion of equity capital</b>              |      | <b>221,801</b>   | <b>212,871</b>   |
| Non-controlling interests' portion of equity capital        |      | 12               | 11               |
| <b>Total equity capital</b>                                 |      | <b>221,812</b>   | <b>212,882</b>   |
| <b>Total liabilities and equity capital</b>                 |      | <b>5,136,794</b> | <b>4,602,204</b> |

# Statement of changes in equity capital

(EUR K)

| Bank of Åland Group                                      |               |                       |               |                 |                    |                        |             |                                   |                   |  |  |                |
|--|---------------|-----------------------|---------------|-----------------|--------------------|------------------------|-------------|-----------------------------------|-------------------|--|--|----------------|
|  | Share capital | Share premium account | Reserve fund  | Hedging reserve | Fair value reserve | Translation difference | Own shares  | Un-restricted equity capital fund | Retained earnings | Share-holders' portion of equity capital | Non-controlling interests' portion of equity capital | Total          |
| <b>Equity capital, Dec 31, 2014</b>                      | <b>29,104</b> | <b>32,736</b>         | <b>25,129</b> | <b>-461</b>     | <b>2,719</b>       | <b>46</b>              | <b>-215</b> | <b>24,601</b>                     | <b>80,559</b>     | <b>194,217</b>                           | <b>1,660</b>   | <b>195,877</b> |
| Profit for the period                                    |               |                       |               |                 |                    |                        |             |                                   | 24,303            | 24,303                                   | -1   | 24,303         |
| Other comprehensive income                               |               |                       |               | 104             | -1,614             | 371                    |             |                                   | 1,332             | 193                                      | 0  | 193            |
| Transfer of own shares                                   |               |                       |               |                 |                    |                        | 158         |                                   |                   | 158                                      |  | 158            |
| Dividend paid  |               |                       |               |                 |                    |                        |             |                                   | -5,766            | -5,766                                   | -1,297   | -7,063         |
| Share savings programme                                  | 61            |                       |               |                 |                    |                        |             | 391                               | 213               | 665                                      |  | 665            |
| Acquisitions from non-controlling interests <sup>1</sup> | 12,336        |                       |               |                 |                    |                        |             |                                   | -13,236           | -900                                     | -353   | -1,253         |
| <b>Equity capital, Dec 31, 2015</b>                      | <b>41,501</b> | <b>32,736</b>         | <b>25,129</b> | <b>-357</b>     | <b>1,105</b>       | <b>417</b>             | <b>-57</b>  | <b>24,992</b>                     | <b>87,405</b>     | <b>212,871</b>                           | <b>11</b>  | <b>212,882</b> |
| Profit for the period                                    |               |                       |               |                 |                    |                        |             |                                   | 19,687            | 19,687                                   | 0  | 19,687         |
| Other comprehensive income                               |               |                       |               | 178             | 631                | -783                   |             |                                   | -3,236            | -3,209                                   |  | -3,209         |
| Dividend paid  |               |                       |               |                 |                    |                        |             |                                   | -9,160            | -9,160                                   |  | -9,160         |
| Incentive programme                                      | 41            |                       |               |                 |                    |                        | 57          | 263                               | 10                | 370                                      |  | 370            |
| Share savings programme                                  | 132           |                       |               |                 |                    |                        |             | 728                               | 381               | 1,241                                    |  | 1,242          |
| <b>Equity capital, Dec 31, 2016</b>                      | <b>41,674</b> | <b>32,736</b>         | <b>25,129</b> | <b>-178</b>     | <b>1,736</b>       | <b>-366</b>            | <b>0</b>    | <b>25,982</b>                     | <b>95,086</b>     | <b>221,801</b>                           | <b>12</b>  | <b>221,812</b> |

<sup>1</sup> Refers to the merger between the Bank of Åland Plc and Ålandsbanken Asset Management Ab.

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

# Consolidated cash flow statement

(EUR K)

| Bank of Åland Group  | Jan 1–Dec 31, 2016 | Jan 1–Dec 31, 2015 |
|--|--------------------|--------------------|
| Cash flow from operating activities  |                    |                    |
| Net operating profit   | 25,100             | 30,259             |
| Adjustment for net operating profit items not affecting cash flow                        |                    |                    |
| <i>Depreciation/amortisation and impairment losses on intangible and tangible assets</i> | 5,943              | 6,882              |
| <i>Impairment losses on loans and other commitments</i>                                  | 3,803              | 2,887              |
| <i>Unrealised changes in value</i>   | 1,244              | -78                |
| <i>Accrued surpluses/deficits on debt securities and bonds issued</i>                    | 6,707              | 7,733              |
| <i>Defined benefit pension plan</i>  | 224                | 221                |
| Gains/losses from investment activity  | 482                | -54                |
| Income taxes paid  | -1,954             | -1,498             |
| Increase (-) or decrease (+) in receivables from operating activities                    |                    |                    |
| <i>Debt securities eligible for refinancing with central banks</i>                       | 124,393            | -16,671            |
| <i>Lending to credit institutions</i>  | -124,541           | -7,291             |
| <i>Lending to the public</i>   | -236,604           | -256,434           |
| <i>Other assets</i>  | -121               | 2,398              |
| Increase (-) or decrease (+) in liabilities from operating activities                    |                    |                    |
| <i>Liabilities to credit institutions</i>  | -87,047            | -90,781            |
| <i>Liabilities to the public</i>   | 535,510            | 304,126            |
| <i>Debt securities issued</i>  | -117,546           | -78,890            |
| <i>Other liabilities</i>   | 69,792             | -19,754            |
| <b>Cash flow from operating activities</b>   | <b>205,385</b>     | <b>-116,945</b>    |
| Cash flow from investing activities  |                    |                    |
| Investment in shares and participations  | 280                | -4                 |
| Divestment of shares and participations  | 17                 | 1,651              |
| Investment in shares in associated companies and subsidiaries                            | 0                  | 0                  |
| Divestment of shares in associated companies and subsidiaries                            | -1,326             | 0                  |
| Investment in tangible assets  | -2,378             | -934               |
| Divestment of tangible assets  | 109                | 123                |
| Investment in intangible assets  | -8,351             | -5,048             |
| <b>Cash flow from investing activities</b>   | <b>-11,648</b>     | <b>-4,212</b>      |
| Cash flow from financing activities  |                    |                    |
| Share issues, share savings programme/option rights                                      | 1,164              | 452                |
| Finance leases   | -885               | -948               |
| Increase in long-term borrowings from banks  | 0                  | 94,173             |
| Decrease in long-term borrowings from banks  | -81,615            | -97,847            |
| Increase in covered bonds issued   | 248,395            | 252,371            |
| Decrease in covered bonds issued   | 0                  | -91,500            |
| Increase in subordinated debentures  | 6,173              | 8,543              |
| Decrease in subordinated debentures  | -9,387             | -15,585            |
| Dividend paid  | -9,160             | -5,766             |
| Dividend paid to minority  | 0                  | -1,297             |
| Acquisitions of non-controlling interests  | 0                  | -1,297             |
| <b>Cash flow from financing activities</b>   | <b>154,741</b>     | <b>141,459</b>     |
| Exchange rate differences in cash and cash equivalents                                   | -2,191             | 877                |
| <b>Change in cash and cash equivalents</b>   | <b>346,287</b>     | <b>21,179</b>      |
| Cash and cash equivalents at beginning of year   | 232,945            | 211,767            |
| Cash flow from operating activities  | 205,385            | -116,945           |
| Cash flow from investing activities  | -11,648            | -4,212             |
| Cash flow from financing activities  | 154,741            | 141,459            |
| Exchange rate differences in cash and cash equivalents                                   | -2,191             | 877                |
| <b>Cash and cash equivalents at end of year</b>  | <b>579,232</b>     | <b>232,945</b>     |
| Cash and cash equivalents consisted of the following items:                              |                    |                    |
| Cash and deposits with central banks   | 513,018            | 193,265            |
| Claims repayable on demand from credit institutions                                      | 66,214             | 33,485             |
| <b>Total cash and cash equivalents <sup>1</sup></b>                                      | <b>579,232</b>     | <b>232,945</b>     |

<sup>1</sup> "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 70,852 K (76,188), interest paid of EUR 14,324 K (22,562) and dividend income received of EUR 9 K (7).

# Risks and risk management

## Introduction

In this section, the Bank reports on the disclosure requirements laid down in Part Eight of the Capital Requirements Regulation (EU) No 575/2013 (CRR). The information that is provided covers the entire Group and thus, aside from the Bank of Åland Plc, it also relates to the subsidiaries Ab Compass Card Oy Ltd., Crosskey Banking Solutions Ab Ltd and Ålandsbanken Fondbolag Ab. All figures that are presented refer to the situation on December 31, 2016, unless otherwise stated.

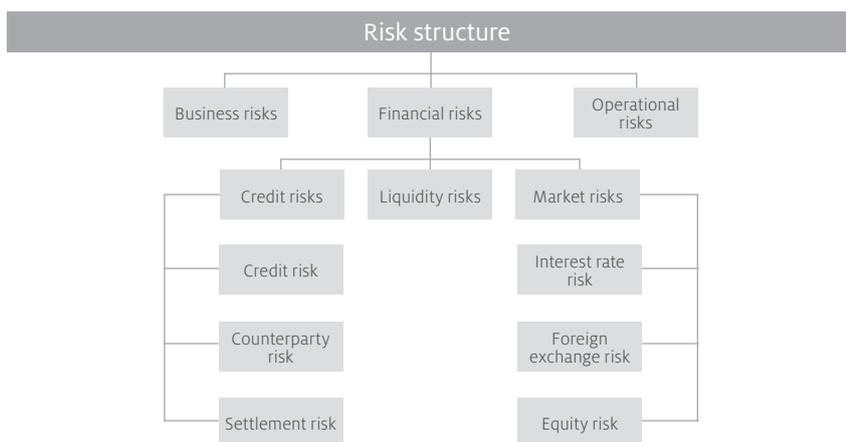
In accordance with Article 431.3 of the CRR, the Bank's Board of Directors has adopted a formal policy document to comply with the disclosure requirements of the regulation. By annually adopting the policy and this part of the Annual Report (the Bank's Pillar 3 information) the Bank's Board ensures that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

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

## General

Exposure to risk is a natural element of a bank's operations. The risks in the Bank of Åland Group can be generally categorised as business risks, financial risks and operational risks.

The Bank of Åland has a conservative approach to risk, and its aim is that all risk shall derive from normal business operations. The Bank carries out no trading operations.



## Risk organisation

The Bank of Åland's risk organisation is based on the three lines of defence:

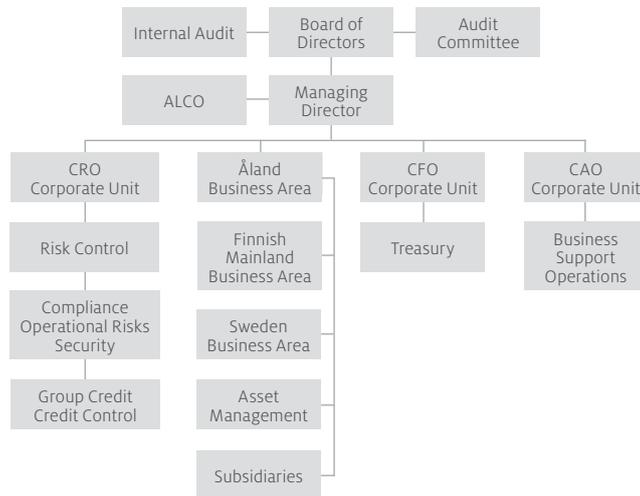
- First line of defence – Risk-takers
- Second line of defence – Risk monitoring and regulatory compliance
- Third line of defence – Independent auditing

“Risk-takers” refers to the operating units of the Group. They have full responsibility for the risks that their own operations generate. Both their risk-taking and its management shall follow strategies, policies, guidelines and risk tolerances established by the Group.

Independent oversight of risks and regulatory compliance are performed by the Risk Control Department, the Compliance & Operational Risks Department and certain portions of the Credit Department. Risk Control and Operational Risks maintain guidelines and frameworks for risk management, as well as promoting a sound risk culture by providing back-up to operating units in their risk management. The Compliance unit is responsible for monitoring regulatory compliance.

Independent auditing is performed by the Internal Audit Department, which reports directly to the Board. Internal Audit is entrusted with evaluating operations through independent oversight of administration and internal controls.

## Risk organisation



### BOARD OF DIRECTORS

The Board of Directors has overall responsibility for risk management and control. It adopts yearly policy documents that specify the overall principles and limits for risk management. The contents of these policy documents are based on the risk appetite and risk tolerance defined by the Board.

### AUDIT COMMITTEE

The Audit Committee of the Board of Directors assists the Board in its oversight of risk management, reports and internal controls.

### MANAGING DIRECTOR

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

### RISK CONTROL

Risk Control, an independent department within the Bank, 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 regularly reporting the Bank's financial and operational risks to the Executive Team and the Board. The Credit Risk Modelling team is responsible for the Bank's internal credit classification system.

### OPERATIONAL RISKS

Operational Risks (part of the Compliance and Operational Risks Department) is the unit within the Bank that is responsible for analysing and reporting the Group's operational risks as well as maintaining regulations, working procedures and IT systems that support operating units in their management of operational risks.

### CREDIT CONTROL

Credit Control, a unit within the Bank's Credit Department, is responsible for ex-ante and ex-post control of credit documentation.

### BUSINESS AREAS, SUBSIDIARIES AND TREASURY

The Bank's Business areas, subsidiaries and Treasury Department are responsible for the risk that arises in their own operational areas and for ensuring that risk-taking occurs within established limits and follows guidelines.

### BACK OFFICE UNITS

The Bank's back office units are responsible for the technical execution of business transactions.

## ALCO – THE ASSET AND LIABILITY COMMITTEE

ALCO – the Asset and Liability Committee – is a decision-making body reporting to the Managing Director that deals with issues concerning capitalisation, liquidity, funding and financial risks.

## Risk management model

The purpose of the Bank's risk management model is to identify, measure, control and report risks in the Bank of Åland Group.

### 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 working descriptions of processes.
- Systems for measuring, monitoring and controlling risks, adapted to the complexity and scale of operations.
- Regular reporting to the Board and the Executive Team.
- Resources and expertise adapted to operations.
- Incident reporting.

## ASSET AND LIABILITY MANAGEMENT

Asset and Liability Management (ALM) is a concept and the name of a process 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 actually 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.

In its ALM work, the Bank uses an IT support system, with which it creates an ALM process. Among other things, this process includes analysis of the structure of interest rate fixing periods and maturities related to assets and liabilities, hedging strategies, capital planning, funding needs and stress tests. The process consists of both static and dynamic scenarios, predefined as well as specific to separate business decisions.

## Business risk

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

Strategic risk refers both to changes in fundamental market conditions and to the work for which the Board and the Managing Director are responsible related to the planning and organisation of the company's operations.

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

Reputational risk is the risk of a loss of respect among customers and employees as well as public authorities, which may lead to reduced income.

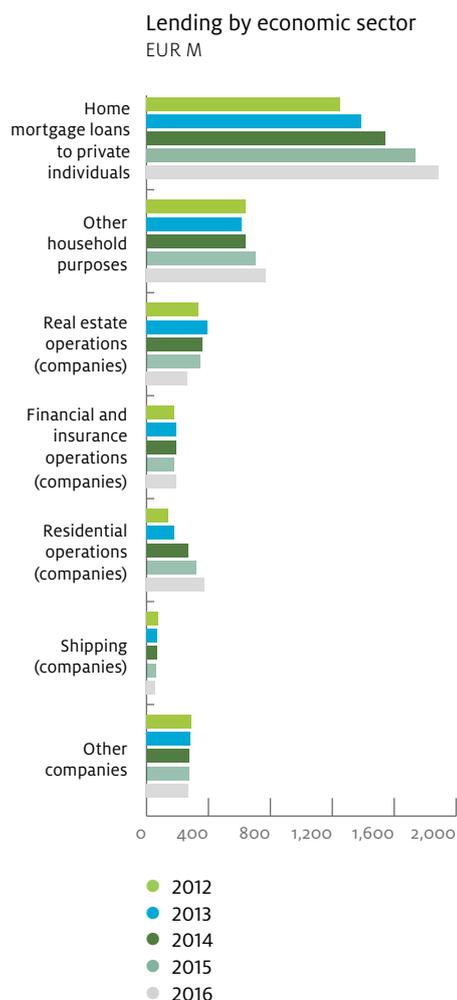
## Credit risk

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

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

The table below shows the Group's credit risk exposure:

| Credit risk exposure  | 2016         | 2015         |
|---|--------------|--------------|
| <b>EUR M</b>  |              |              |
| Balances with central banks                                 | 507          | 193          |
| Lending to the public                                       | 3,808        | 3,617        |
| Lending to credit institutions                              | 201          | 45           |
| Debt securities eligible for refinancing with central banks | 504          | 633          |
| Derivative instruments                                      | 21           | 19           |
| Guarantees  | 12           | 20           |
| Unutilised overdraft limits                                 | 85           | 76           |
| Unutilised credit card limits                               | 67           | 120          |
| Lines of credit   | 200          | 223          |
| Other commitments   | 50           | 8            |
| <b>Total</b>  | <b>5,456</b> | <b>4,955</b> |



During 2016, the overall credit risk exposure of the Group rose at the same pace as the increase in its lending to the public. Lending to the public increased by more than 5 per cent during the year. Lending mainly increased in the Swedish home mortgage loan segment. Meanwhile there were also increases in exposures attributable to the Bank's liquidity and portfolio management. For example, balances with central banks increased from EUR 193 M to EUR 507 M compared to the end of 2015. A substantial share of bond holdings issued by financial institutions consisted of Nordic covered bonds with very good credit quality.

Overall credit strategy is regulated in the Group's credit policy document. The level of acceptable risk is established in the 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 counterparty risk, specific counterparty limits are established.

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

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

Every decision maker on credit matters at the Bank has an established individual limit, and within this framework the decision maker is entitled to manage credit risks. Decisions are documented by the authorised decision maker. A credit committee makes decisions on credit matters that fall outside the limit of an individual officer. The Credit Committee of the Executive Team includes the Managing Director, the Chief Risk Officer (CRO) and the Credit Manager. The Credit Committee of the Executive Team makes decisions on credit matters up to EUR 10 M and the Bank's Board of Directors makes decisions on credit matters larger than this. Credit matters presented to the Credit Committee of the Executive Team are first dealt with by the Group's Credit Scoring Department, which ensures that the credit matter provides a comprehensive and correct picture of the customer's financial situation and future repayment ability and the value of the collateral offered. Before disbursement of a loan, a strict formal verification of the loan commitment documentation occurs. This verification is performed by an independent control section within the CRO Corporate Unit.

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

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

## LENDING TO THE PUBLIC

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

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

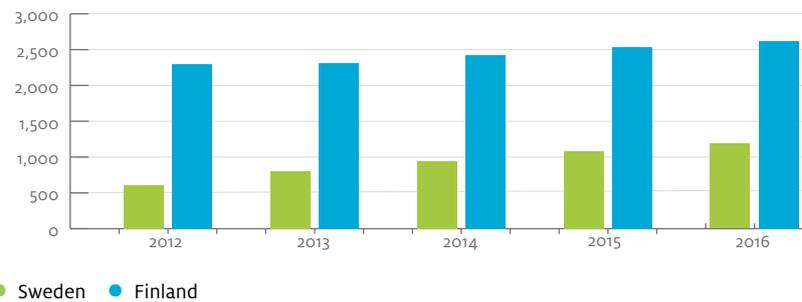
| Lending to the public by business segment         |                 | 2016            |              |              |
|---|-----------------|-----------------|--------------|--------------|
| EUR M   | Private Banking | Premium Banking | Compass Card | Total        |
| Home mortgage loans                               | 533             | 1,355           |              | 1,888        |
| Securities and other investments                  | 271             | 164             |              | 434          |
| Business operations                               | 41              | 102             |              | 142          |
| Other household purposes                          | 63              | 96              | 32           | 191          |
| <b>Total private individuals</b>                  | <b>908</b>      | <b>1,717</b>    |              | <b>2,656</b> |
| Shipping  |                 | 56              |              | 56           |
| Wholesale and retail trade                        | 13              | 26              |              | 39           |
| Housing operations                                | 336             | 36              |              | 372          |
| Other real estate operations                      | 191             | 71              |              | 262          |
| Financial and insurance operations                | 135             | 59              |              | 194          |
| Hotel and restaurant operations                   | 6               | 22              |              | 28           |
| Other service operations                          | 58              | 38              |              | 96           |
| Agriculture, forestry and fishing                 | 2               | 10              |              | 12           |
| Construction                                      | 17              | 17              |              | 34           |
| Other industry and crafts                         | 4               | 30              |              | 34           |
| <b>Total companies</b>                            | <b>762</b>      | <b>365</b>      |              | <b>1,127</b> |
| <b>Public sector and non-profit organisations</b> | <b>5</b>        | <b>20</b>       |              | <b>25</b>    |
| <b>Total lending</b>                              | <b>1,675</b>    | <b>2,102</b>    |              | <b>3,808</b> |

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

| Lending to the public                             |              | 2016         |              |              | 2015         |              |  |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--|
| EUR M   | Finland      | Sweden       | Total        | Finland      | Sweden       | Total        |  |
| Home mortgage loans                               | 1,320        | 568          | 1,888        | 1,287        | 449          | 1,736        |  |
| Securities and other investments                  | 394          | 40           | 434          | 335          | 37           | 372          |  |
| Business operations                               | 138          | 4            | 142          | 129          | 5            | 134          |  |
| Other household purposes                          | 141          | 50           | 191          | 150          | 49           | 199          |  |
| <b>Total private individuals</b>                  | <b>1,993</b> | <b>662</b>   | <b>2,656</b> | <b>1,901</b> | <b>540</b>   | <b>2,441</b> |  |
| Shipping  | 56           | 0            | 56           | 61           | 0            | 61           |  |
| Wholesale and retail trade                        | 36           | 3            | 39           | 38           | 3            | 41           |  |
| Housing operations                                | 62           | 310          | 372          | 56           | 262          | 318          |  |
| Other real estate operations                      | 126          | 136          | 262          | 125          | 219          | 344          |  |
| Financial and insurance operations                | 145          | 49           | 194          | 137          | 39           | 176          |  |
| Hotel and restaurant operations                   | 23           | 4            | 27           | 23           | 0            | 23           |  |
| Other service operations                          | 81           | 16           | 97           | 82           | 22           | 104          |  |
| Agriculture, forestry and fishing                 | 12           | 0            | 12           | 19           | 0            | 19           |  |
| Construction                                      | 26           | 7            | 33           | 28           | 4            | 32           |  |
| Other industry and crafts                         | 34           | 0            | 34           | 36           | 0            | 36           |  |
| <b>Total companies</b>                            | <b>601</b>   | <b>525</b>   | <b>1,127</b> | <b>606</b>   | <b>548</b>   | <b>1,154</b> |  |
| <b>Public sector and non-profit organisations</b> | <b>25</b>    | <b>0</b>     | <b>25</b>    | <b>22</b>    | <b>0</b>     | <b>22</b>    |  |
| <b>Total lending</b>                              | <b>2,619</b> | <b>1,187</b> | <b>3,808</b> | <b>2,529</b> | <b>1,088</b> | <b>3,617</b> |  |

## Lending by country

EUR M



● Sweden ● Finland

During 2016, lending increased the most in Sweden, by EUR 99 M, while the increase in Finland amounted to EUR 90 M. The increase in Sweden occurred mainly in the home mortgage loan segment and to tenant-owned cooperative housing associations, which comprise the Bank's specially selected growth area for lending. In Finland, the increase during the year consisted mostly of financing to private individuals for the purchase of securities. During the year, lending to other real estate operations in Sweden meanwhile decreased by about EUR 82 M. Lending to private individuals accounts for about 70 per cent of the Group's total lending to the public, compared to 67 per cent at the end of 2015. The remaining portion, aside from corporate lending, consists of lending to public sector entities.

### CREDIT RISK AND COUNTERPARTY RISK IN TREASURY OPERATIONS

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

Counterparty risks also arise in the Bank's Treasury operations when the Bank enters into derivative contracts with various counterparties. This counterparty credit risk is managed through netting agreements concluded with counterparties in accordance with the International Swaps and Derivatives Association (ISDA) standard. Receivables and liabilities covered under the same agreement are thus offset against each other. To further manage risk, the Bank enters into Credit Support Annex (CSA) agreements with counterparties, which regulate the posting and receiving of collateral, depending on how net exposure looks for the Bank. The Bank mainly uses cash in collateral management for derivative transactions. During 2016, the Bank also began transferring a portion of its counterparty credit risk to so-called central counterparties through central clearing procedures.

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

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

### Credit risk exposure in the Group's Treasury operations

| EUR M                |  |                             |               |                               |                    |                |               |                |
|----------------------|--|-----------------------------|---------------|-------------------------------|--------------------|----------------|---------------|----------------|
| Credit quality steps | Bonds issued by sovereigns and state-guaranteed counterparties | Balances with central banks | Covered bonds | Miscellaneous unsecured bonds | Overnight deposits | Cheque account | Derivatives * | Total          |
| 1                    | 105.4  | 506.6                       | 318.8         | 33.4                          | 0.0                | 193.4          | 0.0           | 1,157.7        |
| 2                    | 0.0  | 0.0                         | 9.1           | 25.2                          | 0.0                | 5.9            | 0.5           | 40.7           |
| 3                    | 0.0  | 0.0                         | 0.0           | 0.0                           | 0.0                | 10.6           | 0.0           | 10.6           |
| Unrated              | 0.0  | 0.0                         | 5.1           | 10.4                          | 0.0                | 1.5            | 0.0           | 17.0           |
| <b>Total</b>         | <b>105.4</b>   | <b>506.6</b>                | <b>333.0</b>  | <b>69.0</b>                   | <b>0.0</b>         | <b>211.5</b>   | <b>0.5</b>    | <b>1,226.0</b> |

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

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

### Counterparty risk exposure by region

| EUR M                    |  |  | Counterparty risk exposure | %  |
|--------------------------|--|--|----------------------------|----|
| European Union           |  |  | 1,105.7                    | 90 |
| Non-EU Nordic countries  |  |  | 107.4                      | 9  |
| Other European countries |  |  | 0.5                        | 0  |
| North America            |  |  | 12.3                       | 1  |
| Rest of the world        |  |  | 0.2                        | 0  |
| <b>Total</b>             |  |  | <b>1,226.0</b>             |    |

The above table shows how overall counterparty risk in Treasury operations is allocated by region. The table shows that investments are almost exclusively attributable to entities domiciled in the European Economic Area (EEA). Moreover, the Nordic countries account for 72 per cent of total exposure in the above table.

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

### Derivates exposures

| EUR M        | Nominal amount | Positive gross amount | Exposure amount (gross) | Collateral received | Exposure amount (net) | Risk exposure amount | Capital requirement |
|--------------|----------------|-----------------------|-------------------------|---------------------|-----------------------|----------------------|---------------------|
| Fixed income | 1,078.5        | 22.2                  | 30.1                    | 2.6                 | 27.5                  | 9.8                  | 0.8                 |
| Currency     | 386.0          | 1.4                   | 5.3                     | 0.0                 | 5.2                   | 1.7                  | 0.1                 |
| Equity       | 6.6            | 0.9                   | 1.4                     | 0.4                 | 1.1                   | 0.5                  | 0.0                 |
| Credit       | 10.2           | 0.3                   | 0.3                     | 0.1                 | 0.2                   | 0.1                  | 0.0                 |
| <b>Total</b> | <b>1,481.3</b> | <b>24.9</b>           | <b>37.1</b>             | <b>3.1</b>          | <b>34.0</b>           | <b>12.0</b>          | <b>1.0</b>          |

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

During 2017, the Group will transfer most of its interest rate swaps to central clearing through qualified central counterparties. A large proportion of the derivatives exposure amount consists of currency interest rate swaps (CIRSS) that will not be transferred to central clearing.

In addition to the above capital requirement, there is also a capital requirement for credit value adjustment (CVA) risk related to non-standardised derivative contracts that are not cleared through a central counterparty. At year-end 2016, this capital requirement amounted to EUR 1.1 M. Since the Bank will be transferring its exposures to a central counterparty, this capital requirement will decrease.

## CONCENTRATION RISK

Risk concentrations in lending arise, for example, when the loan portfolio includes concentrations of lending to certain individual customers or customer entities, economic sectors, regions or countries. The Bank manages concentration risk in its loan portfolio by setting limits on individual customers and certain economic sectors. Banks are subject to legal limits on concentrations in relation to individual customers or customer entities. Large exposures are defined in capital adequacy regulations as customers and customer entities whose total exposure is 10 per cent or more of the Bank's capital base. The Group's large exposures are reported quarterly to the Financial Supervisory Authority as part of common reporting (COREP). According to capital requirement regulations, exposure to a single customer or customer entity may not exceed 25 per cent of the Bank's capital base. In calculating the exposure amount, all of a customer's commitments inside and outside the balance sheet must be included in their full amount. In comparisons with the maximum, exceptions are allowed for amounts consisting of exposures to sovereigns, multilateral development banks and similar counterparties. The Act on Credit Institutions also prescribes a special exception for holdings of qualified covered bonds, of which 90 per cent of the amount may be subtracted.

In small institutions, however, a predetermined and higher limit than 25 per cent for institutional exposures may be approved by the Board of Directors. At the end of 2016, the Group had 21 (20) exposures at the customer entity level that reached the reporting threshold of 10 per cent of its capital base. Of these, institutions accounted for 9 (9) and exposures to sovereigns or similar counterparties totalled 5 (4).

A "customer entity" refers to customers (physical persons or legal entities) that are related to each other in such a way that one party may exercise control over the other or otherwise share substantial economic interests with each other. Substantial economic interests occur when economic difficulties for one customer in the customer entity lead to the likelihood that other or all customers belonging to the customer entity will probably also encounter payment difficulties. An excessive concentration of exposures to one single customer or group of customers with mutual ties may lead to a high loan loss risk. As one step in risk management, the customer advisor elucidates any connections between a corporate customer to other companies and private individuals.

The Risk Control Department monitors the concentration risk in lending on a monthly basis and reports regularly on this to the Executive Team and the Board of Directors. If the above limits are exceeded, this must be reported immediately to the Financial Supervisory Authority. Every year, the Bank examines the need for extra capital for concentration risk in its internal capital assessment, both for sectoral concentration risk and concentration among individual customers, since this form of risk is not included in and covered by Pillar 1 capital requirement regulations.

## DESCRIPTION OF THE RISK CLASSIFICATION SYSTEM FOR LENDING TO THE PUBLIC

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

Since March 31, 2012, the Bank has used its IRB approach for external reporting of the capital requirement for credit risk in the mainland Finnish and Åland retail portfolio, and since June 1, 2016 the IRB approach is also being applied to the corporate exposure category on the Finnish mainland and in Åland.

For other loan portfolios, in practice the Swedish retail and corporate portfolios, the Bank is using the standardised approach for the time being. It will gradually shift these portfolios into the IRB approach following approval by the Financial Supervisory Authority. In conjunction with its permit to use the IRB approach for the Finnish retail portfolio, the Bank was granted permission to exempt sovereign, institutional and equities exposures from calculation according to the IRB approach on a permanent basis, since these exposure categories both historically and currently consist of a small number of counterparties. Subsidiaries in the Bank of Åland Group are also exempted from the IRB approach, according to the permit.

In the IRB approach, the Bank's own statistical calculations are based on internal data for estimating the probability of default (PD) and loss given default (LGD) for the Bank's loan customers. The internal risk classification system is the most important cornerstone of the

credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for risk follow-up, internal capital management and reporting of credit risk.

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

*Probability of default (PD)* – the probability that a customer will default within twelve months. According to the Bank's overall definition, a customer is regarded as having defaulted when the delay related to unpaid interest and/or loan principal amounts to more than 90 days. However, other factors may also cause the customer to meet the Bank's definition of default, for example bankruptcy filings. The estimated PD value is adjusted for economic cycles, using a factor that will enable the PD value to cover a lengthy economic cycle (1991 onward). The Bank adds safety margins which, based on the size of the portfolios, proportionally correct for limited supporting data. The PD value that has been calculated is then placed in the Bank's seven-point PD scale for non-defaulted loans. There is an additional category for loans that have defaulted and thus have a PD value of 100 per cent. The Bank's models for estimating the probability of default for retail exposures are based entirely on statistical analysis data that the Bank has stored concerning the repayment histories of its customers. In its model for corporate customers, the Bank also uses external scoring data based on key financial ratios of companies, their economic sectors and other factors. These external rating models that the Bank uses in its PD calculation consist, in themselves, of IRB models developed in compliance with strict regulatory requirements.

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

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

*Expected loss (EL)* – a percentage figure for the loss that the Bank expects to incur on loans that default within one year. Multiplying PD and LGD by the EAD amount ( $PD \times LGD \times EAD$ ) results in the expected loss expressed in euros. The Bank's model for calculating expected loss has elements of both Point in Time (LGD) and "through the cycle" approaches (PD) and, to summarise, is based on a full economic cycle including a recession. Since the risk parameters in this calculation include adjustments for economic cycles (see above), the outcome is a stressed EL value. EL is also regarded as the cost of credit risk in the Bank's pricing model, and for every loan, EL must be covered by actual interest income. Since the loss is assumed to be known there must also be a provision for it in the Bank's capital base, to the extent no impairment loss has already been recognised for the claim according to accounting principles. The difference between the estimated expected loss amount for the IRB-approved portfolio and the individual impairment losses it includes is reported as a deduction from core Tier 1 capital on a separate line in the capital base (expected losses according to IRB approach beyond recognised losses).

*Unexpected loss (UL)* – unlike EL, the capital requirement describes the unexpected loss that the Bank must make allowances for in its capital adequacy analysis, and this calculation uses such parameters as PD, LGD and EAD. These parameters are inserted into a risk-weighting formula stipulated by the Financial Supervisory Authority (FSA), but this formula is adjusted for different types of exposures, for example collateral including and not including residential real estate. Multiplying the risk weight by the exposure amount (EAD) results in the risk-weighted amount used in the capital adequacy analysis. The Bank makes allowances for the unexpected loss in its pricing, in the form of a cost of capital that includes a return requirement adopted by the Board of Directors.

The Risk Office unit carries out a large-scale annual evaluation of the system, and the findings of this evaluation are reported to the Board of Directors. This oversight includes a yearly validation and possibly a follow-up calibration of the risk measurements and models that are applied in risk classification. There is also regular monitoring to ensure that risk is being measured in a reliable, consistent way. The rating is dynamic; in other words, it is re-assessed if there are signs that the counterparty's repayment ability has changed. The Internal Auditing Department performs independent monitoring of the risk classification system and its use in operations. The Bank may not make changes in its internal models that have a significant impact on the capital requirement without FSA approval. As mentioned above, the financial position and credit risk of corporate customers are also followed up with the help of external risk classification, in Finland by the credit rating company Suomen Asiakastieto Oy in Finland and in Sweden by Upplysningscentralen AB (UC). For large corporate customers, the Bank must also perform a qualitative assessment of the customer, to be reported yearly and be presented to the Bank's Credit Committee. This qualitative assessment is an important complement to statistical scoring of a corporate customer.

Non-performing and weak loan commitments, as well as trends in special credit risk indicators for lending, are reported monthly to the Managing Director and quarterly to the Board in conjunction with the Group's internal risk report.

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

| IRB-approved retail exposures with property as collateral – Private individuals |                      |                |                |              |                    |                      |                |                |              |                    |
|---|----------------------|----------------|----------------|--------------|--------------------|----------------------|----------------|----------------|--------------|--------------------|
| 2016  |                      |                |                |              |                    | 2015                 |                |                |              |                    |
| Risk category   | PD by category value | Risk weight, % | EAD, EUR M     | EAD, %       | Acc % of total EAD | PD by category value | Risk weight, % | EAD, EUR M     | EAD, %       | Acc % of total EAD |
| 1   | 0.04                 | 1              | 80.2           | 4.6          | 4.6                | 0.04                 | 1              | 74.9           | 4.5          | 4.5                |
| 2   | 0.11                 | 2              | 215.8          | 12.4         | 17.0               | 0.11                 | 2              | 186.8          | 11.2         | 15.6               |
| 3   | 0.13                 | 3              | 302.6          | 17.4         | 34.4               | 0.14                 | 3              | 295.5          | 17.7         | 33.3               |
| 4   | 0.21                 | 5              | 583.4          | 33.5         | 67.8               | 0.21                 | 5              | 550.0          | 32.9         | 66.2               |
| 5   | 0.75                 | 14             | 435.0          | 25.0         | 92.8               | 0.75                 | 14             | 424.6          | 25.4         | 91.6               |
| 6   | 7.31                 | 63             | 101.0          | 5.8          | 98.6               | 7.31                 | 65             | 108.0          | 6.5          | 98.0               |
| 7   | 28.75                | 119            | 13.2           | 0.8          | 99.4               | 28.75                | 110            | 17.2           | 1.0          | 99.0               |
| Defaulted   | 100.00               | 339            | 11.3           | 0.6          | 100.0              | 100.00               | 297            | 16.0           | 1.0          | 100.0              |
| <b>Total</b>  |                      |                | <b>1,742.5</b> | <b>100.0</b> |                    |                      |                | <b>1,673.0</b> | <b>100.0</b> |                    |
| <b>Risk category 1–5</b>  |                      |                | <b>1,617.0</b> |              |                    |                      |                | <b>1,531.8</b> |              |                    |
| <b>Risk category 1–5</b>  |                      |                | <b>92.8%</b>   |              |                    |                      |                | <b>91.6%</b>   |              |                    |

| IRB-approved retail exposures – Small and medium-sized companies |                      |                |              |              |                    |                      |                |              |              |                    |
|--|----------------------|----------------|--------------|--------------|--------------------|----------------------|----------------|--------------|--------------|--------------------|
| 2016   |                      |                |              |              |                    | 2015                 |                |              |              |                    |
| Risk category  | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD |
| 1  | 0.15                 | 6              | 4.7          | 3.0          | 3.0                | 0.15                 | 5              | 3.8          | 2.4          | 2.4                |
| 2  | 0.22                 | 7              | 15.3         | 9.7          | 12.6               | 0.22                 | 6              | 14.7         | 9.2          | 11.6               |
| 3  | 0.79                 | 13             | 27.0         | 17.1         | 29.8               | 0.79                 | 13             | 24.9         | 15.6         | 27.2               |
| 4  | 2.61                 | 26             | 60.2         | 38.1         | 67.9               | 2.61                 | 27             | 64.8         | 40.7         | 67.9               |
| 5  | 7.80                 | 51             | 28.1         | 17.8         | 85.7               | 7.80                 | 48             | 29.3         | 18.4         | 86.3               |
| 6  | 13.31                | 55             | 15.7         | 10.0         | 95.6               | 13.31                | 65             | 13.2         | 8.3          | 94.5               |
| 7  | 53.00                | 84             | 5.4          | 3.4          | 99.0               | 53.00                | 71             | 4.9          | 3.1          | 97.6               |
| Defaulted  | 100.00               | 290            | 1.5          | 1.0          | 100.0              | 100.00               | 123            | 3.8          | 2.4          | 100.0              |
| <b>Total</b>   |                      |                | <b>157.9</b> | <b>100.0</b> |                    |                      |                | <b>159.3</b> | <b>100.0</b> |                    |
| <b>Risk category 1–5</b>   |                      |                | <b>135.3</b> |              |                    |                      |                | <b>137.4</b> |              |                    |
| <b>Risk category 1–5</b>   |                      |                | <b>85.7%</b> |              |                    |                      |                | <b>86.3%</b> |              |                    |

**IRB-approved retail exposures – Other household exposures**

| Risk category            | 2016                 |                |              |              |                    | 2015                 |                |              |              |                    |
|--------------------------|----------------------|----------------|--------------|--------------|--------------------|----------------------|----------------|--------------|--------------|--------------------|
|                          | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD |
| 1                        | 0.04                 | 2              | 6.0          | 2.4          | 2.4                | 0.04                 | 2              | 4.1          | 1.8          | 1.8                |
| 2                        | 0.11                 | 4              | 26.1         | 10.3         | 12.7               | 0.11                 | 4              | 22.2         | 10.0         | 11.9               |
| 3                        | 0.13                 | 5              | 31.5         | 12.5         | 25.2               | 0.14                 | 6              | 23.6         | 10.7         | 22.5               |
| 4                        | 0.21                 | 8              | 83.1         | 32.9         | 58.0               | 0.21                 | 8              | 70.4         | 31.8         | 54.3               |
| 5                        | 0.75                 | 20             | 76.4         | 30.2         | 88.3               | 0.75                 | 20             | 67.3         | 30.4         | 84.7               |
| 6                        | 7.31                 | 45             | 22.6         | 8.9          | 97.2               | 7.31                 | 46             | 22.5         | 10.2         | 94.8               |
| 7                        | 28.75                | 71             | 3.1          | 1.2          | 98.4               | 28.75                | 75             | 7.5          | 3.4          | 98.2               |
| Defaulted                | 100.00               | 93             | 4.0          | 1.6          | 100.0              | 100.00               | 87             | 3.9          | 1.8          | 100.0              |
| <b>Total</b>             |                      |                | <b>252.8</b> | <b>100.0</b> |                    |                      |                | <b>221.5</b> | <b>100.0</b> |                    |
| <b>Risk category 1-5</b> |                      |                | <b>223.1</b> |              |                    |                      |                | <b>187.6</b> |              |                    |
| <b>Risk category 1-5</b> |                      |                | <b>88.3%</b> |              |                    |                      |                | <b>84.7%</b> |              |                    |

**IRB-approved corporate exposures – Large companies**

| Risk category            | 2016                 |                |              |             |                    | 2015                 |                |              |              |                    |
|--------------------------|----------------------|----------------|--------------|-------------|--------------------|----------------------|----------------|--------------|--------------|--------------------|
|                          | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %      | Acc % of total EAD | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD |
| 1                        | 0.50                 | 38             | 1.0          | 0.7         | 0.7                | 0.40                 | 53             | 4.6          | 3.1          | 3.1                |
| 2                        | 1.06                 | 33             | 72.5         | 48.7        | 48.7               | 0.54                 | 29             | 68.5         | 45.4         | 45.4               |
| 3                        | 1.44                 | 46             | 42.2         | 28.4        | 28.4               | 0.89                 | 49             | 38.1         | 25.2         | 25.2               |
| 4                        | 1.80                 | 89             | 19.1         | 12.8        | 12.8               | 1.34                 | 64             | 18.9         | 12.5         | 12.5               |
| 5                        | 5.25                 | 100            | 13.4         | 9.0         | 9.0                | 5.07                 | 112            | 12.9         | 8.5          | 8.5                |
| 6                        |                      |                |              |             |                    | 22.73                | 237            | 4.4          | 2.9          | 2.9                |
| 7                        |                      |                |              |             |                    | 68.30                | 124            | 2.7          | 1.8          | 1.8                |
| Defaulted                | 0.00                 | 0              | 0.0          | 0.0         | 0.0                | 100.00               | 0              | 0.8          | 0.5          | 0.5                |
| Unclassified             | 8.53                 | 74             | 0.6          | 0.4         | 0.4                |                      |                |              |              |                    |
| <b>Total</b>             |                      |                | <b>148.7</b> | <b>58.8</b> |                    |                      |                | <b>151.0</b> | <b>100.0</b> |                    |
| <b>Risk category 1-5</b> |                      |                | <b>148.2</b> |             |                    |                      |                | <b>143.0</b> |              |                    |
| <b>Risk category 1-5</b> |                      |                | <b>99.6%</b> |             |                    |                      |                | <b>94.7%</b> |              |                    |

**IRB-approved corporate exposures – Small and medium-sized companies**

| Risk category            | 2016                 |                |              |              |                    | 2015                 |                |              |              |                    |
|--------------------------|----------------------|----------------|--------------|--------------|--------------------|----------------------|----------------|--------------|--------------|--------------------|
|                          | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD | PD by category value | Risk weight, % | EAD, EUR M   | EAD, %       | Acc % of total EAD |
| 1                        | 0.50                 | 58             | 36.2         | 12.9         | 12.9               | 0.40                 | 47             | 42.1         | 14.2         | 14.2               |
| 2                        | 1.06                 | 47             | 59.4         | 21.3         | 21.3               | 0.54                 | 34             | 45.7         | 15.4         | 15.4               |
| 3                        | 1.44                 | 56             | 56.8         | 20.3         | 20.3               | 0.89                 | 58             | 80.4         | 27.0         | 27.0               |
| 4                        | 1.80                 | 68             | 49.7         | 17.8         | 17.8               | 1.34                 | 63             | 83.2         | 28.0         | 28.0               |
| 5                        | 5.25                 | 100            | 31.5         | 11.3         | 11.3               | 5.07                 | 88             | 17.4         | 5.8          | 5.8                |
| 6                        | 21.47                | 178            | 21.1         | 7.6          | 7.6                | 22.73                | 143            | 5.4          | 1.8          | 1.8                |
| 7                        | 63.83                | 144            | 5.3          | 1.9          | 1.9                | 68.30                | 148            | 10.2         | 3.4          | 3.4                |
| Defaulted                | 100.00               | 0              | 7.6          | 2.7          | 2.7                | 100.00               | 0              | 12.8         | 4.3          | 4.3                |
| Unclassified             | 8.53                 | 85             | 11.6         | 4.1          | 4.1                |                      |                |              |              |                    |
| <b>Total</b>             |                      |                | <b>279.2</b> | <b>100.0</b> |                    |                      |                | <b>297.3</b> | <b>100.0</b> |                    |
| <b>Risk category 1-5</b> |                      |                | <b>233.6</b> |              |                    |                      |                | <b>268.9</b> |              |                    |
| <b>Risk category 1-5</b> |                      |                | <b>83.6%</b> |              |                    |                      |                | <b>90.4%</b> |              |                    |

| IRB-approved corporate exposures – Special lending (slotting method) |                |             |             |                    |                |             |              |                    |
|--|----------------|-------------|-------------|--------------------|----------------|-------------|--------------|--------------------|
| Risk category  | 2016           |             |             |                    | 2015           |             |              |                    |
|  | Risk weight, % | EAD, EUR M  | EAD, %      | Acc % of total EAD | Risk weight, % | EAD, EUR M  | EAD, %       | Acc % of total EAD |
| 1  | 50             | 1.0         | 8.9         | 8.9                | 50             | 1.5         | 9.3          | 9.3                |
| 2  | 70             | 0.0         | 0.1         | 0.1                | 70             | 0.4         | 2.7          | 2.7                |
| 3  | 90             | 0.0         | 0.0         | 0.0                | 90             | 4.5         | 28.5         | 28.5               |
| 4  | 115            | 5.0         | 46.7        | 46.7               | 115            | 0.0         | 0.0          | 0.0                |
| 5  | 250            | 1.1         | 10.2        | 10.2               | 250            | 1.2         | 7.4          | 7.4                |
| Defaulted  | 0              | 3.7         | 34.1        | 34.1               | 0              | 8.2         | 52.2         | 52.2               |
| <b>Total</b>   |                | <b>10.7</b> |             |                    |                | <b>15.7</b> |              |                    |
| <b>Risk category 1–3</b>   |                |             | <b>1.0</b>  |                    |                |             | <b>6.3</b>   |                    |
| <b>Risk category 1–3</b>   |                |             | <b>9.0%</b> |                    |                |             | <b>40.4%</b> |                    |

The exposure-weighted PD estimate according to category value – including adjustment for economic cycles and safety margins – for all non-defaulted household exposures that were used in the calculation of capital requirements on December 31, 2016 was 1.34 per cent. For household exposures with property as collateral, the weighted PD estimate amounted to 0.94 per cent, for small and medium-sized companies and for other household exposures 5.69 and 1.35 per cent, respectively.

At the end of 2015, the exposure-weighted PD estimate according to category value – including adjustments for economic cycles and safety margins – for all non-defaulting household exposures was 1.52 per cent. For household exposures with property as collateral, the weighted PD estimate amounted to 1.07 per cent, for small and medium-sized companies and for other household exposures 5.52 and 2.07 per cent, respectively.

The exposure-weighted PD estimate for non-defaulted corporate exposures on December 31, 2015 was 3.90 per cent and on December 31, 2016 it was 3.43 per cent. As part of the permitting process, PD estimates by category were adjusted during 2016. To obtain figures that are comparable, the amounts on both dates are calculated using PD estimates by category, the safety margins and the adjustments for economic cycles that were used at the end of 2016. On December 31, 2016, a separate conservative PD estimate was introduced for companies without valid PD classification, which was taken into account in the reported PD estimates on December 31, 2016 but not on December 31, 2015, but the effect of this change is small since it only concerns a very limited number of companies.

The table below shows actual default outcomes during 2016. Note that these actual outcomes were observed during a period when the macroeconomic situation was better than the average situation to which the cyclical adjustment is made. For corporate exposures and exposures to companies in the household portfolio, the difference between estimates and observed amounts is larger than for exposures to private individuals, due to greater statistical uncertainty in the estimates because of less data material, which makes it necessary to use larger add-ons to ensure that the estimates are conservative.

| Default frequency* in 2016                                      |                   |                   |
|---|-------------------|-------------------|
| Exposure category   | Actual outcome, % | Estimated value** |
| Retail secured by immovable property                            | 0.43              | 0.95              |
| Small and medium-sized companies classified as retail exposures | 1.60              | 5.04              |
| Other retail exposures  | 1.25              | 2.44              |
| <b>Total retail exposures</b>                                   | <b>0.71</b>       | <b>1.61</b>       |
| <b>Corporate exposures</b>                                      | <b>2.02</b>       | <b>5.09</b>       |

\*Arithmetic median values

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

The table below shows EAD-weighted average LGD levels on December 31, 2016 in per cent for the respective exposure category where the IRB approach was applied. Estimated levels include safety margins plus a cyclical adjustment of LGD to a recession situation.

| Estimated LGD levels (on December 31, 2016)                        |                   |              |             |
|--|-------------------|--------------|-------------|
| Exposure category  | Non-defaulting, % | Defaulted, % | Total, %    |
| Retail secured by immovable property*                              | 11.1              | 35.4         | 11.3        |
| Small and medium-sized companies classified as retail exposures    | 17.8              | 42.3         | 18.0        |
| Other retail exposures   | 19.4              | 47.4         | 19.9        |
| <b>Total retail exposures</b>                                      | <b>12.6</b>       | <b>38.9</b>  | <b>12.8</b> |
| Small and medium-sized companies classified as corporate exposures | 37.0              | 42.7         | 37.2        |
| Other corporate exposures  | 23.8              |              | 23.8        |
| <b>Total corporate exposures</b>                                   | <b>32.6</b>       | <b>42.7</b>  | <b>32.8</b> |

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

The exposure-weighted LGD value for all non-defaulting retail exposures on December 31, 2015 was 12.7 per cent. For non-defaulting retail exposures with residential property as collateral, LGD totalled 11.3 per cent, for non-defaulting small and medium-sized companies 17.5 per cent and for other non-defaulting household exposures 20.0 per cent. The estimated levels were virtually unchanged for each exposure category between December 31, 2015 and December 31, 2016. Average LGD levels for corporate exposures in 2015 are not presented in the table below, since the Bank had not been granted IRB permission by December 31, 2015.

The estimated and observed LGD values of the exposures that defaulted during 2015 is presented in the table below. When calculating observed LGD, only recoveries from residential property and financial collateral until December 31, 2016 have been taken into account. This means that the observed LGD level will fall further, since on December 31, 2016 there was remaining unsold collateral for defaults in 2015.

| LGD levels for 2015 defaults                                    |                  |                 |
|---|------------------|-----------------|
| Exposure category   | Estimated LGD, % | Observed LGD, % |
| Retail exposures with real estate as collateral                 | 11.3             | 14.6            |
| Small and medium-sized companies classified as retail exposures | 23.1             | 18.8            |
| Other retail exposures  | 37.3             | 31.4            |
| Total retail exposures  | 23.1             | 19.7            |

The table below shows the Bank's estimated expected loss expressed in EUR M (PD x LGD x EAD) for the IRB-approved portfolio. The expected amount is compared to the provision for individual impairment losses (specific credit adjustments according to the capital requirements regulations) in the IRB-approved portfolio. The table shows that the IRB expected loss shortfall on December 31, 2016 amounted to EUR 10.3 M. The difference between expected losses and recognised losses at year-end comprised 0.40 per cent of the IRB-approved exposure amount, compared to 0.68 per cent one year earlier.

| Recognised impairment losses and expected losses                        |                              |                         | 2016        |                              | 2015                    |             |
|---|------------------------------|-------------------------|-------------|------------------------------|-------------------------|-------------|
| EUR M   |                              |                         |             |                              |                         |             |
| Exposure category   | Individual impairment losses | Estimated expected loss | Net         | Individual impairment losses | Estimated expected loss | Net         |
| Household exposures with real estate as collateral, private individuals | -1.3                         | 3.7                     | 2.4         | -1.4                         | 4.1                     | 2.7         |
| Small and medium-sized companies classified as household exposures      | -0.5                         | 2.4                     | 1.9         | -1.1                         | 2.8                     | 1.7         |
| Other household exposures   | -2.9                         | 3.9                     | 0.9         | -2.8                         | 4.1                     | 1.3         |
| <b>Total household exposures</b>  | <b>-4.7</b>                  | <b>10.0</b>             | <b>5.3</b>  | <b>-5.3</b>                  | <b>11.0</b>             | <b>5.7</b>  |
| Corporate exposures – Large companies                                   | 0.0                          | 0.7                     | 0.7         | -1.1                         | 2.1                     | 1.0         |
| Corporate exposures classified as small and medium-sized companies      | -4.3                         | 8.3                     | 4.1         | -3.6                         | 10.4                    | 6.8         |
| Corporate exposures classified as special lending                       | -1.8                         | 2.1                     | 0.3         | -0.6                         | 4.2                     | 3.7         |
| <b>Total corporate exposures</b>  | <b>-6.0</b>                  | <b>11.0</b>             | <b>5.0</b>  | <b>-5.3</b>                  | <b>16.7</b>             | <b>11.5</b> |
| <b>Total exposures according to IRB approach</b>                        | <b>-10.8</b>                 | <b>21.0</b>             | <b>10.3</b> | <b>-10.6</b>                 | <b>27.7</b>             | <b>17.2</b> |
| <b>Share of IRB-approved exposures, %</b>                               | <b>0.42</b>                  | <b>0.81</b>             | <b>0.40</b> | <b>0.42</b>                  | <b>1.10</b>             | <b>0.68</b> |

#### STANDARDISED APPROACH FOR CALCULATION OF CAPITAL REQUIREMENT

In the standardised approach, exposures are divided into various exposure categories depending on the counterparty, collateral or receivable. The exposure figures taken into account in the capital requirement calculation are then multiplied by the risk weight established by the authorities for the respective exposure category or type. Exposures to sovereigns (national governments) in the European Economic Area (EEA) and their respective central banks shall always be assigned a risk weight of 0 per cent and exposures fully or partially covered by collateral in residential property shall be assigned a risk weight of 35 per cent. As a consequence of new capital requirements regulations, the Bank bases its risk weight for institutions and covered bonds on external credit rating agencies. Their various ratings are translated according to predetermined principles to credit quality steps, which in turn are mapped into a risk weight according to the regulations. For those exposures that have no external rating, the risk weight is based on the rating of the national government (sovereign method).

The table below shows how exposure values after credit risk mitigation techniques are allocated among credit quality steps in the exposure categories where external ratings are used to calculate risk exposure amounts.

| Exposure values that have been risk-weighted on the basis of an external credit rating |                         |               |
|--|-------------------------|---------------|
| EUR M  |                         |               |
| Credit quality steps   | Institutional exposures | Covered bonds |
| 1  | 226.9                   | 318.8         |
| 2  | 31.6                    | 9.1           |
| 3  | 10.6                    | 0.0           |
| Sovereign method   | 11.9                    | 5.1           |
| <b>Total</b>   | <b>281.0</b>            | <b>333.0</b>  |

To calculate risk exposure amounts for the exposures that are referred to as counterparty risk exposures or transactions with long phase-out cycles in the capital requirements regulations, the Bank uses the mark-to-market valuation method to calculate the exposure value that provides the basis for credit risk calculation, which then occurs according to the standardised

approach. In order to also calculate capital requirements for credit valuation risk for those derivative exposures that are not cleared through a qualified central counterparty, the Bank uses the standardised approach that is prescribed in the capital requirements regulations. The Bank uses comprehensive method for financial collateral when calculating exposures to securities loans and thereby adjusts exposure amounts and collateral by the "haircuts" (capital charges) specified in the Capital Requirements Regulation.

#### **COLLATERAL MANAGEMENT AND CREDIT RISK MITIGATION**

Collateral eliminates or reduces the Bank's loss if the borrower cannot fulfil his payment obligations. As a main rule, loans to private individuals and companies are thus made against collateral. This applies, for example, to home mortgage financing to private individuals, loans to property companies, loans to private individuals and companies for the purchase of securities as well as various other types of financing.

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

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

Unsecured loans are primarily granted in the case of small loans to private individuals and only in exceptional cases to companies. In the latter case, as a rule special loan conditions are established that give the Bank greater rights of renegotiation or loan termination.

#### **CREDIT RISK MITIGATION IN ANALYSING CAPITAL REQUIREMENTS**

Credit risk mitigation (CRM) in the calculation of capital requirements refers to measures by which the Bank takes into account approved collateral that lowers the capital requirement for credit risk. The collateral that the Bank of Åland takes into account in calculating the capital requirement are mortgages, guarantees issued by sovereigns and institutions, deposit accounts in the Bank itself and other banks as well as financial collateral. The Bank uses the comprehensive method for financial collateral. Approved financial collateral according to capital adequacy regulations is adjusted for volatility using used specified "haircuts" and affect the LGD parameter for the exposure categories where IRB is applied, reducing the exposure amount for the exposures where the standardised approach is used. The largest category of this form of credit risk mitigation method consists of equities listed on the Helsinki and Stockholm stock exchanges. The second-largest category consists of fixed income securities issued or intermediated mainly by Nordic credit institutions.

The residential property used as collateral in credit risk mitigation must meet special requirements set by capital adequacy regulations to be approved; this includes requiring regular independent appraisals and requiring that the collateral must exceed the receivables by a substantial amount (loan-to-value or LTV ratio). The Bank orders a quarterly index adjustment of the residential property collateral portfolio in order to keep up with price developments in the housing market. In the Bank's IRB models, the market value of residential property collateral affects the LGD parameter. The standardised approach uses a risk weight set by the authorities of 35 per cent on loans that cover the permitted LTV ratio based on the market value of residential property collateral. In these calculations, commercial properties are not accepted as credit risk mitigating collateral if they are otherwise accepted as collateral.

By using guarantees issued by governments (or similar entities) and others, by means of so-called unfunded credit protection the Bank may substitute, that is, move all or part of an exposure to a counterparty with better credit quality when calculating capital requirements for credit risk. The foremost providers of unfunded credit protection are the Finnish government and the Åland provincial government. In the Bank's Swedish operations, guarantees by the National Board of Housing, Building and Planning are applied as part of some financing solutions. The Bank was also recently granted permission to use guarantees issued by the European Investment Fund, which is a multilateral development bank, for a limited portfolio.

The table below shows how large a proportion of each form of credit risk mitigation is taken into account in calculating capital requirements in the loan portfolio, after loan-to-value ratios and haircuts have been applied to collateral.

| Form of credit risk mitigation                   | Dec 31, 2016   | Dec 31, 2015   |
|--|----------------|----------------|
| <b>EUR M</b>                                     |                |                |
| Government guarantee                             | 34.7           | 35.4           |
| Provincial or municipal guarantee                | 24.2           | 23.1           |
| Bank guarantee                                   | 4.3            | 0.2            |
| Deposit accounts                                 | 18.8           | 21.1           |
| Financial collateral                             | 291.2          | 228.0          |
| Residential property                             | 2 561.1        | 2,408.5        |
| Other, ineligible collateral                     | 873.7          | 900.7          |
| <b>Total loan portfolio</b>                      | <b>3 808.0</b> | <b>3,617.0</b> |
| <b>Share with eligible form of collateral, %</b> | <b>77</b>      | <b>75</b>      |

The table below shows the amounts by which the Bank mitigates its credit risk by means of guarantees, financial collateral and residential property collateral. Positive values in the guarantee column for the "Sovereigns" and "Institutions" exposure categories in the table indicate an inflow to these exposure categories by means of "substitution" of credit risk.

| Credit risk according to the IRB approach                         |                   | 2016         |                  |                    |                                       |   |  |
|---|-------------------|--------------|------------------|--------------------|---------------------------------------|---|--|
| EUR M   | Original exposure | Guarantees   | Other collateral | Exposure after CRM | Market value of financial collateral* | Market value of residential collateral* |  |
| Retail exposures with property as collateral, private individuals | 1,751.3           | -10.5        | 0.0              | 1,740.8            | 132.2                                 | 3,352.5                                 |  |
| Small and medium-sized companies classified as retail exposures   | 159.5             | -2.0         | 0.0              | 157.6              | 29.3                                  | 235.1                                   |  |
| Other retail exposures  | 278.7             | -26.5        | 0.0              | 252.1              | 292.1                                 | 24.2                                    |  |
| Corporate exposures   | 485.3             | -12.9        | 0.0              | 472.4              | 132.2                                 | 81.2                                    |  |
| <b>Total portfolios using the IRB approach</b>                    | <b>2,674.8</b>    | <b>-51.9</b> | <b>0.0</b>       | <b>2,623.0</b>     | <b>585.7</b>                          | <b>3,693.0</b>                          |  |

| Credit risk according to the IRB approach                         |                   | 2015         |                  |                    |                                       |   |  |
|---|-------------------|--------------|------------------|--------------------|---------------------------------------|---|--|
| EUR M   | Original exposure | Guarantees   | Other collateral | Exposure after CRM | Market value of financial collateral* | Market value of residential collateral* |  |
| Retail exposures with property as collateral, private individuals | 1,680.5           | -9.7         | 0.0              | 1,670.8            | 74.9                                  | 3,218.7                                 |  |
| Small and medium-sized companies classified as retail exposures   | 161.1             | -2.1         | 0.0              | 159.0              | 31.9                                  | 238.9                                   |  |
| Other retail exposures  | 243.6             | -22.8        | 0.0              | 220.8              | 257.5                                 | 24.6                                    |  |
| <b>Total portfolios using the IRB approach</b>                    | <b>2,085.2</b>    | <b>-34.6</b> | <b>0.0</b>       | <b>2,050.6</b>     | <b>364.2</b>                          | <b>3,482.2</b>                          |  |

\*Does not reduce exposure, but instead affects the LGD parameter.

| Credit risk according to the standardised approach           |                   | 2016        |                      |                  |                        |                           |  |
|--|-------------------|-------------|----------------------|------------------|------------------------|---------------------------|--|
| EUR M  | Original exposure | Guarantees  | Financial collateral | Other collateral | Net exposure before CF | Residential loan-to-value |  |
| Exposures to sovereigns, central banks and local authorities | 585.2             | 75.9        |                      |                  | 661.1                  | 0.0                       |  |
| Institutional exposures                                      | 306.0             | 0.1         | -3.1                 |                  | 303.0                  | 0.0                       |  |
| Corporate exposures  | 498.3             | -22.4       | -88.0                |                  | 387.9                  | 0.0                       |  |
| Exposures with property as collateral                        | 869.0             |             |                      |                  | 869.0                  | 869.0                     |  |
| Retail exposures   | 185.4             | -1.6        | -16.1                |                  | 167.7                  | 0.0                       |  |
| <b>Total portfolios using the standardised approach</b>      | <b>2,443.9</b>    | <b>51.9</b> | <b>-107.2</b>        | <b>0.0</b>       | <b>2,388.6</b>         | <b>869.0</b>              |  |

| Credit risk according to the standardised approach           |                   | 2015        |                      |                  |                        |                           |  |
|--|-------------------|-------------|----------------------|------------------|------------------------|---------------------------|--|
| EUR M  | Original exposure | Guarantees  | Financial collateral | Other collateral | Net exposure before CF | Residential loan-to-value |  |
| Exposures to sovereigns, central banks and local authorities | 364.3             | 63.9        |                      |                  | 428.2                  | 0.0                       |  |
| Institutional exposures                                      | 209.4             | 0.0         | -8.0                 |                  | 201.4                  | 0.0                       |  |
| Corporate exposures  | 801.0             | -27.1       | -146.1               |                  | 627.8                  | 0.0                       |  |
| Exposures with property as collateral                        | 810.4             |             |                      |                  | 810.4                  | 810.4                     |  |
| Retail exposures   | 381.6             | -2.2        | -25.5                |                  | 353.9                  | 0.0                       |  |
| <b>Total portfolios using the standardised approach</b>      | <b>2,566.7</b>    | <b>34.6</b> | <b>-179.6</b>        | <b>0.0</b>       | <b>2,421.7</b>         | <b>810.4</b>              |  |

The table below summarises the Group's overall credit risk exposure and risk exposure amounts by exposure categories. The EAD amount indicates net exposure after taking into account some of the above-described credit risk mitigation techniques and credit conversion factors (CF).

| Total EAD and average risk weight for credit risk exposures                  |                   |                | 2016           |                      |                     |
|--|-------------------|----------------|----------------|----------------------|---------------------|
| EUR M  | Original exposure | Exposure-value | Risk weight, % | Risk exposure amount | Capital requirement |
| Credit risk according to the IRB approach                                    |                   |                |                |                      |                     |
| With own LGD estimates   |                   |                |                |                      |                     |
| Retail with property as collateral (small and medium-sized companies)        | 119.0             | 106.2          | 36             | 38.5                 | 3.1                 |
| Retail with property as collateral (private individuals)                     | 1,751.3           | 1,742.5        | 13             | 220.5                | 17.6                |
| Retail, other (small and medium-sized companies)                             | 40.5              | 40.0           | 35             | 13.9                 | 1.1                 |
| Retail, other (non small and medium-sized companies)                         | 278.7             | 252.8          | 16             | 41.0                 | 3.3                 |
| Without own LGD estimates  |                   |                |                |                      |                     |
| Corporate – Other large companies  | 168.8             | 148.7          | 50             | 74.6                 | 6.0                 |
| Corporate – Small and medium-sized companies                                 | 305.8             | 279.2          | 72             | 201.0                | 16.1                |
| Corporate – Special lending  | 10.7              | 10.7           | 77             | 8.2                  | 0.7                 |
| <b>Total exposures according to the IRB approach</b>                         | <b>2,674.8</b>    | <b>2,580.1</b> | <b>23</b>      | <b>597.7</b>         | <b>47.9</b>         |
| Credit risk according to the standardised approach                           |                   |                |                |                      |                     |
| Exposure to sovereigns, multilateral development banks and local authorities | 585.2             | 639.8          | 0              | 0.0                  | 0.0                 |
| Exposures to institutions  | 306.0             | 302.9          | 23             | 69.1                 | 5.5                 |
| Exposures to covered bonds   | 333.0             | 333.0          | 10             | 33.3                 | 2.7                 |
| Corporate exposures  | 498.3             | 288.7          | 100            | 288.3                | 23.1                |
| Retail exposures   | 185.4             | 59.0           | 73             | 43.2                 | 3.5                 |
| Exposures secured by immovable property                                      | 869.0             | 860.4          | 34             | 293.0                | 23.4                |
| Exposures in default   | 1.1               | 1.1            | 101            | 1.1                  | 0.1                 |
| Items associated with particularly high risk                                 | 0.3               | 0.3            | 150            | 0.5                  | 0.0                 |
| Equity exposures   | 0.6               | 0.6            | 100            | 0.6                  | 0.0                 |
| Collective investment companies (funds)                                      | 0.0               | 0.0            | 0              | 0.0                  | 0.0                 |
| Other items  | 51.2              | 51.2           | 87             | 44.4                 | 3.5                 |
| <b>Total exposures according to the standardised approach</b>                | <b>2,830.1</b>    | <b>2,537.0</b> | <b>30</b>      | <b>773.5</b>         | <b>61.8</b>         |
| <b>Total risk exposure amount risk</b>                                       | <b>5,505.0</b>    | <b>5,117.3</b> | <b>27</b>      | <b>1,371.1</b>       | <b>109.7</b>        |
|  |                   |                | 2015           |                      |                     |
| EUR M  | Original exposure | Exposure-value | Risk weight, % | Risk exposure amount | Capital requirement |
| Credit risk according to the IRB approach                                    |                   |                |                |                      |                     |
| Retail with property as collateral (small and medium-sized companies)        | 126.1             | 125.1          | 33             | 41.8                 | 3.3                 |
| Retail with property as collateral (private individuals)                     | 1,680.5           | 1,673.0        | 14             | 236.7                | 18.9                |
| Retail, other (small and medium-sized companies)                             | 35.0              | 34.2           | 32             | 11.0                 | 0.9                 |
| Retail, other (private individuals)  | 243.6             | 221.5          | 18             | 40.7                 | 3.3                 |
| <b>Total exposures according to the IRB approach</b>                         | <b>2,085.2</b>    | <b>2,053.8</b> | <b>16</b>      | <b>330.1</b>         | <b>26.4</b>         |
| Credit risk according to the standardised approach                           |                   |                |                |                      |                     |
| Exposure to sovereigns, multilateral development banks and local authorities | 364.3             | 416.8          | 0              | 0.0                  | 0.0                 |
| Exposures to institutions  | 209.4             | 201.4          | 36             | 72.3                 | 5.8                 |
| Exposures to covered bonds   | 334.4             | 334.4          | 10             | 33.4                 | 2.7                 |
| Corporate exposures  | 801.0             | 561.5          | 96             | 540.8                | 43.3                |
| Retail exposures   | 381.6             | 115.5          | 70             | 80.5                 | 6.4                 |
| Exposures secured by immovable property                                      | 810.4             | 801.4          | 34             | 270.1                | 21.6                |
| Exposures in default   | 22.6              | 15.0           | 126            | 18.9                 | 1.5                 |
| Items associated with particularly high risk                                 | 1.8               | 1.8            | 156            | 2.8                  | 0.2                 |
| Equity exposures   | 1.6               | 1.6            | 113            | 1.8                  | 0.1                 |
| Collective investment companies (funds)                                      | 0.0               | 0.0            | 0              | 0.0                  | 0.0                 |
| Other items  | 49.7              | 49.7           | 82             | 40.9                 | 3.3                 |
| <b>Total exposures according to the standardised approach</b>                | <b>2,976.9</b>    | <b>2,499.2</b> | <b>42</b>      | <b>1,061.7</b>       | <b>84.9</b>         |
| <b>Total risk exposure amount</b>  | <b>5,062.1</b>    | <b>4,553.0</b> | <b>31</b>      | <b>1,391.8</b>       | <b>111.3</b>        |

| Special IRB-related disclosures  | 2016  | 2015  |
|--|-------|-------|
| <b>EUR M</b>   |       |       |
| Individual impairment losses attributable to IRB-approved portfolios   | 11.6  | 5.8   |
| Estimated expected loss amount according to IRB models   | -21.0 | -11.0 |
| Shortfall subtracted from the capital base in the capital adequacy analysis (net EL)                         | -11.2 | -5.2  |
| Limit according to transitional rule (minimum 80% of capital requirement according to standardised approach) | 120.8 | 117.8 |
| Capital requirement with reference to IRB  | 120.9 | 117.0 |
| Additional capital requirement including net effect for deficit subtracted from the capital base             | 0.0   | 0.8   |

The table below shows a breakdown of the Group's overall credit risk exposures and risk exposure amounts by region.

| Breakdown by region: EAD and risk exposure amounts for credit risk exposures 2016 |                |                       |                |                       |                |                       |
|---|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|
| EUR M   | Finland        |                       | Sweden         |                       | Other          |                       |
|   | Exposure-value | Risk exposure amounts | Exposure-value | Risk exposure amounts | Exposure-value | Risk exposure amounts |
| Credit risk according to the IRB approach   |                |                       |                |                       |                |                       |
| Retail with property as collateral (small and medium-sized companies)             | 106.2          | 38.5                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Retail with property as collateral (private individuals)                          | 1,742.5        | 220.5                 | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Retail, other (small and medium-sized companies)                                  | 40.0           | 13.9                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Retail, other (non small and medium-sized companies)                              | 252.8          | 41.0                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Corporate – Other large companies   | 148.7          | 74.6                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Corporate – Small and medium-sized companies                                      | 279.2          | 201.0                 | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Corporate – Special lending   | 10.7           | 8.2                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| <b>Total exposures according to the IRB approach</b>                              | <b>2,580.1</b> | <b>597.7</b>          | <b>0.0</b>     | <b>0.0</b>            | <b>0.0</b>     | <b>0.0</b>            |
| Credit risk according to the standardised approach                                |                |                       |                |                       |                |                       |
| Exposure to sovereigns, multilateral development banks and local authorities      | 538.1          | 0.0                   | 75.9           | 0.0                   | 25.8           | 0.0                   |
| Exposures to institutions   | 50.8           | 14.3                  | 204.0          | 44.1                  | 48.1           | 10.7                  |
| Exposures to covered bonds  | 14.1           | 1.4                   | 196.6          | 19.7                  | 122.3          | 12.2                  |
| Corporate exposures   | 12.0           | 11.3                  | 256.8          | 256.8                 | 19.8           | 20.2                  |
| Retail exposures  | 38.3           | 28.2                  | 20.7           | 15.0                  | 0.0            | 0.0                   |
| Exposures with real property mortgages as collateral                              | 13.3           | 4.6                   | 847.1          | 288.4                 | 0.0            | 0.0                   |
| Exposures in default  | 0.0            | 0.0                   | 1.1            | 1.1                   | 0.0            | 0.0                   |
| Items associated with especially high risk  | 0.3            | 0.5                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Equity exposures  | 0.6            | 0.6                   | 1.9            | 1.9                   | 0.0            | 0.0                   |
| Collective investment companies (funds)   | 0.0            | 0.0                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Other items   | 51.2           | 44.4                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| <b>Total exposures according to the standardised approach</b>                     | <b>718.7</b>   | <b>105.1</b>          | <b>1,604.1</b> | <b>627.1</b>          | <b>214.2</b>   | <b>43.2</b>           |
| <b>Total risk exposure amount</b>   | <b>3,298.8</b> | <b>702.8</b>          | <b>1,604.1</b> | <b>627.1</b>          | <b>214.2</b>   | <b>43.2</b>           |

## Breakdown by region: EAD and risk exposure amounts for credit risk exposures 2015

| EUR M  | Finland        |                       | Sweden         |                       | Other          |                       |
|--|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|
|  | Exposure-value | Risk exposure amounts | Exposure-value | Risk exposure amounts | Exposure-value | Risk exposure amounts |
| <b>Credit risk according to the IRB approach</b>                             |                |                       |                |                       |                |                       |
| Retail with property as collateral (small and medium-sized companies)        | 106.2          | 38.5                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Retail with property as collateral (private individuals)                     | 1,742.5        | 220.5                 | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Retail, other (small and medium-sized companies)                             | 40.0           | 13.9                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Retail, other (non small and medium-sized companies)                         | 252.8          | 41.0                  | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Corporate – Other large companies  | 0.0            | 0.0                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Corporate – Small and medium-sized companies                                 | 0.0            | 0.0                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Corporate – Special lending  | 0.0            | 0.0                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| <b>Total exposures according to the IRB approach</b>                         | <b>2,141.5</b> | <b>313.9</b>          | <b>0.0</b>     | <b>0.0</b>            | <b>0.0</b>     | <b>0.0</b>            |
| <b>Credit risk according to the standardised approach</b>                    |                |                       |                |                       |                |                       |
| Exposure to sovereigns, multilateral development banks and local authorities | 217.8          | 0.0                   | 69.8           | 0.0                   | 352.1          | 0.0                   |
| Exposures to institutions  | 30.3           | 8.4                   | 73.3           | 26.4                  | 199.3          | 34.4                  |
| Exposures to covered bonds   | 15.2           | 1.5                   | 199.9          | 20.0                  | 117.9          | 11.8                  |
| Corporate exposures  | 292.8          | 278.6                 | 269.1          | 262.2                 | 0.0            | 0.0                   |
| Retail exposures   | 77.8           | 53.2                  | 37.7           | 27.2                  | 0.0            | 0.0                   |
| Exposures with real property mortgages as collateral                         | 52.2           | 17.1                  | 749.3          | 253.0                 | 59.0           | 22.9                  |
| Exposures in default   | 14.7           | 18.5                  | 0.3            | 0.4                   | 0.0            | 0.0                   |
| Items associated with especially high risk                                   | 1.8            | 2.8                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Equity exposures   | 1.6            | 1.8                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Collective investment companies (funds)                                      | 0.0            | 0.0                   | 0.0            | 0.0                   | 0.0            | 0.0                   |
| Other items  | 46.9           | 38.2                  | 2.8            | 2.8                   | 1.5            | 3.5                   |
| <b>Total exposures according to the standardised approach</b>                | <b>751.2</b>   | <b>420.1</b>          | <b>1,402.1</b> | <b>592.0</b>          | <b>383.7</b>   | <b>72.5</b>           |
| <b>Total risk exposure amount</b>  | <b>2,892.7</b> | <b>734.0</b>          | <b>1,402.1</b> | <b>592.0</b>          | <b>383.7</b>   | <b>72.5</b>           |

### DOUBTFUL AND NON-PERFORMING RECEIVABLES

A receivable is defined as doubtful when it is probable that contractual payments will not be fulfilled and when, because of this, one or more loans within a customer entity have given rise to an individual provision. Doubtful receivables are recognised on a gross basis, without taking into account individual provisions and without regard to collateral that has been received to secure the receivable. Non-performing receivables arise when a borrower has diverged from contractual payment of interest or loan principal. At the end of 2016, receivables with amounts overdue for more than 90 days were at a lower level than a year earlier. Their recognised value before taking into account individual provisions amounted to EUR 28.2 M (41.1).

A provision for an expected loss is made if there is objective evidence indicating that full repayment of a receivable is no longer probable. The size of the provision is equivalent to the difference between the carrying amount of the outstanding exposure and the discounted value of expected future cash flows attributable to the receivable and any collateral or guarantees received. If there is no evidence for an individual provision on a receivable, regardless of whether the receivable is of significant size or not, it is included in a group of financial assets with similar credit risk characteristics, which undergo collective impairment testing. All of the group impairment losses reported below are in the category of group provisions that are collectively recognised according to IFRS rules. They are treated in the capital adequacy analysis as specific credit risk adjustments. Impairment testing takes place quarterly. At the end of 2016, individual provisions amounted to EUR 10.8 M (10.6). The level of provisions for doubtful receivables, calculated as individual provisions due to doubtful receivables, amounted to 50 (34) per cent.

| Doubtful and non-performing receivables    |                 |                         |                                  |                             | 2016                   |                         |                           |                           |                          |  |
|--|-----------------|-------------------------|----------------------------------|-----------------------------|------------------------|-------------------------|---------------------------|---------------------------|--------------------------|--|
| EUR M                                      | Doubtful, gross | Doubtful receivables, % | Individual impairment provisions | Group impairment provisions | Level of provisions, % | Non-performing >90 days | Non-performing 60-90 days | Non-performing 30-59 days | Non-performing 5-29 days |  |
| Home loans                                 | 5.7             | 0.3                     | 2.8                              | 0.1                         | 49                     | 9.8                     | 0.5                       | 3.3                       | 7.8                      |  |
| Securities and other investments           | 0.9             | 0.2                     | 0.1                              | 0.0                         | 12                     | 2.1                     | 0.5                       | 0.3                       | 1.6                      |  |
| Business operations                        | 0.7             | 0.5                     | 0.8                              | 0.1                         | 122                    | 1.2                     | 0.6                       | 0.5                       | 2.2                      |  |
| Other household purposes                   | 0.8             | 0.4                     | 0.4                              | 1.3                         | 53                     | 3.6                     | 0.3                       | 1.0                       | 2.1                      |  |
| <b>Total private individuals</b>           | <b>8.1</b>      | <b>0.3</b>              | <b>4.1</b>                       | <b>1.5</b>                  | <b>51</b>              | <b>16.7</b>             | <b>2.0</b>                | <b>5.1</b>                | <b>13.6</b>              |  |
| Shipping                                   | 1.1             | 1.9                     | 0.2                              | 0.0                         | 22                     | 0.1                     | 0.0                       | 0.0                       | 0.0                      |  |
| Wholesale and retail trade                 | 0.6             | 1.5                     | 0.6                              | 0.1                         | 99                     | 0.8                     | 0.2                       | 0.0                       | 0.0                      |  |
| Housing operations                         | 0.5             | 0.1                     | 0.5                              | 0.0                         | 100                    | 1.4                     | 0.0                       | 0.0                       | 0.1                      |  |
| Other real estate operations               | 4.2             | 1.6                     | 2.3                              | 0.1                         | 55                     | 4.4                     | 0.0                       | 0.0                       | 0.1                      |  |
| Financial and insurance operations         | 1.7             | 0.9                     | 0.2                              | 0.0                         | 9                      | 0.2                     | 0.0                       | 0.0                       | 0.4                      |  |
| Hotel and restaurant operations            | 0.0             | 0.0                     | 0.0                              | 0.0                         | 0                      | 0.0                     | 0.0                       | 0.0                       | 0.0                      |  |
| Other service operations                   | 5.5             | 5.7                     | 2.8                              | 0.1                         | 52                     | 4.4                     | 0.0                       | 0.4                       | 1.0                      |  |
| Agriculture, forestry and fishing          | 0.0             | 0.0                     | 0.0                              | 0.0                         | 0                      | 0.0                     | 0.0                       | 0.0                       | 0.0                      |  |
| Construction                               | 0.1             | 0.2                     | 0.1                              | 0.0                         | 109                    | 0.2                     | 0.0                       | 0.0                       | 0.2                      |  |
| Other industry and crafts                  |                 | 0.0                     | 0.0                              | 0.0                         | 0                      | 0.0                     | 0.0                       | 0.0                       |                          |  |
| <b>Total companies</b>                     | <b>13.6</b>     | <b>1.2</b>              | <b>6.7</b>                       | <b>0.3</b>                  | <b>49</b>              | <b>11.5</b>             | <b>0.2</b>                | <b>0.4</b>                | <b>1.8</b>               |  |
| Public sector and non-profit organisations | 0               | 0.0                     | 0.0                              | 0.0                         | 0                      | 0                       | 0                         | 0                         | 0                        |  |
| <b>Total lending</b>                       | <b>21.7</b>     | <b>0.6</b>              | <b>10.8</b>                      | <b>1.8</b>                  | <b>50</b>              | <b>28.2</b>             | <b>2.2</b>                | <b>5.5</b>                | <b>15.4</b>              |  |

|  |                 |                         |                                  |                             | 2015                   |                         |                           |                           |                          |  |
|--|-----------------|-------------------------|----------------------------------|-----------------------------|------------------------|-------------------------|---------------------------|---------------------------|--------------------------|--|
| EUR M                                      | Doubtful, gross | Doubtful receivables, % | Individual impairment provisions | Group impairment provisions | Level of provisions, % | Non-performing >90 days | Non-performing 60-90 days | Non-performing 30-59 days | Non-performing 5-29 days |  |
| Home loans                                 | 6.8             | 0.4                     | 2.9                              | 0.0                         | 43                     | 8.7                     | 0.9                       | 3.4                       | 8.7                      |  |
| Securities and other investments           | 1.8             | 0.5                     | 0.0                              | 0.0                         | 1                      | 2.5                     | 0.0                       | 0.8                       | 2.7                      |  |
| Business operations                        | 0.7             | 0.5                     | 0.7                              | 0.0                         | 109                    | 5.1                     | 0.3                       | 0.9                       | 1.8                      |  |
| Other household purposes                   | 1.2             | 0.6                     | 0.4                              | 1.0                         | 30                     | 3.2                     | 0.1                       | 0.5                       | 2.9                      |  |
| <b>Total private individuals</b>           | <b>10.5</b>     | <b>0.4</b>              | <b>4.1</b>                       | <b>1.1</b>                  | <b>38</b>              | <b>19.5</b>             | <b>1.3</b>                | <b>5.7</b>                | <b>16.2</b>              |  |
| Shipping                                   | 1.1             | 1.8                     | 0.2                              | 0.0                         | 22                     | 0.1                     | 0.0                       | 0.0                       | 0.0                      |  |
| Wholesale and retail trade                 | 1.5             | 3.7                     | 1.0                              | 0.0                         | 69                     | 0.8                     | 0.0                       | 0.1                       | 0.2                      |  |
| Housing operations                         | 2.8             | 0.9                     | 1.0                              | 0.0                         | 37                     | 0.8                     | 0.0                       | 0.0                       | 0.1                      |  |
| Other real estate operations               | 9.0             | 2.6                     | 1.1                              | 0.0                         | 13                     | 9.5                     | 0.0                       | 0.2                       | 1.3                      |  |
| Financial and insurance operations         | 0.2             | 0.1                     | 0.2                              | 0.0                         | 97                     | 0.9                     | 0.0                       | 0.0                       | 0.4                      |  |
| Hotel and restaurant operations            | 0.4             | 1.8                     | 0.3                              | 0.0                         | 65                     | 0.4                     | 0.0                       | 0.0                       | 0.2                      |  |
| Other service operations                   | 5.8             | 5.6                     | 2.6                              | 0.1                         | 45                     | 6.1                     | 0.0                       | 0.1                       | 0.7                      |  |
| Agriculture, forestry and fishing          | 0.0             | 0.0                     | 0.0                              | 0.0                         | 0                      | 0.0                     | 0.0                       | 0.0                       | 0.0                      |  |
| Construction                               | 0.1             | 0.2                     | 0.1                              | 0.0                         | 100                    | 3.0                     | 0.0                       | 0.0                       | 0.0                      |  |
| Other industry and crafts                  | 0.0             | 0.0                     | 0.0                              | 0.0                         | 0                      | 0.1                     | 0.0                       | 0.0                       | 0.9                      |  |
| <b>Total companies</b>                     | <b>20.8</b>     | <b>1.8</b>              | <b>6.6</b>                       | <b>0.1</b>                  | <b>31</b>              | <b>21.7</b>             | <b>0.0</b>                | <b>0.5</b>                | <b>3.7</b>               |  |
| Public sector and non-profit organisations | 0               | 0.0                     | 0                                | 0.0                         | 0                      | 0                       | 0                         | 0                         | 0                        |  |
| <b>Total lending</b>                       | <b>31.4</b>     | <b>0.9</b>              | <b>10.6</b>                      | <b>1.2</b>                  | <b>34</b>              | <b>41.1</b>             | <b>1.3</b>                | <b>6.1</b>                | <b>19.9</b>              |  |

## Liquidity risk

Liquidity risk refers to the risk that the Bank will not have access to cash and cash equivalents in order to meet its payment obligations. Given the business operations that the Bank of Åland runs, liquidity risk is a very substantial risk. In order to manage it, the Bank has designed a framework consisting of a number of components:

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

### LIQUIDITY RISK LIMITS

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio (LCR), survival horizon as well as how large the percentage of covered bonds issued may be in relation to the available collateral. The Bank's LCR shall amount to at least the statutory minimum requirement.

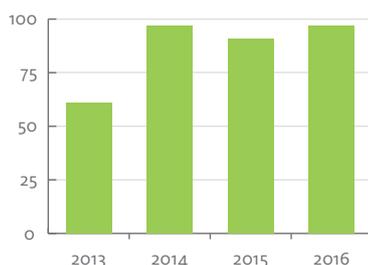
### CONTROL AND ANALYSIS

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

| Financial assets and liabilities – maturity overview        |                     |            |            |            |            |            |            |              |              | 2016            |                 |
|---|---------------------|------------|------------|------------|------------|------------|------------|--------------|--------------|-----------------|-----------------|
| EUR M   | Repayable on demand | < 1 mo     | 1–3 mo     | 3–6 mo     | 6–9 mo     | 9–12 mo    | 1–2 yrs    | 2–5 yrs      | > 5 yrs      | Total cash flow | Carrying amount |
| <b>Financial assets:</b>                                    |                     |            |            |            |            |            |            |              |              |                 |                 |
| Cash  | 513                 |            |            |            |            |            |            |              |              | 513             | 513             |
| Debt securities eligible for refinancing with central banks |                     | 25         | 22         | 22         | 12         | 38         | 111        | 206          | 72           | 507             | 504             |
| Lending to credit institutions                              | 201                 |            |            |            |            |            |            |              |              | 201             | 201             |
| Lending to the public                                       | 188                 | 97         | 134        | 166        | 128        | 157        | 527        | 1,108        | 2,049        | 4,555           | 3,808           |
| Debt securities   |                     |            |            |            |            |            |            |              |              |                 |                 |
| <b>Total</b>  | <b>902</b>          | <b>122</b> | <b>156</b> | <b>188</b> | <b>140</b> | <b>194</b> | <b>638</b> | <b>1,315</b> | <b>2,122</b> | <b>5,776</b>    | <b>5,026</b>    |
| <b>Financial liabilities</b>                                |                     |            |            |            |            |            |            |              |              |                 |                 |
| Liabilities to credit institutions                          | 52                  | 14         | 10         | 6          | 3          | 3          |            | 130          |              | 219             | 219             |
| Liabilities to the public                                   | 2,782               | 82         | 23         | 36         | 44         | 40         | 18         | 4            |              | 3,029           | 3,028           |
| Debt securities issued                                      |                     | 46         | 63         | 152        | 5          | 97         | 218        | 545          | 352          | 1,479           | 1,452           |
| Subordinated liabilities                                    |                     |            | 2          | 3          | 4          |            | 7          | 12           | 23           | 51              | 39              |
| <b>Total</b>  | <b>2,834</b>        | <b>141</b> | <b>98</b>  | <b>197</b> | <b>56</b>  | <b>140</b> | <b>243</b> | <b>692</b>   | <b>375</b>   | <b>4,777</b>    | <b>4,737</b>    |
| <b>Derivative contracts in balance sheet management</b>     |                     |            |            |            |            |            |            |              |              |                 |                 |
| Cash inflow   |                     | 3          |            | 3          | 0          | 0          | 6          | 12           | 8            | 28              |                 |
| Cash outflow  |                     | 0          |            | -1         | -1         | -2         | -2         | -8           | -9           | -16             |                 |
| <b>Total</b>  |                     | <b>3</b>   |            | <b>2</b>   | <b>-1</b>  | <b>-1</b>  | <b>4</b>   | <b>4</b>     | <b>-1</b>    | <b>12</b>       |                 |
| <b>GAP</b>  |                     | <b>-16</b> | <b>58</b>  | <b>-8</b>  | <b>83</b>  | <b>53</b>  | <b>399</b> | <b>627</b>   | <b>1,746</b> | <b>1,011</b>    |                 |

| 2015  |                     |            |            |            |            |            |            |              |              |                 |                 |
|---|---------------------|------------|------------|------------|------------|------------|------------|--------------|--------------|-----------------|-----------------|
| EUR M   | Repayable on demand | < 1 mo     | 1–3 mo     | 3–6 mo     | 6–9 mo     | 9–12 mo    | 1–2 yrs    | 2–5 yrs      | > 5 yrs      | Total cash flow | Carrying amount |
| <b>Financial assets:</b>                                    |                     |            |            |            |            |            |            |              |              |                 |                 |
| Cash  | 199                 |            |            |            |            |            |            |              |              | 199             | 199             |
| Debt securities eligible for refinancing with central banks |                     | 6          | 25         | 37         | 50         | 22         | 121        | 284          | 99           | 643             | 633             |
| Lending to credit institutions                              | 45                  |            |            |            |            |            |            |              |              | 45              | 45              |
| Lending to the public                                       | 216                 | 48         | 162        | 146        | 206        | 169        | 468        | 1,071        | 1,912        | 4,397           | 3,617           |
| Debt securities   |                     |            |            |            |            |            |            |              |              |                 |                 |
| <b>Total</b>  | <b>460</b>          | <b>55</b>  | <b>187</b> | <b>182</b> | <b>256</b> | <b>190</b> | <b>589</b> | <b>1,354</b> | <b>2,010</b> | <b>5,284</b>    | <b>4,494</b>    |
| <b>Financial liabilities</b>                                |                     |            |            |            |            |            |            |              |              |                 |                 |
| Liabilities to credit institutions                          | 77                  | 78         | 20         | 9          | 15         |            |            | 131          |              | 330             | 322             |
| Liabilities to the public                                   | 2,330               | 35         | 40         | 39         | 25         | 39         | 4          | 4            | 1            | 2,517           | 2,517           |
| Debt securities issued                                      |                     | 38         | 177        | 111        | 14         | 24         | 220        | 774          | 105          | 1,462           | 1,412           |
| Subordinated liabilities                                    |                     |            | 2          | 4          | 4          |            | 9          | 18           | 13           | 51              | 43              |
| <b>Total</b>  | <b>2,407</b>        | <b>151</b> | <b>239</b> | <b>164</b> | <b>58</b>  | <b>63</b>  | <b>233</b> | <b>926</b>   | <b>119</b>   | <b>4,360</b>    | <b>4,294</b>    |
| <b>Derivative contracts in balance sheet management</b>     |                     |            |            |            |            |            |            |              |              |                 |                 |
| Cash inflow   |                     | 0          | 3          | 3          | 0          | 0          | 6          | 7            | 7            | 48              |                 |
| Cash outflow  |                     | 0          | -1         | -1         | -1         | -2         | -4         | -4           | -4           | -36             |                 |
| <b>Total</b>  |                     | <b>0</b>   | <b>2</b>   | <b>2</b>   | <b>-1</b>  | <b>-1</b>  | <b>3</b>   | <b>4</b>     | <b>3</b>     | <b>12</b>       |                 |
| <b>GAP</b>  |                     | <b>-96</b> | <b>-49</b> | <b>21</b>  | <b>197</b> | <b>126</b> | <b>359</b> | <b>431</b>   | <b>1,894</b> | <b>936</b>      |                 |

#### Liquidity coverage ratio per cent



#### Core funding ratio per cent



One of the Bank of Åland's internal metrics for liquidity is the "survival horizon", defined as the period of positive accumulated cash flows. The survival horizon shows how long the Bank will remain viable during long periods of stress in capital markets, when access to new funding from ordinarily available funding sources would be limited or completely closed. In this calculation, sight deposits are assumed to be a substantially stable source of funding. On December 31, 2016, the Bank's survival horizon amounted to more than two years.

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

#### Financial ratios, liquidity risk

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

| Financial ratios, liquidity risk per cent | 2016 | 2015 |
|---|------|------|
| LCR                                       | 97   | 91   |
| NSFR                                      | 124  | 108  |
| Core funding ratio                        | 89   | 100  |

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

| Liquidity coverage ratio (LCR)  | 2016       | 2015       |
|---|------------|------------|
| <b>EUR M</b>  |            |            |
| Liquid assets, (cash and cash equivalents), level 1                     | 809        | 604        |
| Liquid assets, level 2  | 0          | 0          |
| <b>Total liquid assets</b>  | <b>809</b> | <b>604</b> |
| Customer deposits   | 834        | 668        |
| Market borrowing  | 60         | 35         |
| Other cash outflows   | 7          | 7          |
| <b>Total cash outflows</b>  | <b>901</b> | <b>710</b> |
| Inflows from lending to non-financial customers falling due for payment | 38         | 20         |
| Other cash inflows  | 29         | 24         |
| <b>Total cash inflows</b>   | <b>67</b>  | <b>44</b>  |
| <b>Net cash outflows</b>  | <b>834</b> | <b>666</b> |
| <b>Liquidity coverage ratio (LCR), %</b>                                | <b>97</b>  | <b>91</b>  |

#### FUNDING

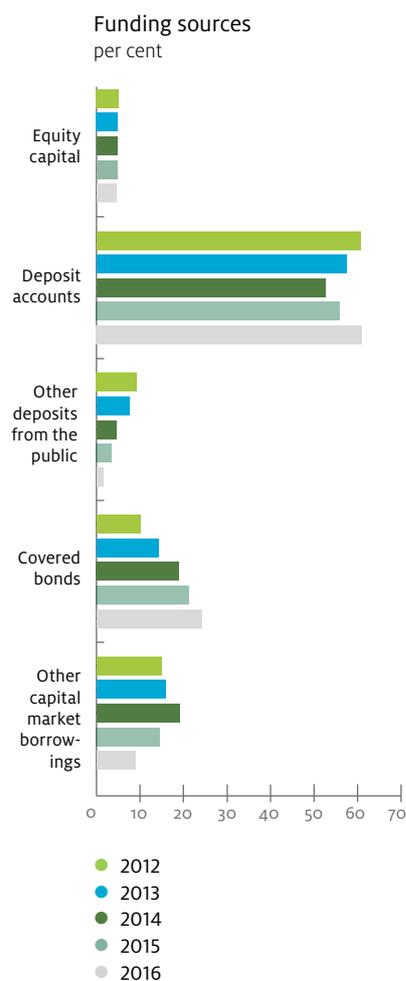
Aside from equity capital, the Bank of Åland's sources of funds consist mainly of deposits from the public, covered bonds and senior unsecured bonds, certificates of deposit and short- and long-term borrowing from credit institutions. The deposit base consists of deposit accounts both in euros and in Swedish kronor. Issues of capital market instruments have been made in euros and Swedish kronor.

The Bank of Åland's aim is a funding structure in which the Bank's customers – through deposit accounts (sight deposits and time deposits) account for more than 50 per cent of total funding. Deposits from the public, as a proportion of total funding, increased from 56 per cent at the end of 2015 to 64 per cent at the end of 2016. Meanwhile, covered bonds grew from 21 per cent of total funding at the end of 2015 to 25 per cent at the end of 2016. The Bank of Åland has a long-term target of ensuring that the core funding ratio shall not exceed 100 per cent. The Bank's lending shall thus not depend on unsecured capital market borrowing for its funding. The Bank of Åland's core funding ratio, defined as lending to the public as a percentage of deposits from the public including certificates of deposit, index bonds and subordinated debentures issued to the public, plus covered bonds issued, amounted to 89 (100) per cent at the end of 2016.

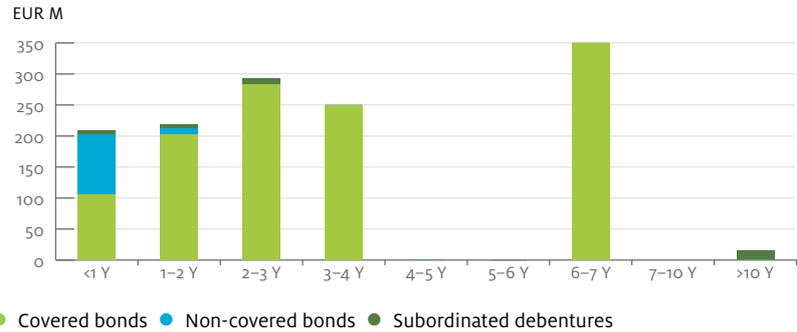
#### FUNDING SOURCES

During 2012 the Bank of Åland issued its first covered bonds. At year-end 2016, the nominal amount of covered bonds outstanding was EUR 1,190 M, of which EUR 250 M was issued during 2016. During 2016 the Bank did not issue any unsecured bonds. The nominal amount of unsecured bonds outstanding totalled EUR 89 M at the end of 2016. Liabilities outstanding on December 31 can be seen in the table below.

| Borrowings outstanding       | 2016         | 2015         |
|------------------------------|--------------|--------------|
| <b>EUR M</b>                 |              |              |
| Covered bonds                | 1,193        | 959          |
| Equity index bonds           | 105          | 203          |
| <b>Total</b>                 | <b>1,298</b> | <b>1,162</b> |
| Average maturity in years    | 3.38         | 3.33         |
| Certificates of deposit, EUR | 154          | 71           |
| Certificates of deposit, SEK | 135          | 179          |
| <b>Total</b>                 | <b>289</b>   | <b>250</b>   |
| Average maturity in years    | 0.22         | 0.34         |



## Maturity structure, debt instruments issued



At present, the Bank has a well-diversified maturity structure. Over the past five years, the average maturity of the Bank's external debt increased from 0.6 years to more than 3.4 years. Since the difference between the Bank's credit rating (BBB) and the collateral pool's rating (AAA) from Standard & Poor's is large, the difference in funding cost for covered and unsecured funding is significant, especially for longer maturities. As a result, the Bank has chosen to issue covered bonds rather than unsecured bonds.

### INVESTOR BASE

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

This persistent work with investors has resulted in good demand for the Bank's bond issues, giving the Bank easier access to funding, smoother implementation of bond issues and lower funding costs.

### MORTGAGE BANKING OPERATIONS

Due to business growth during 2016, the Bank increased its total available collateral in both Finland and Sweden. The Bank of Åland has two separate collateral pools, Cover Pool FIN and Cover Pool SWE. The Finnish cover pool included a total of EUR 1,400 M in collateral at the end of 2016. Backed by collateral registered in Cover Pool FIN, the Bank issued a total of EUR 1,007 M in covered bonds. The Finnish collateral pool included over-collateralisation of 39 per cent on December 31, 2016. The Swedish collateral pool included collateral totalling SEK 2,528 M. Backed by collateral registered in Cover Pool SWE, the Bank had issued a total of SEK 1,750 M in covered bonds by December 31, 2016. The Swedish collateral pool included over-collateralisation of 44 per cent at the end of 2016.

The Bank's mortgage banking operations are regulated by three limits established by the Board of Directors

- The percentage of total borrowing that may consist of covered bonds
- The percentage of the balance sheet total that may consist of covered bonds
- The percentage of total available collateral that may be utilised

## Collateral Pool Finland – Cover Pool FIN

| Assets included       |              |
|-----------------------|--------------|
| EUR M                 |              |
| Loans                 | 1,201        |
| Substitute collateral | 0            |
| Other                 | 0            |
| <b>Total</b>          | <b>1,201</b> |

| Type of collateral            |              |                |
|-------------------------------|--------------|----------------|
| EUR M                         | Loan volume  | Loan volume, % |
| Single-family homes and flats | 1,199        | 99.8           |
| Multi-family homes            | 2            | 0.2            |
| Commercial properties         |              | 0.0            |
| Agriculture and forestry      |              | 0.0            |
| Public sector                 |              | 0.0            |
| <b>Total</b>                  | <b>1,201</b> | <b>100.0</b>   |

| Key figures                        |        |
|------------------------------------|--------|
| Number of loans                    | 16,621 |
| Number of borrowers                | 13,980 |
| Average loan volume, EUR K         | 84     |
| Over-collateralisation, nominal, % | 39.0   |
| Weighted loan-to-value ratio, %    | 57     |
| Foreign exchange risk              | 0      |

| Loan-to-value ratio |      |        |        |        |        |        |        |      |       |
|---------------------|------|--------|--------|--------|--------|--------|--------|------|-------|
| EUR M               | -10% | 10–20% | 20–30% | 30–40% | 40–50% | 50–60% | 60–70% | 70%– | Total |
| Loan volume         | 15   | 42     | 71     | 146    | 188    | 281    | 657    | 0    | 1,400 |
| Loan volume, %      | 1    | 3      | 5      | 10     | 13     | 20     | 47     | 0    | 100   |

| Seasoning      |        |         |         |         |       |       |
|----------------|--------|---------|---------|---------|-------|-------|
| EUR M          | 0–12 M | 12–24 M | 24–36 M | 36–60 M | 60 M– | Total |
| Loan volume    | 266    | 263     | 186     | 267     | 418   | 1,400 |
| Loan volume, % | 19     | 19      | 13      | 19      | 30    | 100   |

| Issues outstanding, EUR |       |                    |                       |        |                |
|-------------------------|-------|--------------------|-----------------------|--------|----------------|
| EUR M                   | Total | Issue date (d/m/y) | Maturity date (d/m/y) | Coupon | Fixed/floating |
| ISIN                    |       |                    |                       |        |                |
| XS1117564572            | 150   | 8.10.2014          | 8.10.2018             | 0.500  | Fixed          |
| XS0999478372            | 100   | 3.12.2013          | 3.6.2019              | 1.550  | Fixed          |
| XS1238023813            | 250   | 26.5.2015          | 26.5.2020             | 0.375  | Fixed          |
| XS0876678391            | 100   | 30.1.2013          | 30.1.2023             | 2.750  | Fixed          |
| XS1496878742            | 250   | 29.9.2016          | 29.9.2023             | 0.000  | Fixed          |

| Issues outstanding, SEK |       |                    |                       |        |                |
|-------------------------|-------|--------------------|-----------------------|--------|----------------|
| SEK M                   | Total | Issue date (d/m/y) | Maturity date (d/m/y) | Coupon | Fixed/floating |
| ISIN                    |       |                    |                       |        |                |
| XS0862156089            | 1,000 | 12.12.2012         | 12.6.2017             | 0.382  | Floating       |
| XS0862155941            | 500   | 12.12.2012         | 12.6.2018             | 0.482  | Floating       |

| Maturity, issues outstanding |      |      |      |      |      |           |           |       |       |
|------------------------------|------|------|------|------|------|-----------|-----------|-------|-------|
| EUR M                        | 2017 | 2018 | 2019 | 2020 | 2021 | 2022–2026 | 2027–2031 | 2032– | Total |
| Total                        | 105  | 202  | 100  | 250  | 0    | 350       | 0         | 0     | 1,007 |
| Total, %                     | 10   | 20   | 10   | 25   | 0    | 35        | 0         | 0     | 100   |

## Collateral Pool Sweden – Cover Pool SWE

### Assets included

| SEK M                 |              |
|-----------------------|--------------|
| Loans                 | 2,528        |
| Substitute collateral | 0            |
| Other                 | 0            |
| <b>Total</b>          | <b>2,528</b> |

### Type of collateral

| SEK M   | Loan volume  | Loan volume, % |
|---|--------------|----------------|
| Single-family homes and tenant-owned cooperative flats  | 1,769        | 70.0           |
| Multi-family homes and cooperative housing associations | 759          | 30.0           |
| Agriculture and forestry                                | 0            | 0.0            |
| Public sector   | 0            | 0.0            |
| Commercial properties                                   | 0            | 0.0            |
| <b>Total</b>  | <b>2,528</b> | <b>100.0</b>   |

### Key figures

|                                    |       |
|------------------------------------|-------|
| Number of loans                    | 820   |
| Number of borrowers                | 822   |
| Average loan volume, SEK K         | 3,083 |
| Over-collateralisation, nominal, % | 44.5  |
| Weighted loan-to-value ratio, %    | 59    |
| Foreign exchange risk              | 0     |

### Loan-to-value ratio

| SEK M          | -10% | 10-20% | 20-30% | 30-40% | 40-50% | 50-60% | 60-70% | 70-75% | 75%- | Total |
|----------------|------|--------|--------|--------|--------|--------|--------|--------|------|-------|
| Loan volume    | 3    | 58     | 85     | 166    | 312    | 425    | 1,479  | 0      | 0    | 2,528 |
| Loan volume, % | 0    | 2      | 3      | 7      | 12     | 17     | 59     | 0      | 0    | 100   |

### Seasoning

| SEK M          | 0-12 M | 12-24 M | 24-36 M | 36-60 M | 60 M- | Total |
|----------------|--------|---------|---------|---------|-------|-------|
| Loan volume    | 496    | 531     | 643     | 698     | 160   | 2,528 |
| Loan volume, % | 20     | 21      | 25      | 28      | 6     | 100   |

### Issues outstanding, SEK

| SEK M        | Total | Issue date (d/m/y) | Maturity date (d/m/y) | Coupon | Fixed/ floating |
|--------------|-------|--------------------|-----------------------|--------|-----------------|
| ISIN         |       |                    |                       |        |                 |
| XS1077864905 | 1,000 | 23.6.2014          | 25.3.2019             | 0.000  | Floating        |
| XS1155041004 | 750   | 16.12.2014         | 16.12.2019            | 0.000  | Floating        |

### Maturity, issues outstanding

| SEK M    | 2016 | 2017 | 2018 | 2019  | 2020 | 2021-2025 | 2026-2030 | 2031- | Total |
|----------|------|------|------|-------|------|-----------|-----------|-------|-------|
| Total    | 0    | 0    | 0    | 1,750 | 0    | 0         | 0         | 0     | 1,750 |
| Total, % | 0    | 0    | 0    | 100   | 0    | 0         | 0         | 0     | 100   |

## Sensitivity of collateral pool to property price declines

| EUR M   | Unchanged | Change in property prices |       |       |       |       |       |       |       |
|---|-----------|---------------------------|-------|-------|-------|-------|-------|-------|-------|
|   |           | -5%                       | -10%  | -15%  | -20%  | -25%  | -30%  | -35%  | -40%  |
| Assets in collateral pool                       | 2,373     | 2,333                     | 2,265 | 2,176 | 2,059 | 1,891 | 1,652 | 1,331 | 1,073 |
| Covered bonds issued                            | 1,195     | 1,195                     | 1,195 | 1,195 | 1,195 | 1,195 | 1,195 | 1,195 | 1,195 |
| Collateral requirement on covered bonds issued* | 1,642     | 1,642                     | 1,642 | 1,642 | 1,642 | 1,642 | 1,642 | 1,642 | 1,642 |
| Surplus value in collateral pool                | 731       | 691                       | 623   | 534   | 417   | 249   | 10    | -311  | -569  |
| Surplus value in collateral pool, %             | 61        | 58                        | 52    | 45    | 35    | 21    | 1     | -26   | -48   |

\* Bonds issued, plus the percentage of over-collateralisation required for a rating of AAA according to S&P criteria for covered bonds plus over-collateralisation for bonds issued under the Bank's EMTN programme in 2012. The percentage of over-collateralisation at year-end was 23 per cent in the Finnish pool and 40 per cent in the Swedish pool, including the 2 per cent legal requirement.

### LIQUIDITY RESERVE

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

| Liquidity reserve   | 2016       | 2015       |
|---|------------|------------|
| EUR M   |            |            |
| Cash and investments with central banks                     | 513        | 199        |
| Debt securities issued by sovereigns and public authorities | 76         | 131        |
| Covered bonds (ratings of AA- or higher)                    | 263        | 318        |
| Holdings of own covered bonds                               | 4          | 40         |
| Holdings of own unsecured bonds                             | 0          | 18         |
| Accounts with other banks                                   | 50         | 33         |
| Lending to credit institutions < 3 days                     | 0          | 0          |
| Debt securities issued by financial companies               | 0          | 65         |
| Debt securities issued by non-financial companies           | 0          | 0          |
| <b>Total</b>  | <b>906</b> | <b>805</b> |
| <i>Of which LCR-qualified</i>                               | 809        | 604        |

### CONTINGENCI PLAN FOR LIQUIDITY RISK

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

### CREDIT RATING

The credit rating agency Standard & Poor's Global Ratings has assigned a credit rating of BBB with a stable outlook for the Bank of Åland's long-term borrowing and a credit rating of A-2 with a stable outlook for the Bank's short-term borrowing. During 2016, the credit rating for short-term borrowing was raised from A-3 to A-2, based on the Bank of Åland's strong liquidity and funding metrics. At the same time, the Bank's future outlook was changed from negative to stable.

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

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

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

## LIQUIDITY RISK REGULATIONS

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

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

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

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

## Market risks

Market risk is a collective concept for interest rate risk, foreign exchange risk and equities risk and refers to the risk of adverse impact on earnings due to movements in market interest rates, exchange rates and share prices.

### INTEREST RATE RISK

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

Interest rate risk arises when the interest rate refixing periods of assets and liabilities differ. Interest rate risk is expressed in the Bank of Åland's income statement in two ways:

1. *Net interest income risk* – the change in net interest income (interest income minus interest expenses) due to changes in market interest rates.
2. *Value change risk* – the change in the market value of assets, liabilities and derivatives due to changes in market interest rates.

Net interest income risk shows the effect of changes in interest rate on the Bank's earnings with regard to returns on interest-bearing assets and expenses on interest-bearing liabilities, during the next twelve months.

Net interest income risk, which is limited by the Board of Directors, is measured as the effect on net interest income of a parallel shift in the yield curve by –50 basis points.

The prevailing, exceptional, market situation – with negative interest rates – implies that a large proportion of the Bank's customer lending as well as customer deposits essentially carry fixed interest rates until the underlying benchmark rates are again in positive territory.

Value change risk is measured in two ways: first, as the theoretical change in the estimated present value of all interest-bearing items; and second, as the recognised effect in the income statement and other comprehensive income of the assets, liabilities and derivatives that are carried at market value according to the accounting principles in force (effect on recognised equity capital).

The change in the present value of all interest-bearing items should be regarded as a measure of the Bank's interest rate risk exposure and assumes that all assets and liabilities have a market value at which they can be divested.

The Bank of Åland's bond portfolio is primarily classified as available for sale, which means that only realised changes in value are reported in the income statement, while unrealised changes in value are reported in other comprehensive income. About 18 per cent of the bond portfolio consists of bonds classified as "held to maturity", and the intention is to gradually increase this percentage.

All derivatives are marked to market. To avoid valuation problems in the income statement, those assets (fixed interest loans) and those liabilities (zero coupon bonds as part of equity index bonds and covered bonds with fixed interest rates) which have swaps that protect against net interest income risk have been classified in such a way that they are marked to market according to the fair value option in the case of loans and using hedge accounting with fair value hedging for the liabilities. By using fair value hedging of the interest rate risk in bonds that have been issued, only the interest rate component and not the Bank's own credit risk need to be marked to market, which is consistent with the purpose of risk management, and unnecessary volatility in the income statement due to changes in credit risk on the Bank's own liabilities is avoided. The Bank also uses cash flow hedging in order to hedge foreign exchange risk in covered bonds issued in Swedish kronor by swapping cash flows to euro using currency interest rate swaps (CIRSs).

Customers' derivative transactions should always be carried out back-to-back so that no open market-valued interest positions will arise.

The Bank of Åland's goal is to avoid volatility in the income statement due to changes in market interest rates. This occurs by means of various risk mitigation measures, for example the use of interest rate swaps and interest rate futures. Based on the strategy the Bank has chosen, the valuation gain or loss attributable to interest rate movements should be close to zero in

the income statement, except for capital gains or losses from the liquidity portfolio. Unrealised changes in value in the liquidity portfolio are visible in "Other comprehensive income".

The effect of value change risk on the income statement and other comprehensive income is limited by the Board of Directors and is measured as the effect of a parallel shift in the yield curve by +100 basis points .

| Interest rate refixing periods for assets and liabilities   |              |            |            | 2016       |            |              |
|---|--------------|------------|------------|------------|------------|--------------|
| EUR M   | Up to 3 mo   | 3–6 mo     | 6–12 mo    | 1–5 yrs    | Over 5 yrs | Total        |
| <b>Assets</b>   |              |            |            |            |            |              |
| Lending to credit institutions and central banks            | 201          | 0          | 0          | 0          | 0          | 201          |
| Debt securities eligible for refinancing with central banks | 259          | 20         | 37         | 116        | 72         | 504          |
| Lending to the public                                       | 2,333        | 421        | 788        | 205        | 61         | 3,808        |
| <b>Total interest-bearing assets</b>                        | <b>2,793</b> | <b>441</b> | <b>825</b> | <b>320</b> | <b>134</b> | <b>4,513</b> |
| <b>Liabilities</b>  |              |            |            |            |            |              |
| Liabilities to credit institutions                          | 77           | 6          | 6          | 130        | 0          | 219          |
| Liabilities from the public and public sector entities      | 2,886        | 36         | 84         | 22         | 0          | 3,028        |
| Debt securities   | 537          | 44         | 9          | 518        | 344        | 1,452        |
| Subordinated liabilities                                    | 2            | 3          | 3          | 16         | 15         | 39           |
| <b>Total interest-bearing liabilities</b>                   | <b>3,501</b> | <b>89</b>  | <b>102</b> | <b>686</b> | <b>359</b> | <b>4,738</b> |
| <b>Off-balance sheet items</b>                              | <b>583</b>   | <b>93</b>  | <b>15</b>  | <b>350</b> | <b>319</b> |              |
| <b>Difference between assets and liabilities</b>            | <b>-125</b>  | <b>445</b> | <b>738</b> | <b>-16</b> | <b>94</b>  |              |

|   |              |            |            | 2015       |            |              |
|---|--------------|------------|------------|------------|------------|--------------|
| EUR M   | Up to 3 mo   | 3–6 mo     | 6–12 mo    | 1–5 yrs    | Over 5 yrs | Total        |
| <b>Assets</b>   |              |            |            |            |            |              |
| Lending to credit institutions and central banks            | 244          |            |            |            |            | 244          |
| Debt securities eligible for refinancing with central banks | 292          | 0          | 28         | 241        | 73         | 633          |
| Lending to the public                                       | 3,380        | 333        | 693        | 181        | 29         | 3,617        |
| <b>Total interest-bearing assets</b>                        | <b>2,916</b> | <b>333</b> | <b>721</b> | <b>422</b> | <b>102</b> | <b>4,494</b> |
| <b>Liabilities</b>  |              |            |            |            |            |              |
| Liabilities to credit institutions                          | 298          | 9          | 15         | 0          | 0          | 322          |
| Liabilities from the public and public sector entities      | 2,410        | 40         | 66         | 2          | 0          | 2,517        |
| Debt securities   | 667          | 97         | 39         | 512        | 97         | 1,412        |
| Subordinated liabilities                                    | 2            | 4          | 3          | 24         | 9          | 43           |
| <b>Total interest-bearing liabilities</b>                   | <b>3,377</b> | <b>150</b> | <b>124</b> | <b>538</b> | <b>106</b> | <b>4,293</b> |
| <b>Off-balance sheet items</b>                              | <b>335</b>   | <b>81</b>  | <b>3</b>   | <b>318</b> | <b>86</b>  |              |
| <b>Difference between assets and liabilities</b>            | <b>-125</b>  | <b>264</b> | <b>600</b> | <b>202</b> | <b>82</b>  |              |

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

The quantification of both net interest income risk and value change risk is greatly dependent on what assumptions are made about the interest rate refixing period for a number of items, especially regarding low-interest sight deposits without a benchmark interest rate connection to Euribor or Stibor. In the calculations below, sight deposits without contractual interest rate refixing periods have been assigned an interest rate refixing period in the model that varies from 3–12 months depending on the type of account.

| Parallel shift in the yield curve | 2016         |       | 2015         |      |
|-----------------------------------|--------------|-------|--------------|------|
|                                   | Basis points |       | Basis points |      |
| EUR M                             | +100         | -100  | +100         | -100 |
| Net interest income risk          | 11.8         | -11.7 | 9.6          | -9.5 |
| EUR                               | 9.0          | -8.9  | 6.4          | -6.3 |
| SEK                               | 2.7          | -2.7  | 3.6          | -3.6 |
| Value change risk                 | 8.6          | -15.4 | 4.2          | -6.7 |
| EUR                               | 6.9          | -11.9 | 2.8          | -5.1 |
| SEK                               | 1.6          | -3.3  | 1.6          | -1.9 |

Figures for 2015 have been restated according to the 2016 calculation model. The model does not take any interest rate floor into account.

#### **FACTORS THAT DRIVE INTEREST RATE RISK**

As a rule, interest rate risk is measured as the effect of an interest rate change, but the size of this effect depends on a number of underlying factors:

- *Interest rate adjustment risk* – the time differences in interest rate refixing between assets and liabilities.
- *Spread risk* – even if assets and liabilities have the same interest rate refixing period, interest rate risk may arise if the spread between their respective benchmark interest rates changes, which may lead to an adverse effect on the Bank's earnings. One example of this is the spread between the interest rate on sight deposits and variable rate lending, which has shrunk alarmingly in the low interest rate situation of recent years, resulting in an adverse effect on the Bank's net interest income.
- *Customer behaviour* – interest rate developments may affect customer behaviour in such a way that customers decide, for example, to reinvest their variable interest rate deposits in fixed interest rate deposits or in some form of securities, such as equities. This affects the Bank's access to funding as well as the cost of funding.

All of these factors are taken into account when analysing and deciding how to manage the Bank's interest rate risk. Responsibility for interest rate risk management lies with the Bank's Treasury Department. The framework for the department's work is determined by the principles adopted by the Board of Directors in their Treasury policy and risk policy documents as well as the limits established in the limits appendix to the risk policy document.

#### **FOREIGN EXCHANGE RATE 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 Group'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 restricted by limits established by the Board of Directors and is managed using currency swaps and currency forward contracts.

The Bank also has a structural foreign exchange risk in Swedish kronor, since the Bank's financial accounts are prepared in euros while the functional reporting currency of its Swedish branch is Swedish kronor. The structural foreign exchange risk arises due to accrued profits/losses in the branch as well as the branch's endowment capital in Swedish kronor. This structural foreign exchange risk is dealt with through separate decisions by the Managing Director or the Board of Directors. The structural foreign exchange risk is hedged using currency forward contracts.

#### **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-related risk is very limited.

The Bank's exposure to equities consists of strategic investments in Åland-based companies and some other minor holdings. In addition, it is exposed to the equity-related option portion of repurchased structured products plus collection and administrative securities accounts that are part of share trading operations on behalf of customers.

Decisions on strategic investments are made by the Managing Director and/or the Board of Directors. Other holdings are restricted by limits and are ultimately decided by the Board of Directors.

#### **Operational risk**

Operational risk is defined as the probability of direct or indirect losses due to faulty internal processes, employees, systems or events in the Group's surroundings.

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

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

The Bank's management of operational risks is based on self-assessments, incident reporting, training, reporting to the Executive Team, maintenance of internal regulations, analysis of new products and services, continuity and emergency planning as well as continuity exercises. Crosskey Banking Solutions reports to the Bank about all incidents that have occurred and on the findings of its risk-mapping analyses.

Operational risks in the Group' main processes are evaluated annually. The evaluation assesses the probability and consequences of a loss event as well as trends and existing risk management. The Risk Control Department analyses risks based on the risk evaluations that have been conducted and reports these to the Executive Team.

Incident reporting is part of mapping operational risks. The Risk Control Department analyses incidents and compiles reports to the affected bodies in the Group and to the Executive Team.

The Group has introduced a standardised risk identification process for new products and services. The Group has emergency plans for exceptional 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 disruptions in operations.

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.

The Bank uses the standardised approach for calculating the capital requirement for operational risk. According to the standardised approach, the capital requirement for operational risk is calculated on the basis of disclosures in the financial statements adapted for the latest three financial years.

The income indicator is estimated for the following eight business areas:

| Capital requirements for operational risk          |                          |                                  |                                  |
|--|--------------------------|----------------------------------|----------------------------------|
|  | Percentage (beta factor) | Capital requirement, 2016, EUR M | Capital requirement, 2015, EUR M |
| Corporate financing                                | 18                       |                                  |                                  |
| Trading and financial management                   | 18                       |                                  |                                  |
| Brokerage operations, individual customers         | 12                       |                                  |                                  |
| Banking, large customers                           | 15                       | 1.4                              | 1.2                              |
| Banking, retail                                    | 12                       | 8.9                              | 8.1                              |
| Payment and phase-out                              | 18                       | 3.6                              | 3.4                              |
| Administrative assignments                         | 15                       |                                  |                                  |
| Asset management                                   | 12                       | 1.3                              | 1.2                              |
| <b>Total capital requirement, operational risk</b> | <b>13</b>                | <b>15.2</b>                      | <b>13.9</b>                      |

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

## Stress tests

As a supplement to the existing risk metrics, the Bank carries out various stress tests to identify the effects of exceptional, but plausible, changes in variables that are relevant to the Bank, such as interest rates, exchange rates or other external factors. These stress tests are carried out at least yearly in conjunction with the yearly internal capital adequacy assessment. The Bank uses the scenarios provided by the European Banking Authority (EBA) when these are available. In other cases the Bank works out its own scenarios, which are approved by the Financial Supervisory Authority.

Liquidity risk management also includes stress tests that evaluate potential effects on liquidity if exceptional but reasonable events should occur. These stress tests are a supplement to normal liquidity management and their purpose is to confirm that the emergency plan is adequate in case of critical events.

## Capital management and capital adequacy

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

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

In calculating the above ratios, banks that use internal models are limited to maintaining a capital requirement equivalent to at least 80 per cent of the capital requirement calculated according to Basel 1 rules: in practice according to the standardised approach. This comprises the "Basel 1 floor" and limits the effect on banks' risk exposure amounts with the aid of internal models.

In addition to this, banks must also maintain capital for other risks not covered by “Pillar 1” regulations. These risks are assessed yearly by means of the “internal capital adequacy assessment process” (ICAAP). Capital requirements are institution-specific and are established by the Financial Supervisory Authority. These “Pillar 2” risks are described below in the “Internal capital adequacy assessment” section. When assessing the Bank’s position in 2015, its Pillar 2 capital requirement was estimated at 0.7 per cent of REA, which was equivalent to a capital requirement of EUR 10.5 M at the end of 2015.

In addition to these requirements, institutions must have a capital conservation buffer amounting to 2.5 per cent of REA and a countercyclical capital buffer amounting to 0–2.5 per cent of REA. The latter is a “macroprudential” tool and is determined by the supervisory authority in each country and applied to the relevant lending exposures that are located within this market. The sum of these two buffers comprises the Bank’s combined buffer requirement. The combined buffer requirement must be fulfilled in its entirety by core Tier 1 capital. Failure to maintain either of the buffers that comprise the combined buffer will result in restrictions on the Bank’s ability to distribute dividends from equity capital and to repurchase shares.

So far, the Financial Supervisory Authority in Finland has not made a decision to put the countercyclical capital buffer into effect, but the FSA in Sweden has enacted a buffer requirement of 1.5 per cent, which is applied to the portion of the Bank’s relevant credit risk exposures attributable to Sweden.

The table below presents the buffer requirements in per cent and as required core Tier 1 capital in euros.

| Reporting of combined buffer requirements         |  |                                |
|---|--|--------------------------------|
| EUR M   | Capital requirement for relevant credit risk exposures | National buffer requirement, % |
| Countercyclical capital buffer                    |  |                                |
| Finland   | 52.8   | 0.0                            |
| Sweden  | 48.2   | 1.5*                           |
| Germany   | 0.1  | 0.0                            |
| Norway  | 0.9  | 1.0                            |
| Denmark   | 0.0  | 0.0                            |
| Overall countercyclical buffer requirement, %     |  | 0.7                            |
| Overall countercyclical buffer requirement, EUR M |  | 11.3                           |
| Capital conservation buffer, %                    |  | 2.5                            |
| Capital conservation buffer, EUR M                |  | 39.4                           |
| Combined buffer requirement, %                    |  | 3.2                            |
| Combined buffer requirement, EUR M                |  | 50.7                           |

\* Starting in March 2017, a 2 per cent requirement will apply.

Taking into account the latest estimated Pillar 2 capital requirement and the above buffer requirement, the Bank of Åland’s core Tier 1 capital level must amount to 8.1 per cent in order to avoid restrictions on dividends. At the end of 2016, the Bank’s core Tier 1 capital ratio amounted to 11.8 (11.9) per cent, which means that the Bank had a buffer of 3.7 per cent or (expressed as core Tier 1 capital) of EUR 58 M.

#### THE CAPITAL BASE

The Bank of Åland’s capital base is divided into two types: Tier 1 capital and supplementary capital. Since the Bank has not issued any instruments in the “Other core capital” category, its entire Tier 1 capital consists of capital in the best category, i.e. common equity Tier 1 capital.

The most important characteristic of Tier 1 capital is that it is freely and immediately available for covering unforeseen losses. Tier 1 capital consists of share capital in the form of capital instruments as well as related premium reserves that meet the conditions in Articles 28 and 29 of the Capital Requirements Regulation (CRR), retained earnings, other accumulated comprehensive income, other reserves and provisions for general banking risks. Retained earnings include the portion of the year’s profit that is not planned as a dividend, with the approval of the Financial Supervisory Authority after independent verification by an auditor. The instruments that are included in the Bank’s Tier 1 capital are perpetual and consist mainly of equity capital according to accounting rules. The specific instruments that are included consist of the Bank’s Series A and Series B shares; details concerning these are presented in an appendix to this risk management section. However, certain downward adjustments in Tier 1 capital are made for items that have poorer capacity to absorb losses. Examples of such deductions

are the unamortised cost of intangible assets, defined-benefit pension assets, deferred tax assets dependent on future profitability and deficits in the form of expected losses exceeding recognised impairment losses in the IRB-approved portfolio. The Bank's own holdings in core Tier 1 capital instruments in units in the financial sector are also subtracted.

Unlike Tier 1 capital, supplementary capital is not as available for covering losses according to the regulations. The Group's supplementary capital consists of subordinated debentures issued to the public, which are specified in the appendix to this risk management section. Aside from capital instruments and subordinated debentures plus related premium reserves that meet the requirements of Article 63 of the CRR, supplementary capital includes general credit risk adjustments and estimated gross tax effects up to 1.25 per cent of the risk exposure amount calculated according to the standardised approach. Supplementary capital may also include the expected losses that exceed recognised impairment losses for the IRB-approved portfolio up to 0.6 per cent of the risk exposure amount calculated according to the IRB approach. As with Tier 1 capital, the Bank's own holdings of capital instruments in financial sector entities are subtracted from supplementary capital. According to a decision by the Financial Supervisory Authority, subordinated debentures issued after January 1, 2012 that are amortised for up to 5 years may no longer be included in supplementary capital. The Bank is thus forced to subtract these instruments from its capital base. The appendix to this section on risk management provides a detailed presentation of the items in the Bank's capital base as well as the instruments that comprise the capital base and their most important characteristics. The Appendix begins with a reconciliation between the capital base and the balance sheet. During 2016, the Bank of Åland issued a debenture loan that is included in supplementary capital in the amount of EUR 6.2 M.

#### **CAPITAL REQUIREMENT**

The capital requirement for credit risks is calculated according to the advanced IRB (AIRB) approach in the mainland Finnish and Åland retail portfolios, according to the foundation method for the corporate portfolio (FIRB) and using the standardised approach in the remaining portfolios. During 2016, the Bank received permission to calculate the capital requirement for the corporate portfolio in Finland according to the IRB approach. When this change was introduced, the Bank's risk exposure amount for these exposures decreased by EUR 14 M, while the amount that is deducted from the capital base in the form of expected losses beyond recognised losses increased by EUR 5.8 M. This had a negative impact of 0.3 percentage points in the Bank's core Tier 1 capital ratio.

On June 30, 2013, the Bank switched from the basic indicator approach to the standardised approach in calculating the capital requirement for operational risks. The Bank applies the exemption for small trading inventories according to Article 94 of the CRR and thus estimates no capital requirement according to the market risk regulations. Instead it applies the credit risk rules to these items to the extent they arise. In the Bank's assessment, all balance sheet items are currently classified as belonging to financing operations in the context of capital adequacy.

#### **CHANGES IN CAPITAL ADEQUACY RULES**

For some time, the Basel Committee has been conducting a large-scale review of the current capital adequacy regulations. Among other things, the plan is to amend the regulations for calculating credit risk according to the standardised approach and to introduce a new way of calculating the floor rule for exposures estimated according to the IRB approach, i.e. replace today's calculation of the "Basel 1 floor". The level of this floor has a major impact on how much a bank can benefit by using its internal models for calculating capital adequacy. The Basel Committee has also published new proposals on how the capital requirements for operational risk should be calculated. Concurrently with the work of the Basel Committee, the European Banking Authority (EBA) has begun an effort to harmonise the ways that banks calculate risk according to internal models. During the next few years, a number of documents addressing the use of internal models will be published. In November 2016, the European Commission proposed a number of updates in its Capital Requirements Regulation and Directive (CRR/II and CRDV). By introducing these changes, the Commission wishes to make certain calculation methods more risk-sensitive in order to increase the resilience of banks to financial crises. Starting on January 1, 2018, the new IFRS 9 reporting standard will enter into force. As a result, banks will need to employ statistical methods to calculate impairments to all assets, in other words even loans that have not defaulted. This will lead to an increase in provision amounts and thereby decrease the equity capital of banks, which may have an effect on their capital ratios.

#### **LONG-TERM CAPITAL ADEQUACY TARGETS**

The Group's capital management is regulated not only by CRR rules concerning the capital base and capital requirements, but also by the Group's long-term financial target.

The Group's long-term financial target is as follows: Capital adequacy, primarily defined as the core Tier 1 capital ratio under the Basel regulations, shall exceed all regulatory requirements by a wide margin.

The table below provides a summary of the Group's capital adequacy calculations under Pillar 1.

| Capital adequacy   | 2016         | 2015         |
|--|--------------|--------------|
| <b>EUR M</b>   |              |              |
| Equity capital according to balance sheet                                  | 221.8        | 212.9        |
| Foreseeable dividend   | -9.2         | -9.1         |
| <b>Common equity Tier 1 capital before deductions</b>                      | <b>212.6</b> | <b>203.8</b> |
| Intangible assets  | -14.3        | -8.8         |
| Tax liabilities due to future profitability offset against tax liabilities | 0.0          | -0.1         |
| Surplus value in pension assets  | 0.0          | -0.5         |
| Non-controlling interests  | 0.0          | 0.0          |
| Cash flow hedge  | 0.2          | 0.4          |
| Additional adjustments in value  | -1.3         | 0.0          |
| Expected losses according to IRB approach beyond recognised losses         | -11.2        | -5.2         |
| <b>Common equity Tier 1 capital</b>  | <b>186.0</b> | <b>189.5</b> |
| Additional Tier 1 capital  | <b>0.0</b>   | <b>0.0</b>   |
| <b>Tier 1 capital</b>  | <b>186.0</b> | <b>189.5</b> |
| Supplementary capital instruments  | 19.1         | 15.1         |
| <b>Tier 2 (supplementary) capital before deductions</b>                    | <b>19.1</b>  | <b>15.1</b>  |
| <b>Tier 2 capital</b>  | <b>19.1</b>  | <b>15.1</b>  |
| <b>Total capital</b>   | <b>205.2</b> | <b>204.6</b> |
| Capital requirement for credit risk according to the IRB approach          | 47.8         | 26.4         |
| Capital requirement for credit risk according to standardised approach     | 61.9         | 84.9         |
| Capital requirement for credit valuation adjustment                        | 1.2          | 1.3          |
| Capital requirement for operational risk                                   | 15.2         | 13.9         |
| <b>Capital requirement</b>   | <b>126.0</b> | <b>126.5</b> |
| Addition according to transitional rules for IRB approach                  | 0.0          | 0.8          |
| <b>Capital requirement including transitional rule for IRB approach</b>    | <b>126.0</b> | <b>127.3</b> |
| Risk exposure amount   | 1,575.5      | 1,591.7      |
| of which % comprising credit risk  | 87.0         | 88           |
| of which % comprising credit-worthiness adjustment risk                    | 0.9          | 1            |
| of which % comprising market risk  |              | 0            |
| of which % comprising operational risk                                     | 12.0         | 11           |
| Capital ratios (including Basel I floor effect)                            |              |              |
| Common equity Tier 1 capital ratio, %                                      | 11.8         | 12.0         |
| Tier 1 capital ratio, %  | 11.8         | 12.0         |
| Total capital ratio, %   | 13.0         | 12.9         |
| Capital requirement according to Basel I floor transitional rule*          |              |              |
| Capital requirement adjusted for Basel I floor rule                        | 126.0        | 127.3        |
| Capital base according to Basel I  | 216.4        | 209.8        |
| Capital surplus according to Basel I floor transitional rules              | 90.3         | 82.5         |
| Capital base as % of Basel I floor capital requirement                     | 171.7        | 164.8        |

\* During 2016, the Bank was granted permission by the Finnish Financial Supervisory Authority to calculate the capital requirements for the Finnish mainland and Åland corporate portfolios according to the IRB approach. Aside from risk exposure amounts, this also affects deductions for expected losses exceeding recognised impairment losses.

| Leverage ratio   | 2016    | 2015    |
|--|---------|---------|
| <b>EUR M</b>   |         |         |
| Tier 1 capital defined according to transitional rules | 186.0   | 189.5   |
| Total exposure metric                                  | 5,232.9 | 4,841.6 |
| <i>of which balance sheet items</i>                    | 5,120.5 | 4,587.8 |
| <i>of which off-balance sheet items</i>                | 112.4   | 253.8   |
| Leverage ratio, %                                      | 3.6     | 3.9     |

Leverage ratio is calculated according to the situation at the end of the quarter. Tier 1 capital includes profit for the period.

#### INTERNAL CAPITAL ADEQUACY ASSESSMENT (PILLAR 2)

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

The Bank of Åland prepares and documents its own methods and processes to evaluate its capital requirement.

The 2015 ICAAP evaluated a negative scenario (EBA adverse scenario) of a lengthy economic downturn that adversely affects the Finnish and Swedish export industry and leads to higher unemployment, sharply declining property prices and share prices and continued extremely low market interest rates.

Identified capital needs according to Pillar 2 amounted to EUR 10.5 M, of which the largest items were business risk at EUR 8.5 M, concentration risks in the loan portfolio at EUR 3.8 M and interest rate risk in banking operations at EUR 0.9 M. Taking into account the combined buffer requirement, to the extent these identified capital needs were covered by core Tier 1 and Tier 1 capital (75 per cent), the Bank of Åland's overall common equity Tier 1 and Tier 1 capital requirement on December 31, 2015 was EUR 149.2 M. Including the remaining portion consisting of the supplementary capital requirement, the Bank's total capital requirement was EUR 183.5 M. Based on risk-weighted assets, this requirement was equivalent to a minimum core Tier 1 capital ratio of 7.9 per cent.

Capital planning for an economic downturn showed no capital need to cover the operating losses that would occur. The Bank's capital ratios thus never fell below the capital restriction thresholds during the planning period, which was three years.

The common equity Tier 1 and Tier 1 capital need of EUR 149.2 M should be compared to the reported common equity Tier 1 capital of EUR 189.5 M on December 31, 2015. The Bank of Åland thus had a common equity Tier 1 capital buffer equivalent to EUR 40.3 M.

If we look at the total capital requirement, according to Pillar 1 it was EUR 126.5 M. Including EUR 0.8 M in additional capital according to the transitional rule for IRB, the capital requirement amounted to EUR 127.3 M. Adjusting the Pillar 2 requirement because the capital requirement for credit risk is measured using the IRB approach, the overall capital need was EUR 137.8 M. Since the total capital base including supplementary capital amounted to EUR 204.6 M, the capital buffer at year-end was EUR 66.8 M. Taking into account the combined buffer requirement of EUR 46.5 M, the buffer was EUR 21.1 M excluding the capital requirement for the Basel 1 floor.

The significant risks and capital requirement that has been identified in the Group according to Pillar 2 are shown in the table below.

| Internal capital adequacy assessment                             |              |              |             |
|--|--------------|--------------|-------------|
|  | 2015         | 2014         | Change      |
| <b>EUR M</b>   |              |              |             |
| <b>Pillar 1 capital requirement</b>                              |              |              |             |
| Credit risk, IRB   | 26.4         | 24.2         | 2.2         |
| Credit risk, standardised approach                               | 84.9         | 85.7         | -0.8        |
| Credit valuation adjustment risk                                 | 1.3          | 1.3          | 0.0         |
| Operational risks  | 13.9         | 13.0         | 0.9         |
| <b>Total capital requirement in Pillar 1</b>                     | <b>126.5</b> | <b>124.2</b> | <b>2.3</b>  |
| <b>Addition according to transitional rules for IRB approach</b> |              |              |             |
| Credit risk, IRB instead of standardised approach                | -4.8         | -5.4         | 0.6         |
| <b>Pillar 2 capital requirement</b>                              |              |              |             |
| Credit risk in addition to Pillar 1                              | 1.1          | 1.1          | 0.0         |
| Credit concentration risk  | 3.8          | 4.3          | -0.5        |
| Counterparty risk  | 0.3          | 0.4          | -0.1        |
| Interest rate risk in the banking book                           | 0.9          | 2.1          | -1.2        |
| Exchange rate risk   | 0.1          | 0.3          | -0.2        |
| Equity risk  | 0.7          | 0.9          | -0.2        |
| Property risk  | 0.0          | 0.0          | 0.0         |
| Operational risks in addition to Pillar 1                        | 0.0          | 0.0          | 0.0         |
| Pension liability risk   | 0.0          | 0.0          | 0.0         |
| Business risk  | 8.5          | 8.8          | -0.3        |
| Liquidity risk   | 0.0          | 0.0          | 0.0         |
| <b>Total capital need in Pillar 2</b>                            | <b>15.3</b>  | <b>17.9</b>  | <b>-2.6</b> |
| <b>Total capital requirement and capital need</b>                |              |              |             |
|  | <b>137.8</b> | <b>141.7</b> | <b>-3.9</b> |
| <b>Available capital</b>   |              |              |             |
|  | <b>204.6</b> | <b>187.6</b> | <b>17.0</b> |
| <i>of which common equity Tier 1 capital</i>                     | 189.5        | 170.0        | 19.5        |
| <i>of which Tier 2 (supplementary) capital</i>                   | 15.1         | 17.6         | -2.5        |
| <b>Risk exposure amount (Pillar 1)</b>                           |              |              |             |
|  | <b>1,581</b> | <b>1,554</b> | <b>27.0</b> |
| <b>Estimated common equity Tier 1 capital need</b>               |              |              |             |
| Minimum requirement according to Pillar 1 (4.5%)                 | 71.2         | 69.9         | 1.3         |
| Capital conservation buffer (2.5%)                               | 39.5         | 38.8         | 0.7         |
| Countercyclical capital buffer                                   | 7.0          | 0.0          | 7.0         |
| Capital need according to Pillar 2 (share 56%)                   | 5.9          | 7.0          | -1.1        |
| <b>Total common equity Tier 1 capital need</b>                   | <b>123.6</b> | <b>115.7</b> | <b>7.9</b>  |
| <b>Minimum level of core Tier 1 capital ratio, %</b>             |              |              |             |
|  | <b>7.8</b>   | <b>7.5</b>   | <b>0.0</b>  |
| <b>Common equity Tier 1 capital buffer</b>                       |              |              |             |
|  | <b>66.0</b>  | <b>54.2</b>  | <b>11.8</b> |
| <b>Estimate primary and supplementary capital need</b>           |              |              |             |
| Minimum requirement according to Pillar 1 (3.5%)                 | 55.3         | 54.4         | 0.9         |
| Capital need according to Pillar 2 (share 44%)                   | 4.6          | 5.5          | -0.9        |
| <b>Total common equity and supplementary capital need</b>        | <b>60.0</b>  | <b>59.9</b>  | <b>0.1</b>  |
| <b>Minimum level of total capital ratio, %</b>                   |              |              |             |
|  | <b>11.6</b>  | <b>11.3</b>  | <b>0.3</b>  |
| <b>Actual total capital ratio, %</b>                             |              |              |             |
|  | <b>12.9</b>  | <b>12.1</b>  | <b>0.8</b>  |
| <b>Total capital buffer</b>                                      |              |              |             |
|  | <b>21.1</b>  | <b>12.0</b>  | <b>9.1</b>  |

## Appendix

| Mapping of own funds to the balance sheet   |  | 2016  | 2015 |                                |
|---|--|-------|------|--------------------------------|
| EUR M   |  |       |      | Line reference in capital base |
| <b>Assets</b>   |  |       |      |                                |
| Intangible assets   |  | 15.6  | 9.6  |                                |
| of which: Goodwill and other intangible assets (net of related tax liabilities)                               |  | -14.3 | -8.8 | 8                              |
| Deferred tax assets   |  | 5.0   | 4.4  |                                |
| of which: reliant on future profitability except those that arise due to temporary differences                |  | 0.0   | -0.1 | 10                             |
| Defined benefit pension assets  |  | 0.0   | 1.4  |                                |
| of which: defined benefit pension assets (in addition to related obligations, net of related tax liabilities) |  | 0.0   | -0.5 | 15                             |
| <b>Liabilities</b>  |  |       |      |                                |
| Deferred tax liabilities  |  | 21.1  | 17.2 |                                |
| of which: reliant on future profitability except those that arise due to temporary differences                |  |       |      | 10                             |
| Defined benefit pension obligations   |  | 3.7   | 0.8  |                                |
| of which: defined benefit pension assets (net of related tax liabilities)                                     |  |       |      | 15                             |
| Subordinated liabilities  |  | 39.4  | 42.7 |                                |
| of which: Additional Tier 1 capital instruments and related share premium accounts                            |  |       |      | 30                             |
| of which: Qualifying items referred to in Article 484 (4)   |  |       |      | 33 and 47                      |
| of which: Direct and indirect own holdings in the Bank's additional Tier 1 capital instruments                |  |       |      | 37                             |
| of which: Supplementary capital instruments and related share premium accounts                                |  | 19.1  | 15.1 | 46                             |
| of which: Qualifying items referred to in Article 484 (5)   |  |       |      | 47                             |
| of which: Direct and indirect own holdings in the Bank's supplementary capital instruments                    |  | 0.0   | 0.0  | 52                             |
| <b>Equity capital</b>   |  |       |      |                                |
| Share capital   |  | 41.7  | 41.5 | 1                              |
| of which: Share capital (net of direct and indirect holdings of own shares)                                   |  | 41.7  | 41.4 | 1 and 16                       |
| Share premium account   |  | 32.7  | 32.7 |                                |
| of which: Equity instruments and related share premium accounts   |  | 32.7  | 32.7 | 1                              |
| Other reserves  |  | 51.1  | 50.1 |                                |
| of which: Statutory reserve   |  | 25.1  | 25.1 | 1                              |
| of which: Unrestricted equity reserve   |  | 26.0  | 25.0 | 1                              |
| Other reserves  |  | 1.2   | 1.2  |                                |
| of which: Other comprehensive income  |  | 1.2   | 1.2  | 3                              |
| of which: Fair value reserves related to gains or losses on cash flow hedges                                  |  | 0.2   | 0.4  | 11                             |
| Retained earnings   |  | 95.1  | 87.4 |                                |
| of which: Profit for the period   |  | 19.7  | 24.3 | 5a                             |
| of which: Retained earnings   |  | 75.4  | 63.1 |                                |

| Disclosures about capital base                                |  | 2016         | 2015         |   |
|---|--|--------------|--------------|---|
| EUR M   |  |              |              | Regulation (EU) No 575/2013 Article reference |
| <b>Common equity Tier 1 capital: Instruments and reserves</b> |  |              |              |   |
| 1   | Capital instruments and related share premium accounts   | 125.5        | 124.4        | 26.1, 27,28,29                                |
|   | of which: share capital  | 41.7         | 41.5         | EBA list 26.3                                 |
|   | of which: share premium account  | 32.7         | 32.7         | EBA list 26.3                                 |
|   | of which: other funds  | 51.1         | 50.1         | EBA list 26.3                                 |
| 2   | Retained earnings  | 75.4         | 63.1         | 26.1 C  |
| 3   | Accumulated other comprehensive income (and other reserves)  | 1.2          | 1.2          | 26.1  |
| 3a  | Provisions for general risks in banking operations   |              |              | 26.1 f  |
| 4   | Amount of qualifying items referred to in Article 484.3 and related share premium accounts subject to phase-out from core Tier 1 capital |              |              | 486.2   |
| 5   | Minority interests (amount allowed in consolidated core Tier 1 capital)  | 0.0          | 0.0          | 84  |
| 5a  | Interim profit, net of foreseeable expenses and dividends that have been verified by persons who have an independent position            | 10.5         | 15.2         | 26.2  |
| 6   | <b>Common equity Tier 1 capital before regulatory adjustments</b>  | <b>212.6</b> | <b>203.8</b> | <b>Total of lines 1–5a</b>                    |

|   |   | 2016         | 2015         |  |
|---|---|--------------|--------------|--|
| Common equity Tier 1 (CET1) capital: regulatory adjustments |   |              |              |  |
| 7   | Additional value adjustments (negative amount)  | -1.3         | 0.0          | 24, 105  |
| 8   | Intangible assets (net of related tax liabilities) (negative amount)  | -14.3        | -8.8         | 36.1 b, 37                                     |
| 9   | Empty set in the EU   |              |              |  |
| 10  | Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38.3 are met) (negative amount)   | 0.0          | -0.1         | 36.1 c, 38                                     |
| 11  | Fair value reserves related to gains or losses on cash flow hedges  | 0.2          | 0.4          | 33.1 a   |
| 12  | Negative amounts resulting from calculation of expected loss amounts  | -11.2        | -5.2         | 36.1 d, 40, 159                                |
| 13  | Any increase in equity capital that result from securitised assets (negative amount)  |              |              | 32,1   |
| 14  | Gains or losses on liabilities measured at fair value resulting from changes in the institution's own credit risk   |              |              | 33.1 b   |
| 15  | Defined benefit pension fund assets   | 0.0          | -0.5         | 36.1 e, 41                                     |
| 16  | An institution's direct and indirect holdings of own CET1 capital capital instruments   | 0.0          | -0.1         | 36.1 f, 42                                     |
| 17  | Direct, indirect and synthetic holdings of CET1 capital instruments of financial sector entities with which the institution has cross-ownership designed to artificially inflate the institution's capital base (negative amount)                                     |              |              | 36.1 g, 44                                     |
| 18  | The institution's direct, indirect and synthetic holdings of CET1 capital instruments of financial sector entities in which the institution does not have significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount) |              |              | 36.1 h, 43, 45, 46, 49.2, 49.3, 79             |
| 19  | The institution's direct, indirect and synthetic holdings of CET1 capital instruments in financial sector entities where the institution has a significant investment (amounts above the 10% threshold, net of eligible short positions) (negative amount)            |              |              | 36.1 i, 43, 45, 47, 48.1 b, 49.1-49.3, 79      |
| 20  | Empty set in the EU   |              |              |  |
| 20a   | Exposure amount of the following items which qualify for a risk weight of 1,250% when the institutions opts for the deduction alternative   |              |              | 36.1 k   |
| 20b   | <i>of which: qualifying holdings outside the financial sector (negative amount)</i>   |              |              | 36.1 k ii, 243.1b, 244.1 b, 258                |
| 20c   | <i>of which: securitisation positions (negative amount)</i>   |              |              | 36.1 k ii, 243.1 b, 244.1 b, 258               |
| 20d   | <i>of which: qualifying holdings outside the financial sector (negative amount)</i>   |              |              | 36.1 k iii, 379.3                              |
| 21  | Deferred tax assets arising from temporary differences (amounts above the 10% threshold, net of related tax liability when the conditions in Article 38.3 are met) (negative amount)  |              |              | 36.1 c, 38                                     |
| 22  | Amount exceeding the 15% threshold) (negative amounts)  |              |              | 48.1   |
| 23  | <i>of which: the institution's direct and indirect holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment in these entities</i>   |              |              | 36.1 i, 48.1 b                                 |
| 24  | Empty set in the EU   |              |              |  |
| 25  | <i>of which: deferred tax assets arising from temporary differences</i>   |              |              | 36.1 c, 38, 48.1 a                             |
| 25a   | Losses for the current financial year (negative amount)   |              |              | 36.1 a   |
| 25b   | Foreseeable taxes related to core Tier 1 items (negative amount)  |              |              | 36.1 l   |
| 27  | Qualifying additional CET1 deductions that exceed the institution's additional Tier 1 capital (negative amount)   |              |              | 36.1 j   |
| 28  | <b>Total regulatory adjustments in CET1 capital</b>   | <b>-26.6</b> | <b>-14.3</b> | <b>Total of lines 7–20a, 21, 22 and 25a–27</b> |
| 29  | <b>CET1 capital</b>   | <b>186.0</b> | <b>189.5</b> | <b>Line 6 minus line 28</b>                    |

|  | 2016           | 2015           |   |
|--|----------------|----------------|---|
| Additional Tier 1 capital: instruments                     |                |                |   |
| 30   |                |                | 51, 52  |
| 31   |                |                | <i>of which: classified as equity capital under applicable accounting standards</i> |
| 32   |                |                | <i>of which: classified as liabilities under applicable accounting standards</i>    |
| 33   |                |                | 486.3   |
| 34   |                |                | 85, 86  |
| 35   |                |                | <i>of which: instruments issued by subsidiaries and subject to phase-out</i>        |
| 36   | <b>0.0</b>     | <b>0.0</b>     | <b>Total of lines 30, 33 and 34</b>   |
| Additional Tier I capital: regulatory adjustments          |                |                |   |
| 37   |                |                | 52.1 b, 56 a, 57  |
| 38   |                |                | 56 b, 58  |
| 39   |                |                | 56 c, 59, 60, 79  |
| 40   |                |                | 56 d, 59, 79  |
| 41   |                |                | Empty set in the EU   |
| 42   |                |                | 56 e  |
| 43   | <b>0.0</b>     | <b>0.0</b>     | <b>Total of lines 37–42</b>   |
| 44   | <b>0.0</b>     | <b>0.0</b>     | <b>Line 36 minus line 43</b>  |
| 45   | <b>186.0</b>   | <b>189.5</b>   | <b>Total of lines 29 and 44</b>   |
| Tier 2 (supplementary) capital: Instruments and provisions |                |                |   |
| 46   | 19.1           | 15.1           | 62, 63  |
| 47   |                |                | 486.4   |
| 48   |                |                | 87, 88  |
| 49   |                |                | <i>of which: instruments issued by subsidiaries subject to phase-out</i>            |
| 50   |                |                | 62 c and d  |
| 51   | <b>19.1</b>    | <b>15.1</b>    |   |
| Tier 2 capital: regulatory adjustments                     |                |                |   |
| 52   | 0.0            | 0.0            | 63 b i, 66 a, 67  |
| 53   |                |                | 66 b, 68  |
| 54   |                |                | 66 c, 69, 70, 79  |
| 55   |                |                | 66 d, 69, 79  |
| 56   |                |                | Empty set in the EU   |
| 57   | <b>0.0</b>     | <b>0.0</b>     | <b>Total of lines 52–56</b>   |
| 58   | <b>19.1</b>    | <b>15.1</b>    | <b>Line 51 minus line 57</b>  |
| 59   | <b>205.2</b>   | <b>204.6</b>   | <b>Total of lines 45 och 58</b>   |
| 60   | <b>1,575.5</b> | <b>1,591.7</b> |   |

|   |   | 2016 | 2015 |   |
|---|---|------|------|---|
| Capital ratios and buffers  |   |      |      |   |
| 61  | Common equity 1 capital (as a percentage of total risk-weighted exposure amount), %   | 11.8 | 11.9 | 92.2 a  |
| 62  | Tier I capital (as a percentage of total risk-weighted exposure amount), %  | 11.8 | 11.9 | 92.2 b  |
| 63  | Total capital (as a percentage of total risk-weighted exposure amount), %   | 13.0 | 12.9 | 92.2 c  |
| 64  | Institution-specific buffer requirements (requirements for Tier I capital according to Article 92.1 a) plus capital conservation buffer, countercyclical buffer and systemic risk buffer requirements, plus systemically important institution buffer, expressed as a percentage of the total risk-weighted exposure amount), % | 3.2  | 2.9  | Capital Requirements Regulation 128, 129, 130, 131, 133 |
| 65  | <i>of which: capital conservation buffer requirement, %</i>   | 2.5  | 2.5  |   |
| 66  | <i>of which: countercyclical buffer requirement, %</i>  | 0.7  | 0.4  |   |
| 67a   | <i>of which: global systemically important institution or other systemically important institution buffer, %</i>  |      |      |   |
| 68  | Common equity Tier 1 capital available to meet buffers (as percentage of risk-weighted exposure amount), %  | 7.3  | 7.4  | Capital Requirements Regulation 128                     |
| Amounts below thresholds for deduction (before risk weighing)   |   |      |      |   |
| 72  | Direct and indirect holdings of financial sector entities in which the institution has no significant investment (amounts below 10% threshold net of eligible short positions)  |      |      | 36.1 h, 46, 45, 56 c, 59, 60, 66 c, 69, 70              |
| 73  | The institution's direct and indirect holdings of financial sector entities in which the institution has a significant investment (amounts below 10% threshold net of eligible short positions)   |      |      | 36.1 i, 45, 48  |
| 74  | Empty set in the EU   |      |      |   |
| 75  | Deferred tax assets arising from temporary differences (amounts below 10% threshold, net of related tax liability where the conditions in Article 38.3 are met)   |      |      | 36.1 c, 38, 48  |
| Applicable caps on inclusion of provisions in supplementary capital   |   |      |      |   |
| 76  | Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the standardised approach (before application of the cap)   | 0.0  | 0.0  | 62  |
| 77  | Cap on inclusion of credit risk adjustments in Tier 2 capital under the standardised approach   | 9.7  | 13.3 | 62  |
| 78  | Credit risk adjustments included in Tier 2 capital in respect of exposures covered by the IRB approach (before application of the cap)  | 0.0  | 0.0  | 62  |
| 79  | Cap for inclusion of credit risk adjustments in Tier 2 capital according to the IRB approach  | 3.4  | 2.0  | 62  |
| Capital instruments subject to phase-out arrangements (only applicable between January 1, 2014 and January 1, 2022) |   |      |      |   |
| 80  | Current cap on Tier I capital instruments subject to phase-out arrangements   |      |      | 484.3, 486.2 and 486.5                                  |
| 81  | Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)   |      |      | 484.3, 486.2 and 486.5                                  |
| 82  | Current cap on additional CET1 capital instruments subject to phase-out arrangements  |      |      | 484.4, 486.3 and 486.5                                  |
| 83  | Amount excluded from additional Tier I capital due to cap (excess over cap after redemptions and maturities)  |      |      | 484.4, 486.3 and 486.5                                  |
| 84  | Current cap on Tier 2 capital market instruments subject to phase-out arrangements  |      |      | 484.5, 486.4 and 486.5                                  |
| 85  | Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)   |      |      | 484.5, 486.4 and 486.5                                  |

| Main features of capital instruments – Common equity Tier 1 capital instruments |   |   |   |
|---|---|---|---|
| 1   | Issuer  | Bank of Åland Plc                               | Bank of Åland Plc                               |
| 2   | Unique identifier code  | FI0009001127                                    | FI0009000103                                    |
| 3   | Governing laws of the instrument  | Finnish   | Finnish   |
|   | Regulatory treatment  |   |   |
| 4   | Transitional rules according to Capital Requirement Regulation (CRR)            | CET1 capital                                    | CET1 capital                                    |
| 5   | Post-transitional CRR rules   | CET1 capital                                    | CET1 capital                                    |
| 6   | Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level          | Solo and consolidated                           | Solo and consolidated                           |
| 7   | Type of instrument  | Share capital according to CRR 575/2013 Art. 28 | Share capital according to CRR 575/2013 Art. 28 |
| 8   | Amount recognised in regulatory capital   | EUR 28.6 M                                      | EUR 13.1 M                                      |
| 9   | Nominal amount of instrument  | EUR 28.6 M                                      | EUR 13.1 M                                      |
| 9a  | Issue price   | N/A   | N/A   |
| 9b  | Redemption price  | N/A   | N/A   |
| 10  | Accounting classification   | Equity capital                                  | Equity capital                                  |
| 11  | Original issuance date  | N/A   | N/A   |
| 12  | Perpetual or dated  | Perpetual                                       | Perpetual                                       |
| 13  | Original maturity date  | No maturity date                                | No maturity date                                |
| 14  | Issuer call subject to prior supervisory approval                               | No  | No  |
| 15  | Optional call date, conditional call dates and redemption amount                | N/A   | N/A   |
| 16  | Subsequent call date, if applicable   | N/A   | N/A   |
|   | Coupons/dividends   |   |   |
| 17  | Fixed or floating dividend/coupon   | N/A   | N/A   |
| 18  | Coupon rate and any related index   | N/A   | N/A   |
| 19  | Existence of a dividend stopper   | N/A   | N/A   |
| 20a   | Fully discretionary, partially discretionary or mandatory (in terms of date)    | Fully discretionary                             | Fully discretionary                             |
| 20b   | Fully discretionary, partially discretionary or obligatory (in terms of amount) | Fully discretionary                             | Fully discretionary                             |
| 21  | Existence of step up or other incentive to redeem                               | N/A   | N/A   |
| 22  | Non-cumulative or cumulative  | N/A   | N/A   |
| 23  | Convertible or non-convertible  | N/A   | N/A   |
| 24  | If convertible, conversion trigger(s)   | N/A   | N/A   |
| 25  | If convertible, fully or partially  | N/A   | N/A   |
| 26  | If convertible, conversion rate   | N/A   | N/A   |
| 27  | If convertible, mandatory or optional conversion                                | N/A   | N/A   |
| 28  | If convertible, type of instrument to which conversion is made                  | N/A   | N/A   |
| 29  | If convertible, issuer of the instrument to which conversion is made            | N/A   | N/A   |
| 30  | Write-down features   | N/A   | N/A   |
| 31  | If write-down, write-down trigger(s)  | N/A   | N/A   |
| 32  | If write-down, full or partial  | N/A   | N/A   |
| 33  | If write-down, permanent or temporary   | N/A   | N/A   |
| 34  | If write-down is temporary, write-up mechanism                                  | N/A   | N/A   |
| 35  | Position in prioritisation hierarchy for liquidation, instrument next in line   | Tier 2 (supplementary) capital instruments      | Tier 2 (supplementary) capital instruments      |
| 36  | Non-compliant transition features   | No  | No  |
| 37  | If Yes, specify non-compliant features  | N/A   | N/A   |

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

| Main features of capital instruments – Supplementary capital instruments |  |  |  |  |
|--|--|--|--|--|
| 1  | Issuer   | Bank of Åland Plc.   | Bank of Åland Plc  | Bank of Åland Plc  |
| 2  | Unique identifier code   | FI4000097068   | FI4000153747   | FI4000210299   |
| 3  | Governing laws of the instrument   | Finnish  | Finnish  | Finnish  |
|  | Regulatory treatment   |  |  |  |
| 4  | Transitional rules according to Capital Requirement Regulation (CRR)           | Tier 2 capital instruments                                   | Tier 2 capital instruments   | Tier 2 capital instruments   |
| 5  | Post-transitional CRR rules  | Tier 2 capital instruments                                   | Tier 2 capital instruments   | Tier 2 capital instruments   |
| 6  | Eligible at solo/(sub-)consolidated)/solo and (sub-)consolidated level         | Solo and consolidated  | Solo and consolidated  | Solo and consolidated  |
| 7  | Type of instrument   | Tier 2 capital instruments according to CRR 575/2013 Art. 63 | Tier 2 capital instruments according to CRR 575/2013 Art. 63                                     | Tier 2 capital instruments according to CRR 575/2013 Art. 63                                     |
| 8  | Amount recognised in regulatory capital  | EUR 4.3 M  | EUR 8.6 M  | EUR 6.2 M  |
| 9  | Nominal amount of instrument   | EUR 8.3 M  | EUR 8.6 M  | EUR 6.2 M  |
| 9a   | Issue price  |  |  |  |
| 9b   | Redemption price   |  |  |  |
| 10   | Accounting classification  | Debt – amortised cost  | Debt – amortised cost  | Debt – amortised cost  |
| 11   | Original issuance date   | June 6, 2014   | May 25, 2015   | June 13, 2016  |
| 12   | Perpetual or dated   | Dated  | Dated  | Dated  |
| 13   | Original maturity date   | Aug 9, 2019  | May 25, 2035   | Aug 12, 2036   |
| 14   | Issuer call subject to prior supervisory approval                              | Yes  | Yes  | Yes  |
| 15   | Optional call date, conditional call dates and redemption amount               | N/A  | June 26, 2020  | August 12, 2021  |
| 16   | Subsequent call date, if applicable  | N/A  | Yearly on interest payment date after first redemption date                                      | Yearly on interest payment date after first redemption date                                      |
|  | Coupons/dividends  |  |  |  |
| 17   | Fixed or floating dividend/coupon  | Fixed  | Fixed  | Fixed  |
| 18   | Coupon rate and any related index  | 3.00%  | 3.75%  | 3.75%  |
| 19   | Existence of a dividend stopper  | N/A  | N/A  | N/A  |
| 20a  | Fully discretionary, partially discretionary or mandatory (in terms of date)   | Mandatory  | Mandatory  | Mandatory  |
| 20b  | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory  | Mandatory  | Mandatory  |
| 21   | Existence of step up or other incentive to redeem                              | No   | No   | No   |
| 22   | Non-cumulative or cumulative   | N/A  | N/A  | N/A  |
| 23   | Convertible or non-convertible   | Non-convertible  | Non-convertible  | Non-convertible  |
| 24   | If convertible, conversion trigger(s)  | N/A  | N/A  | N/A  |
| 25   | If convertible, fully or partially   | N/A  | N/A  | N/A  |
| 26   | If convertible, conversion rate  | N/A  | N/A  | N/A  |
| 27   | If convertible, mandatory or optional conversion                               | N/A  | N/A  | N/A  |
| 28   | If convertible, type of instrument to which conversion is made                 | N/A  | N/A  | N/A  |
| 29   | If convertible, issuer of the instrument to which conversion is made           | N/A  | N/A  | N/A  |
| 30   | Write-down features  | No   | Yes  | Yes  |
| 31   | If write-down, write-down trigger(s)   | N/A  | If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent | If the common equity Tier 1 capital of the Bank of Åland Plc or the Group falls below 7 per cent |
| 32   | If write-down, full or partial   | N/A  | 25%  | 50%  |
| 33   | If write-down, permanent or temporary  | N/A  | Permanent  | Permanent  |
| 34   | If write-down is temporary, write-up mechanism                                 | N/A  | N/A  | N/A  |
| 35   | Position in prioritisation hierarchy for liquidation, instrument next in line  | Senior debts   | Senior debts   | Senior debts   |
| 36   | Non-compliant transition features  | No   | No   | No   |
| 37   | If Yes, specify non-compliant features   | N/A  | N/A  | N/A  |

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

# Table of contents, notes to the consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

|                                   |     |
|-----------------------------------|-----|
| G1. Corporate information .....   | 90  |
| G2. Accounting principles .....   | 90  |
| G3. Segment report .....          | 99  |
| G4. Product areas .....           | 101 |
| G5. Geographic distribution ..... | 101 |

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

|   |     |
|---|-----|
| G6. Net interest income .....                                   | 102 |
| G7. Net commission income .....                                 | 103 |
| G8. Net income from financial items carried at fair value ..... | 103 |
| G9. Other income .....  | 103 |
| G10. Staff costs .....  | 104 |
| G11. Other expenses .....                                       | 106 |
| G12. Impairment losses on loans and other commitments .....     | 107 |
| G13. Income taxes .....   | 108 |
| G14. Earnings per share .....                                   | 108 |

## NOTES TO THE CONSOLIDATED BALANCE SHEET

|  |     |
|--|-----|
| G15. Classification of financial assets and liabilities .....                    | 108 |
| G16. Measurement of financial assets and liabilities carried at fair value ..... | 110 |
| G17. Assets and liabilities by currency .....                                    | 113 |
| G18. Holdings of debt securities .....   | 113 |
| G19. Lending to credit institutions .....  | 114 |
| G20. Lending to the public .....   | 114 |
| G21. Shares and participations .....   | 114 |
| G22. Shares in associated companies .....  | 114 |
| G23. Derivative instruments and hedge accounting .....                           | 115 |
| G24. Intangible assets .....   | 115 |
| G25. Tangible assets .....   | 116 |
| G26. Other assets .....  | 116 |
| G27. Accrued income and prepayments .....  | 117 |
| G28. Deferred tax assets and liabilities .....                                   | 117 |
| G29. Liabilities to credit institutions .....                                    | 118 |
| G30. Liabilities to the public .....   | 118 |

|   |     |
|---|-----|
| G31. Debt securities issued .....                     | 118 |
| G32. Other liabilities .....                          | 119 |
| G33. Provisions .....                                 | 119 |
| G34. Accrued expenses and prepaid income .....        | 119 |
| G35. Subordinated liabilities .....                   | 119 |
| G36. Specification of changes in equity capital ..... | 120 |

## OTHER NOTES

|  |     |
|--|-----|
| G37. Group structure .....                                     | 122 |
| G38. Actively managed assets .....                             | 122 |
| G39. Assets pledged .....                                      | 123 |
| G40. Contingent liabilities and commitments .....              | 123 |
| G41. Pension liabilities .....                                 | 123 |
| G42. Lease liabilities and rental obligations .....            | 126 |
| G43. Disclosures about related parties .....                   | 126 |
| G44. Offsetting of financial assets and liabilities .....      | 127 |
| G45. Important events after the close of the report period ... | 127 |

# 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 13 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.alandbanken.fi](http://www.alandbanken.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, 2016 were approved by the Board of Directors on March 9, 2017 and will be submitted to the 2017 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

## G2. Accounting principles

### 1. Basis for the report

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRSs) that have been adopted by the European Union. In addition, when preparing the notes to the consolidated financial statements, Finnish company and accounting legislation have 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, 2015.

#### COMING CHANGES IN REGULATIONS

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

On July 24, 2014, the International Accounting Standards Board (IASB) published the standard IFRS 9, "Financial instruments", which will replace IAS 39, "Financial instruments: Recognition and Measurement". IFRS 9, "Financial instruments" includes a new

model for classification and measurement of financial instruments, a forward-looking "expected loss" impairment model and simplified conditions for hedge accounting. In addition, hedge accounting will follow the Group's internal risk management strategies to a greater extent.

An evaluation of the effects on the Bank of Åland's accounting and reporting once IFRS 9 begins to be applied is under way. It is being conducted in project form (the IFRS 9 project). This project was initiated during the autumn of 2015 with a preliminary study. During 2016, the Bank of Åland has done further work on evaluating and implementing solutions. The Bank cannot yet estimate the quantitative effect of applying IFRS 9. As a result, only a qualitative description of its effects can be provided at present. The projected effects described below are based on the information that is known or estimated today.

The financial asset categories contained in IAS 39 are being replaced by three categories, with measurement taking place either at amortised cost, fair value reported under "Other comprehensive income" or fair value reported via the income statement ("profit and loss"). The classification into these three categories is based on a company's business model for the various holdings and the characteristics of the cash flows that result from the assets. A review of the Bank of Åland's loan and liquidity portfolios is currently being implemented, first in order to identify contractual clauses to ensure that all clauses are allowed in a "solely payments of principal and interest" (SPPI) lending transaction that passes the SPPI test, and second to identify applicable business models. The clauses that are identified are analysed on a random sampling basis. During the spring of 2017, the Bank will assess whether a clause passes or fails the SPPI test of loan cash flows. At present there is no indication that any clause would not pass the SPPI test, but it is too early to make a final assessment about this.

The Bank of Åland believes that it is mainly identification of business models that may have an effect on the Group's financing reports. It is currently analysing liquidity investments in terms of what business model(s) are used. A preliminary assessment indicates that

in the future, there may be two portfolios with different purposes: one for the purpose of holding the investments to collect contractual cash flows, and one with another purpose. Even today, when applying IAS 39 the Bank of Åland has two categories for its liquidity portfolio. Depending on what business model is identified for the portfolio that is still being studied, IFRS may cause a change in reporting, beyond the change in the classification process that has been identified.

The new impairment model will require accounting for 12-month expected credit losses, from the date when the asset is first recognised. In case of a significant increase in credit risk, the impairment loss shall be equivalent to the credit losses that are expected to occur during the remaining life of the loan. To the greatest possible extent, the Bank of Åland intends to use the existing models and processes that are already being used for risk management and risk monitoring, in order to ensure that a uniform picture of the Bank is presented for risk and financial reporting purposes. The Bank of Åland will apply a credit rating model (PD x LGD x EAD) to the greatest possible extent, given data availability and importance. Data availability is currently being studied. Development of PD, LGD and EAD models has been under way since summer 2016 in order to ensure compliance with the principles of IFRS 9. Concurrently, development is under way of a model for estimating expected credit losses.

In addition, the Bank of Åland is working to identify the triggers that should be applied to assess whether a significant increase in credit risk has occurred, including PD developments, number of days in default, forbearance measures and other risk-increasing behaviour. Another focus area that the Bank of Åland is working with is to implement and improve existing and new processes including systems support to enable effect estimation and reporting of expected credit losses.

Among other things, the new hedge accounting rules simplify effectiveness testing and expand the scope of eligible hedging instruments and hedged items. The Bank of Åland has not yet decided whether to begin applying IFRS 9 or whether to continue applying IAS 39 for hedge accounting. During 2017, the Bank plans to evaluate the applicable alternatives for the Group, given the hedging strategies that are applied. Aspects that will be assessed in such an analysis are reporting (including volatility in the results), processes, documentation, effectiveness measurement and systems.

IFRS 9 has also resulted in changes in the disclosure requirements in IFRS 7, "Financial instruments: Disclosure" and in FINREP reporting to regulatory authorities, which will affect the disclosures that are provided. Analysis of the disclosure requirements in IFRS 7 and the EU's new financial reporting (FINREP) standards is currently under way, and the Bank has not yet finally determined the scale of effects of these changes.

The standard has been approved by the EU and will go into effect on January 1, 2018. The Bank of Åland will apply IFRS 9 from that date. During 2017, the Bank will continue to evaluate its impact on financial reporting, the consolidated balance sheet, the income statement and capital adequacy. The Bank has not yet been able to estimate its quantitative effects, but as they emerge in the course of the implementation project during 2017, these quantitative effects will be presented.

IFRS 15, "Revenue from contracts with customers". The new standard replaces the current IFRS revenue reporting standards: IAS 18 and IAS 11. The purpose of a new revenue standard is to have a single principle-based standard for all industries, which can replace existing standards and statements on revenue. According to IFRS 15, companies shall recognise revenue in an amount that reflects the compensation to which the company expects to be entitled in exchange for transferring goods or services to a customer. The revenue standard also includes expanded disclosure requirements.

IFRS will go into effect on January 1, 2018, and earlier application is allowed. The European Commission approved the standard in 2016, and clarifications are expected to be approved in 2017. The Bank of Åland is still evaluating its impact on the Group's financial reports.

IFRS 16, "Leases (has not yet been approved by the EU and will be applied for accounting periods beginning January 1, 2019 or later): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires lessees to report a lease liability and a "right-of-use" asset. This accounting model resembles the current treatment of financial leases according to IAS 17. There are two applicable exemptions: short-term leases running for 12 months or less or leases of "low value items", i.e. assets worth USD 5,000 or less. The lessor's accounting is essentially equivalent to the current treatment according to IAS 17. The Bank of Åland is still evaluating IFRS 16's impact on the Group's financial reports.

Other new and amended IFRSs to be applied in the future are not expected to have any significant effect on the Bank of Åland's financial reports.

- Amended IFRS 11, "Joint arrangements: Accounting for acquisitions of interests in joint operations".
- Amended IAS 1, "Presentation of financial statements: Disclosure initiative". The amendment contains a clarification of the materiality concept, certain disclosure requirements etc.
- Amended IAS 7, "Statement of cash flows: Disclosure initiative (has not yet been approved by the EU). The amendment adds new disclosure requirements that will help users assess the financial effects of changes in cash flows from financial operations.
- Amended IAS 16 and IAS 38, "Clarification of acceptable methods of depreciation and amortisation".
- Amended IAS 19, "Employee benefits: Defined benefit plans – Employee contributions".

### 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 objective is to provide information about the position, financial performance and cash flows of a company that is useful in making economic decisions. Financial statements also present the results of the management team's administration of the resources entrusted to them.

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

### 4. Principles of consolidation

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

In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment which is transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. In case of an acquisition where

the payment which is transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. In the consolidated financial statements at the end of 2015 or 2016, there was no goodwill in companies where the Group was deemed to have a controlling influence, or in subsidiaries where it has significant holdings with decision-making rights.

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

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

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

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

## 5. Items in foreign currencies

The consolidated financial statements are prepared in euros (EUR), which is the reporting and functional currency of the

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

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

## 6. Recognition of assets and liabilities in the balance sheet

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

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

Financial assets and liabilities are offset and recognised as a net amount or to simultaneously sell the asset and settle the liability. Further disclosures about offsetting of financial assets and liabilities are provided in Note G44.

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

## 7. Classification of financial assets and liabilities

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

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

Financial liabilities are divided into the following valuation categories:

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

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

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

### LOANS AND OTHER RECEIVABLES

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

### ASSETS HELD TO MATURITY

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

### ASSETS AND LIABILITIES HELD FOR TRADING

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

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

The option included in IAS 39 to categorise financial instruments as recognised at fair value via the income statement has been applied to financial assets and liabilities not categorised as assets available for sale, in order to avoid inconsistencies in the valuation of assets

and liabilities that comprise counter-positions to each other and are managed on a portfolio basis. The Bank of Åland measures the value of certain groups of derivative instruments and items protected by derivative instruments according to the fair value option. Such groups mainly include fixed-interest loans and debt securities as well as interest rate swaps matched to them. This procedure effectively reduces the volatility of income without applying hedge accounting, since the fluctuation in the value of derivative instruments is largely offset by the corresponding fluctuation in the value of the other components in the same group. Changes in the fair value of financial instruments carried at fair value are recognised in the income statement, under the item "Net income from financial items carried at fair value". Interest attributable to lending and debt securities is recognised in "Net interest income".

### FINANCIAL ASSETS AVAILABLE FOR SALE

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

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

### OTHER FINANCIAL LIABILITIES

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

### RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

### REPURCHASE TRANSACTIONS

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

### SECURITIES LOANS

Securities that have been lent out remain in the balance sheet, since the Group remains exposed to the risk that they will fluctuate in value. Securities that have been lent out are recognised on the transaction date as assets pledged, while borrowed securities are

carried in the same way as other securities holdings of the same type. In cases where the borrowed securities are sold, so-called short selling, an amount corresponding to the fair value of the securities is recognised among "Other liabilities" in the balance sheet.

#### **EMBEDDED DERIVATIVES**

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

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

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

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

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

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

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

#### **DEBT SECURITIES**

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

#### **SHARES AND PARTICIPATIONS**

Shares listed in an active market are valued at market price. When measuring unlisted shares and participation, the choice of valuation model is determined by what is deemed suitable for that particular instrument. Holdings in unlisted shares mainly consist of various types of jointly owned operations with a connection to the Bank's

business and holdings in Åland companies within the framework of Ålands Investerings Ab. As a rule, such holdings are valued at the Bank's proportion of net asset value in the company.

#### **DERIVATIVES**

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

#### **LENDING CLASSIFIED AS CARRIED AT FAIR VALUE**

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

### 9. Impairment losses on loans and accounts receivable

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

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

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

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

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

### 10. Hedge accounting

#### **HEDGE ACCOUNTING AT FAIR VALUE**

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

effectiveness must be measurable in a reliable way and is expected to remain and prove to have been very effective in offsetting changes in value during the reported periods.

#### CASH FLOW HEDGING

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

#### HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS

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

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

### 11. Intangible assets

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

#### CAPITALISATION OF PRODUCTION FOR OWN USE

If the computer system that is produced will probably generate future income or reduce expenses to an extent that exceeds its cost, the development expenses for the computer system are capitalised. Computer systems developed in-house are capitalised at actual cost. Capitalised development expenses are normally amortised on a straight-line basis over 3–5 years. The amortisation begins when the computer system is ready for use. Development expenses that are not expected to yield a significant economic benefit are recognised as an expense in the income statement. Expenses for preliminary studies and research are recognised as an expense in the income statement.

#### EXTERNALLY PROCURED IT SYSTEMS

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

#### IMPAIRMENT LOSS

Assets are reviewed yearly to determine if there is any indication of impairment. If such an indication arises, the recoverable amount is determined as the asset's sale price or value in use, whichever

is higher. Not yet completed development work is tested yearly for impairment, regardless of whether indications of loss of value have occurred. An impairment loss is recognised in the income statement if the carrying amount exceeds net realisable value. A previously recognised impairment loss is reversed only if a significant change has occurred in the valuation basis for impairment testing. The carrying amount after reversal may not exceed the carrying amount before the impairment loss.

#### GOODWILL

Goodwill corresponds to the share of cost that exceeds the fair value of assets purchased and liabilities taken over. Goodwill is not amortised but is tested yearly, or more often if a need exists, for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised directly as expenses in the income statement. There was no goodwill in the consolidated financial statements at the end of 2015 or 2016.

### 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. For its Head Office property, the Bank of Åland Group has chosen to apply the exemption in IFRS 1, by using deemed cost instead of original cost of tangible assets in the transition to IFRSs.

#### OTHER TANGIBLE ASSETS

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

#### DEPRECIATION/AMORTISATION

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

|  |            |
|--|------------|
| Buildings .....                            | 40 years   |
| Technical equipment in buildings.....      | 12 years   |
| Renovation in rented premises.....         | 4–10 years |
| Machinery and equipment.....               | 3–10 years |
| Computer systems developed in-house .....  | 3–5 years  |
| External computer systems .....            | 3–5 years  |
| Other intangible and tangible assets ..... | 3–5 years  |
| Land is not depreciated.                   |            |

## IMPAIRMENT LOSSES

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

## 13. Provisions

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

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

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

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

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

## 14. Leases

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

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

Most of the Group's leases are operating leases.

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

## 15. Revenue

### NET INTEREST INCOME

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

### NET COMMISSION INCOME

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

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

### NET INCOME FROM FINANCIAL ITEMS CARRIED AT FAIR VALUE

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

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

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

### IT INCOME

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

### OTHER INCOME

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

## 16. Employee benefits

### PENSION LIABILITIES

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

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

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

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

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

The calculation of expenses and obligations related to the Group's defined benefit plans involve a number of judgements and assumptions that may have a significant effect on the amounts recognised.

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

## 17. Share-based payment

In its compensation policy document, the Group has made it possible for portions of its compensation to employees to be settled through its own shares, which are recognised as share-based payment. The fair value of the shares is calculated on the distribution date and allocated over the vesting period, while the corresponding increase in equity capital is recognised. The expense is based on the fair value of the shares on the distribution date. The fair value of the

shares is calculated on the distribution date on the basis of their quoted market price. An assessment of how many shares employees will earn is carried out when calculating the recognised expense of share-based payment in accordance with the terms and conditions in the Group's compensation policy (for example continued employment). At the end of each report period, the Executive Team re-assesses its judgement about how many shares will be earned.

## 18. Income tax

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

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

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

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. There were no non-current assets held for sale at the end of 2015 or 2016.

## 20. Operating segments

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

## 21. Cash and cash equivalents

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

## 22. Significant judgements and estimation uncertainty

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

### MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

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

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

### ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

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

### FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

### APPRAISAL OF INVESTMENT PROPERTIES

#### AND PROPERTIES FOR OWN USE

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

### MEASUREMENT OF DEFERRED TAX

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

### SHARE-BASED PAYMENT

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

## 23. Nonrecurring items

Effects on income from divestment of operations and strategic shareholdings, as well as restructuring expenses in connection with major organisational changes and closures of operations, are defined as nonrecurring items.

## G3. Segment report

2016

|   | Private<br>Banking | Premium<br>Banking | Asset<br>Management | IT             | Corporate<br>and other | Eliminations   | Total          |
|---|--------------------|--------------------|---------------------|----------------|------------------------|----------------|----------------|
| Net interest income   | 27,508             | 23,408             | 70                  | -50            | 4,058                  | 97             | 55,091         |
| Net commission income   | 24,078             | 11,922             | 8,866               | -49            | 113                    | -6             | 44,925         |
| Net income from financial items<br>carried at fair value                                | 572                | 564                | -37                 | -52            | 3,090                  | 67             | 4,204          |
| IT income   | 0                  | 0                  | 0                   | 30,525         | 0                      | -15,602        | 14,923         |
| Other income  | 66                 | 73                 | 88                  | 246            | 2,933                  | -2,140         | 1,266          |
| <b>Total income</b>   | <b>52,224</b>      | <b>35,967</b>      | <b>8,986</b>        | <b>30,620</b>  | <b>10,194</b>          | <b>-17,583</b> | <b>120,408</b> |
| Staff costs   | -11,484            | -7,154             | -4,942              | -15,019        | -18,203                | -177           | -56,979        |
| Other expenses  | -5,110             | -4,536             | -2,131              | -10,264        | -20,576                | 14,783         | -27,833        |
| Depreciation/amortisation and<br>impairment losses on intangible and<br>tangible assets | -209               | -637               | -13                 | -2,948         | -3,037                 | 901            | -5,943         |
| Internal allocation of expenses   | -17,052            | -16,647            | -1,243              | 0              | 34,943                 | 0              | 0              |
| Nonrecurring items  | 0                  | 0                  | 0                   | 0              | -499                   | 0              | -499           |
| <b>Total expenses</b>   | <b>-33,855</b>     | <b>-28,974</b>     | <b>-8,328</b>       | <b>-28,230</b> | <b>-7,373</b>          | <b>15,507</b>  | <b>-91,255</b> |
| <b>Profit before impairment losses</b>  | <b>18,368</b>      | <b>6,993</b>       | <b>658</b>          | <b>2,389</b>   | <b>2,821</b>           | <b>-2,077</b>  | <b>29,153</b>  |
| Impairment losses on loans<br>and other commitments                                     | -89                | -3,468             | 0                   | 0              | -496                   | 0              | -4,053         |
| <b>Net operating profit</b>   | <b>18,280</b>      | <b>3,525</b>       | <b>658</b>          | <b>2,389</b>   | <b>2,325</b>           | <b>-2,077</b>  | <b>25,100</b>  |
| Income taxes  | -3,747             | -720               | -154                | -497           | -294                   | 0              | -5,412         |
| Non-controlling interests   | 0                  | 0                  | 0                   | 0              | 0                      | 0              | 0              |
| <b>Profit for the period attributable to<br/>shareholders in Bank of Åland Plc</b>      | <b>14,532</b>      | <b>2,805</b>       | <b>504</b>          | <b>1,892</b>   | <b>2,031</b>           | <b>-2,077</b>  | <b>19,687</b>  |
| Business volume   |                    |                    |                     |                |                        |                |                |
| Lending to the public   | 1,700,131          | 2,098,699          | 0                   | 0              | 35,244                 | -25,875        | 3,808,199      |
| Deposits from the public  | 1,672,814          | 1,369,075          | 5,168               | 0              | 61,025                 | -7,667         | 3,100,415      |
| Actively managed assets   | 2,555,541          | 465,319            | 3,899,536           | 0              | 85                     | -3,020,945     | 3,899,536      |
| Risk exposure amount  | 678,057            | 637,986            | 10,631              | 41,452         | 207,409                | 0              | 1,575,534      |
| Allocated equity capital  | 71,430             | 90,630             | 1,979               | 10,580         | 47,182                 | 0              | 221,801        |
| Financial ratios etc.   |                    |                    |                     |                |                        |                |                |
| Return on equity after taxes (ROE), %   | 21.3               | 3.3                | 28.2                | 18.5           | 4.1                    |                | 9.1            |
| Expense/income ratio  | 0.65               | 0.81               | 0.93                | 0.92           | 0.72                   |                | 0.76           |
| Non-performing receivables<br>> 90 days, %  | 0.07               | 1.20               |                     |                | 4.90                   |                | 0.74           |
| Loan loss level, %  | 0.01               | 0.18               |                     |                | 1.02                   |                | 0.11           |

|   | 2015            |                 |                  |                |                     |                |                |
|---|-----------------|-----------------|------------------|----------------|---------------------|----------------|----------------|
|   | Private Banking | Premium Banking | Asset Management | IT             | Corporate and other | Eliminations   | Total          |
| Net interest income   | 26,888          | 23,560          | 66               | -87            | 3,368               | 179            | 53,974         |
| Net commission income   | 25,360          | 11,158          | 8,603            | -51            | 1,395               | -2             | 46,463         |
| Net income from financial items carried at fair value                             | 520             | 672             | 77               | -36            | 6,795               | 7              | 8,035          |
| IT income   | 0               | 0               | 0                | 30,781         | 0                   | -14,778        | 16,003         |
| Other income  | 10              | 89              | 125              | 51             | 1,874               | -1,757         | 393            |
| <b>Total income</b>   | <b>52,778</b>   | <b>35,479</b>   | <b>8,872</b>     | <b>30,658</b>  | <b>13,432</b>       | <b>-16,351</b> | <b>124,868</b> |
| Staff costs   | -10,357         | -6,946          | -5,176           | -15,328        | -18,217             | 0              | -56,024        |
| Other expenses  | -4,386          | -4,420          | -2,476           | -9,826         | -20,655             | 13,110         | -28,653        |
| Depreciation/amortisation and impairment losses on intangible and tangible assets | -165            | -684            | -17              | -3,383         | -4,103              | 1,469          | -6,882         |
| Internal allocation of expenses   | -17,436         | -16,985         | -1,110           | 0              | 35,531              | 0              | 0              |
| <b>Total expenses</b>   | <b>-32,344</b>  | <b>-29,035</b>  | <b>-8,779</b>    | <b>-28,537</b> | <b>-7,444</b>       | <b>14,579</b>  | <b>-91,559</b> |
| <b>Profit before impairment losses</b>  | <b>20,434</b>   | <b>6,444</b>    | <b>93</b>        | <b>2,121</b>   | <b>5,988</b>        | <b>-1,771</b>  | <b>33,308</b>  |
| Impairment losses on loans and other commitments                                  | 270             | -2,867          | 0                | 0              | -452                | 0              | -3,049         |
| <b>Net operating profit</b>   | <b>20,704</b>   | <b>3,577</b>    | <b>93</b>        | <b>2,121</b>   | <b>5,536</b>        | <b>-1,771</b>  | <b>30,259</b>  |
| Income taxes  | -4,200          | -717            | -37              | -435           | -566                | 0              | -5,955         |
| Non-controlling interests   | 0               | 0               | 0                | -1             | 0                   | 0              | -1             |
| <b>Profit for the period attributable to shareholders in Bank of Åland Plc</b>    | <b>16,504</b>   | <b>2,860</b>    | <b>56</b>        | <b>1,685</b>   | <b>4,970</b>        | <b>-1,771</b>  | <b>24,303</b>  |
| Business volume   |                 |                 |                  |                |                     |                |                |
| Lending to the public   | 1,616,465       | 1,972,733       | 2                | 0              | 48,843              | -21,063        | 3,616,981      |
| Deposits from the public  | 1,459,179       | 1,183,198       | 3,097            | 0              | 34,941              | -5,174         | 2,675,241      |
| Actively managed assets   | 2,484,078       | 362,510         | 3,926,875        | 0              | 168                 | -2,846,504     | 3,927,126      |
| Risk exposure amount  | 676,271         | 620,251         | 11,552           | 40,532         | 232,583             | 0              | 1,581,190      |
| Allocated equity capital  | 65,654          | 83,262          | 1,599            | 9,321          | 53,036              | 0              | 212,871        |
| Financial ratios etc.   |                 |                 |                  |                |                     |                |                |
| Return on equity after taxes (ROE), %   | 23.9            | 3.5             | 3.4              | 18.1           | 12.2                |                | 12.0           |
| Expense/income ratio  | 0.61            | 0.82            | 0.99             | 0.93           | 0.55                |                | 0.73           |
| Non-performing receivables > 90 days, %   | 0.06            | 1.96            |                  |                | 2.77                |                | 1.13           |
| Loan loss level, %  | -0.02           | 0.16            |                  |                | 1.04                |                | 0.09           |

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

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

## G4. Product areas

2016

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

2015

|   | Daily banking services incl. deposits | Financing services | Investment services | IT services   | Other        | Total          |
|---|---------------------------------------|--------------------|---------------------|---------------|--------------|----------------|
| Net interest income                                   | 13,037                                | 39,455             | 88                  | -87           | 1,481        | 53,974         |
| Net commission income                                 | 6,498                                 | 4,298              | 36,226              | -51           | -509         | 46,463         |
| Net income from financial items carried at fair value | 1,204                                 |                    | 5                   | -36           | 6,862        | 8,035          |
| IT income   |                                       |                    |                     | 16,003        |              | 16,003         |
| Other income  |                                       |                    |                     | 51            | 342          | 393            |
| <b>Total income</b>                                   | <b>20,740</b>                         | <b>43,752</b>      | <b>36,319</b>       | <b>15,879</b> | <b>8,177</b> | <b>124,868</b> |

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

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

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

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

## G5. Geographic distribution

2016

2015

|  | Finland        | Sweden         | Total          | Finland        | Sweden         | Total          |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Net interest income  | 32,436         | 22,655         | 55,091         | 31,887         | 22,086         | 53,974         |
| Net commission income  | 33,982         | 10,942         | 44,925         | 34,411         | 12,052         | 46,463         |
| Net income from financial items carried at fair value                          | 4,046          | 157            | 4,204          | 7,873          | 162            | 8,035          |
| IT income  | 13,723         | 1,200          | 14,923         | 15,267         | 736            | 16,003         |
| Other income   | 745            | 520            | 1,266          | 159            | 233            | 393            |
| <b>Total income</b>  | <b>84,933</b>  | <b>35,475</b>  | <b>120,408</b> | <b>89,598</b>  | <b>35,270</b>  | <b>124,868</b> |
| Staff costs  | -42,402        | -14,577        | -56,979        | -41,798        | -14,227        | -56,024        |
| Other expenses   | -14,852        | -12,981        | -27,833        | -16,364        | -12,289        | -28,653        |
| Depreciation/amortisation  | -5,402         | -542           | -5,943         | -6,449         | -433           | -6,882         |
| Internal allocation of expenses  | 2,926          | -2,926         | 0              | 2,345          | -2,345         | 0              |
| Nonrecurring items   | -499           | 0              | -499           | 0              | 0              | 0              |
| <b>Total expenses</b>  | <b>-60,229</b> | <b>-31,026</b> | <b>-91,255</b> | <b>-62,266</b> | <b>-29,293</b> | <b>-91,559</b> |
| <b>Profit before impairment losses</b>   | <b>24,704</b>  | <b>4,449</b>   | <b>29,153</b>  | <b>27,332</b>  | <b>5,976</b>   | <b>33,308</b>  |
| Impairment losses on loans and other commitments                               | -4,046         | -7             | -4,053         | -3,103         | 53             | -3,049         |
| <b>Net operating profit</b>  | <b>20,658</b>  | <b>4,441</b>   | <b>25,100</b>  | <b>24,229</b>  | <b>6,030</b>   | <b>30,259</b>  |
| Income taxes   | -4,454         | -958           | -5,412         | -4,768         | -1,187         | -5,955         |
| Non-controlling interests  | 0              | 0              | 0              | -1             | 0              | -1             |
| <b>Profit for the period attributable to shareholders in Bank of Åland Plc</b> | <b>16,204</b>  | <b>3,484</b>   | <b>19,687</b>  | <b>19,461</b>  | <b>4,843</b>   | <b>24,303</b>  |
| Business volume  |                |                |                |                |                |                |
| Lending to the public  | 2,621,111      | 1,187,088      | 3,808,199      | 2,529,364      | 1,087,617      | 3,616,981      |
| Deposits from the public   | 2,278,411      | 822,004        | 3,100,415      | 2,007,914      | 667,327        | 2,675,241      |
| Actively managed assets  | 2,837,159      | 1,062,377      | 3,899,536      | 2,655,434      | 1,271,692      | 3,927,126      |
| Risk exposure amount   | 951,392        | 624,142        | 1,575,534      | 1,001,957      | 579,233        | 1,581,190      |
| Allocated equity capital   | 174,695        | 47,106         | 221,801        | 167,341        | 45,530         | 212,871        |

|  | 2016    |        |       | 2015    |        |       |
|--|---------|--------|-------|---------|--------|-------|
|  | Finland | Sweden | Total | Finland | Sweden | Total |
| Financial ratios etc.                  |         |        |       |         |        |       |
| Return on equity after taxes (ROE), %  | 9.5     | 7.7    | 9.1   | 12.6    | 10.0   | 12.0  |
| Expense/income ratio                   | 0.71    | 0.87   | 0.76  | 0.69    | 0.83   | 0.73  |
| Non-performing receivables >90 days, % | 1.03    | 0.09   | 0.74  | 1.61    | 0.02   | 1.13  |
| Loan loss level, %                     | 0.16    | 0.00   | 0.11  | 0.13    | -0.01  | 0.09  |

## Notes to the consolidated income statement

| G6. Net interest income   | 2016             |               |                          | 2015             |               |                          |
|---|------------------|---------------|--------------------------|------------------|---------------|--------------------------|
|   | Average balance  | Interest      | Average interest rate, % | Average balance  | Interest      | Average interest rate, % |
| Lending to credit institutions and central banks<br><i>of which negative interest<sup>1</sup></i>     | 478,208          | -1,188        | -0.25                    | 276,987          | -202          | -0.07                    |
| Lending to the public<br><i>of which negative interest<sup>1</sup></i>                                | 3,652,872        | 66,175        | 1.81                     | 3,475,489        | 70,605        | 2.03                     |
| Debt securities   | 560,795          | 862           | 0.15                     | 674,148          | 2,312         | 0.34                     |
| <b>Interest-bearing assets</b>  | <b>4,691,875</b> | <b>65,848</b> | <b>1.40</b>              | <b>4,426,624</b> | <b>72,715</b> | <b>1.64</b>              |
| Derivative instruments  | 23,758           | 469           |                          | 22,178           | 370           |                          |
| Other assets  | 115,685          | 13            |                          | 115,753          | 16            |                          |
| <b>Total assets</b><br><i>of which negative interest<sup>1</sup></i>                                  | <b>4,831,318</b> | <b>66,330</b> |                          | <b>4,564,555</b> | <b>73,101</b> |                          |
| Liabilities to credit institutions and central banks<br><i>of which negative interest<sup>1</sup></i> | 269,532          | 147           | 0.05                     | 360,487          | 937           | 0.26                     |
| Liabilities to the public<br><i>of which negative interest<sup>1</sup></i>                            | 2,797,559        | 5,213         | 0.19                     | 2,421,221        | 7,808         | 0.32                     |
| Debt securities issued  | 1,382,664        | 4,507         | 0.33                     | 1,405,014        | 9,207         | 0.66                     |
| Subordinated liabilities  | 39,856           | 1,005         | 2.52                     | 44,694           | 1,004         | 2.25                     |
| <b>Interest-bearing liabilities</b>   | <b>4,489,611</b> | <b>10,872</b> | <b>0.24</b>              | <b>4,231,416</b> | <b>18,956</b> | <b>0.45</b>              |
| Derivative instruments  | 25,671           | 565           |                          | 29,300           | 362           |                          |
| Other liabilities   | 99,972           | 53            |                          | 100,004          | 91            |                          |
| <b>Total liabilities</b>  | <b>4,615,253</b> | <b>11,238</b> |                          | <b>4,360,719</b> | <b>19,127</b> |                          |
| Total equity capital  | 216,065          |               |                          | 203,835          |               |                          |
| <b>Total liabilities and equity capital</b><br><i>of which negative interest<sup>1</sup></i>          | <b>4,831,318</b> | <b>-272</b>   |                          | <b>4,564,555</b> | <b>0</b>      |                          |
| <b>Net interest income</b>  |                  | <b>55,091</b> |                          |                  | <b>53,974</b> |                          |
| Interest margin   |                  |               | 1.16                     |                  |               | 1.19                     |
| Investment margin   |                  |               | 1.14                     |                  |               | 1.18                     |

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

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

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

<sup>1</sup> Negative interest income from financial investments with credit institutions and central banks is recognised in the above note as interest income, while negative interest received for liabilities is recognised as interest expenses. In the income statement, negative interest income is recognised as interest expenses, while negative interest received is recognised as interest income.

| G7. Net commission income                | 2016 |                | 2015 |                |
|--|------|----------------|------|----------------|
| Deposits                                 |      | 813            |      | 810            |
| Lending                                  |      | 3,983          |      | 3,981          |
| Payment intermediation                   |      | 6,805          |      | 8,823          |
| Mutual fund commissions                  |      | 20,642         |      | 19,568         |
| Asset management commissions             |      | 9,928          |      | 10,088         |
| Securities brokerage                     |      | 10,171         |      | 11,757         |
| Insurance commissions                    |      | 127            |      | 175            |
| Legal services                           |      | 766            |      | 751            |
| Guarantee commissions                    |      | 228            |      | 270            |
| Other commissions                        |      | 1,847          |      | 1,741          |
| <b>Total commission income</b>           |      | <b>55,310</b>  |      | <b>57,964</b>  |
| Payment commission expenses              |      | -4,033         |      | -4,780         |
| Mutual fund commission expenses          |      | -2,525         |      | -2,224         |
| Asset management commission expenses     |      | -972           |      | -1,332         |
| Securities brokerage commission expenses |      | -1,893         |      | -2,105         |
| Other commission expenses                |      | -962           |      | -1,059         |
| <b>Total commission expenses</b>         |      | <b>-10,386</b> |      | <b>-11,501</b> |
| <b>Net commission income</b>             |      | <b>44,925</b>  |      | <b>46,463</b>  |

| G8. Net income from financial items carried at fair value                         | 2016         |               |              | 2015         |             |              |
|---|--------------|---------------|--------------|--------------|-------------|--------------|
|   | Realised     | Unrealised    | Total        | Realised     | Unrealised  | Total        |
| Valuation category fair value via the income statement ("profit and loss")        |              |               |              |              |             |              |
| Debt securities   | 0            | -130          | -130         | 0            | -123        | -123         |
| Shares and participations   | 2            | -8            | -6           | 163          | 3           | 166          |
| Derivative instruments  | -96          | 246           | 149          | 99           | 756         | 855          |
| Loan receivables  | 0            | -250          | -250         | 0            | -208        | -208         |
| <b>Valuation category fair value via the income statement ("profit and loss")</b> | <b>-94</b>   | <b>-142</b>   | <b>-236</b>  | <b>262</b>   | <b>428</b>  | <b>690</b>   |
| Hedge accounting  |              |               |              |              |             |              |
| of which hedging instruments  | 79           | -1,164        | -1,085       | 286          | -1,631      | -1,344       |
| of which hedged item  | 515          | 470           | 985          | 0            | 1,515       | 1,515        |
| <b>Hedge accounting</b>   | <b>594</b>   | <b>-694</b>   | <b>-100</b>  | <b>286</b>   | <b>-116</b> | <b>170</b>   |
| <b>Net income from foreign exchange dealing</b>                                   | <b>2,957</b> | <b>-165</b>   | <b>2,792</b> | <b>3,783</b> | <b>-116</b> | <b>3,667</b> |
| <b>Net income from financial assets available for sale</b>                        | <b>1,991</b> | <b>-243</b>   | <b>1,748</b> | <b>3,588</b> | <b>-80</b>  | <b>3,508</b> |
| <b>Total</b>  | <b>5,447</b> | <b>-1,244</b> | <b>4,204</b> | <b>7,919</b> | <b>116</b>  | <b>8,035</b> |

| G9. Other income                                       | 2016 |              | 2015 |            |
|--|------|--------------|------|------------|
| Income from equity capital investments                 |      | 9            |      | 7          |
| Net income from investment properties                  |      | -39          |      | -81        |
| Rental income on properties                            |      | 96           |      | 104        |
| Miscellaneous income                                   |      | 1,181        |      | 396        |
| <b>Total</b>   |      | <b>1,248</b> |      | <b>426</b> |
| Specification of net income from investment properties |      |              |      |            |
| Rental income  |      | 1            |      | 11         |
| Capital gains  |      | 1            |      | 7          |
| Capital losses   |      | 0            |      | -8         |
| Impairment losses                                      |      | 0            |      | -65        |
| Other expenses   |      | -41          |      | -27        |
| <b>Total</b>   |      | <b>-39</b>   |      | <b>-81</b> |

| G10. Staff costs  | 2016          | 2015          |
|---|---------------|---------------|
| Salaries and fees                                       | 43,288        | 42,016        |
| Compensation in the form of shares in Bank of Åland Plc | 111           | 789           |
| Pension expenses  | 7,623         | 7,711         |
| Other social security expenses                          | 5,956         | 5,508         |
| <b>Total</b>  | <b>56,979</b> | <b>56,024</b> |
| <i>of which variable staff costs</i>                    | 1,774         | 3,219         |
| <i>of which staff outplacement expenses</i>             | 476           | 0             |

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

|                     |               |               |
|---------------------|---------------|---------------|
| Salaries and fees   |               |               |
| Boards of Directors | 347           | 295           |
| Senior executives   | 2,418         | 3,212         |
| Others              | 40,634        | 39,298        |
| <b>Total</b>        | <b>43,399</b> | <b>42,805</b> |

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

|  |              |              |
|--|--------------|--------------|
| Salaries and fees to senior executives |              |              |
| Salaries and fees                      | 2,388        | 2,703        |
| Share-based payment                    | 30           | 509          |
| <b>Total</b>                           | <b>2,418</b> | <b>3,212</b> |

|                   |              |              |
|-------------------|--------------|--------------|
| Pension expenses  |              |              |
| Senior executives | 547          | 592          |
| Others            | 7,076        | 7,120        |
| <b>Total</b>      | <b>7,623</b> | <b>7,711</b> |

|                           |              |              |
|---------------------------|--------------|--------------|
| Pension expenses          |              |              |
| Defined benefit plan      | 816          | 940          |
| Defined contribution plan | 6,807        | 6,771        |
| <b>Total</b>              | <b>7,623</b> | <b>7,711</b> |

|                     | Men        | Women      | Total      | Men        | Women      | Total      |
|---------------------|------------|------------|------------|------------|------------|------------|
| Number of employees |            |            |            |            |            |            |
| Åland               | 209        | 204        | 413        | 200        | 195        | 395        |
| Finnish Mainland    | 86         | 101        | 187        | 80         | 109        | 189        |
| Sweden              | 100        | 68         | 168        | 99         | 61         | 160        |
| <b>Sweden</b>       | <b>395</b> | <b>373</b> | <b>768</b> | <b>379</b> | <b>365</b> | <b>744</b> |

|  |            |            |
|--|------------|------------|
| Hours worked, recalculated to full-time equivalent positions     |            |            |
| Bank of Åland Plc  | 444        | 420        |
| Crosskey Banking Solutions Ab Ltd                                | 215        | 209        |
| Ålandsbanken Asset Management Ab                                 | 0          | 14         |
| Ab Compass Card Oy Ltd   | 9          | 10         |
| Ålandsbanken Fondbolag Ab  | 15         | 10         |
| <b>Total number of positions, recalculated from hours worked</b> | <b>683</b> | <b>663</b> |

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

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

|   | 2016              |                   |               |               | 2015              |                   |               |               |
|---|-------------------|-------------------|---------------|---------------|-------------------|-------------------|---------------|---------------|
|   | Managing Director | Senior executives | Risk-takers   | Others        | Managing Director | Senior executives | Risk-takers   | Others        |
| Total compensation  |                   |                   |               |               |                   |                   |               |               |
| Fixed compensation earned   | 309               | 1,908             | 11,547        | 28,182        | 377               | 1,788             | 11,049        | 27,016        |
| Provisions for pensions   | 65                | 482               | 2,156         | 4,920         | 87                | 505               | 1,995         | 5,125         |
| Variable compensation earned  | 60                | 141               | 1,105         | 147           | 196               | 851               | 1,325         | 202           |
| <b>Total</b>  | <b>435</b>        | <b>2,531</b>      | <b>14,809</b> | <b>33,248</b> | <b>660</b>        | <b>3,145</b>      | <b>14,370</b> | <b>32,343</b> |
| <i>of which postponed variable compensation</i>                     | 24                | 0                 | 210           | 0             | 117               | 493               | 336           | 0             |
| <i>of which variable compensation paid</i>                          | 36                | 141               | 895           | 147           | 78                | 358               | 989           | 202           |
| Number of persons who received only fixed compensation              | 0                 | 5                 | 104           | 632           | 0                 | 5                 | 78            | 645           |
| Number of persons who received both fixed and variable compensation | 1                 | 7                 | 48            | 84            | 1                 | 7                 | 68            | 58            |
| <b>Total</b>  | <b>1</b>          | <b>12</b>         | <b>152</b>    | <b>716</b>    | <b>1</b>          | <b>12</b>         | <b>146</b>    | <b>703</b>    |
| Postponed variable compensation, January 1                          | 154               | 625               | 693           | 0             | 37                | 157               | 623           | 86            |
| Variable compensation postponed during the year                     | 24                | 0                 | 210           | 0             | 117               | 493               | 336           | 0             |
| Disbursed during the year   | 0                 | 0                 | -129          | 0             | 0                 | -27               | -276          | -87           |
| Adjusted during the year  | 0                 | -11               | 34            | 0             | 0                 | 1                 | 11            | 1             |
| <b>Postponed variable compensation, December 31</b>                 | <b>178</b>        | <b>614</b>        | <b>808</b>    | <b>0</b>      | <b>154</b>        | <b>625</b>        | <b>693</b>    | <b>0</b>      |

## 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 2016 Annual General Meeting to the end of the 2017 Annual General Meeting, the members of the Board receive an annual fee as well as a fee for each Board and Committee meeting attended. The Chairman of the Board receives an annual fee of EUR 30,000, and the Deputy Chairman receives an annual fee of EUR 28,000. Other Board members each receive an annual fee of EUR 26,000. In addition, Board members are paid a meeting fee for each Board meeting they attend. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members per meeting attended. Each member of a Board committee is paid EUR 750 per committee meeting attended. The chairman of each respective committee receives a meeting fee of EUR 1,000 per committee meeting attended. The members of the Bank's Board of Directors are not included in share-based compensation systems.

### Managing Director

The Managing Director receives a monthly salary of EUR 24,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2016, the Managing Director was paid compensation totalling EUR 405,737 (448,297) including fringe benefits and variable compensation. Of the variable compensation paid in 2016, EUR 39,120 was paid in cash and EUR 39,120 in Bank shares, in compliance with external regulations.

The Managing Director 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<sup>1</sup> 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, disbursement 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 disbursement of at least 60 per cent of the earnings-based compensation is postponed in a similar way. Since the Bank of Åland Plc is a listed company, at least 50 per cent of the earnings-based compensation is paid in the Bank's shares. Since Ålandsbanken Fondbolag Ab is a fund management company, at least 50 per cent of variable compensation to risk-takers must be paid in fund units. The allocated shares/fund units must be held for at least 12 months (deferral period) before the recipient of the compensation may have access to them. The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual. The Bank is entitled to abstain from disbursing postponed earnings-based compensation if the Group's financial position has substantially deteriorated.

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

| G11. Other expenses                         | 2016          | 2015          |
|---|---------------|---------------|
| IT expenses (excluding market data)         | 11,063        | 10,106        |
| Premises and property expenses              | 5,529         | 5,257         |
| Marketing expenses                          | 2,330         | 2,602         |
| Market data                                 | 2,304         | 2,286         |
| Staff-related expenses                      | 2,200         | 2,370         |
| Travel expenses                             | 1,325         | 1,331         |
| Purchased services                          | 1,984         | 2,463         |
| Deposit guarantee                           | 21            | 12            |
| Other expenses                              | 7,427         | 6,359         |
| Production for own use                      | -5,849        | -4,132        |
| <b>Total</b>                                | <b>28,332</b> | <b>28,653</b> |
| Fees to the Financial Stability Authority   |               |               |
| Deposit guarantee fee                       | 1,381         | 1,081         |
| Paid by old deposit guarantee fund          | -1,381        | -1,081        |
| Stability fee                               | 1,040         | 580           |
| Refund of banking taxes paid in prior years | -1,040        | -580          |
| Administration fee                          | 0             | 22            |
| <b>Total</b>                                | <b>0</b>      | <b>22</b>     |

Given its 2016 fee level, the Bank has deposit guarantee fees available for about nine years ahead and stability fees available for about two years ahead.

|   | Auditors elected by General Meeting | Others   | Auditors elected by General Meeting | Others   |
|---|-------------------------------------|----------|-------------------------------------|----------|
| Fees paid to auditors   |                                     |          |                                     |          |
| Auditing fees paid  | 273                                 |          | 302                                 |          |
| Consulting fees paid  |                                     |          |                                     |          |
| <i>In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2</i> | 15                                  |          | 57                                  |          |
| <i>Tax matters</i>  | 51                                  |          | 76                                  |          |
| <i>Other</i>  | 49                                  |          | 132                                 |          |
| <b>Total</b>  | <b>390</b>                          | <b>0</b> | <b>567</b>                          | <b>0</b> |

These amounts include value-added tax (VAT).

## G12. Impairment losses on loans and other commitments

|  | 2016         | 2015         |
|--|--------------|--------------|
| Individual impairment losses                                 |              |              |
| New and increased impairment losses                          | 3,921        | 3,706        |
| Reversals of impairment losses                               | -968         | -803         |
| Withdrawn for actual losses                                  | -2,801       | -6,578       |
| Actual losses  | 3,923        | 7,160        |
| Recoveries of actual losses                                  | -550         | -162         |
| <b>Total individual impairment losses</b>                    | <b>3,525</b> | <b>3,323</b> |
| Group impairment losses                                      |              |              |
| Net provisions for the period, receivables measured by group | 573          | -274         |
| <b>Total group impairment losses</b>                         | <b>573</b>   | <b>-274</b>  |
| Other provisions   |              |              |
| Net provisions for the period, interest receivable           | -45          | 0            |
| <b>Total</b>   | <b>-45</b>   | <b>0</b>     |
| <b>Total</b>   | <b>4,053</b> | <b>3,049</b> |
| Doubtful receivables   |              |              |
| Gross doubtful receivables                                   | 21,701       | 31,394       |
| Individual impairment losses                                 | 10,763       | 10,610       |
| Net doubtful receivables                                     | 10,938       | 20,783       |
| Gross doubtful receivables as % of total                     | 0.57         | 0.87         |
| Level of individual provisions for doubtful receivables, %   | 50           | 34           |

|  | 2016  |   |               | 2015  |   |               |
|--|---|---|---------------|---|---|---------------|
|  | Reserve for individually assessed receivables | Reserve for receivables assessed by group | Total         | Reserve for individually assessed receivables | Reserve for receivables assessed by group | Total         |
| Change in impairment loss reserve                      |   |   |               |   |   |               |
| Reserve on January 1                                   | 10,610  | 1,246                                     | 11,856        | 14,285  | 1,519                                     | 15,804        |
| Provisions for the year                                | 3,921   | 573                                       | 4,495         | 3,706   | -274                                      | 3,432         |
| Recovered from earlier provisions                      | -968  |   | -968          | -803  |   | -803          |
| Withdrawn for actual losses                            | -2,801  |   | -2,801        | -6,578  |   | -6,578        |
| Exchange rate effect                                   | 0   |   | 0             | 0   |   | 0             |
| <b>Reserve on December 31</b>                          | <b>10,763</b>                                 | <b>1,819</b>                              | <b>12,581</b> | <b>10,610</b>                                 | <b>1,246</b>                              | <b>11,856</b> |
|  |   | Loan receivables with changed conditions  | Refinancing   | Loan receivables with changed conditions      | Refinancing                               |               |
| Restructured loan receivables                          |   |   |               |   |   |               |
| Healthy and receivables with overdue amounts < 90 days |   |   |               |   |   |               |
| <i>Companies</i>                                       |   | 20,402                                    | 2,012         | 9,537   | 1,093                                     |               |
| <i>Households</i>                                      |   | 4,225                                     | 352           | 4,075   | 1,190                                     |               |
| Unimpaired receivables with overdue amounts > 90 days  |   |   |               |   |   |               |
| <i>Companies</i>                                       |   | 356                                       |               | 4,864   |   |               |
| <i>Households</i>                                      |   | 80  |               | 1,084   |   |               |
| Impaired receivables                                   |   |   |               |   |   |               |
| <i>Companies</i>                                       |   | 4,688                                     |               | 4,688   |   |               |
| <i>Households</i>                                      |   | 1,422                                     |               | 1,426   |   |               |
| <b>Total</b>   |   | <b>31,174</b>                             | <b>2,364</b>  | <b>25,674</b>                                 | <b>2,283</b>                              |               |

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

| G13. Income taxes                         | 2016         | 2015         |
|---|--------------|--------------|
| Income statement                          |              |              |
| Taxes related to prior years              | 4            | 4            |
| Current taxes                             | 1,353        | 1,860        |
| Change in deferred taxes                  | 4,055        | 4,090        |
| <b>Total</b>                              | <b>5,412</b> | <b>5,955</b> |
| Nominal tax rate in Finland, %            | 20.0         | 20.0         |
| Non-taxable income/deductible expenses, % | 1.4          | 0.2          |
| Taxes related to prior years, %           | 0.0          | -0.7         |
| Other, %                                  | 0.1          | 0.2          |
| Effective tax rate, %                     | 21.6         | 19.7         |
| Other comprehensive income                |              |              |
| Current taxes                             | 695          | -298         |
| Change in deferred taxes                  | -651         | -71          |
| <b>Total</b>                              | <b>44</b>    | <b>-369</b>  |

| G14. Earnings per share  | 2016          | 2015          |
|--|---------------|---------------|
| <b>Profit for the period attributable to shareholders</b>                              | <b>19,687</b> | <b>24,303</b> |
| Average number of shares outstanding before adjustments for repurchases, dilution etc. | 15,267,442    | 15,193,564    |
| Average holding of own shares  | -1,238        | -5,394        |
| Average number of shares before dilution   | 15,266,204    | 15,188,170    |
| Average dilution effect  | 146,011       | 89,017        |
| Average number of shares after dilution  | 15,412,216    | 15,277,187    |
| <b>Earnings per share, EUR</b>   | <b>1.29</b>   | <b>1.60</b>   |
| <b>Earnings per share after dilution, EUR</b>  | <b>1.28</b>   | <b>1.59</b>   |

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

## Notes to the consolidated balance sheet

| G15. Classification of financial assets and liabilities       | 2016  |               |                  |                                     |                              |                             |                                    |                       |                  |
|---|---|---------------|------------------|-------------------------------------|------------------------------|-----------------------------|------------------------------------|-----------------------|------------------|
|   | Carried at fair value in income statement, divided into |               |                  | Financial assets available for sale | Investments held to maturity | Loans and other receivables | Other financial assets/liabilities | Total carrying amount | Fair value       |
|   | Held for trading  | Other         | Hedge accounting |                                     |                              |                             |                                    |                       |                  |
| Cash  |   |               |                  |                                     |                              | 513,018                     |                                    | 513,018               | 513,018          |
| Debt certificates eligible for refinancing with central banks |   | 15,235        | 18,120           | 380,821                             | 89,414                       |                             |                                    | 503,590               | 503,788          |
| Lending to credit institutions                                |   |               |                  |                                     |                              | 201,360                     |                                    | 201,360               | 201,360          |
| Lending to the public   |   | 41,650        |                  |                                     |                              | 3,766,549                   |                                    | 3,808,199             | 3,833,435        |
| Shares and participations                                     |   |               |                  | 522                                 |                              |                             |                                    | 522                   | 522              |
| Shares and participations in associated companies             |   |               |                  |                                     |                              |                             | 58                                 | 58                    | 58               |
| Derivative instruments  | 4,566   | 77            | 16,264           |                                     |                              |                             |                                    | 20,907                | 20,907           |
| Accrued interest income                                       |   |               |                  |                                     |                              |                             | 11,491                             | 11,491                | 11,491           |
| Receivables on mutual fund settlement proceeds                |   |               |                  |                                     |                              |                             | 12,910                             | 12,910                | 12,910           |
| <b>Total financial assets</b>                                 | <b>4,566</b>  | <b>56,962</b> | <b>34,384</b>    | <b>381,343</b>                      | <b>89,414</b>                | <b>4,480,927</b>            | <b>24,459</b>                      | <b>5,072,055</b>      | <b>5,097,489</b> |
| Non-financial assets  |   |               |                  |                                     |                              |                             |                                    | 64,740                |                  |
| <b>Total assets</b>   |   |               |                  |                                     |                              |                             |                                    | <b>5,136,794</b>      |                  |

## 2016

|   | Carried at fair value<br>in income statement,<br>divided into |              |                     | Financial<br>assets<br>available<br>for sale | Invest-<br>ments<br>held to<br>maturity | Loans<br>and other<br>receivables | Other<br>financial<br>assets/<br>liabilities | Total<br>carrying<br>amount | Fair value       |
|---|---|--------------|---------------------|--|---|-----------------------------------|--|-----------------------------|------------------|
|   | Held for<br>trading   | Other        | Hedge<br>accounting |  |   |                                   |  |                             |                  |
| Liabilities to credit institutions                |   |              |                     |  |   |                                   | 218,656                                      | 218,656                     | 219,062          |
| Liabilities to the public                         |   | 85           |                     |  |   |                                   | 3,027,559                                    | 3,027,644                   | 3,028,401        |
| Debt securities issued                            |   |              | 956,679             |  |   |                                   | 494,995                                      | 1,451,673                   | 1,453,992        |
| Derivative instruments                            | 5,494   | 2,149        | 25,484              |  |   |                                   |  | 33,126                      | 33,126           |
| Subordinated liabilities                          |   |              | 13,454              |  |   |                                   | 25,903                                       | 39,357                      | 42,208           |
| Accrued interest expenses                         |   |              |                     |  |   |                                   | 7,638  | 7,638                       | 7,638            |
| Liabilities on mutual fund<br>settlement proceeds |   |              |                     |  |   |                                   | 65,855                                       | 65,855                      | 65,855           |
| <b>Total financial liabilities</b>                | <b>5,494</b>  | <b>2,234</b> | <b>995,616</b>      | <b>0</b>                                     | <b>0</b>                                | <b>0</b>                          | <b>3,840,606</b>                             | <b>4,843,950</b>            | <b>4,850,283</b> |
| Non-financial liabilities                         |   |              |                     |  |   |                                   |  | 71,032                      |                  |
| <b>Total liabilities</b>                          |   |              |                     |  |   |                                   |  | <b>4,914,982</b>            |                  |

## 2015

|  | Carried at fair value<br>in income statement,<br>divided into |               |                     | Financial<br>assets<br>available<br>for sale | Invest-<br>ments<br>held to<br>maturity | Loans<br>and other<br>receivables | Other<br>financial<br>assets/<br>liabilities | Total<br>carrying<br>amount | Fair value       |
|--|---|---------------|---------------------|--|---|-----------------------------------|--|-----------------------------|------------------|
|  | Held for<br>trading   | Other         | Hedge<br>accounting |  |   |                                   |  |                             |                  |
| Cash   |   |               |                     |  |   | 199,461                           |  | 199,461                     | 199,461          |
| Debt certificates eligible<br>for refinancing with central banks |   | 15,512        | 29,091              | 547,665                                      | 40,407                                  |                                   |  | 632,675                     | 632,788          |
| Lending to credit institutions                                   |   |               |                     |  |   | 44,972                            |  | 44,972                      | 44,972           |
| Lending to the public  |   | 42,743        |                     |  |   | 3,574,237                         |  | 3,616,981                   | 3,645,674        |
| Shares and participations  |   |               |                     | 957  |   |                                   |  | 957                         | 957              |
| Shares and participations<br>in associated companies             |   |               |                     |  |   |                                   | 634  | 634                         | 634              |
| Derivative instruments   | 4,940   | 143           | 14,279              |  |   |                                   |  | 19,362                      | 19,362           |
| Accrued interest income  |   |               |                     |  |   |                                   | 13,707                                       | 13,707                      | 13,707           |
| Receivables on mutual fund<br>settlement proceeds                |   |               |                     |  |   |                                   | 15,163                                       | 15,163                      | 15,163           |
| <b>Total financial assets</b>                                    | <b>4,940</b>  | <b>58,399</b> | <b>43,370</b>       | <b>548,622</b>                               | <b>40,407</b>                           | <b>3,818,670</b>                  | <b>29,505</b>                                | <b>4,543,913</b>            | <b>4,572,719</b> |
| Non-financial assets   |   |               |                     |  |   |                                   |  | 58,292                      |                  |
| <b>Total assets</b>  |   |               |                     |  |   |                                   |  | <b>4,602,204</b>            |                  |
| Liabilities to credit institutions                               |   |               |                     |  |   |                                   | 321,604                                      | 321,604                     | 321,724          |
| Liabilities to the public  |   | 87            |                     |  |   |                                   | 2,516,548                                    | 2,516,635                   | 2,517,102        |
| Debt securities issued   |   |               | 744,532             |  |   |                                   | 667,435                                      | 1,411,966                   | 1,422,559        |
| Derivative instruments   | 4,643   | 2,574         | 11,735              |  |   |                                   |  | 18,952                      | 18,952           |
| Subordinated liabilities   |   |               | 19,124              |  |   |                                   | 23,555                                       | 42,679                      | 46,137           |
| Accrued interest expenses  |   |               |                     |  |   |                                   | 8,418  | 8,418                       | 8,418            |
| Liabilities on mutual fund<br>settlement proceeds                |   |               |                     |  |   |                                   | 9,036  | 9,036                       | 9,036            |
| <b>Total financial liabilities</b>                               | <b>4,643</b>  | <b>2,661</b>  | <b>775,390</b>      | <b>0</b>                                     | <b>0</b>                                | <b>0</b>                          | <b>3,546,596</b>                             | <b>4,329,291</b>            | <b>4,343,928</b> |
| Non-financial liabilities  |   |               |                     |  |   |                                   |  | 60,031                      |                  |
| <b>Total liabilities</b>   |   |               |                     |  |   |                                   |  | <b>4,389,322</b>            |                  |

| G16. Measurement of financial assets and liabilities carried at fair value |                  | 2016           |                  |            |                  |
|--|------------------|----------------|------------------|------------|------------------|
|  |                  | Level 1        | Level 2          | Level 3    | Total            |
| Debt securities eligible for refinancing with central banks                |                  | 414,176        |                  |            | 414,176          |
| Lending to the public  |                  |                | 41,650           |            | 41,650           |
| Shares and participations  |                  | 32             | 4                | 486        | 522              |
| Derivative instruments   |                  | 0              | 20,907           |            | 20,907           |
| <b>Total financial liabilities carried at fair value</b>                   |                  | <b>414,208</b> | <b>62,561</b>    | <b>486</b> | <b>477,255</b>   |
| Liabilities to the public  |                  |                | 85               |            | 85               |
| Debt securities issued   |                  |                | 711,729          |            | 711,729          |
| Derivative instruments   |                  | 16             | 33,110           |            | 33,126           |
| Subordinated liabilities   |                  |                | 13,454           |            | 13,454           |
| <b>Total financial liabilities carried at fair value</b>                   |                  | <b>16</b>      | <b>758,377</b>   | <b>0</b>   | <b>758,394</b>   |
|  | Carrying amount  | Level 1        | Level 2          | Level 3    | Total            |
| Financial assets and liabilities recognised at accrued cost                |                  |                |                  |            |                  |
| Assets   |                  |                |                  |            |                  |
| <i>Cash and balances with central banks</i>                                | 513,018          |                | 513,018          |            | 513,018          |
| <i>Debt securities eligible for refinancing with central banks</i>         | 89,414           |                | 89,612           |            | 89,612           |
| <i>Lending to credit institutions</i>                                      | 201,360          |                | 201,360          |            | 201,360          |
| <i>Shares in associated companies</i>                                      | 58               |                |                  | 58         | 58               |
| <i>Lending to the public</i>   | 3,766,549        |                | 3,791,785        |            | 3,791,785        |
| <b>Total financial assets at accrued cost</b>                              | <b>4,570,399</b> | <b>0</b>       | <b>4,595,775</b> | <b>58</b>  | <b>4,595,834</b> |
| Liabilities  |                  |                |                  |            |                  |
| <i>Liabilities to credit institutions</i>                                  | 218,656          |                | 219,062          |            | 219,062          |
| <i>Liabilities to the public</i>   | 3,027,559        |                | 3,028,316        |            | 3,028,316        |
| <i>Debt securities issued</i>  | 739,945          |                | 742,263          |            | 742,263          |
| <i>Subordinated liabilities</i>  | 25,903           |                | 28,755           |            | 28,755           |
| <b>Total financial liabilities at accrued cost</b>                         | <b>4,012,063</b> | <b>0</b>       | <b>4,018,396</b> | <b>0</b>   | <b>4,018,396</b> |

|  |  | 2015             |                |                  |                |                  |
|--|--|------------------|----------------|------------------|----------------|------------------|
|  |  | Level 1          | Level 2        | Level 3          | Total          |                  |
| Debt securities eligible for refinancing with central banks        |  | 592,268          |                |                  | 592,268        |                  |
| Lending to the public  |  |                  | 42,743         |                  | 42,743         |                  |
| Shares and participations  |  | 11               | 4              | 942              | 957            |                  |
| Derivative instruments   |  |                  | 19,362         |                  | 19,362         |                  |
| <b>Total financial liabilities carried at fair value</b>           |  | <b>592,279</b>   | <b>62,109</b>  | <b>942</b>       | <b>655,330</b> |                  |
| Liabilities to the public  |  |                  | 87             |                  | 87             |                  |
| Debt securities issued   |  |                  | 489,145        |                  | 489,145        |                  |
| Derivative instruments   |  | 6                | 18,946         |                  | 18,952         |                  |
| Subordinated liabilities   |  |                  | 19,124         |                  | 19,124         |                  |
| <b>Total financial liabilities carried at fair value</b>           |  | <b>6</b>         | <b>527,302</b> | <b>0</b>         | <b>527,308</b> |                  |
|  |  | Carrying amount  | Level 1        | Level 2          | Level 3        | Total            |
| Financial assets and liabilities recognised at accrued cost        |  |                  |                |                  |                |                  |
| Assets   |  |                  |                |                  |                |                  |
| <i>Cash and balances with central banks</i>                        |  | 199,461          |                | 199,461          |                | 199,461          |
| <i>Debt securities eligible for refinancing with central banks</i> |  | 40,407           |                | 40,520           |                | 40,520           |
| <i>Lending to credit institutions</i>                              |  | 44,972           |                | 44,972           |                | 44,972           |
| <i>Shares in associated companies</i>                              |  | 634              |                |                  | 634            | 634              |
| <i>Lending to the public</i>                                       |  | 3,574,237        |                | 3,602,931        |                | 3,602,931        |
| <b>Total financial assets at accrued cost</b>                      |  | <b>3,859,712</b> | <b>0</b>       | <b>3,887,883</b> | <b>634</b>     | <b>3,888,518</b> |
| Liabilities  |  |                  |                |                  |                |                  |
| <i>Liabilities to credit institutions</i>                          |  | 321,604          |                | 321,724          |                | 321,724          |
| <i>Liabilities to the public</i>                                   |  | 2,516,548        |                | 2,517,015        |                | 2,517,015        |
| <i>Debt securities issued</i>                                      |  | 922,821          |                | 933,414          |                | 933,414          |
| <i>Subordinated liabilities</i>                                    |  | 23,555           |                | 27,013           |                | 27,013           |
| <b>Total financial liabilities at accrued cost</b>                 |  | <b>3,784,528</b> | <b>0</b>       | <b>3,799,166</b> | <b>0</b>       | <b>3,799,166</b> |
| No transfer between Level 1 and 2 has occurred.                    |  |                  |                |                  |                |                  |
| <b>Level 1</b>   | Instruments with quoted market prices                      |                  |                |                  |                |                  |
| <b>Level 2</b>   | Measurement techniques based on observable market data     |                  |                |                  |                |                  |
| <b>Level 3</b>   | Measurement techniques based on non-observable market data |                  |                |                  |                |                  |

|  | 2016                      | 2015                      |
|--|---------------------------|---------------------------|
|  | Shares and participations | Shares and participations |
| Change in Level 3 holdings                               |                           |                           |
| Carrying amount on January 1                             | 942                       | 534                       |
| New purchases/Reclassifications                          | 593                       | 0                         |
| Divested/reached maturity during the year                | -396                      | 0                         |
| Realised change in value in the income statement         | 4                         | 0                         |
| Unrealised change in value in the income statement       | -593                      | -80                       |
| Change in value recognised in other comprehensive income | -65                       | 488                       |
| <b>Carrying amount on December 31</b>                    | <b>486</b>                | <b>942</b>                |

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

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

#### THE MEASUREMENT HIERARCHY

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

In the above tables, financial instruments measured at fair value have been classified with regard to how they have been measured and the degree of market data used in this measurement on closing day. If the classification on closing day has changed, compared to the classification at the end of the previous year, the instrument has been moved between the levels in the table. During the period January–December 2016, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table.

| G17. Assets and liabilities by currency   |                  | 2016             |               |               |                  |
|---|------------------|------------------|---------------|---------------|------------------|
|   |                  | EUR              | SEK           | USD           | Others           |
| Cash  | 469,786          | 42,774           | 110           | 347           | 513,018          |
| Debt securities eligible for refinancing with central banks                           | 331,830          | 171,759          | 0             | 0             | 503,590          |
| Lending to credit institutions  | 25,925           | 144,965          | 16,863        | 13,607        | 201,360          |
| Lending to the public   | 2,589,066        | 1,189,172        | 29,960        | 0             | 3,808,199        |
| Derivative instruments  | 19,455           | 1,443            | 0             | 9             | 20,907           |
| Other items not allocated by currency   | 89,721           |                  |               |               | 89,721           |
| <b>Total assets</b>   | <b>3,525,783</b> | <b>1,550,115</b> | <b>46,934</b> | <b>13,963</b> | <b>5,136,794</b> |
| Liabilities to credit institutions  | 154,166          | 64,029           | 458           | 3             | 218,656          |
| Liabilities to the public   | 2,048,140        | 877,870          | 81,457        | 20,177        | 3,027,644        |
| Debt securities issued  | 885,674          | 566,000          | 0             | 0             | 1,451,673        |
| Derivative instruments  | 10,007           | 23,109           | 0             | 10            | 33,126           |
| Subordinated liabilities  | 39,357           | 0                | 0             | 0             | 39,357           |
| Other items not allocated by currency, including equity capital                       | 366,338          |                  |               |               | 366,338          |
| <b>Total liabilities and equity capital</b>   | <b>3,503,681</b> | <b>1,531,007</b> | <b>81,916</b> | <b>20,190</b> | <b>5,136,794</b> |
| Other assets and liabilities allocated by currency as well as off-balance sheet items |                  | 19,099           | -35,019       | -6,115        |                  |
| Net position in currencies (EUR)  |                  | 8                | 37            | -111          | -66              |

| G17. Assets and liabilities by currency   |                  | 2015             |               |               |                  |
|---|------------------|------------------|---------------|---------------|------------------|
|   |                  | EUR              | SEK           | USD           | Others           |
| Cash  | 162,674          | 36,343           | 91            | 352           | 199,461          |
| Debt securities eligible for refinancing with central banks                           | 494,194          | 138,481          | 0             | 0             | 632,675          |
| Lending to credit institutions  | 16,701           | 8,260            | 11,499        | 8,512         | 44,972           |
| Lending to the public   | 2,496,235        | 1,090,084        | 30,661        | 0             | 3,616,981        |
| Derivative instruments  | 17,482           | 1,776            | 68            | 35            | 19,362           |
| Other items not allocated by currency   | 88,755           |                  |               |               | 88,755           |
| <b>Total assets</b>   | <b>3,276,041</b> | <b>1,274,945</b> | <b>42,319</b> | <b>8,900</b>  | <b>4,602,204</b> |
| Liabilities to credit institutions  | 195,002          | 126,536          | 61            | 6             | 321,604          |
| Liabilities to the public   | 1,718,488        | 695,720          | 88,633        | 13,795        | 2,516,635        |
| Debt securities issued  | 721,706          | 690,260          | 0             | 0             | 1,411,966        |
| Derivative instruments  | 7,117            | 11,826           | 0             | 9             | 18,952           |
| Subordinated liabilities  | 42,679           | 0                | 0             | 0             | 42,679           |
| Other items not allocated by currency, including equity capital                       | 290,368          |                  |               |               | 290,368          |
| <b>Total liabilities and equity capital</b>   | <b>2,975,359</b> | <b>1,524,342</b> | <b>88,693</b> | <b>13,810</b> | <b>4,602,204</b> |
| Other assets and liabilities allocated by currency as well as off-balance sheet items |                  | -249,393         | -46,377       | -4,690        |                  |
| Net position in currencies (EUR)  |                  | -4               | 2             | -220          | -222             |

| G18. Holdings of debt securities                            | 2016           |                 | 2015           |                 |
|---|----------------|-----------------|----------------|-----------------|
|   | Nominal amount | Carrying amount | Nominal amount | Carrying amount |
| Debt securities eligible for refinancing with central banks |                |                 |                |                 |
| Assets held for trading                                     |                |                 |                |                 |
| <i>Debt securities issued by credit institutions</i>        | 32,900         | 33,355          | 42,900         | 44,603          |
| Holdings available for sale                                 |                |                 |                |                 |
| <i>Government bonds</i>                                     | 33,770         | 34,526          | 60,964         | 66,427          |
| <i>Covered mortgage bonds</i>                               | 269,153        | 273,511         | 285,100        | 291,688         |
| <i>Debt securities issued by credit institutions</i>        | 66,914         | 67,701          | 154,793        | 156,081         |
| <i>Other debt securities</i>                                | 5,000          | 5,082           | 32,800         | 33,468          |
| Assets held until maturity                                  |                |                 |                |                 |
| <i>Government bonds</i>                                     | 5,758          | 6,831           |                |                 |
| <i>Covered mortgage bonds</i>                               | 56,403         | 57,896          | 38,935         | 40,407          |
| <i>Debt securities issued by credit institutions</i>        | 19,828         | 20,637          |                |                 |
| <i>Other debt securities</i>                                | 4,000          | 4,050           |                |                 |
| <b>Total</b>  | <b>493,726</b> | <b>503,590</b>  | <b>615,492</b> | <b>632,675</b>  |

| G19. Lending to credit institutions   | 2016                |                |                | 2015                |           |               |
|---------------------------------------|---------------------|----------------|----------------|---------------------|-----------|---------------|
|                                       | Repayable on demand | Other          | Total          | Repayable on demand | Other     | Total         |
| Finnish credit institutions           | 2,304               | 0              | 2,304          | 10,588              | 0         | 10,588        |
| Foreign banks and credit institutions | 76,558              | 122,498        | 199,056        | 34,346              | 37        | 34,384        |
| <b>Total</b>                          | <b>78,862</b>       | <b>122,498</b> | <b>201,360</b> | <b>44,935</b>       | <b>37</b> | <b>44,972</b> |

| G20. Lending to the public               | 2016             |                       |                  | 2015             |                       |                  |
|--|------------------|-----------------------|------------------|------------------|-----------------------|------------------|
|  | Amortised cost   | Carried at fair value | Total            | Amortised cost   | Carried at fair value | Total            |
| Companies                                | 553,942          |                       | 553,942          | 552,848          |                       | 552,848          |
| Public sector entities                   | 2,292            |                       | 2,292            | 2,839            |                       | 2,839            |
| Households                               | 1,878,220        | 41,650                | 1,919,869        | 1,790,827        | 42,743                | 1,833,570        |
| Household interest organisations         | 12,521           |                       | 12,521           | 12,074           |                       | 12,074           |
| Outside Finland                          | 1,319,574        |                       | 1,319,574        | 1,215,650        |                       | 1,215,650        |
| <b>Total</b>                             | <b>3,766,549</b> | <b>41,650</b>         | <b>3,808,199</b> | <b>3,574,237</b> | <b>42,743</b>         | <b>3,616,981</b> |
| <i>of which subordinated receivables</i> |                  |                       | 2,367            |                  |                       | 2,367            |

| G21. Shares and participations            | 2016 |            | 2015 |            |
|---|------|------------|------|------------|
|   |      |            |      |            |
| Holdings classified as available for sale |      |            |      |            |
| Listed                                    |      | 32         |      | 11         |
| Unlisted                                  |      | 490        |      | 946        |
| <b>Total</b>                              |      | <b>522</b> |      | <b>957</b> |
| <b>Total shares and participations</b>    |      | <b>522</b> |      | <b>957</b> |

| G22. Shares in associated companies   | 2016 |           | 2015 |            |
|---------------------------------------|------|-----------|------|------------|
|                                       |      |           |      |            |
| Carrying amount on January 1          |      | 634       |      | 664        |
| Share of profit for the year          |      | 18        |      | -30        |
| Divestments                           |      | -72       |      | 0          |
| Reclassifications                     |      | -450      |      | 0          |
| Impairments                           |      | -72       |      | 0          |
| <b>Carrying amount on December 31</b> |      | <b>58</b> |      | <b>634</b> |

The following associated companies were consolidated according to the equity method of accounting on December 31, 2016:

|                      | Registered office | Ownership, % |
|----------------------|-------------------|--------------|
| Mäklarhuset Åland Ab | Mariehamn         | 25           |

Combined financial information about these associated companies:

|                     | 2016  | 2015  |
|---------------------|-------|-------|
| Assets              | 516   | 4,496 |
| Liabilities         | 278   | 2,714 |
| Sales               | 1,165 | 1,015 |
| Profit for the year | 157   | 9     |

| G23. Derivative instruments and hedge accounting                |                         |                |                | 2016             |                        |                        | 2015             |                        |                        |
|---|-------------------------|----------------|----------------|------------------|------------------------|------------------------|------------------|------------------------|------------------------|
|   | Nominal amount/maturity |                |                | Nominal amount   | Positive market values | Negative market values | Nominal amount   | Positive market values | Negative market values |
|   | Under 1 yr              | 1-5 yrs        | over 5 yrs     |                  |                        |                        |                  |                        |                        |
| Derivatives for trading   |                         |                |                |                  |                        |                        |                  |                        |                        |
| Interest-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Interest rate swaps</i>                                      | 36,850                  | 28,622         | 24,760         | 90,232           | 2,153                  | 4,010                  | 129,592          | 2,382                  | 4,358                  |
| <i>Interest rate futures</i>                                    | 7,600                   | 0              | 0              | 7,600            | 0                      | 16                     | 10,100           | 0                      | 6                      |
| <i>Interest rate options – purchased</i>                        | 1,382                   | 0              | 0              | 1,382            | 0                      | 0                      | 10,612           | 0                      | 0                      |
| <i>Interest rate options – sold</i>                             | 0                       | 0              | 0              | 0                | 0                      | 0                      | 7,928            | 0                      | 0                      |
| Currency-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Currency forward contracts</i>                               | 337,613                 | 691            | 0              | 338,304          | 1,383                  | 2,493                  | 184,414          | 640                    | 570                    |
| Equity-related contracts  |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Equity options – purchased</i>                               | 2,094                   | 4,505          | 0              | 6,599            | 935                    | 0                      | 34,954           | 1,826                  | 0                      |
| <i>Equity options – written</i>                                 | 2,094                   | 2,143          | 0              | 4,237            | 0                      | 821                    | 22,768           | 0                      | 1,724                  |
| Other derivative contracts                                      | 11,930                  | 8,130          | 0              | 20,060           | 311                    | 302                    | 21,342           | 606                    | 559                    |
| <b>Total</b>  | <b>399,562</b>          | <b>44,092</b>  | <b>24,760</b>  | <b>468,414</b>   | <b>4,781</b>           | <b>7,642</b>           | <b>421,710</b>   | <b>5,454</b>           | <b>7,217</b>           |
| Derivatives for fair value hedge                                |                         |                |                |                  |                        |                        |                  |                        |                        |
| Interest-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Interest rate swaps</i>                                      | 18,000                  | 363,234        | 352,000        | 733,234          | 16,126                 | 4,858                  | 493,772          | 12,860                 | 661                    |
| <b>Total</b>  | <b>18,000</b>           | <b>363,234</b> | <b>352,000</b> | <b>733,234</b>   | <b>16,126</b>          | <b>4,858</b>           | <b>493,772</b>   | <b>12,860</b>          | <b>661</b>             |
| Derivatives for cash flow hedge                                 |                         |                |                |                  |                        |                        |                  |                        |                        |
| Currency-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Interest rate and currency swaps</i>                         | 193,667                 | 52,342         | 0              | 246,009          | 0                      | 19,670                 | 255,727          | 899                    | 11,074                 |
| <b>Total</b>  | <b>193,667</b>          | <b>52,342</b>  | <b>0</b>       | <b>246,009</b>   | <b>0</b>               | <b>19,670</b>          | <b>255,727</b>   | <b>899</b>             | <b>11,074</b>          |
| Derivatives for hedging of net investment in foreign operations |                         |                |                |                  |                        |                        |                  |                        |                        |
| Currency-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Currency swaps</i>   | 47,673                  | 0              | 0              | 47,673           | 0                      | 956                    | 26,443           | 148                    | 0                      |
| <b>Total</b>  | <b>47,673</b>           | <b>0</b>       | <b>0</b>       | <b>47,673</b>    | <b>0</b>               | <b>956</b>             | <b>26,443</b>    | <b>148</b>             | <b>0</b>               |
| <b>Total derivative instruments</b>                             | <b>658,902</b>          | <b>459,668</b> | <b>376,760</b> | <b>1,495,330</b> | <b>20,907</b>          | <b>33,126</b>          | <b>1,197,652</b> | <b>19,362</b>          | <b>18,952</b>          |
| <i>of which cleared</i>   | 10,600                  | 258,000        | 266,000        | 534,600          | 3,591                  | 5,858                  | 10,100           |                        | 6                      |

| G24. Intangible assets   |                               |                |            |                         |                | 2016 |  |
|--|-------------------------------|----------------|------------|-------------------------|----------------|------|--|
|  | Internally developed software | Other software | Goodwill   | Other intangible assets | Total          |      |  |
| Cost on January 1  | 11,185                        | 21,063         | 30         | 11                      | 32,290         |      |  |
| Cost of intangible assets added                                      | 3,418                         | 5,714          | 0          | 0                       | 9,132          |      |  |
| Divestments and disposals  | 0                             | -818           | 0          | 0                       | -818           |      |  |
| Transfers between items  | 0                             | 0              | 0          | 0                       | 0              |      |  |
| Exchange rate effect   | 0                             | -88            | 0          | 0                       | -88            |      |  |
| <b>Cost on December 31</b>   | <b>14,602</b>                 | <b>25,871</b>  | <b>30</b>  | <b>11</b>               | <b>40,516</b>  |      |  |
| Accumulated amortisation and impairment losses                       |                               |                |            |                         |                |      |  |
| on January 1   | -7,473                        | -15,199        | -30        | -11                     | -22,714        |      |  |
| Divestments and disposals  | 0                             | 0              | 0          | 0                       | 0              |      |  |
| Amortisation for the year  | -533                          | -1,721         | 0          | 0                       | -2,254         |      |  |
| Impairment losses for the year                                       | 0                             | 0              | 0          | 0                       | 0              |      |  |
| Exchange rate effect   | 0                             | 57             | 0          | 0                       | 57             |      |  |
| <b>Accumulated amortisation and impairment losses on December 31</b> | <b>-8,006</b>                 | <b>-16,863</b> | <b>-30</b> | <b>-11</b>              | <b>-24,911</b> |      |  |
| <b>Residual value on December 31</b>                                 | <b>6,596</b>                  | <b>9,009</b>   | <b>0</b>   | <b>0</b>                | <b>15,605</b>  |      |  |

| 2015   |                               |                |            |                         |                |
|--|-------------------------------|----------------|------------|-------------------------|----------------|
|  | Internally developed software | Other software | Goodwill   | Other intangible assets | Total          |
| Cost on January 1  | 8,857                         | 18,504         | 30         | 11                      | 27,403         |
| Cost of intangible assets added                                      | 2,328                         | 2,444          | 0          | 0                       | 4,772          |
| Divestments and disposals  | 0                             | 69             | 0          | 0                       | 69             |
| Transfers between items  | 0                             | 0              | 0          | 0                       | 0              |
| Exchange rate effect   | 0                             | 46             | 0          | 0                       | 46             |
| <b>Cost on December 31</b>   | <b>11,185</b>                 | <b>21,063</b>  | <b>30</b>  | <b>11</b>               | <b>32,290</b>  |
| Accumulated amortisation and impairment losses on January 1          | -6,606                        | -13,091        | -30        | -8                      | -19,736        |
| Divestments and disposals  | 0                             | 223            | 0          | 0                       | 223            |
| Amortisation for the year  | -867                          | -2,295         | 0          | -3                      | -3,165         |
| Impairment losses for the year                                       | 0                             | 0              | 0          | 0                       | 0              |
| Exchange rate effect   | 0                             | -35            | 0          | 0                       | -35            |
| <b>Accumulated amortisation and impairment losses on December 31</b> | <b>-7,473</b>                 | <b>-15,199</b> | <b>-30</b> | <b>-11</b>              | <b>-22,714</b> |
| <b>Residual value on December 31</b>                                 | <b>3,712</b>                  | <b>5,865</b>   | <b>0</b>   | <b>0</b>                | <b>9,576</b>   |

| G25. Tangible assets                            | 2016                  |                        |                       | 2015                  |                        |                       |
|---|-----------------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|
| Investment properties                           |                       |                        | 343                   |                       |                        | 351                   |
| Properties for own use                          |                       |                        | 18,755                |                       |                        | 19,703                |
| Other tangible assets                           |                       |                        | 6,485                 |                       |                        | 4,317                 |
| <b>Total</b>                                    |                       |                        | <b>25,584</b>         |                       |                        | <b>24,371</b>         |
|   | Investment properties | Properties for own use | Other tangible assets | Investment properties | Properties for own use | Other tangible assets |
| Cost on January 1                               | 1,029                 | 35,437                 | 32,199                | 1,049                 | 35,397                 | 31,336                |
| New acquisitions                                | 0                     | 546                    | 4,411                 | 0                     | 99                     | 1,000                 |
| Divestments and disposals                       | -7                    | -13                    | -386                  | -20                   | -59                    | -365                  |
| Transfers between items                         | 0                     | 49                     | 0                     |                       |                        |                       |
| Exchange rate effect                            | 0                     | 0                      | -414                  | 0                     | 0                      | 229                   |
| <b>Cost on December 31</b>                      | <b>1,021</b>          | <b>36,019</b>          | <b>35,811</b>         | <b>1,029</b>          | <b>35,437</b>          | <b>32,199</b>         |
| Accumulated depreciation on January 1           | -678                  | -15,734                | -27,882               | -613                  | -14,138                | -25,765               |
| Depreciation for the year                       | 0                     | -1,557                 | -2,133                | 0                     | -1,605                 | -2,197                |
| Impairment losses for the year                  | 0                     | 0                      | 0                     | -70                   | 0                      | 0                     |
| Divestments and disposals                       | 0                     | 19                     | 294                   | 5                     | 13                     | 304                   |
| Exchange rate effects                           | 0                     | 8                      | 395                   | 0                     | -4                     | -224                  |
| <b>Accumulated depreciation on December 31</b>  | <b>-678</b>           | <b>-17,264</b>         | <b>-29,325</b>        | <b>-678</b>           | <b>-15,734</b>         | <b>-27,882</b>        |
| <b>Carrying amount</b>                          | <b>343</b>            | <b>18,755</b>          | <b>6,485</b>          | <b>351</b>            | <b>19,703</b>          | <b>4,317</b>          |
| <i>of which buildings</i>                       | 0                     | 16,769                 |                       | 0                     | 17,712                 |                       |
| <i>of which land and water</i>                  | 0                     | 1,825                  |                       | 0                     | 1,825                  |                       |
| <i>of which shares in real estate companies</i> | 343                   | 162                    |                       | 351                   | 166                    |                       |

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

| G26. Other assets                              | 2016          | 2015          |
|--|---------------|---------------|
| Receivables on mutual fund settlement proceeds |               | 12,910        |
| Other  |               | 7,281         |
| <b>Total</b>                                   | <b>20,191</b> | <b>23,795</b> |

| G27. Accrued income and prepayments | 2016          | 2015          |
|-------------------------------------|---------------|---------------|
| Accrued interest income             | 11,491        | 13,707        |
| Other accrued income                | 7,615         | 5,219         |
| Pension assets                      | 0             | 1,367         |
| Other prepaid expenses              | 3,486         | 4,154         |
| <b>Total</b>                        | <b>22,591</b> | <b>24,447</b> |

| G28. Deferred tax assets and liabilities            | 2016           | 2015           |
|---|----------------|----------------|
| Deferred tax assets                                 |                |                |
| Taxable losses                                      | 0              | 51             |
| Provisions  | 35             | 0              |
| Cash flow hedge                                     | 45             | 89             |
| Hedging of net investment in foreign operations     | 191            |                |
| Intangible assets                                   | 3,593          | 3,914          |
| Debt securities issued                              | 12             | 33             |
| Pension liabilities                                 | 731            | 160            |
| Other   | 336            | 114            |
| Financial assets available for sale                 |                |                |
| <i>Shares and participations available for sale</i> | 10             |                |
| <b>Total deferred tax assets</b>                    | <b>4,952</b>   | <b>4,361</b>   |
| Deferred tax liabilities                            |                |                |
| Taxable temporary differences                       |                |                |
| <i>Untaxed reserves</i>                             | 17,213         | 13,538         |
| <i>Fair value option and hedging</i>                | 308            | 444            |
| <i>Intangible assets</i>                            | 1,319          | 742            |
| <i>Tangible assets</i>                              | 1,823          | 1,878          |
| <i>Pension assets</i>                               | 0              | 273            |
| <i>Other</i>  | 0              | 3              |
| Financial assets available for sale                 |                |                |
| <i>Debt securities available for sale</i>           | 444            | 205            |
| <i>Shares and participations available for sale</i> | 0              | 71             |
| <b>Total deferred tax liabilities</b>               | <b>21,106</b>  | <b>17,155</b>  |
| <b>Net deferred taxes</b>                           | <b>-16,154</b> | <b>-12,794</b> |

|   | 2016            |                                |  |                       |                 |
|---|-----------------|--------------------------------|--|-----------------------|-----------------|
|   | Opening balance | Recognised in income statement | Recognised in other comprehensive income | Exchange rate effects | Closing balance |
| Changes in deferred taxes                       |                 |                                |  |                       |                 |
| Taxable losses                                  | 51              | -51                            |  |                       | 0               |
| Provisions                                      | 0               | 35                             |  |                       | 35              |
| Cash flow hedge                                 | 89              | 0                              | -45                                      |                       | 45              |
| Hedging of net investment in foreign operations | 0               | 0                              | 191                                      |                       | 191             |
| Intangible assets                               | 3,172           | -803                           |  | -94                   | 2,274           |
| Debt securities issued                          | 33              | -21                            |  |                       | 12              |
| Pension liabilities                             | 160             | 37                             | 545                                      | -11                   | 731             |
| Untaxed reserves                                | -13,538         | -3,675                         |  |                       | -17,213         |
| Market value hedge                              | -444            | 136                            |  |                       | -308            |
| Tangible assets                                 | -1,878          | 56                             |  |                       | -1,823          |
| Pension assets                                  | -273            | 8                              | 265                                      |                       | 0               |
| Debt securities available for sale              | -205            | 0                              | -238                                     |                       | -444            |
| Shares and participations available for sale    | -71             | 0                              | 81                                       |                       | 10              |
| Other   | 111             | 225                            |  |                       | 336             |
| <b>Total</b>                                    | <b>-12,794</b>  | <b>-4,054</b>                  | <b>799</b>                               | <b>-105</b>           | <b>-16,154</b>  |

|  | 2015            |                                |  |                       |                 |
|--|-----------------|--------------------------------|--|-----------------------|-----------------|
|  | Opening balance | Recognised in income statement | Recognised in other comprehensive income | Exchange rate effects | Closing balance |
| Changes in deferred taxes                    |                 |                                |  |                       |                 |
| Taxable losses                               | 615             | -564                           |  |                       | 51              |
| Provisions                                   | 68              | -68                            |  |                       | 0               |
| Cash flow hedge                              | 115             | 0                              | -26                                      |                       | 89              |
| Intangible assets                            | 3,200           | -86                            |  | 58                    | 3,172           |
| Debt securities issued                       | 70              | -37                            |  |                       | 33              |
| Pension liabilities                          | 258             | 12                             | -114                                     | 5                     | 160             |
| Untaxed reserves                             | -9,969          | -3,569                         |  |                       | -13,538         |
| Market value hedge                           | -554            | 109                            |  |                       | -444            |
| Tangible assets                              | -1,934          | 56                             |  |                       | -1,878          |
| Pension assets                               | -87             | 33                             | -219                                     |                       | -273            |
| Debt securities available for sale           | -707            | 0                              | 502                                      |                       | -205            |
| Shares and participations available for sale | 27              | 0                              | -98                                      |                       | -71             |
| Other  | 87              | 24                             |  |                       | 111             |
| <b>Total</b>                                 | <b>-8,811</b>   | <b>-4,090</b>                  | <b>44</b>                                | <b>63</b>             | <b>-12,794</b>  |

|  | 2016     | 2015       |
|--|----------|------------|
| Actual tax loss carry-forwards and their expiration year |          |            |
| 2022   |          | 255        |
| <b>Total</b>   | <b>0</b> | <b>255</b> |

| G29. Liabilities to credit institutions | 2016                |                |                | 2015                |                |                |
|---|---------------------|----------------|----------------|---------------------|----------------|----------------|
|   | Repayable on demand | Other          | Total          | Repayable on demand | Other          | Total          |
| Central banks                           |                     | 130,340        | 130,340        |                     | 130,340        | 130,340        |
| Finnish credit institutions             | 3,892               | 17,800         | 21,692         | 20,215              | 39,205         | 59,421         |
| Foreign banks and credit institutions   | 48,304              | 18,320         | 66,624         | 74,162              | 57,681         | 131,843        |
| <b>Total</b>                            | <b>52,196</b>       | <b>166,460</b> | <b>218,656</b> | <b>94,377</b>       | <b>227,227</b> | <b>321,604</b> |

| G30. Liabilities to the public   | 2016             |                       |                  | 2015             |                       |                  |
|----------------------------------|------------------|-----------------------|------------------|------------------|-----------------------|------------------|
|                                  | Amortised cost   | Carried at fair value | Total            | Amortised cost   | Carried at fair value | Total            |
| Companies                        | 897,841          |                       | 897,841          | 618,040          |                       | 618,040          |
| Public sector entities           | 92,571           |                       | 92,571           | 46,166           |                       | 46,166           |
| Households                       | 1,014,673        | 85                    | 1,014,758        | 987,267          | 87                    | 987,354          |
| Household interest organisations | 46,224           |                       | 46,224           | 46,524           |                       | 46,524           |
| Outside Finland                  | 976,250          |                       | 976,250          | 818,550          |                       | 818,550          |
| <b>Total</b>                     | <b>3,027,559</b> | <b>85</b>             | <b>3,027,644</b> | <b>2,516,548</b> | <b>87</b>             | <b>2,516,635</b> |

| G31. Debt securities issued          | 2016             |                  | 2015             |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | Nominal amount   | Carrying amount  | Nominal amount   | Carrying amount  |
| Certificates of deposit              | 153,643          | 153,643          | 250,126          | 250,011          |
| <i>of which at amortised cost</i>    | 153,643          | 153,643          | 250,126          | 250,011          |
| Covered bonds                        | 1,186,225        | 1,193,271        | 949,665          | 959,012          |
| <i>of which at amortised cost</i>    | 332,198          | 330,852          | 339,435          | 338,572          |
| <i>of which for fair value hedge</i> | 697,000          | 705,523          | 447,000          | 457,438          |
| <i>of which for cash flow hedge</i>  | 157,027          | 156,895          | 163,230          | 163,003          |
| Non-covered bonds                    | 88,982           | 88,942           | 155,939          | 155,836          |
| <i>of which at amortised cost</i>    | 0                | 0                | 63,442           | 63,427           |
| <i>of which for cash flow hedge</i>  | 88,982           | 88,942           | 92,497           | 92,409           |
| Index bonds (structured products)    | 15,825           | 15,818           | 47,233           | 47,107           |
| <i>of which at amortised cost</i>    | 9,619            | 9,648            | 15,509           | 15,403           |
| <i>of which for fair value hedge</i> | 6,206            | 6,170            | 31,724           | 31,704           |
| <b>Total</b>                         | <b>1,444,676</b> | <b>1,451,673</b> | <b>1,402,963</b> | <b>1,411,966</b> |

| G32. Other liabilities                         | 2016 |               | 2015 |               |
|--|------|---------------|------|---------------|
| Payment transfer liabilities                   |      | 17,690        |      | 14,974        |
| Liabilities on mutual fund settlement proceeds |      | 65,855        |      | 9,036         |
| Other  |      | 12,182        |      | 9,171         |
| <b>Total</b>                                   |      | <b>95,728</b> |      | <b>33,180</b> |

| G33. Provisions                  | 2016                                  |                  |            | 2015                                  |                  |            |
|----------------------------------|---------------------------------------|------------------|------------|---------------------------------------|------------------|------------|
|                                  | Provisions for restructuring reserves | Other provisions | Total      | Provisions for restructuring reserves | Other provisions | Total      |
| Provisions on January 1          | 0                                     | 202              | 202        | 688                                   | 67               | 755        |
| Provisions made during the year  | 291                                   | 0                | 291        | 130                                   | 147              | 276        |
| Amounts utilised                 | -116                                  | -202             | -318       | -761                                  | -12              | -773       |
| Unutilised amounts recovered     | 0                                     |                  | 0          | -68                                   |                  | -68        |
| Exchange rate changes            | 0                                     |                  | 0          | 11                                    |                  | 11         |
| <b>Provisions on December 31</b> | <b>175</b>                            | <b>0</b>         | <b>175</b> | <b>0</b>                              | <b>202</b>       | <b>202</b> |

The provisions for restructuring reserves were related to both Finland and Sweden. These provisions included both staff costs and other expenses, but primarily consisted of staff costs. "Other provisions" consist mainly of loss provisions for IT projects at Crosskey Banking Solutions Ab Ltd.

| G34. Accrued expenses and prepaid income | 2016 |               | 2015 |               |
|--|------|---------------|------|---------------|
| Accrued interest expenses                |      | 7,638         |      | 8,418         |
| Other accrued expenses                   |      | 14,033        |      | 14,231        |
| Pension liabilities                      |      | 3,655         |      | 800           |
| Prepaid income                           |      | 1,559         |      | 2,249         |
| <b>Total</b>                             |      | <b>26,885</b> |      | <b>25,699</b> |

| G35. Subordinated liabilities        | 2016           |                 |                        | 2015           |                 |                        |
|--------------------------------------|----------------|-----------------|------------------------|----------------|-----------------|------------------------|
|                                      | Nominal amount | Carrying amount | Amount in capital base | Nominal amount | Carrying amount | Amount in capital base |
| Debenture loan 1/2011                | 0              | 0               | 0                      | 1,012          | 1,012           | 442                    |
| Debenture loan 1/2012                | 2,805          | 2,805           | 0                      | 5,610          | 5,610           | 0                      |
| Debenture loan 1/2013                | 6,754          | 6,833           | 0                      | 10,132         | 10,282          | 0                      |
| Debenture loan 1/2014                | 6,542          | 6,608           | 0                      | 8,736          | 8,838           | 0                      |
| Debenture loan 2/2014                | 8,275          | 8,275           | 4,310                  | 8,275          | 8,275           | 5,968                  |
| 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                  | 0              | 0               | 0                      |
| Capital loan                         | 60             | 60              | 60                     | 60             | 60              | 60                     |
| <b>Total</b>                         | <b>39,213</b>  | <b>39,357</b>   | <b>19,146</b>          | <b>42,427</b>  | <b>42,679</b>   | <b>15,073</b>          |
| <i>of which for fair value hedge</i> | 13,297         | 13,441          | 0                      | 18,868         | 19,120          | 0                      |

|                       | Interest rate:       | Repayment:       |
|-----------------------|----------------------|------------------|
| Debenture loan 1/2012 | 3.00% fixed interest | June 12, 2017    |
| Debenture loan 1/2013 | 2.30% fixed interest | July 3, 2018     |
| Debenture loan 1/2014 | 2.30% fixed interest | February 3, 2019 |
| Debenture loan 2/2014 | 3.00% fixed interest | August 9, 2019   |
| Debenture loan 1/2015 | 3.75% fixed interest | May 25, 2035     |
| Debenture loan 1/2016 | 3.75% fixed interest | August 12, 2036  |
| Capital loan          | 5.00% fixed interest | March 31, 2022   |

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 loan 1/2015 and debenture loan 1/2016 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 loan 1/2016), respectively.

| G36. Specification of changes in equity capital  | 2016          | 2015          |
|--|---------------|---------------|
| Change in equity capital   |               |               |
| Equity capital on January 1  | 41,501        | 29,104        |
| Share-based payment, share savings programme   | 132           | 61            |
| Share-based payment, incentive programme   | 41            |               |
| Purchases from non-controlling interests <sup>1</sup>  | 0             | 12,336        |
| <b>Equity capital on December 31</b>   | <b>41,674</b> | <b>41,501</b> |
| Change in hedge reserve  |               |               |
| Hedge reserve on January 1   | -357          | -461          |
| Unrealised changes in value during the year  | 178           | 104           |
| <b>Hedge reserve on December 31</b>  | <b>-178</b>   | <b>-357</b>   |
| Change in fair value reserve   |               |               |
| Fair value reserve on January 1  | 1,105         | 2,719         |
| Divested or reached maturity during the year   | -797          | -1,575        |
| Impairment loss in the income statement  | 0             | 64            |
| Unrealised change in market value for remaining and new holdings                             | 1,429         | -102          |
| <b>Fair value reserve on December 31</b>   | <b>1,736</b>  | <b>1,105</b>  |
| Change in translation differences  |               |               |
| Translation differences on January 1   | 417           | 46            |
| Change in translation differences attributable to branches                                   | 1,103         | -356          |
| Change in translation differences due to subsidiaries  | 335           | -205          |
| Change in translation differences related to hedging of net investment in foreign operations | -2,259        | 949           |
| Other changes  | 38            | -17           |
| <b>Translation differences on December 31</b>  | <b>-366</b>   | <b>417</b>    |
| Change in own shares   |               |               |
| Own shares on January 1  | -57           | -215          |
| Share-based payment, incentive programme   | 57            | 158           |
| <b>Own shares on December 31</b>   | <b>0</b>      | <b>-57</b>    |
| Change in paid-up unrestricted equity capital fund   |               |               |
| Paid-up unrestricted equity capital fund on January 1  | 24,992        | 24,601        |
| Share-based payment, share savings programme   | 728           | 391           |
| Share-based payment, incentive programme   | 263           | 0             |
| <b>Paid-up unrestricted equity fund on December 31</b>                                       | <b>25,982</b> | <b>24,992</b> |
| Retained earnings  |               |               |
| Retained earnings on January 1   | 87,405        | 80,559        |
| Shareholders' portion of profit for the accounting period                                    | 19,687        | 24,303        |
| Dividend paid  | -9,160        | -5,766        |
| Re-measurement of defined benefit pension plans  | -3,236        | 1,332         |
| Share savings programmes   | 400           | 213           |
| Purchases from non-controlling interests <sup>1</sup>  | 0             | -13,236       |
| Övrigt   | -10           |               |
| <b>Retained earnings on December 31</b>  | <b>95,086</b> | <b>87,405</b> |

<sup>1</sup>Refers to the merger with Ålandsbanken Asset Management Ab

#### Items under "Equity capital"

"Share premium account" includes amounts that were paid at the time of new share issues for shares in addition to their nominal value before September 1, 2006.

"Reserve fund" includes components transferred from equity capital in compliance with the Articles of Association or a decision of a General Meeting.

"Hedging reserve" comprises the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred.

"Fair value reserve" includes the accumulated net change in the fair value of financial assets available for sale until the asset is de-recognised from the statement of financial position.

On December 31, 2016, there were no holdings of "Own shares". During the year, 5,394 Series B shares were transferred to key individuals to fulfil the Bank's obligations as part of its incentive programme.

"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.

|  | 2016          | 2015          |
|--|---------------|---------------|
| Specification of retained earnings   |               |               |
| Share of accumulated appropriations  | 68,852        | 54,151        |
| Difference between fair value of pension assets and pension liabilities in defined benefit plans | -3,236        | 1,332         |
| <b>Total non-distributable retained earnings</b>   | <b>65,616</b> | <b>55,483</b> |
| Distributable  | 29,470        | 31,922        |
| <b>Total retained earnings</b>   | <b>95,086</b> | <b>87,405</b> |

#### Equity options outstanding

On September 30, 2014, the Bank of Åland's Board of Directors decided – on the basis of the authorisation by the Annual General Meeting on April 10, 2014 – to carry out a targeted issue of 100,000 option rights to key individuals as one step in fulfilling the Bank's incentive programme. The subscription price for the options was EUR 1.16 per option. Each option right entitles the holder to subscribe for one Series B share at a subscription price of EUR 8.80. The subscription price will be lowered by the total sum of dividends paid during the period October 1, 2014 to December 29, 2017. The redemption date for the option rights is December 29, 2017.

## Other notes

### G37. Group structure

The Bank of Åland Plc has three subsidiaries that were essential to the Group in 2016 and 2015. 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.

| Subsidiary                        | Registered office | Field of operations                | Ownership, % |      |
|-----------------------------------|-------------------|------------------------------------|--------------|------|
|                                   |                   |                                    | 2016         | 2015 |
| Ålandsbanken Fondbolag Ab         | Finland/Mariehamn | Mutual fund management             | 100          | 100  |
| Crosskey Banking Solutions Ab Ltd | Finland/Mariehamn | Information technology             | 100          | 100  |
| S-Crosskey Ab                     | Finland/Mariehamn | Information technology             | 60           | 60   |
| Ab Compass Card Oy Ltd            | Finland/Mariehamn | Issuance of credit and debit cards | 100          | 100  |

#### Changes in Group structure

During 2015, the Bank of Åland Plc purchased the employees' holding in Ålandsbanken Asset Management Ab. This ownership holding amounted to 30 per cent. The company merged with the Bank of Åland Plc on June 1, 2015. As consideration for the merger, the Bank issued 762,912 Series B shares. In addition, it disbursed more than EUR 1.2 M in cash payment.

The Bank of Åland has no holdings of structured entities.

#### Shares in associated companies

The Group has one associated company that is essential to the Group, which have been consolidated according to the equity method of accounting. For further information on shares in associated companies, see Note G22.

#### Holdings in real estate companies

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

|                                  | Business identity code | Consolidation   | Ownership, % |       |
|----------------------------------|------------------------|-----------------|--------------|-------|
|                                  |                        |                 | 2016         | 2015  |
| Properties for own use           |                        |                 |              |       |
| Fastighets Ab Godbycenter        | 0200423-2              | Joint operation | 10.55        | 10.55 |
| Investment properties            |                        |                 |              |       |
| Fastighets Ab Nymars             | 0427316-1              | Joint operation | 30.03        | 30.03 |
| Fastighets Ab Västernäs City     | 0524820-8              | Joint operation | 50.00        | 50.00 |
| Fastighets Ab Sittkoffska Gården | 0145137-2              | Equity method   | 38.93        | 38.93 |
| Fastighets Ab Horsklint          | 0771072-6              | Equity method   | 20.06        | 20.06 |

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

| G38. Actively managed assets   | 2016             | 2015             |
|--|------------------|------------------|
| Mutual fund management   | 1,462,822        | 1,271,861        |
| Discretionary asset management   | 1,630,667        | 1,839,194        |
| Advisory asset management  | 806,046          | 762,086          |
| Other asset management   | 0                | 53,985           |
| <b>Total</b>   | <b>3,899,536</b> | <b>3,927,126</b> |
| <i>Of which own funds in discretionary and advisory asset management</i> | 410,602          | 373,393          |

| G39. Assets pledged                             | 2016             | 2015             |
|---|------------------|------------------|
| Collateral pledged for own liabilities          |                  |                  |
| Lending to credit institutions                  | 12,618           | 11,440           |
| Government securities and bonds                 | 138,686          | 96,909           |
| Lending to the public                           | 1,664,695        | 1,528,279        |
| Other   | 1,817            | 1,935            |
| <b>Total assets pledged for own liabilities</b> | <b>1,817,816</b> | <b>1,638,563</b> |

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   | 27,976         | 26,307        |
| Other                             | 123,477        | 975           |
| <b>Total other assets pledged</b> | <b>151,453</b> | <b>27,282</b> |

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

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

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

| G40. Contingent liabilities and commitments | 2016           | 2015           |
|---|----------------|----------------|
| Guarantees                                  | 12,131         | 20,393         |
| Unutilised overdraft limits                 | 85,411         | 76,362         |
| Unutilised credit card limits               | 67,034         | 119,768        |
| Unutilised credit facilities                | 200,473        | 222,790        |
| Other commitments                           | 49,974         | 7,985          |
| <b>Total</b>                                | <b>415,022</b> | <b>447,297</b> |

#### G41. Pension liabilities

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

The Employees' Pensions Act, which entered into force on January 1, 2017, raised the official retirement age. Ålandsbanken Abps Pensionsstiftelse has decided not to compensate for the increase in the retirement age with a supplementary pension.

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 17 years and in Sweden 26 years.

|  | 2016          | 2015          |
|--|---------------|---------------|
| Carrying amount in the income statement                                      |               |               |
| Current service costs  | 131           | 185           |
| Effects of curtailments and settlements                                      | 0             | 0             |
| Interest expenses  | 4             | 34            |
| Administrative expenses  | 162           | 82            |
| <b>Expenses (-)/revenue (+) recognised in the income statement</b>           | <b>297</b>    | <b>301</b>    |
| Restatement of defined benefit pension plans in "Other comprehensive income" |               |               |
| Actuarial gain (+)/loss (-), demographic assumptions                         | 0             | 250           |
| Actuarial gain (+)/loss (-), financial assumptions                           | -1,561        | 1,374         |
| Actuarial gain (+)/loss (-), experience-based                                | -2,542        | -1,192        |
| Actuarial gain (+)/loss (-) on plan assets                                   | 58            | 1,234         |
| <b>Other comprehensive income</b>  | <b>-4,045</b> | <b>1,665</b>  |
| <b>Total</b>   | <b>-4,342</b> | <b>1,364</b>  |
| Carrying amount in the balance sheet   |               |               |
| Pension obligations  | 26,618        | 22,859        |
| Fair value of plan assets  | 22,963        | 23,426        |
| <b>Net pension assets (+)/pension liabilities (-)</b>                        | <b>-3,655</b> | <b>567</b>    |
| Net pension assets (+)/pension liabilities (-) in Finland                    | -2,645        | 1,367         |
| Net pension assets (+)/pension liabilities (-) in Sweden                     | -1,010        | -800          |
|  | <b>-3,655</b> | <b>567</b>    |
| Net change in pension assets   |               |               |
| January 1  | 567           | -856          |
| Income   | -297          | -301          |
| Other comprehensive income   | -4,045        | 1,665         |
| Premium payments   | 73            | 80            |
| Exchange rate effects  | 48            | -21           |
| <b>On December 31</b>  | <b>-3,655</b> | <b>567</b>    |
| Pension obligations  |               |               |
| January 1  | 22,859        | 23,348        |
| Current service costs  | 131           | 185           |
| Interest expenses  | 513           | 490           |
| Benefits paid  | -834          | -812          |
| Exchange rate effect   | -140          | 79            |
| Actuarial gains (-)/losses (+)   | 4,087         | -430          |
| <b>Pension obligations on December 31</b>                                    | <b>26,618</b> | <b>22,859</b> |
| Plan assets  |               |               |
| January 1  | 23,426        | 22,492        |
| Interest income  | 509           | 456           |
| Premium payments   | 73            | 80            |
| Benefits paid  | -834          | -812          |
| Actuarial gains (-)/losses (+)   | 58            | 1,234         |
| Exchange rate effects  | -107          | 59            |
| Administrative expenses  | -162          | -82           |
| <b>Plan assets on December 31</b>  | <b>22,963</b> | <b>23,426</b> |
| Breakdown of plan assets   |               |               |
| Listed shares and participations   | 6,331         | 7,798         |
| Listed mutual fund units   | 3,510         | 2,632         |
| Listed interest-bearing securities   | 9,092         | 8,788         |
| Properties   | 2,294         | 2,293         |
| Other plan assets  | 1,736         | 1,916         |
| <b>Total plan assets</b>   | <b>22,963</b> | <b>23,426</b> |

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 18 K (20), bonds worth EUR 756 K (546) and bank accounts worth EUR 1,139 K (1,407).

|                   | Outcome, 2016 | Forecast, 2017 |
|-------------------|---------------|----------------|
| Future cash flows |               |                |
| Benefits paid     | 73            | 66             |

|                             | 2016       |           | 2015       |           |
|-----------------------------|------------|-----------|------------|-----------|
|                             | Finland, % | Sweden, % | Finland, % | Sweden, % |
| Assumptions                 |            |           |            |           |
| Discount rate               | 1.65       | 3.50      | 2.00       | 3.90      |
| Increase in salary expenses | 1.80       | 3.00      | 1.70       | 3.00      |
| Pension index increase      | 1.90       | 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  | 0.50                     | -2,345                 | 2,675                  |
| Expected increase in salaries  | 0.50                     | 262                    | -230                   |
| Expected increase in pensions  | 0.50                     | 2,323                  | -2,067                 |

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

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

#### ASSET VOLATILITY:

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

#### CHANGES IN BOND YIELDS:

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

#### INFLATION RISK:

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

#### LIFE EXPECTANCY:

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

| G42. Lease liabilities and rental obligations | 2016          | 2015          |
|---|---------------|---------------|
| Lease payments due                            |               |               |
| under 1 year                                  | 4,505         | 4,859         |
| 1–5 years                                     | 8,218         | 8,694         |
| over 5 years                                  | 1,423         | 603           |
| <b>Total</b>                                  | <b>14,147</b> | <b>14,156</b> |
| Finance leases, present value                 |               |               |
| under 1 year                                  | 869           | 790           |
| 1–5 years                                     | 2,097         | 368           |
| over 5 years                                  | 0             | 0             |
| <b>Total</b>                                  | <b>2,967</b>  | <b>1,158</b>  |
| Finance leases, minimum rents                 |               |               |
| under 1 year                                  | 951           | 833           |
| 1–5 years                                     | 2,228         | 375           |
| over 5 years                                  | 0             | 0             |
| <b>Total</b>                                  | <b>3,178</b>  | <b>1,208</b>  |
| Interest expenses                             | 212           | 50            |
| Machinery and equipment, recognised value     | 2,859         | 1,033         |

Operating leases consist of rental obligations. Rental obligations mainly include business premises with fixed-period agreements of up to ten years.

The rent level is generally tied to an index and is adjusted as specified in the lease.

The Group has financial leases on IT equipment. Certain leases include an option to buy the asset. When leases are renewed, new negotiations take place. The most essential leases are related to computers and servers. There are no variable fees or index clauses for these agreements. The agreements imply that the Group may redeem the machinery or continue to rent the machinery at a predetermined price when the actual rental period expires. The agreement also entitles the lessee to return the machinery. The financed amount of the largest agreement amounted to EUR 1,328 K excluding value-added tax.

| G43. Disclosures about related parties | 2016                     |                   |                      | 2015                     |                   |                      |
|--|--------------------------|-------------------|----------------------|--------------------------|-------------------|----------------------|
|  | Board and Executive Team | Related companies | Associated companies | Board and Executive Team | Related companies | Associated companies |
| Assets                                 |                          |                   |                      |                          |                   |                      |
| Lending to credit institutions         |                          |                   |                      |                          |                   |                      |
| Lending to the public                  | 2,738                    | 7,032             | 8,592                | 2,832                    | 7,084             | 3,566                |
| Other assets                           |                          | 19                |                      |                          | 0                 |                      |
| Accrued income and prepayments         |                          | 91                |                      |                          | 77                |                      |
| <b>Total</b>                           | <b>2,738</b>             | <b>7,142</b>      | <b>8,592</b>         | <b>2,832</b>             | <b>7,161</b>      | <b>3,566</b>         |
| Liabilities                            |                          |                   |                      |                          |                   |                      |
| Liabilities to credit institutions     |                          |                   |                      |                          |                   |                      |
| Liabilities to the public              | 1,059                    | 2,321             | 288                  | 1,192                    | 2,902             | 74                   |
| Debt securities issued                 |                          |                   |                      |                          |                   |                      |
| Subordinated liabilities               |                          | 750               |                      |                          | 540               |                      |
| Accrued expenses and prepaid income    |                          |                   |                      |                          |                   |                      |
| <b>Total</b>                           | <b>1,059</b>             | <b>3,071</b>      | <b>288</b>           | <b>1,192</b>             | <b>3,442</b>      | <b>74</b>            |
| Income and expenses                    |                          |                   |                      |                          |                   |                      |
| Interest income                        | 31                       | 158               | 216                  | 35                       | 160               | 102                  |
| Interest expenses                      | -1                       | -22               |                      | -1                       | -14               |                      |
| Commission income                      | 0                        | 101               | 7                    | 0                        | 80                | 6                    |
| Commission expenses                    |                          |                   |                      |                          |                   |                      |
| Other income                           |                          | 17                |                      |                          | 0                 |                      |
| Other expenses                         |                          | 1                 |                      |                          |                   |                      |
| <b>Total</b>                           | <b>31</b>                | <b>256</b>        | <b>223</b>           | <b>34</b>                | <b>227</b>        | <b>109</b>           |

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 0.60 (0.75) per cent on December 31, 2016.

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 P35.

| G44. Offsetting of financial assets and liabilities                        |                | 2016   |                | 2015   |  |
|--|----------------|--|----------------|--|--|
|  | Derivatives    | Repurchasing agreements plus lending and borrowing of securities | Derivatives    | Repurchasing agreements plus lending and borrowing of securities |  |
| Financial assets that are offset or covered by offsetting agreements       |                |  |                |  |  |
| Gross amount of financial assets   | 20,907         |  | 19,362         |  |  |
| Gross amount of financial liabilities offset in the balance sheet          |                |  |                |  |  |
| <b>Net amount of financial assets recognised in the balance sheet</b>      | <b>20,907</b>  | <b>0</b>   | <b>19,362</b>  | <b>0</b>   |  |
| Related amounts not offset in the balance sheet                            |                |  |                |  |  |
| Financial instruments that do not meet offsetting criteria                 | -17,698        |  | -11,054        |  |  |
| Financial collateral received  | -1,585         |  | -3,863         |  |  |
| <b>Total amounts not offset in the balance sheet</b>                       | <b>-19,283</b> | <b>0</b>   | <b>-14,917</b> | <b>0</b>   |  |
| <b>Net amount</b>  | <b>1,624</b>   | <b>0</b>   | <b>4,444</b>   | <b>0</b>   |  |
| Financial liabilities that are offset or covered by offsetting agreements  |                |  |                |  |  |
| Gross amount of financial liabilities                                      | 33,126         | 123,338  | 18,952         | 888  |  |
| Gross amount of financial assets offset in the balance sheet               |                |  |                |  |  |
| <b>Net amount of financial liabilities recognised in the balance sheet</b> | <b>33,126</b>  | <b>123,338</b>   | <b>18,952</b>  | <b>888</b>   |  |
| Related amounts not offset in the balance sheet                            |                |  |                |  |  |
| Financial instruments that do not meet offsetting criteria                 | -18,821        |  | -11,978        |  |  |
| Financial collateral pledged   | -2,950         | -123,338   | -335           | -888   |  |
| <b>Total amounts not offset in the balance sheet</b>                       | <b>-21,771</b> | <b>-123,338</b>  | <b>-12,313</b> | <b>-888</b>  |  |
| <b>Net amount</b>  | <b>11,355</b>  | <b>0</b>   | <b>6,639</b>   | <b>0</b>   |  |

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. The value of the collateral was limited to the related amount recognised in the balance sheet, so the excess value of collateral is not included. Amounts not offset in the balance sheet are presented as a reduction in the carrying amount of financial assets or liabilities in order to recognise the net exposure of the asset and liability.

#### G45. Important events after the close of the accounting period

Mikael Mörn was appointed as a new Executive Team member at the Bank of Åland because he assumed the position of Director of the Åland Business Area on February 1, 2017. Mörn has worked at the Bank of Åland for nearly 30 years and was previously responsible for its Private Banking operations in Åland. He replaced the Director of the Åland Business Area, Birgitta Dahlén, who resigned from the Executive Team at the Bank of Åland Plc due to her retirement.

Magnus Johansson was appointed as a new Executive Team member because he assumed the position of Director of the Sweden Business Area on January 16, 2017. Johansson has worked at the Bank of Åland since the Bank began its Swedish operations in 2009 and was previously responsible for its Private Banking operations in Sweden. He replaced the Director of the Sweden Business Area, Magnus Holm, who resigned from the Executive Team at the Bank of Åland Plc on January 16, 2017 because he stepped down as Director of the Sweden Business Area.

In February 2017, the Bank of Åland issued 28,198 shares for the fulfilment of the Bank's commitments as part of the Bank of Åland share savings programme for employees.

# Parent Company income statement

(EUR K)

| Parent Company  |          | Jan 1–Dec 31, 2016 | Jan 1–Dec 31, 2015 |
|---|----------|--------------------|--------------------|
|   | Note     |                    |                    |
| Interest income   |          | 66,662             | 71,861             |
| Interest expenses   |          | -13,477            | -19,900            |
| <b>Net interest income</b>  | P2       | <b>53,185</b>      | <b>51,961</b>      |
| Commission income   |          | 43,892             | 42,463             |
| Commission expenses   |          | -6,482             | -6,225             |
| <b>Net commission income</b>  | P3       | <b>37,409</b>      | <b>36,238</b>      |
| Net income from financial items carried at fair value                             | P5       | 4,783              | 8,539              |
| Income from equity capital investments  | P4       | 1,759              | 5,784              |
| Other income  | P6       | 2,205              | 2,165              |
| <b>Total income</b>   |          | <b>99,341</b>      | <b>104,687</b>     |
| Staff costs   | P7       | -38,200            | -36,930            |
| Other expenses  | P8       | -32,392            | -30,396            |
| Depreciation/amortisation and impairment losses on tangible and intangible assets | P18, P19 | -7,369             | -6,941             |
| <b>Total expenses</b>   |          | <b>-77,961</b>     | <b>-74,268</b>     |
| <b>Profit before impairment losses</b>  |          | <b>21,380</b>      | <b>30,419</b>      |
| Impairment losses on loans and other commitments                                  | P9       | -3,557             | -2,551             |
| <b>Net operating profit</b>   |          | <b>17,823</b>      | <b>27,868</b>      |
| Appropriations  |          | -18,400            | -17,800            |
| Income taxes  | P10      | -294               | -1,187             |
| <b>Net profit for the accounting period</b>                                       |          | <b>-871</b>        | <b>8,881</b>       |

# Parent Company balance sheet

(EUR K)

| Parent Company  |      | Dec 31, 2016     | Dec 31, 2015     |
|---|------|------------------|------------------|
|   | Note |                  |                  |
| <b>Assets</b>   |      |                  |                  |
| Cash and deposits with central banks                        |      | 513,018          | 199,461          |
| Debt securities eligible for refinancing with central banks | P13  | 503,590          | 632,675          |
| Lending to credit institutions                              | P14  | 201,152          | 44,754           |
| Lending to the public                                       | P15  | 3,800,253        | 3,590,177        |
| Shares and participations                                   | P16  | 522              | 957              |
| Shares and participations in associated companies           | P16  | 0                | 665              |
| Shares and participations in Group companies                | P16  | 11,837           | 11,837           |
| Derivative instruments                                      | P17  | 20,907           | 19,362           |
| Intangible assets   | P18  | 32,065           | 32,360           |
| Tangible assets   | P19  | 14,738           | 15,409           |
| Other assets  | P20  | 16,637           | 21,479           |
| Accrued income and prepayments                              | P21  | 20,150           | 21,389           |
| Deferred tax assets   | P22  | 391              | 164              |
| <b>Total assets</b>   |      | <b>5,135,259</b> | <b>4,590,688</b> |
| <b>Liabilities</b>  |      |                  |                  |
| Liabilities to credit institutions                          | P23  | 215,815          | 304,341          |
| Liabilities to the public                                   | P24  | 3,035,400        | 2,521,981        |
| Debt securities issued                                      | P25  | 1,451,616        | 1,411,417        |
| Derivative instruments                                      | P17  | 33,126           | 18,952           |
| Other liabilities   | P26  | 91,561           | 30,520           |
| Provisions  | P27  | 175              | 0                |
| Accrued expenses and prepaid income                         | P28  | 19,838           | 21,877           |
| Subordinated liabilities                                    | P29  | 39,357           | 42,679           |
| Deferred tax liabilities                                    | P22  | 444              | 276              |
| <b>Total liabilities</b>                                    |      | <b>4,887,332</b> | <b>4,352,044</b> |
| <b>Appropriations</b>                                       |      |                  |                  |
| General loan loss reserve <sup>1</sup>                      |      | 85,654           | 67,254           |
| <b>Total appropriations</b>                                 |      | <b>85,654</b>    | <b>67,254</b>    |
| <b>Equity capital</b>                                       |      |                  |                  |
| Share capital   |      | 41,674           | 41,501           |
| Share premium account                                       |      | 32,736           | 32,736           |
| Reserve fund  |      | 25,129           | 25,129           |
| Hedging reserve   |      | -178             | -357             |
| Fair value reserve  |      | 1,736            | 1,105            |
| Translation differences                                     |      | -1,085           | 22               |
| Unrestricted equity capital fund                            |      | 26,178           | 25,188           |
| Own shares  |      | 0                | -57              |
| Retained earnings   |      | 36,082           | 46,123           |
| <b>Total equity capital</b>                                 |      | <b>162,273</b>   | <b>171,391</b>   |
| <b>Total liabilities and equity capital</b>                 |      | <b>5,135,259</b> | <b>4,590,688</b> |
| <b>Off-balance sheet obligations</b>                        |      |                  |                  |
| Obligations to a third party on behalf of customers         | P37  |                  |                  |
| <i>Guarantees</i>   |      | 16,425           | 23,025           |
| Irrevocable commitments given on behalf of customers        |      | 298,857          | 312,729          |

<sup>1</sup>Loan loss provision in compliance with the Finnish Business Income Tax Act, Section 46.

# Parent Company statement of changes in equity capital

(EUR K)

| Parent Company  |               |                       |               |                 |                    |                        |                                  |             |                   |                |
|---|---------------|-----------------------|---------------|-----------------|--------------------|------------------------|----------------------------------|-------------|-------------------|----------------|
|   | Share capital | Share premium account | Reserve fund  | Hedging reserve | Fair value reserve | Translation difference | Unrestricted equity capital fund | Own shares  | Retained earnings | Total          |
| <b>Dec 31, 2014</b>                                   | <b>29,104</b> | <b>32,736</b>         | <b>25,129</b> | <b>-461</b>     | <b>2,718</b>       | <b>-568</b>            | <b>24,797</b>                    | <b>-215</b> | <b>43,008</b>     | <b>156,248</b> |
| Profit for the year                                   |               |                       |               |                 |                    |                        |                                  |             | 8,881             | 8,881          |
| Change in fair value                                  |               |                       |               | 104             | -1,614             |                        |                                  |             |                   | -1,510         |
| Translation differences                               |               |                       |               |                 |                    | 590                    |                                  |             |                   | 590            |
| Transfer of own shares                                |               |                       |               |                 |                    |                        |                                  | 159         |                   | 159            |
| Dividend paid   |               |                       |               |                 |                    |                        |                                  |             | -5,766            | -5,766         |
| Purchases from non-controlling interests <sup>1</sup> | 12,336        |                       |               |                 |                    |                        |                                  |             |                   | 12,336         |
| Share savings programme                               | 61            |                       |               |                 |                    |                        | 391                              |             |                   | 452            |
| <b>Dec 31, 2015</b>                                   | <b>41,501</b> | <b>32,736</b>         | <b>25,129</b> | <b>-357</b>     | <b>1,105</b>       | <b>22</b>              | <b>25,188</b>                    | <b>-57</b>  | <b>46,123</b>     | <b>171,391</b> |
| Profit for the year                                   |               |                       |               |                 |                    |                        |                                  |             | -871              | -871           |
| Change in fair value                                  |               |                       |               | 178             | 631                |                        |                                  |             |                   | 810            |
| Translation differences                               |               |                       |               |                 |                    | -1,107                 |                                  |             |                   | -1,107         |
| Dividend paid   |               |                       |               |                 |                    |                        |                                  |             | -9,160            | -9,160         |
| Incentive programme                                   | 41            |                       |               |                 |                    |                        | 263                              | 57          | -10               | 351            |
| Share savings programme                               | 132           |                       |               |                 |                    |                        | 728                              |             |                   | 860            |
| <b>Dec 31, 2016</b>                                   | <b>41,674</b> | <b>32,736</b>         | <b>25,129</b> | <b>-178</b>     | <b>1,736</b>       | <b>-1,085</b>          | <b>26,178</b>                    | <b>0</b>    | <b>36,082</b>     | <b>162,273</b> |

<sup>1</sup>Refers to the merger between the Bank of Åland Plc and Ålandsbanken Asset Management Ab.  
See also the section entitled "Facts on Bank of Åland shares".

# Parent Company cash flow statement

(EUR K)

| Parent Company   | Jan 1–Dec 31, 2016 | Jan 1–Dec 31, 2015 |
|--|--------------------|--------------------|
| Cash flow from operating activities  |                    |                    |
| Net operating profit   | 17,823             | 27,868             |
| Adjustment for net operating profit items not affecting cash flow                        |                    |                    |
| <i>Depreciation/amortisation and impairment losses on intangible and tangible assets</i> | 7,369              | 6,941              |
| <i>Impairment losses on loans and other commitments</i>                                  | 3,420              | 2,482              |
| <i>Unrealised changes in value</i>   | 600                | -662               |
| <i>Accrued surpluses/deficits on debt securities and bonds issued</i>                    | 6,640              | 7,509              |
| Income from investing activities   | 515                | -37                |
| Dividends from associated companies and subsidiaries                                     | -1,750             | -5,776             |
| Income taxes paid  | -1,019             | -4                 |
| Increase (-) or decrease (+) in receivables from operating activities                    |                    |                    |
| <i>Debt securities eligible for refinancing with central banks</i>                       | 124,393            | -20,671            |
| <i>Lending to credit institutions</i>  | -127,019           | -7,292             |
| <i>Lending to the public and public sector entities</i>                                  | -254,008           | -255,810           |
| <i>Other assets</i>  | 1,982              | 3,202              |
| Increase (-) or decrease (+) in liabilities from operating activities                    |                    |                    |
| <i>Liabilities to credit institutions</i>  | -72,625            | -89,151            |
| <i>Liabilities to the public and public sector entities</i>                              | 538,778            | 306,699            |
| <i>Debt securities issued</i>  | -118,934           | -79,294            |
| <i>Other liabilities</i>   | 69,954             | -21,680            |
| <b>Total cash flow from operating activities</b>   | <b>196,118</b>     | <b>-125,676</b>    |
| Cash flow from investing activities  |                    |                    |
| Investment in shares and participations  | 0                  | 4                  |
| Divestment of shares and participations  | 375                | 1,627              |
| Investment in shares in associated companies and subsidiaries                            | 0                  | -1,297             |
| Divestment of shares in associated companies and subsidiaries                            | -1,326             | 0                  |
| Dividends received from associated companies and subsidiaries                            | 1,750              | 5,776              |
| Investment in tangible assets  | -526               | -289               |
| Divestment of tangible assets  | 94                 | 106                |
| Investment in intangible assets  | -6,045             | -4,821             |
| <b>Total cash flow from investing activities</b>   | <b>-5,677</b>      | <b>1,106</b>       |
| Cash flow from financing activities  |                    |                    |
| Issue, share savings programme/option rights   | 1,164              | 452                |
| Increase in long-term borrowings from banks  | -81,615            | 94,173             |
| Decrease in long-term borrowings from banks  | 0                  | -97,847            |
| Increase in covered bonds issued   | 248,395            | 252,371            |
| Decrease in covered bonds issued   | 0                  | -91,500            |
| Increase in subordinated debentures  | 6,173              | 8,543              |
| Decrease in subordinated debentures  | -9,387             | -15,585            |
| Dividend paid  | -9,160             | -5,766             |
| <b>Total cash flow from financial activities</b>   | <b>155,569</b>     | <b>144,841</b>     |
| Cash and cash equivalents at beginning of year   | 232,728            | 211,579            |
| Cash flow from operating activities  | 196,118            | -125,676           |
| Cash flow from investing activities  | -5,677             | 1,106              |
| Cash flow from financing activities  | 155,569            | 144,841            |
| Exchange rate differences in cash and cash equivalents                                   | -2,191             | 877                |
| <b>Cash and cash equivalents at end of year</b>  | <b>576,546</b>     | <b>232,728</b>     |
| Cash and cash equivalents consisted of the following items:                              |                    |                    |
| Cash and deposits with central banks   | 513,018            | 6,195              |
| Claims repayable on demand from credit institutions                                      | 63,528             | 33,267             |
| <b>Total</b>   | <b>576,546</b>     | <b>232,728</b>     |

"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 68,872 K (74,032), interest paid of EUR 14,256 K (22,447) and dividend income received of EUR 9 K (7).



# Table of contents, notes to the Parent Company financial statements

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

|  |     |
|--|-----|
| P1. Parent Company accounting principles ..... | 134 |
|--|-----|

## NOTES TO THE INCOME STATEMENT

|  |     |
|--|-----|
| P2. Net interest income .....                                  | 135 |
| P3. Net commission income .....                                | 135 |
| P4. Income from equity capital instruments .....               | 136 |
| P5. Net income from financial items carried at fair value .... | 136 |
| P6. Other income .....   | 136 |
| P7. Staff costs .....  | 137 |
| P8. Other expenses .....                                       | 137 |
| P9. Impairment losses on loans and other commitments ...       | 138 |
| P10. Income taxes .....  | 138 |

## NOTES TO THE BALANCE SHEET

|   |     |
|---|-----|
| P11. Fair values and carrying amounts of financial assets and liabilities and fair value levels ..... | 139 |
| P12. Assets and liabilities by currency .....   | 140 |
| P13. Holdings of debt securities .....  | 141 |
| P14. Lending to credit institutions .....   | 141 |
| P15. Lending to the public .....  | 141 |
| P16. Shares and participations .....  | 141 |
| P17. Derivative instruments .....   | 142 |
| P18. Intangible assets .....  | 142 |
| P19. Tangible assets .....  | 143 |
| P20. Other assets .....   | 144 |
| P21. Accrued income and prepayments .....   | 144 |
| P22. Deferred tax assets and liabilities .....  | 144 |
| P23. Liabilities to credit institutions .....   | 145 |
| P24. Liabilities to the public .....  | 145 |
| P25. Debt securities issued .....   | 145 |
| P26. Other liabilities .....  | 145 |
| P27. Provisions .....   | 145 |
| P28. Accrued expenses and prepaid income .....  | 146 |
| P29. Subordinated liabilities .....   | 146 |
| P30. Maturity breakdown of financial assets and liabilities ...                                       | 147 |
| P31. Claims on Group companies .....  | 149 |
| P32. Liabilities to Group companies .....   | 149 |

## NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

|  |     |
|--|-----|
| P33. Salaries/fees paid to the Board of Directors and Executive Team .....                             | 149 |
| P34. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc ..... | 149 |
| P35. Financial transactions with related parties .....   | 149 |

## NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

|  |     |
|--|-----|
| P36. Assets pledged .....                | 149 |
| P37. Off-balance sheet commitments ..... | 150 |
| P38. Rental obligations .....            | 150 |

## OTHER NOTES

|  |     |
|--|-----|
| P39. Subsidiaries and associated companies ..... | 150 |
|--|-----|

# Notes to the Parent Company financial statements

(EUR K)

## P1. Parent Company accounting principles

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

### Goodwill

Goodwill is amortised over 10 years.

Otherwise, please see the consolidated accounting principles.

## Notes to the income statement

| P2. Net interest income  | 2016           | 2015          |
|--|----------------|---------------|
| Lending to credit institutions<br><i>of which negative interest</i> <sup>1</sup>     | 564<br>269     | 99            |
| Lending to the public<br><i>of which negative interest</i> <sup>1</sup>              | 64,249<br>3    | 68,519        |
| Debt securities  | 1,367          | 2,859         |
| Derivative instruments   | 470            | 369           |
| Other interest income  | 13             | 16            |
| <b>Total interest income</b>   | <b>66,662</b>  | <b>71,861</b> |
| Liabilities to credit institutions<br><i>of which negative interest</i> <sup>1</sup> | 1,787<br>1,488 | 1,035<br>301  |
| Liabilities to the public<br><i>of which negative interest</i> <sup>1</sup>          | 5,258<br>41    | 7,826<br>19   |
| Debt securities issued   | 4,595          | 9,357         |
| Subordinated liabilities   | 1,005          | 1,002         |
| Derivative instruments   | 831            | 677           |
| Other interest expenses  | 0              | 3             |
| <b>Total interest expenses</b>   | <b>13,477</b>  | <b>19,900</b> |
| <b>Net interest income</b>   | <b>53,185</b>  | <b>51,961</b> |

Interest income received from Group companies was EUR 206 K (269).

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.

<sup>1</sup>Negative interest income from deposits with credit institutions and central banks are recognised as interest expenses, while negative interest received for liabilities is recognised as interest income.

| P3. Net commission income                  | 2016          | 2015          |
|--|---------------|---------------|
| Deposits                                   | 816           | 812           |
| Lending                                    | 3,988         | 3,982         |
| Payment intermediation                     | 3,950         | 3,930         |
| Mutual fund commissions                    | 12,013        | 11,066        |
| Asset management commissions               | 9,928         | 8,962         |
| Securities brokerage                       | 10,171        | 10,782        |
| Insurance commissions                      | 127           | 175           |
| Legal services                             | 766           | 751           |
| Guarantee commissions                      | 268           | 319           |
| Other commissions                          | 1,865         | 1,685         |
| <b>Total commission income</b>             | <b>43,892</b> | <b>42,463</b> |
| Payment intermediation commission expenses | 1,999         | 1,934         |
| Mutual fund commission expenses            | 24            | 82            |
| Asset management commission expenses       | 1,605         | 1,043         |
| Securities brokerage commission expenses   | 1,893         | 2,107         |
| Other commission expenses                  | 962           | 1,058         |
| <b>Total commission expenses</b>           | <b>6,482</b>  | <b>6,225</b>  |
| <b>Net commission income</b>               | <b>37,409</b> | <b>36,238</b> |

| P4. Income from equity capital instruments | 2016 |              | 2015 |              |
|--|------|--------------|------|--------------|
| Financial assets available for sale        |      | 9            |      | 7            |
| Group companies                            |      | 1,750        |      | 5,776        |
| <b>Total</b>                               |      | <b>1,759</b> |      | <b>5,784</b> |

| P5. Net income from financial items carried at fair value                         | 2016         |             |              | 2015         |             |              |
|---|--------------|-------------|--------------|--------------|-------------|--------------|
|   | Realised     | Unrealised  | Total        | Realised     | Unrealised  | Total        |
| Valuation category fair value via the income statement ("profit and loss")        |              |             |              |              |             |              |
| Debt securities   | 0            | -258        | -258         | 0            | -123        | -123         |
| Shares and participations   | 2            | -8          | -6           | 163          | 3           | 166          |
| Derivative instruments  | -51          | 11          | -41          | 454          | -251        | 203          |
| Loan receivables  | 0            | 819         | 819          | 0            | 1,182       | 1,182        |
| <b>Valuation category fair value via the income statement ("profit and loss")</b> | <b>-49</b>   | <b>565</b>  | <b>515</b>   | <b>617</b>   | <b>811</b>  | <b>1,428</b> |
| Hedge accounting  |              |             |              |              |             |              |
| of which hedging instruments  | 79           | -931        | -852         | 0            | -633        | -633         |
| of which hedged item  | 515          | 211         | 726          | 0            | 671         | 671          |
| <b>Hedge accounting</b>   | <b>594</b>   | <b>-720</b> | <b>-126</b>  | <b>0</b>     | <b>38</b>   | <b>38</b>    |
| <b>Net income from foreign exchange dealing</b>                                   | <b>2,836</b> | <b>-140</b> | <b>2,696</b> | <b>3,721</b> | <b>-107</b> | <b>3,615</b> |
| <b>Net income from financial assets available for sale</b>                        | <b>2,003</b> | <b>-306</b> | <b>1,697</b> | <b>3,538</b> | <b>-80</b>  | <b>3,458</b> |
| <b>Total</b>  | <b>5,383</b> | <b>-600</b> | <b>4,783</b> | <b>7,876</b> | <b>662</b>  | <b>8,539</b> |

| P6. Other income                      | 2016 |              | 2015 |              |
|---------------------------------------|------|--------------|------|--------------|
| Rental income on properties           |      | 96           |      | 115          |
| Miscellaneous income                  |      | 2,148        |      | 2,051        |
| <b>Total</b>                          |      | <b>2,244</b> |      | <b>2,165</b> |
| Net income from investment properties |      |              |      |              |
| Rental income                         |      | 1            |      | 11           |
| Capital gains                         |      | 1            |      | 7            |
| Capital losses                        |      | 0            |      | -8           |
| Impairment losses                     |      | 0            |      | -65          |
| Other expenses                        |      | -41          |      | -27          |
| <b>Total</b>                          |      | <b>-39</b>   |      | <b>-81</b>   |

| P7. Staff costs   | 2016          | 2015          |
|---|---------------|---------------|
| Salaries and fees                                       | 28,527        | 27,147        |
| Compensation in the form of shares in Bank of Åland Plc | 111           | 574           |
| Pension expenses  | 5,037         | 4,915         |
| Other social security expenses                          | 4,526         | 4,294         |
| <b>Total</b>  | <b>38,200</b> | <b>36,930</b> |
| Number of employees                                     |               |               |
| Permanent full-time employees                           | 416           | 410           |
| Permanent part-time employees                           | 86            | 85            |
| <b>Total</b>  | <b>502</b>    | <b>495</b>    |

| P8. Other expenses                           | 2016          | 2015          |
|--|---------------|---------------|
| IT expenses (excluding information services) | 14,437        | 13,176        |
| Premises and property expenses               | 4,178         | 3,878         |
| Marketing expenses                           | 2,651         | 2,751         |
| Informational services                       | 2,346         | 2,201         |
| Staff-related expenses                       | 1,450         | 1,499         |
| Travel expenses                              | 819           | 775           |
| Purchased services                           | 1,837         | 2,107         |
| Deposit guarantee fees                       | 21            | 12            |
| Other expenses                               | 5,376         | 4,263         |
| Production for own use                       | -723          | -265          |
| <b>Total</b>                                 | <b>32,392</b> | <b>30,396</b> |
| Fees to the Financial Stability Authority    |               |               |
| Deposit guarantee fee                        | 1,381         | 1,081         |
| Paid by old deposit guarantee fund           | -1,381        | -1,081        |
| Stability fee                                | 1,040         | 580           |
| Refund of banking taxes paid in prior years  | -1,040        | -580          |
| Administration fee                           | 0             | 22            |
| <b>Total</b>                                 | <b>0</b>      | <b>22</b>     |

Based on the 2016 fee level, the Bank has prepaid deposit guarantee fees for about 9 years and stability fees for about 2 years.

|   | Auditors elected by General Meeting |          | Auditors elected by General Meeting |          |
|---|-------------------------------------|----------|-------------------------------------|----------|
|   |                                     | Others   |                                     | Others   |
| Fees paid to auditors   |                                     |          |                                     |          |
| Auditing fees paid  | 199                                 | 0        | 200                                 | 0        |
| Consulting fees paid  |                                     |          |                                     |          |
| <i>In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2</i> | 15                                  | 0        | 41                                  | 0        |
| <i>Tax matters</i>  | 26                                  | 0        | 43                                  | 0        |
| <i>Other</i>  | 22                                  | 0        | 117                                 | 0        |
| <b>Total</b>  | <b>263</b>                          | <b>0</b> | <b>401</b>                          | <b>0</b> |

These amounts include value-added tax (VAT).

| P9. Impairment losses on loans and other commitments         |               |   |   |               |   |   |       |
|--|---------------|---|---|---------------|---|---|-------|
|  | 2016          |   |   | 2015          |   |   |       |
| Individual impairment losses                                 |               |   |   |               |   |   |       |
| New and increased impairment losses                          |               |   | 3,921                                     |               |   | 3,706                                     |       |
| Reversals of provisions made earlier                         |               |   | -968                                      |               |   | -803                                      |       |
| Withdrawn for actual losses                                  |               |   | -2,801                                    |               |   | -6,578                                    |       |
| Actual losses  |               |   | 3,470                                     |               |   | 6,803                                     |       |
| Recoveries of actual losses                                  |               |   | -438                                      |               |   | -69                                       |       |
| <b>Total</b>   |               |   | <b>3,184</b>                              |               |   | <b>3,059</b>                              |       |
| Group impairment losses                                      |               |   |   |               |   |   |       |
| Net provisions for the period, receivables measured by group |               |   | 418                                       |               |   | -508                                      |       |
| <b>Total</b>   |               |   | <b>418</b>                                |               |   | <b>-508</b>                               |       |
| Other provisions   |               |   |   |               |   |   |       |
| Net provisions for the period, interest receivables          |               |   | -45                                       |               |   | 0   |       |
| <b>Total</b>   |               |   | <b>-45</b>                                |               |   | <b>0</b>                                  |       |
| <b>Total</b>   |               |   | <b>3,557</b>                              |               |   | <b>2,551</b>                              |       |
| Doubtful receivables   |               |   |   |               |   |   |       |
| Gross doubtful receivables                                   |               |   | 21,701                                    |               |   | 31,394                                    |       |
| Individual impairment losses                                 |               |   | 10,763                                    |               |   | 10,610                                    |       |
| Net doubtful receivables                                     |               |   | 10,938                                    |               |   | 20,783                                    |       |
| Gross doubtful receivables as % of total                     |               |   | 0.57                                      |               |   | 0.87                                      |       |
| Level of individual provisions for doubtful receivables, %   |               |   | 50  |               |   | 34  |       |
|  |               | Reserve for individually assessed receivables | Reserve for receivables assessed by group | Total         | Reserve for individually assessed receivables | Reserve for receivables assessed by group | Total |
| Change in reserve for probable loan losses                   |               |   |   |               |   |   |       |
| Reserve on January 1   | 10,610        | 451   | 11,061                                    | 14,285        | 959   | 15,244                                    |       |
| Provisions for the year                                      | 3,921         | 418   | 4,339                                     | 3,706         |   | 3,706                                     |       |
| Recovered from earlier provisions                            | -968          |   | -968                                      | -803          | -508  | -1,311                                    |       |
| Withdrawn for actual losses                                  | -2,801        |   | -2,801                                    | -6,578        |   | -6,578                                    |       |
| Exchange rate effect   | 0             |   | 0   | 0             |   | 0   |       |
| <b>Reserve on December 31</b>                                | <b>10,763</b> | <b>869</b>                                    | <b>11,632</b>                             | <b>10,610</b> | <b>451</b>                                    | <b>11,061</b>                             |       |

Interest received for impaired receivables amounted to EUR 135 K (203) during 2016.

| P10. Income taxes                         |      |  |            |      |  |              |
|---|------|--|------------|------|--|--------------|
|   | 2016 |  |            | 2015 |  |              |
| Income statement                          |      |  |            |      |  |              |
| Taxes related to prior years              |      |  | 2          |      |  | 4            |
| Current taxes                             |      |  | 363        |      |  | 1,146        |
| Change in deferred taxes                  |      |  | -71        |      |  | 37           |
| <b>Total</b>                              |      |  | <b>294</b> |      |  | <b>1,187</b> |
| Nominal tax rate in Finland, %            |      |  | 20.0       |      |  | 20.0         |
| Non-taxable income/deductible expenses, % |      |  | -72.3      |      |  | -8.2         |
| Taxes related to prior years, %           |      |  | 0.7        |      |  | 0.0          |
| Other, %                                  |      |  | 0.7        |      |  | 0.0          |
| Effective tax rate, %                     |      |  | -50.9      |      |  | 11.8         |
| Other comprehensive income                |      |  |            |      |  |              |
| Current taxes                             |      |  | 45         |      |  | 26           |
| Change in deferred taxes                  |      |  | 158        |      |  | -403         |
| <b>Total</b>                              |      |  | <b>202</b> |      |  | <b>-377</b>  |

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014.

Notes to the balance sheet

| P11. Fair values and carrying amounts of financial assets and liabilities and fair value levels |                       |                  |                       |                  |
|---|-----------------------|------------------|-----------------------|------------------|
|   | 2016                  |                  | 2015                  |                  |
|   | Total carrying amount | Fair value       | Total carrying amount | Fair value       |
| Cash  | 513,018               | 513,018          | 199,461               | 199,461          |
| Debt securities eligible for refinancing with central banks                                     | 503,590               | 503,788          | 632,675               | 632,788          |
| Lending to credit institutions  | 201,152               | 201,152          | 44,754                | 44,754           |
| Lending to the public   | 3,800,253             | 3,825,489        | 3,590,177             | 3,622,668        |
| Shares and participations   | 522                   | 522              | 957                   | 957              |
| Shares and participations in associated companies   | 0                     | 0                | 665                   | 665              |
| Shares in subsidiaries  | 11,837                | 11,837           | 11,837                | 11,837           |
| Derivative instruments  | 20,907                | 20,907           | 19,362                | 19,362           |
| <b>Total financial assets</b>   | <b>5,051,278</b>      | <b>5,076,713</b> | <b>4,499,887</b>      | <b>4,532,490</b> |
| Liabilities to credit institutions  | 215,815               | 216,222          | 304,341               | 304,452          |
| Liabilities to the public   | 3,035,400             | 3,036,157        | 2,521,981             | 2,522,451        |
| Debt securities issued  | 1,451,616             | 1,453,934        | 1,411,417             | 1,422,559        |
| Derivative instruments  | 33,126                | 33,126           | 18,952                | 18,952           |
| Subordinated liabilities  | 39,357                | 42,208           | 42,679                | 46,137           |
| <b>Total financial liabilities</b>  | <b>4,775,314</b>      | <b>4,781,647</b> | <b>4,299,370</b>      | <b>4,314,551</b> |

|  | 2016           |                |            |                |
|--|----------------|----------------|------------|----------------|
|  | Level 1        | Level 2        | Level 3    | Total          |
| Financial instruments carried at fair value in the balance sheet   |                |                |            |                |
| Assets   |                |                |            |                |
| <i>Debt securities eligible for refinancing with central banks</i> | 414,176        |                |            | 414,176        |
| <i>Lending to the public</i>                                       |                | 18,525         |            | 18,525         |
| <i>Shares and participations</i>                                   | 32             | 4              | 486        | 522            |
| <i>Derivative instruments</i>                                      | 0              | 20,907         |            | 20,907         |
| <b>Total financial assets at accrued cost</b>                      | <b>414,208</b> | <b>39,436</b>  | <b>486</b> | <b>454,130</b> |
| Liabilities  |                |                |            |                |
| <i>Debt securities issued</i>                                      |                | 711,729        |            | 711,729        |
| <i>Derivative instruments</i>                                      | 16             | 33,110         |            | 33,126         |
| <i>Subordinated liabilities</i>                                    |                | 13,454         |            | 13,454         |
| <b>Total financial liabilities at accrued cost</b>                 | <b>16</b>      | <b>758,292</b> | <b>0</b>   | <b>758,309</b> |

|  | 2015           |                |            |                |
|--|----------------|----------------|------------|----------------|
|  | Level 1        | Level 2        | Level 3    | Total          |
| Financial instruments carried at fair value in the balance sheet   |                |                |            |                |
| Assets   |                |                |            |                |
| <i>Debt securities eligible for refinancing with central banks</i> | 592,268        |                |            | 592,268        |
| <i>Lending to the public</i>                                       |                | 12,271         |            | 12,271         |
| <i>Shares and participations</i>                                   | 11             | 4              | 942        | 957            |
| <i>Derivative instruments</i>                                      |                | 19,362         |            | 19,362         |
| <b>Total</b>   | <b>592,279</b> | <b>31,636</b>  | <b>942</b> | <b>624,857</b> |
| Liabilities  |                |                |            |                |
| <i>Debt securities issued</i>                                      |                | 457,520        |            | 457,520        |
| <i>Derivative instruments</i>                                      | 6              | 18,946         |            | 18,952         |
| <i>Subordinated liabilities</i>                                    |                | 19,124         |            | 19,124         |
| <b>Total</b>   | <b>6</b>       | <b>495,590</b> | <b>0</b>   | <b>495,596</b> |

**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.

|  | 2016                      | 2015                      |
|--|---------------------------|---------------------------|
|  | Shares and participations | Shares and participations |
| Change in Level 3 holdings                               |                           |                           |
| Carrying amount on January 1                             | 942                       | 534                       |
| New purchases  | 593                       | 0                         |
| Divested/reached maturity during the year                | -396                      | 0                         |
| Realised change in value in the income statement         | 4                         | 0                         |
| Unrealised change in value in the income statement       | -593                      | -80                       |
| Change in value recognised in other comprehensive income | -65                       | 488                       |
| <b>Carrying amount on December 31</b>                    | <b>486</b>                | <b>942</b>                |

No transfer occurred between Level 1 and Level 2.

| P12. Assets and liabilities by currency   | 2016             |                  |               |               |                  |
|---|------------------|------------------|---------------|---------------|------------------|
|   | EUR              | SEK              | USD           | Others        | Total            |
| Cash and deposits with central banks  | 469,786          | 42,774           | 110           | 347           | 513,018          |
| Debt securities eligible for refinancing with central banks                           | 331,830          | 171,759          | 0             | 0             | 503,590          |
| Lending to credit institutions  | 25,905           | 144,777          | 16,863        | 13,607        | 201,152          |
| Lending to the public   | 2,581,120        | 1,189,172        | 29,960        | 0             | 3,800,253        |
| Derivative instruments  | 19,455           | 1,443            | 0             | 9             | 20,907           |
| Other items not allocated by currency   | 96,339           |                  |               |               | 96,339           |
| <b>Total assets</b>   | <b>3,524,436</b> | <b>1,549,926</b> | <b>46,934</b> | <b>13,963</b> | <b>5,135,259</b> |
| Liabilities to credit institutions  | 151,325          | 64,029           | 458           | 3             | 215,815          |
| Liabilities to the public   | 2,055,896        | 877,870          | 81,457        | 20,177        | 3,035,400        |
| Debt securities issued  | 885,616          | 566,000          | 0             | 0             | 1,451,616        |
| Derivative instruments  | 10,007           | 23,109           | 0             | 10            | 33,126           |
| Subordinated liabilities  | 39,357           | 0                | 0             | 0             | 39,357           |
| Other items not allocated by currency, including equity capital                       | 359,945          |                  |               |               | 359,945          |
| <b>Total liabilities and equity capital</b>   | <b>3,502,146</b> | <b>1,531,007</b> | <b>81,916</b> | <b>20,190</b> | <b>5,135,259</b> |
| Other assets and liabilities allocated by currency as well as off-balance sheet items |                  | 18,911           | -35,019       | -6,115        |                  |
| Net position in currencies (EUR)  |                  | 8                | 37            | -111          | -66              |

|   | 2015             |                  |               |               |                  |
|---|------------------|------------------|---------------|---------------|------------------|
|   | EUR              | SEK              | USD           | Others        | Total            |
| Cash and deposits with central banks  | 162,674          | 36,343           | 91            | 352           | 199,461          |
| Debt securities eligible for refinancing with central banks                           | 494,194          | 138,481          | 0             | 0             | 632,675          |
| Lending to credit institutions  | 16,483           | 8,260            | 11,499        | 8,512         | 44,754           |
| Lending to the public   | 2,469,431        | 1,090,084        | 30,661        | 0             | 3,590,177        |
| Derivative instruments  | 17,482           | 1,776            | 68            | 35            | 19,362           |
| Other items not allocated by currency   | 104,261          |                  |               |               | 104,261          |
| <b>Total assets</b>   | <b>3,264,525</b> | <b>1,274,945</b> | <b>42,319</b> | <b>8,900</b>  | <b>4,590,688</b> |
| Liabilities to credit institutions  | 177,739          | 126,536          | 61            | 6             | 304,341          |
| Liabilities to the public   | 1,723,834        | 695,720          | 88,633        | 13,795        | 2,521,981        |
| Debt securities issued  | 721,156          | 690,260          | 0             | 0             | 1,411,417        |
| Derivative instruments  | 7,117            | 11,826           | 0             | 9             | 18,952           |
| Subordinated liabilities  | 42,679           | 0                | 0             | 0             | 42,679           |
| Other items not allocated by currency, including equity capital                       | 291,319          |                  |               |               | 291,319          |
| <b>Total liabilities and equity capital</b>   | <b>2,963,843</b> | <b>1,524,342</b> | <b>88,693</b> | <b>13,810</b> | <b>4,590,688</b> |
| Other assets and liabilities allocated by currency as well as off-balance sheet items |                  | -249,393         | -46,377       | -4,690        |                  |
| Net position in currencies (EUR)  |                  | -4               | 2             | -220          | -222             |

| P13. Holdings of debt securities                            | 2016           |                 | 2015           |                 |
|---|----------------|-----------------|----------------|-----------------|
|   | Nominal amount | Carrying amount | Nominal amount | Carrying amount |
| Debt securities eligible for refinancing with central banks |                |                 |                |                 |
| Assets held for trading                                     |                |                 |                |                 |
| <i>Debt securities issued by credit institutions</i>        | 32,900         | 33,355          | 42,900         | 44,603          |
| Holdings available for sale                                 |                |                 |                |                 |
| <i>Government bonds</i>                                     | 33,770         | 34,526          | 60,964         | 66,427          |
| <i>Covered mortgage bonds</i>                               | 269,153        | 273,511         | 285,100        | 291,688         |
| <i>Debt securities issued by credit institutions</i>        | 66,914         | 67,701          | 154,793        | 156,081         |
| <i>Other debt securities</i>                                | 5,000          | 5,082           | 32,800         | 33,468          |
| Assets held until maturity                                  |                |                 |                |                 |
| <i>Government bonds</i>                                     | 5,758          | 6,831           |                |                 |
| <i>Covered mortgage bonds</i>                               | 56,403         | 57,896          | 38,935         | 40,407          |
| <i>Debt securities issued by credit institutions</i>        | 19,828         | 20,637          |                |                 |
| <i>Other debt securities</i>                                | 4,000          | 4,050           |                |                 |
| <b>Other debt securities</b>                                | <b>493,726</b> | <b>503,590</b>  | <b>615,492</b> | <b>632,675</b>  |

| P14. Lending to credit institutions   | 2016                |                |                | 2015                |           |               |
|---------------------------------------|---------------------|----------------|----------------|---------------------|-----------|---------------|
|                                       | Repayable on demand | Other          | Total          | Repayable on demand | Other     | Total         |
| Finnish credit institutions           | 2,284               | 0              | 2,284          | 10,469              | 0         | 10,469        |
| Foreign banks and credit institutions | 76,370              | 122,498        | 198,868        | 34,248              | 37        | 34,285        |
| <b>Total</b>                          | <b>78,654</b>       | <b>122,498</b> | <b>201,152</b> | <b>44,717</b>       | <b>37</b> | <b>44,754</b> |

| P15. Lending to the public               | 2016             |                       |                  | 2015             |                       |                  |
|--|------------------|-----------------------|------------------|------------------|-----------------------|------------------|
|  | Amortised cost   | Carried at fair value | Total            | Amortised cost   | Carried at fair value | Total            |
| Companies                                | 579,817          |                       | 579,817          | 573,910          |                       | 573,910          |
| Public sector entities                   | 2,292            |                       | 2,292            | 2,839            |                       | 2,839            |
| Households                               | 1,867,524        | 18,525                | 1,886,049        | 1,773,433        | 12,271                | 1,785,703        |
| Household interest organisations         | 12,521           |                       | 12,521           | 12,074           |                       | 12,074           |
| Outside Finland                          | 1,319,574        |                       | 1,319,574        | 1,215,650        |                       | 1,215,650        |
| <b>Total</b>                             | <b>3,781,728</b> | <b>18,525</b>         | <b>3,800,253</b> | <b>3,577,906</b> | <b>12,271</b>         | <b>3,590,177</b> |
| <i>of which subordinated receivables</i> |                  |                       | 2,367            |                  |                       | 2,367            |

| P16. Shares and participations                    | 2016 |               | 2015 |               |
|---|------|---------------|------|---------------|
|   |      |               |      |               |
| Holdings classified as available for sale         |      |               |      |               |
| Listed  |      | 32            |      | 15            |
| Unlisted  |      | 490           |      | 942           |
| <b>Total</b>                                      |      | <b>522</b>    |      | <b>957</b>    |
| Shares and participations in associated companies |      | 0             |      | 665           |
| Shares and participations in Group companies      |      | 11,837        |      | 11,837        |
| <b>Total shares and participations</b>            |      | <b>12,358</b> |      | <b>13,458</b> |

| P17. Derivative instruments                                     |                         |                |                | 2016             |                        |                        | 2015             |                        |                        |
|---|-------------------------|----------------|----------------|------------------|------------------------|------------------------|------------------|------------------------|------------------------|
|   | Nominal amount/maturity |                |                | Nominal amount   | Positive market values | Negative market values | Nominal amount   | Positive market values | Negative market values |
|   | Under 1 yr              | 1–5 yrs        | over 5 yrs     |                  |                        |                        |                  |                        |                        |
| Derivatives for trading   |                         |                |                |                  |                        |                        |                  |                        |                        |
| Interest-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Interest rate swaps</i>                                      | 36,850                  | 28,622         | 24,760         | 90,232           | 2,153                  | 4,010                  | 129,592          | 2,382                  | 4,358                  |
| <i>Interest rate futures</i>                                    | 7,600                   | 0              | 0              | 7,600            | 0                      | 16                     | 10,100           | 0                      | 6                      |
| <i>Interest rate options – purchased</i>                        | 1,382                   | 0              | 0              | 1,382            | 0                      | 0                      | 10,612           | 0                      | 0                      |
| <i>Interest rate options – sold</i>                             | 0                       | 0              | 0              | 0                | 0                      | 0                      | 7,928            | 0                      | 0                      |
| Currency-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Currency forward contracts</i>                               | 337,613                 | 691            | 0              | 338,304          | 1,383                  | 2,493                  | 184,414          | 640                    | 570                    |
| Equity-related contracts  |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Equity options – purchased</i>                               | 2,094                   | 4,505          | 0              | 6,599            | 935                    | 0                      | 34,954           | 1,826                  | 0                      |
| <i>Equity options – written</i>                                 | 2,094                   | 2,143          | 0              | 4,237            | 0                      | 821                    | 22,768           | 0                      | 1,724                  |
| Other derivative contracts                                      | 11,930                  | 8,130          | 0              | 20,060           | 311                    | 302                    | 21,342           | 606                    | 559                    |
| <b>Total</b>  | <b>399,562</b>          | <b>44,092</b>  | <b>24,760</b>  | <b>468,414</b>   | <b>4,781</b>           | <b>7,642</b>           | <b>421,710</b>   | <b>5,454</b>           | <b>7,217</b>           |
| Derivatives for market value hedge                              |                         |                |                |                  |                        |                        |                  |                        |                        |
| Interest-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Interest rate swaps</i>                                      | 18,000                  | 363,234        | 352,000        | 733,234          | 16,126                 | 4,858                  | 493,772          | 12,860                 | 661                    |
| <b>Total</b>  | <b>18,000</b>           | <b>363,234</b> | <b>352,000</b> | <b>733,234</b>   | <b>16,126</b>          | <b>4,858</b>           | <b>493,772</b>   | <b>12,860</b>          | <b>661</b>             |
| Derivatives for cash flow hedge                                 |                         |                |                |                  |                        |                        |                  |                        |                        |
| Currency-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Interest rate and currency swaps</i>                         | 193,667                 | 52,342         | 0              | 246,009          | 0                      | 19,670                 | 255,727          | 899                    | 11,074                 |
| <b>Total</b>  | <b>193,667</b>          | <b>52,342</b>  | <b>0</b>       | <b>246,009</b>   | <b>0</b>               | <b>19,670</b>          | <b>255,727</b>   | <b>899</b>             | <b>11,074</b>          |
| Derivatives for hedging of net investment in foreign operations |                         |                |                |                  |                        |                        |                  |                        |                        |
| Currency-related contracts                                      |                         |                |                |                  |                        |                        |                  |                        |                        |
| <i>Currency swaps</i>   | 47,673                  | 0              | 0              | 47,673           | 0                      | 956                    | 26,443           | 148                    | 0                      |
| <b>Total</b>  | <b>47,673</b>           | <b>0</b>       | <b>0</b>       | <b>47,673</b>    | <b>0</b>               | <b>956</b>             | <b>26,443</b>    | <b>148</b>             | <b>0</b>               |
| <b>Total derivative instruments</b>                             | <b>658,902</b>          | <b>459,668</b> | <b>376,760</b> | <b>1,495,330</b> | <b>20,907</b>          | <b>33,126</b>          | <b>1,197,652</b> | <b>19,362</b>          | <b>18,952</b>          |
| <i>of which cleared</i>   | 10,600                  | 258,000        | 266,000        | 534,600          | 3,591                  | 5,858                  | 10,100           | 0                      | 6                      |

| P18. Intangible assets   |                |                |                                | 2016 |  |                |  |
|--|----------------|----------------|--------------------------------|------|--|----------------|--|
|  | Other software | Goodwill       | Other non-current expenditures |      |  | Total          |  |
| Cost on January 1  | 21,237         | 33,246         | 5,968                          |      |  | 60,451         |  |
| Cost of intangible assets added                                      | 5,902          | 0              | 518                            |      |  | 6,421          |  |
| Divestments and disposals  | 0              | 0              | 0                              |      |  | 0              |  |
| Transfers between items  | 0              | 0              | 49                             |      |  | 49             |  |
| Exchange rate effects  | -148           | -750           | 0                              |      |  | -898           |  |
| <b>Cost on December 31</b>   | <b>26,991</b>  | <b>32,496</b>  | <b>6,535</b>                   |      |  | <b>66,022</b>  |  |
| Accumulated amortisation and impairment losses on January 1          |                |                |                                |      |  |                |  |
|  | -13,625        | -10,620        | -3,846                         |      |  | -28,091        |  |
| Divestments and disposals  | 0              | 0              | 0                              |      |  | 0              |  |
| Transfers between items  |                |                | 0                              |      |  | 0              |  |
| Amortisation for the year  | -1,376         | -4,381         | -514                           |      |  | -6,271         |  |
| Impairment losses for the year                                       | 0              | 0              | 0                              |      |  | 0              |  |
| Exchange rate effects  | 84             | 321            | 0                              |      |  | 405            |  |
| <b>Accumulated amortisation and impairment losses on December 31</b> | <b>-14,917</b> | <b>-14,680</b> | <b>-4,361</b>                  |      |  | <b>-33,957</b> |  |
| <b>Residual value on December 31</b>                                 | <b>12,074</b>  | <b>17,816</b>  | <b>2,175</b>                   |      |  | <b>32,065</b>  |  |

|  | 2015           |                |                                |                |
|--|----------------|----------------|--------------------------------|----------------|
|  | Other software | Goodwill       | Other non-current expenditures | Total          |
| Cost on January 1  | 16,883         | 20,493         | 5,471                          | 42,848         |
| Cost of intangible assets added                                      | 4,510          | 12,325         | 4                              | 16,838         |
| Divestments and disposals  | -223           | 0              | 0                              | -223           |
| Transfers between items  | 0              | 0              | 494                            | 494            |
| Exchange rate effects  | 66             | 428            | 0                              | 494            |
| <b>Cost on December 31</b>   | <b>21,237</b>  | <b>33,246</b>  | <b>5,968</b>                   | <b>60,451</b>  |
| Accumulated amortisation and impairment losses on January 1          | -11,982        | -7,077         | -2,840                         | -21,899        |
| Divestments and disposals  | 223            | 0              | 0                              | 223            |
| Transfers between items  |                |                | -484                           | -484           |
| Amortisation for the year  | -1,818         | -3,377         | -522                           | -5,717         |
| Impairment losses for the year                                       | 0              | 0              | 0                              | 0              |
| Exchange rate effects  | -48            | -165           | 0                              | -213           |
| <b>Accumulated amortisation and impairment losses on December 31</b> | <b>-13,625</b> | <b>-10,620</b> | <b>-3,846</b>                  | <b>-28,091</b> |
| <b>Residual value on December 31</b>                                 | <b>7,612</b>   | <b>22,626</b>  | <b>2,122</b>                   | <b>32,360</b>  |

| P19. Tangible assets                           | 2016                  |                        |                       | 2015                  |                        |                       |
|--|-----------------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|
|  | Investment properties | Properties for own use | Other tangible assets | Investment properties | Properties for own use | Other tangible assets |
| Investment properties                          |                       |                        | 431                   |                       |                        | 431                   |
| Properties for own use                         |                       |                        | 12,174                |                       |                        | 12,680                |
| Other tangible assets                          |                       |                        | 2,133                 |                       |                        | 2,299                 |
| <b>Total</b>                                   |                       |                        | <b>14,738</b>         |                       |                        | <b>15,409</b>         |
| Cost on January 1                              | 1,109                 | 14,480                 | 18,679                | 1,118                 | 14,475                 | 18,346                |
| New acquisitions                               | 0                     | 28                     | 487                   | 0                     | 5                      | 293                   |
| Divestments and disposals                      | 0                     | 0                      | -298                  | -10                   | 0                      | -292                  |
| Transfers between items                        | 0                     | 0                      | 0                     | 0                     | 0                      | 131                   |
| Exchange rate effects                          | 0                     | 0                      | -361                  | 0                     | 0                      | 202                   |
| <b>Cost on December 31</b>                     | <b>1,109</b>          | <b>14,508</b>          | <b>18,507</b>         | <b>1,109</b>          | <b>14,480</b>          | <b>18,679</b>         |
| Accumulated depreciation on January 1          | -678                  | -7,089                 | -16,381               | -613                  | -6,547                 | -15,663               |
| Depreciation for the year                      | 0                     | -535                   | -563                  | 0                     | -542                   | -688                  |
| Impairment losses for the year                 | 0                     | 0                      | 0                     | -70                   | 0                      | 0                     |
| Divestments and disposals                      | 0                     | 0                      | 221                   | 5                     | 0                      | 169                   |
| Exchange rate effects                          | 0                     | 0                      | 348                   | 0                     | 0                      | -198                  |
| <b>Accumulated depreciation on December 31</b> | <b>-678</b>           | <b>-7,624</b>          | <b>-16,374</b>        | <b>-678</b>           | <b>-7,089</b>          | <b>-16,381</b>        |
| Revaluations on January 1                      |                       | 5,289                  |                       |                       | 5,289                  |                       |
| Revaluations for the year                      |                       | 0                      |                       |                       | 0                      |                       |
| Decreases during the year                      |                       | 0                      |                       |                       | 0                      |                       |
| <b>Accumulated revaluations on December 31</b> |                       | <b>5,289</b>           |                       |                       | <b>5,289</b>           |                       |
| <b>Carrying amount</b>                         | <b>431</b>            | <b>12,174</b>          | <b>2,133</b>          | <b>431</b>            | <b>12,680</b>          | <b>2,299</b>          |
| <i>of which buildings</i>                      | 0                     | 11,935                 |                       | 0                     | 12,441                 |                       |
| <i>of which land and water</i>                 | 0                     | 139                    |                       | 0                     | 139                    |                       |
| <i>of which shares in property companies</i>   | 431                   | 100                    |                       | 431                   | 100                    |                       |

The carrying amount of investment properties was the same as their market value in 2016.

| P20. Other assets                              | 2016          | 2015          |
|--|---------------|---------------|
| Receivables on mutual fund settlement proceeds | 12,910        | 15,163        |
| Other  | 3,727         | 6,316         |
| <b>Total</b>                                   | <b>16,637</b> | <b>21,479</b> |

| P21. Accrued income and prepayments | 2016          | 2015          |
|-------------------------------------|---------------|---------------|
| Accrued interest income             | 11,507        | 13,717        |
| Other accrued income                | 6,838         | 6,059         |
| Prepaid taxes                       | 0             | 113           |
| Other prepaid expenses              | 1,805         | 1,501         |
| <b>Total</b>                        | <b>20,150</b> | <b>21,389</b> |

| P22. Deferred tax assets and liabilities            | 2016       | 2015        |
|---|------------|-------------|
| Deferred tax assets                                 |            |             |
| Provisions  | 35         | 0           |
| Cash flow hedge                                     | 45         | 89          |
| Hedging of net investment in foreign operations     | 191        | 0           |
| Unused tax depreciation                             | 103        | 67          |
| Shares and participations available for sale        | 10         | 0           |
| Other   | 7          | 7           |
| <b>Total deferred tax assets</b>                    | <b>391</b> | <b>164</b>  |
| Deferred tax liabilities                            |            |             |
| Financial assets available for sale                 |            |             |
| <i>Debt securities available for sale</i>           | 444        | 205         |
| <i>Shares and participations available for sale</i> | 0          | 71          |
| <b>Total deferred tax liabilities</b>               | <b>444</b> | <b>276</b>  |
| <b>Net deferred taxes</b>                           | <b>-53</b> | <b>-113</b> |

Accumulated appropriations included a deferred tax liability of EUR 17 131 K (13,451).

|   | 2016            |                                |  |                 |
|---|-----------------|--------------------------------|--|-----------------|
|   | Opening balance | Recognised in income statement | Recognised in other comprehensive income | Closing balance |
| Changes in deferred taxes                       |                 |                                |  |                 |
| Taxable losses                                  | 0               | 0                              |  | 0               |
| Provisions                                      | 0               | 35                             |  | 35              |
| Unused tax depreciation                         | 67              | 36                             |  | 103             |
| Other   | 7               | 0                              |  | 7               |
| Cash flow hedge                                 | 89              |                                | -45                                      | 45              |
| Hedging of net investment in foreign operations | 0               | 0                              | 191                                      | 191             |
| Debt securities available for sale              | -205            |                                | -238                                     | -444            |
| Shares and participations available for sale    | -71             |                                | 81                                       | 10              |
| <b>Total</b>                                    | <b>-113</b>     | <b>71</b>                      | <b>-11</b>                               | <b>-53</b>      |

|  | 2015            |                                |  |                 |
|--|-----------------|--------------------------------|--|-----------------|
|  | Opening balance | Recognised in income statement | Recognised in other comprehensive income | Closing balance |
| Changes in deferred taxes                    |                 |                                |  |                 |
| Taxable losses                               | 1               | -1                             |  | 0               |
| Provisions                                   | 68              | -68                            |  | 0               |
| Unused tax depreciation                      | 34              | 33                             |  | 67              |
| Other  | 9               | -1                             |  | 7               |
| Cash flow hedge                              | 115             |                                | -26                                      | 89              |
| Debt securities available for sale           | -707            |                                | 502                                      | -205            |
| Shares and participations available for sale | 27              |                                | -98                                      | -71             |
| <b>Total</b>                                 | <b>-453</b>     | <b>-37</b>                     | <b>377</b>                               | <b>-113</b>     |

| P23. Liabilities to credit institutions | 2016                |                |                | 2015                |                |                |
|---|---------------------|----------------|----------------|---------------------|----------------|----------------|
|   | Repayable on demand | Other          | Total          | Repayable on demand | Other          | Total          |
| Central banks                           |                     | 130,340        | 130,340        |                     | 130,340        | 130,340        |
| Finnish credit institutions             | 1,052               | 17,800         | 18,852         | 2,953               | 39,205         | 42,158         |
| Foreign banks and credit institutions   | 48,304              | 18,320         | 66,624         | 74,162              | 57,681         | 131,843        |
| <b>Total</b>                            | <b>49,355</b>       | <b>166,460</b> | <b>215,815</b> | <b>77,115</b>       | <b>227,227</b> | <b>304,341</b> |

| P24. Liabilities to the public   | 2016             |                       |                  | 2015             |                       |                  |
|----------------------------------|------------------|-----------------------|------------------|------------------|-----------------------|------------------|
|                                  | Amortised cost   | Carried at fair value | Total            | Amortised cost   | Carried at fair value | Total            |
| Companies                        | 905,603          |                       | 905,603          | 623,400          |                       | 623,400          |
| Public sector entities           | 92,565           |                       | 92,565           | 46,155           |                       | 46,155           |
| Households                       | 1,014,757        |                       | 1,014,757        | 987,351          |                       | 987,351          |
| Household interest organisations | 46,224           |                       | 46,224           | 46,524           |                       | 46,524           |
| Outside Finland                  | 976,250          |                       | 976,250          | 818,550          |                       | 818,550          |
| <b>Total</b>                     | <b>3,035,400</b> | <b>0</b>              | <b>3,035,400</b> | <b>2,521,981</b> | <b>0</b>              | <b>2,521,981</b> |

| P25. Debt securities issued          | 2016             |                  | 2015             |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | Nominal value    | Carrying amount  | Nominal value    | Carrying amount  |
| Certificates of deposit              | 153,643          | 153,643          | 250,126          | 250,011          |
| <i>of which at amortised cost</i>    | 153,643          | 153,643          | 250,126          | 250,011          |
| Covered bonds                        | 1,186,225        | 1,193,271        | 949,665          | 959,012          |
| <i>of which at amortised cost</i>    | 332,198          | 331,762          | 339,435          | 338,572          |
| <i>of which for fair value hedge</i> | 697,000          | 704,588          | 447,000          | 457,438          |
| <i>of which for cash flow hedge</i>  | 157,027          | 156,921          | 163,230          | 163,003          |
| Unsecured bonds                      | 88,982           | 88,942           | 155,939          | 155,836          |
| <i>of which at amortised cost</i>    | 0                | 0                | 63,442           | 63,427           |
| <i>of which for cash flow hedge</i>  | 88,982           | 88,942           | 92,497           | 92,409           |
| Index bonds (structured products)    | 15,825           | 15,760           | 47,233           | 46,557           |
| <i>of which at amortised cost</i>    | 9,619            | 9,590            | 47,233           | 46,557           |
| <i>of which for fair value hedge</i> | 6,206            | 6,170            |                  |                  |
| <b>Total</b>                         | <b>1,444,676</b> | <b>1,451,616</b> | <b>1,402,963</b> | <b>1,411,417</b> |

| P26. Other liabilities                   | 2016 | 2015          |
|--|------|---------------|
| Payment transfer liabilities             |      | 17,690        |
| Claims on securities settlement proceeds |      | 65,855        |
| Other                                    |      | 8,015         |
| <b>Total</b>                             |      | <b>91,561</b> |

| P27. Provisions                  | 2016                                  |                  |            | 2015                                  |                  |          |
|----------------------------------|---------------------------------------|------------------|------------|---------------------------------------|------------------|----------|
|                                  | Provisions for restructuring reserves | Other provisions | Total      | Provisions for restructuring reserves | Other provisions | Total    |
| Provisions on January 1          | 0                                     | 0                | 0          | 688                                   | 12               | 700      |
| Provisions made during the year  | 291                                   |                  | 291        | 130                                   |                  | 130      |
| Amounts utilised                 | -116                                  | 0                | -116       | -761                                  | -12              | -773     |
| Unutilised amounts recovered     | 0                                     |                  | 0          | -68                                   |                  | -68      |
| Exchange rate changes            | 0                                     |                  | 0          | 11                                    |                  | 11       |
| <b>Provisions on December 31</b> | <b>175</b>                            | <b>0</b>         | <b>175</b> | <b>0</b>                              | <b>0</b>         | <b>0</b> |

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.

| P28. Accrued expenses and prepaid income | 2016 |               | 2015 |               |
|--|------|---------------|------|---------------|
| Accrued interest expenses                |      | 7,638         |      | 8,418         |
| Other accrued expenses                   |      | 10,060        |      | 10,228        |
| Accrued taxes                            |      | 609           |      | 1,002         |
| Prepaid income                           |      | 1,531         |      | 2,230         |
| <b>Total</b>                             |      | <b>19,838</b> |      | <b>21,877</b> |

| P29. Subordinated liabilities      | 2016           |                 |                        | 2015           |                 |                        |
|------------------------------------|----------------|-----------------|------------------------|----------------|-----------------|------------------------|
|                                    | Nominal amount | Carrying amount | Amount in capital base | Nominal amount | Carrying amount | Amount in capital base |
| Debenture loan 1/2011              | 0              | 0               | 0                      | 1,012          | 1,012           | 442                    |
| Debenture loan 1/2012              | 2,805          | 2,805           | 0                      | 5,610          | 5,610           | 0                      |
| Debenture loan 1/2013              | 6,754          | 6,833           | 0                      | 10,132         | 10,282          | 0                      |
| Debenture loan 1/2014              | 6,542          | 6,608           | 0                      | 8,736          | 8,838           | 0                      |
| Debenture loan 2/2014              | 8,275          | 8,275           | 4,310                  | 8,275          | 8,275           | 5,968                  |
| 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                  | 0              | 0               | 0                      |
| Capital loan                       | 60             | 60              | 60                     | 60             | 60              | 60                     |
| <b>Total</b>                       | <b>39,213</b>  | <b>39,357</b>   | <b>19,146</b>          | <b>42,427</b>  | <b>42,679</b>   | <b>15,073</b>          |
| <i>Of which market value hedge</i> | 13,297         | 13,441          | 0                      | 18,868         | 19,120          | 0                      |

|                       | Interest rate:       | Repayment:       |
|-----------------------|----------------------|------------------|
| Debenture loan 1/2012 | 3.00% fixed interest | June 12, 2017    |
| Debenture loan 1/2013 | 2.30% fixed interest | July 3, 2018     |
| Debenture loan 1/2014 | 2.30% fixed interest | February 3, 2019 |
| Debenture loan 2/2014 | 3.00% fixed interest | August 9, 2019   |
| Debenture loan 1/2015 | 3.75% fixed interest | May 25, 2035     |
| Debenture loan 1/2016 | 3.75% fixed interest | August 12, 2036  |
| Capital loan          | 5.00% fixed interest | March 31, 2022   |

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 loan 1/2015 and debenture loan 1/2016 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 loan 1/2016), respectively.

P30. Maturity breakdown of financial assets and liabilities

2016

|  | Repayable<br>on demand | < 1 mo         | 1-3 mo         | 3-6 mo         | 6-9 mo         | 9-12 mo        | 1-2 yrs        | 2-5 yrs          | > 5 yrs          | Total<br>cash flow | Carrying<br>amount |
|--|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|--------------------|--------------------|
| <b>Financial assets</b>  |                        |                |                |                |                |                |                |                  |                  |                    |                    |
| Cash   | 513,018                |                |                |                |                |                |                |                  |                  | 513,018            | 513,018            |
| Debt securities eligible for refinancing<br>with central banks |                        | 24,821         | 21,909         | 21,517         | 11,714         | 37,612         | 110,678        | 206,414          | 72,407           | 507,073            | 503,590            |
| Lending to credit institutions                                 | 201,152                |                |                |                |                |                |                |                  |                  | 201,152            | 201,152            |
| Lending to the public  | 194,255                | 97,403         | 134,186        | 166,266        | 128,170        | 156,777        | 526,875        | 1,108,170        | 2,049,379        | 4,561,481          | 3,800,253          |
| <b>Total financial assets</b>                                  | <b>908,425</b>         | <b>122,224</b> | <b>156,095</b> | <b>187,783</b> | <b>139,884</b> | <b>194,390</b> | <b>637,553</b> | <b>1,314,584</b> | <b>2,121,786</b> | <b>5,782,724</b>   | <b>5,018,013</b>   |
| <b>Financial liabilities</b>                                   |                        |                |                |                |                |                |                |                  |                  |                    |                    |
| Liabilities to credit institutions                             | 49,355                 | 14,435         | 9,875          | 6,001          | 2,805          | 3,004          |                | 130,340          |                  | 215,815            | 215,815            |
| Liabilities to the public                                      | 2,789,499              | 81,582         | 22,880         | 36,197         | 44,130         | 40,331         | 17,939         | 3,943            |                  | 3,036,501          | 3,035,400          |
| Debt securities issued   |                        | 45,591         | 62,710         | 152,020        | 5,334          | 97,027         | 218,417        | 545,370          | 352,335          | 1,478,806          | 1,451,616          |
| Subordinated liabilities                                       |                        | 2,336          | 3,213          | 4,014          |                |                | 6,541          | 12,422           | 22,770           | 51,296             | 39,357             |
| <b>Total financial liabilities</b>                             | <b>2,838,854</b>       | <b>141,608</b> | <b>97,801</b>  | <b>197,432</b> | <b>56,283</b>  | <b>140,362</b> | <b>242,897</b> | <b>692,075</b>   | <b>375,105</b>   | <b>4,782,418</b>   | <b>4,742,188</b>   |
| <b>Derivative contracts</b>                                    |                        |                |                |                |                |                |                |                  |                  |                    |                    |
| Cash inflow  |                        | 2,579          | 389            | 3,033          | 421            | 355            | 5,653          | 11,923           | 8,410            | 27,925             |                    |
| Cash outflow   |                        | -386           | -434           | -1,040         | -1,022         | -1,571         | -1,697         | -7,954           | -9,450           | -16,176            |                    |
| <b>GAP</b>   | <b>-1,930,429</b>      | <b>-17,191</b> | <b>58,248</b>  | <b>-7,656</b>  | <b>82,999</b>  | <b>52,811</b>  | <b>398,612</b> | <b>626,479</b>   | <b>1,745,641</b> | <b>1,012,055</b>   |                    |

## 2015

|  | Repayable<br>on demand | < 1 mo         | 1-3 mo         | 3-6 mo         | 6-9 mo         | 9-12 mo        | 1-2 yrs        | 2-5 yrs          | > 5 yrs          | Total<br>cash flow | Carrying<br>amount |
|--|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|--------------------|--------------------|
| <b>Financial assets</b>  |                        |                |                |                |                |                |                |                  |                  |                    |                    |
| Cash   | 199,461                |                |                |                |                |                |                |                  |                  | 199,461            | 199,461            |
| Debt securities eligible for refinancing<br>with central banks |                        | 6,326          | 25,105         | 36,601         | 49,922         | 21,743         | 120,859        | 283,610          | 98,728           | 642,894            | 632,675            |
| Lending to credit institutions                                 | 44,754                 |                |                |                |                |                |                |                  |                  | 44,754             | 44,754             |
| Lending to the public  | 188,923                | 48,481         | 161,721        | 145,875        | 205,833        | 168,550        | 468,158        | 1,070,749        | 1,911,537        | 4,369,829          | 3,590,177          |
| <b>Total financial assets</b>                                  | <b>433,138</b>         | <b>54,808</b>  | <b>186,826</b> | <b>182,476</b> | <b>255,756</b> | <b>190,293</b> | <b>589,016</b> | <b>1,354,359</b> | <b>2,010,266</b> | <b>5,256,937</b>   | <b>4,467,067</b>   |
| <b>Financial liabilities</b>                                   |                        |                |                |                |                |                |                |                  |                  |                    |                    |
| Liabilities to credit institutions                             | 77,133                 | 77,910         | 19,534         | 9,120          | 15,334         |                |                | 130,584          |                  | 329,615            | 304,341            |
| Liabilities to the public                                      | 2,335,857              | 35,355         | 39,613         | 39,259         | 24,877         | 39,367         | 3,808          | 3,830            | 1,002            | 2,522,967          | 2,521,981          |
| Debt securities issued   |                        | 37,563         | 177,144        | 110,866        | 13,906         | 23,703         | 219,789        | 774,296          | 105,003          | 1,462,270          | 1,411,417          |
| Subordinated liabilities                                       |                        |                | 2,386          | 4,327          | 3,860          |                | 9,328          | 17,716           | 13,445           | 51,062             | 42,679             |
| <b>Total financial liabilities</b>                             | <b>2,412,990</b>       | <b>150,828</b> | <b>238,677</b> | <b>163,572</b> | <b>57,976</b>  | <b>63,070</b>  | <b>232,926</b> | <b>926,426</b>   | <b>119,450</b>   | <b>4,365,915</b>   | <b>4,280,418</b>   |
| <b>Derivative contracts</b>                                    |                        |                |                |                |                |                |                |                  |                  |                    |                    |
| Cash inflow  |                        | 89             | 3,257          | 3,160          | 424            | 343            | 6,486          | 7,310            | 6,856            | 27,925             |                    |
| Cash outflow   |                        | -424           | -799           | -1,105         | -1,036         | -1,678         | -3,648         | -3,758           | -3,726           | -16,176            |                    |
| <b>GAP</b>   | <b>-1,979,852</b>      | <b>-96,355</b> | <b>-49,393</b> | <b>20,958</b>  | <b>197,168</b> | <b>125,888</b> | <b>358,929</b> | <b>431,485</b>   | <b>1,893,945</b> | <b>902,772</b>     |                    |

Sight deposits from the public, which are a significant source of funding, are contractually repayable on demand and are thus reported as having a maturity of < 3 months. In practice they are a source of funding that, based on historical behaviour, has largely proved to have a long maturity.

| P31. Claims on Group companies | 2016          | 2015          |
|--------------------------------|---------------|---------------|
| Lending to the public          | 25,875        | 21,063        |
| Other assets                   | 277           | 65            |
| Accrued income and prepayments | 2,847         | 1,917         |
| <b>Total</b>                   | <b>28,999</b> | <b>23,045</b> |

| P32. Liabilities to Group companies | 2016          | 2015         |
|-------------------------------------|---------------|--------------|
| Liabilities to the public           | 7,725         | 5,331        |
| Debt securities issued              | 0             | 0            |
| Other liabilities                   | 1,083         | 251          |
| Accrued expenses and prepaid income | 1,588         | 1,073        |
| <b>Total</b>                        | <b>10,397</b> | <b>6,655</b> |

#### Notes concerning staff, Board of Directors and Executive Team

| P33. Salaries/fees paid to the Board of Directors and Executive Team | 2016         | 2015         |
|--|--------------|--------------|
| Lampi, Nils  | 49           | 43           |
| Taxell, Christoffer  | 41           | 40           |
| Ceder Åsa <sup>1</sup>   | 30           | 0            |
| Karlsson, Agneta <sup>2</sup>  | 15           | 35           |
| Karlsson, Anders Å   | 39           | 32           |
| Persson Göran  | 37           | 24           |
| Valassi Ulrika   | 45           | 30           |
| Wiklöf Anders  | 31           | 22           |
| Wijkström Annika <sup>3</sup>  | 0            | 12           |
| Woivalin Dan-Erik  | 30           | 23           |
| <b>Board members</b>   | <b>318</b>   | <b>260</b>   |
| <b>Managing Director</b>   | <b>406</b>   | <b>448</b>   |
| <b>Other members of the Executive Team</b>                           | <b>1,685</b> | <b>1,488</b> |

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.

<sup>1</sup> New Board member since the 2016 Annual General Meeting.

<sup>2</sup> Resigned as Board member at the 2016 Annual General Meeting.

<sup>3</sup> Resigned as Board member at the 2015 Annual General Meeting.

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

See the Board of Directors and Executive Team sections.

#### P35. Financial transactions with related parties

See Note G43 in the notes to the consolidated financial statements.

#### Notes concerning assets pledged and contingent liabilities

| P36. Assets pledged                             | 2016             | 2015             |
|---|------------------|------------------|
| <b>Assets pledged for own liabilities</b>       |                  |                  |
| Lending to credit institutions                  | 12,618           | 11,440           |
| Government securities and bonds                 | 138,686          | 96,909           |
| Lending to the public                           | 1,664,695        | 1,528,279        |
| Other   | 1,817            | 1,935            |
| <b>Total assets pledged for own liabilities</b> | <b>1,817,816</b> | <b>1,638,563</b> |

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.

|                                   | 2016           | 2015          |
|-----------------------------------|----------------|---------------|
| Other assets pledged              |                |               |
| Government securities and bonds   | 27,976         | 26,307        |
| Other                             | 123,477        | 975           |
| <b>Total other assets pledged</b> | <b>151,453</b> | <b>27,282</b> |

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

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

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

| P37. Off-balance sheet commitments           | 2016           | 2015           |
|--|----------------|----------------|
| Guarantees                                   | 16,425         | 23,025         |
| Unutilised overdraft limits                  | 95,370         | 84,100         |
| Unutilised credit card limits                | 3,013          | 1,840          |
| Unutilised loan facilities                   | 200,473        | 226,789        |
| Other commitments                            | 49,974         | 7,985          |
| <b>Total</b>                                 | <b>365,255</b> | <b>343,739</b> |
| Guarantees for subsidiaries                  | 4,294          | 2,633          |
| Unutilised overdraft limits for subsidiaries | 9,959          | 7,738          |
| Unutilised loan facilities for subsidiaries  | 0              | 4,000          |

| P38. Rental obligations           | 2016         | 2015         |
|-----------------------------------|--------------|--------------|
| Rental payments due               |              |              |
| Under 1 year                      | 2,629        | 2,949        |
| More than 1 and less than 5 years | 4,486        | 5,704        |
| More than 5 years                 | 0            | 103          |
| <b>Total</b>                      | <b>7,115</b> | <b>8,756</b> |

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

## Other notes

| P39. Subsidiaries and associated companies | 2016              |              |                 |
|--|-------------------|--------------|-----------------|
|  | Registered office | Ownership, % | Carrying amount |
| <b>Subsidiaries</b>                        |                   |              |                 |
| Ab Compass Card Oy Ltd                     | Mariehamn         | 100          | 8,491           |
| Crosskey Banking Solutions Ab Ltd          | Mariehamn         | 100          | 2,505           |
| <i>S-Crosskey Ab</i>                       | Mariehamn         | 60           |                 |
| Ålandsbanken Fondbolag Ab                  | Mariehamn         | 100          | 841             |
| <b>Total</b>                               |                   |              | <b>11,837</b>   |
| <b>Associated companies</b>                |                   |              |                 |
| Mäklarhuset Åland Ab                       | Mariehamn         | 25           | 0               |
| <b>Total</b>                               |                   |              | <b>0</b>        |
| <b>Housing and real estate companies</b>   |                   |              |                 |
| Properties for the Group's own use         |                   |              |                 |
| <i>FAB Godby Center</i>                    | Finström          | 11           | 100             |
| <b>Total</b>                               |                   |              | <b>100</b>      |
| <b>Investment properties</b>               |                   |              |                 |
| <i>FAB Horsklint</i>                       | Kökar             | 20           | 12              |
| <i>FAB Nymars</i>                          | Sottunga          | 30           | 49              |
| <i>FAB Sittkoffska gården</i>              | Mariehamn         | 39           | 0               |
| <i>FAB Västernäs City</i>                  | Mariehamn         | 50           | 300             |
| <i>Övriga</i>                              |                   |              | 70              |
| <b>Total</b>                               |                   |              | <b>431</b>      |

## Proposed allocation of profit

According to the financial statements, distributable profit of the Bank of Åland Plc is EUR 62,260,000.13, of which the profit for the financial year is EUR –871,324.33. According to the consolidated financial statements, distributable profit of the Bank of Åland Group is EUR 55,452,819.50. 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 62,260,000.13, be allocated as follows:

For Series A and Series B shares outstanding as of December 31, 2016, a dividend of EUR 0.60 per share,

|  |               |
|--|---------------|
| totalling                                  | 9,201,187.80  |
| To be carried forward as retained earnings | 53,058,812.33 |

Mariehamn, March 9, 2017

Nils Lampi,  
Chairman

Christoffer Taxell,  
Deputy Chairman

Åsa Ceder

Anders Å Karlsson

Göran Persson

Ulrika Valassi

Anders Wiklöf

Dan-Erik Woivalin

Peter Wiklöf,  
Managing Director

## Auditors' Report

*This document is an English translation of the Swedish auditor's report. Only the Swedish version of the report is legally binding.*

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the year ended December 31, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

#### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the Group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

#### THE KEY AUDIT MATTER – HOW THE MATTER WAS ADDRESSED IN THE AUDIT

##### Valuation of lending to the public and public sector entities (Accounting Principles and Notes G12, G20, P9 and P15)

- Lending to the public and public sector entities ("Lending") totaled € 3,808 million as at December 31, 2016. This comprises approximately 74 per cent of the Group's total assets.
- The Group recognises impairment provisions on a collective and on an individual basis.
- Valuation of lending is subject to management judgement, especially in respect of the amount and timing of impairment losses.
- Due to the significance of the carrying amounts involved, and the judgement involved relating to impairment recognition, lending to the public and public sector entities is considered a key audit matter.

Our audit procedures included, among others:

- We assessed controls over lending approval, recognition and monitoring of loans and receivables. In addition, we assessed the risk monitoring and impairment recognition principles applied.
- Our audit procedures included testing of internal controls over the above-mentioned areas. In addition, we assessed the most material impairment provisions that were recognised during the financial year.
- We read the internal risk reports and assessed the functionality of the reporting procedures for risk assessment within the Group.
- We have assessed the appropriateness of the collective provisions recognised by considering the impairment models used for determining collective provisions.

##### Financial assets (Accounting Principles and Notes G8, G15, G16, G18, G21, G23, G44, P5, P11, P13, P16, P17 and P30)

- Financial assets (excluding Lending) is a material item in the consolidated financial statements. Financial assets (excluding Lending) mainly derive from treasury operations.
- These financial assets include investments for which classification, valuation and application of hedge accounting are subject to management judgement.

- Determining fair values for financial instruments involves estimation uncertainty if fair values cannot be derived from publicly available market quotes.
- Due to the significance of the carrying amounts involved, and the judgement relating to valuation, financial assets are considered a key audit matter.

Our audit procedures included, among others:

- We assessed the valuation methods used by the Bank of Åland for the valuation of financial instruments.
- Our audit procedures focused on the Group's risk management and the valuation process by testing process controls, valuation models and their application in the Group. To the extent that valuations were based on available market quotes, we compared the valuations by reference to data from external sources.
- We also assessed the appropriateness of the notes.

#### Net commission income and IT income (Accounting Principles and Notes G7 and P3)

- The assets managed by the Bank of Åland entitle it to fee and commission income on the grounds of the agreements entered into with customers and the cooperation parties. The Group also derives IT income based on customer agreements. Commissions and IT income are a significant item in the Group's income statement.
- The calculation of commissions and IT income comprises manual phases and the determination of revenue recognition, which may involve management judgement.
- Due to the significance of the income amount and the judgement involved, net commission and IT income are considered a key audit matter.

Our audit procedures included, among others:

- We assessed the methods used by the Bank of Åland for calculation of mutual fund and asset management commissions and IT income.
- Our evaluation of the revenue recognition principles focused on controls around the billing and fee calculation processes. Our audit procedures involved an assessment of the functionality of the revenue recognition processes for mutual fund and asset management commissions and IT income.
- Our audit procedures included, among others, testing of commission calculations on a sample basis, as well as assessment of the underlying related agreements and fund statutes where fees have been defined.

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

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and of financial statements that give a true and fair view in accordance with

the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention

in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Other Reporting Requirements**

### **Other Information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

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 report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 9, 2017

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

Jessica Björkgren  
Authorised Public Accountant, HT

KPMG Oy Ab  
Töölönlahdenkatu 3 A  
00100 Helsinki

# Corporate Governance Statement



## Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2016.

### Finnish Corporate Governance Code

The Finnish Corporate Governance Code ("the Code"), which is available on the website [www.cgfinland.fi](http://www.cgfinland.fi), is intended to be followed by companies that are listed on the Nasdaq Helsinki Oy ("Helsinki Stock Exchange"). The current Code went into effect on January 1, 2016 and replaced the previous Finnish Corporate Governance Code from 2010. The Code is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Mariehamn, Finland. The Bank is subject to the Finnish Companies Act and the Bank's Articles of Association as well as applying the Code. The Corporate Governance Statement has been prepared in compliance with the Code's reporting instructions and according to the Finnish Securities Market Act, Chapter 7, Section 7.

In applying the Code, the Bank departs from Recommendation 15, "Appointment of members to committees", since the Bank's Compensation Committee includes one co-opted member who is not a member of the Bank's Board of Directors. The co-opted member is also Chairman of the Committee. The purpose of this departure is to broaden the Compensation Committee's experience and expertise base on compensation matters. The need for outside expertise is assessed separately before each appointment date.

### Board of Directors

#### COMPOSITION OF THE BOARD

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting (AGM). The Board's term of office ends at the closing of the next AGM after the election. The Board shall consist of at least five and at most eight members. During 2016, the Board consisted of eight members. The Managing Director may not be a member of the Board.

#### PRESENTATION OF BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

##### Composition of the Board, 2016

| Name, main occupation and education   | Year of birth<br>Board members since what year<br>Place of residence     | Board members' shareholdings in the Bank on December 31, 2016 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies. |
|---|--|---|
| Nils Lampi, Chairman<br>CEO, Wiklöf Holding Ab<br>Bachelor of Economic Sciences                   | Born 1948<br>Member since 2013<br>Mariehamn, Åland                       | Series A shares: 500<br>Series B shares: 700  |
| Christoffer Taxell, vice ordförande<br>Master of Laws   | Born 1948<br>Member since 2013<br>Åbo, Finland                           | Series A shares: 0<br>Series B shares: 1,000  |
| Åsa Ceder<br>CEO, Försäkringsaktiebolaget Pensions-Alandia<br>Master of Science in Economics      | Born 1965<br>Member since 2016<br>Mariehamn, Åland                       | Series A shares: 0<br>Series B shares: 0  |
| Agneta Karlsson<br>Advisor/Consultant<br>Doctor of Economics<br>Associate Professor               | Born 1954<br>Member from 2003 until the AGM in April 2016<br>Sund, Åland | Not a Board member on December 31, 2016   |
| Anders Å Karlsson<br>Business owner<br>Bachelor of Commerce                                       | Born 1959<br>Member since 2012<br>Lemland, Åland                         | Series A shares: 3,000<br>Series B shares: 1,500  |
| Göran Persson<br>Studies at Örebro University   | Born 1949<br>Member since 2015<br>Flen, Sweden                           | Series A shares: 0<br>Series B shares: 0  |
| Ulrika Valassi<br>Business owner<br>Master of Business Administration                             | Born 1967<br>Member since 2015<br>Stockholm, Sweden                      | Series A shares: 0<br>Series B shares: 0  |
| Anders Wiklöf<br>Business owner<br>Doctor of Economics (honorary)<br>Commercial Counsellor        | Born 1946<br>Member since 2006<br>Mariehamn, Åland                       | Series A shares: 1,605,496<br>Series B shares: 1,326,549  |
| Dan-Erik Woivalin<br>CEO, Ålands Ömsesidiga Försäkringsbolag<br>Master of Laws<br>Attorney at Law | Born 1959<br>Member since 2013<br>Mariehamn, Åland                       | Series A shares: 0<br>Series B shares: 0  |

#### THE BOARD'S ASSESSMENT OF THE INDEPENDENCE OF ITS MEMBERS IN RELATION TO THE BANK AND MAJOR SHAREHOLDERS

In the assessment of the Board of Directors, the Chairman of the Board and all other Board members are independent of the Bank.

Christoffer Taxell, Göran Persson and Ulrika Valassi are also independent in relation to major shareholders. Nils Lampi, Chairman of the Board, is deemed to be dependent in relation to a major shareholder since he is CEO of Wiklöf Holding, which is a major shareholder in the Bank. Åsa Ceder is deemed to be dependent in relation to a major shareholder since she is CEO of the pension insurance company Försäkringsaktiebolaget Pensions-Alandia, part of Alandia Försäkring, which is a major shareholder in the Bank. Anders Å Karlsson is deemed to be dependent in relation to a major shareholder in the Bank due to his position as a Board member of the mutual insurance company Ålands Ömsesidiga Försäkringsbolag, 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 shareholdings in the Bank. Dan-Erik Woivalin is deemed to be dependent on a major shareholder, since he is CEO of Ålands Ömsesidiga Försäkringsbolag.

Agneta Karlsson, who was a Board member until the 2016 AGM, was independent in relation to the Bank as well as in relation to major shareholders.

#### 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 the management system is 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 2016, the Board held 16 (17) meetings. The Board members' average attendance was 91 (92) per cent. During 2016, each Board member attended Board and committee meetings as follows:

#### Attendance at Board meetings, 2016

| Board member                 | Board meetings<br>Total number: 16<br>Number until 2016<br>AGM: 4 |
|------------------------------|---|
| Nils Lampi                   | 16/16   |
| Christoffer Taxell           | 16/16   |
| Åsa Ceder <sup>1</sup>       | 11/16   |
| Agneta Karlsson <sup>2</sup> | 3/16  |
| Anders Å Karlsson            | 16/16   |
| Göran Persson                | 15/16   |
| Ulrika Valassi               | 16/16   |
| Anders Wiklöf                | 13/16   |
| Dan-Erik Woivalin            | 12/16   |

<sup>1</sup>Board member since the AGM on April 14, 2016, attended 11 of 12 meetings during the period.

<sup>2</sup>Board member until the AGM on April 14, 2016, attended 3 of 4 meetings during the period.

#### DIVERSITY PRINCIPLES

The Bank seeks a good balance in the allocation of Board members, with each gender having at least 35 per cent representation on the Board at all times. Both genders shall thus be represented in the proposal that is presented on the occasion of each nomination as a new Board member.

## The committees of the Board

### NOMINATION COMMITTEE

The main duty of the Nomination Committee is to prepare proposals before the AGM regarding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

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

Since December 2016, the Nomination Committee has consisted of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Jan Hanses, representing the insurance company Alandia Försäkring; and Dan-Erik Woivalin, representing Ålands Ömsesidiga Försäkringsbolag. Anders Wiklöf is Chairman of the Nomination Committee.

Until the Annual General Meeting in April 2016, the composition of the Nomination Committee was the same.

During 2016 the Nomination Committee met 5 (3) times. The average attendance of Committee members was 100 (100) per cent.

#### Attendance at Nomination Committee meetings, 2016

| Member   | Nomination Committee meetings<br>Total number: 5<br>Number until 2016 AGM: 5 |
|--|--|
| Nils Lampi   | 5/5  |
| Anders Wiklöf,<br><i>Chairman of the Committee</i> | 5/5  |
| Jan Hanses   | 5/5  |
| Dan-Erik Woivalin                                  | 5/5  |

### 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 regulations. In addition, before the AGM the Audit Committee prepares proposals for the election of auditors and their fees. The Chairman of the Audit Committee reports regularly to the Board about the work and observations of the Committee.

Since the 2016 AGM, the Audit Committee has consisted of Nils Lampi, Chairman of the Board; and Board members Åsa Ceder, Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. During 2016 the Audit Committee met 9 (9) times. The average attendance of Committee members was 100 (100) per cent.

#### Attendance at Audit Committee meetings, 2016

| Member  | Audit Committee meetings<br>Total number: 9<br>Number until 2016 AGM: 2 |
|---|---|
| Nils Lampi  | 9/9   |
| Åsa Ceder <sup>1</sup>                              | 7/9   |
| Agneta Karlsson <sup>2</sup>                        | 2/9   |
| Anders Å Karlsson                                   | 9/9   |
| Ulrika Valassi,<br><i>Chairman of the Committee</i> | 9/9   |

<sup>1</sup> Member of the Audit Committee since April 14, 2016, attended 7 of 7 meetings during the period.

<sup>2</sup> Member of the Board and its Audit Committee until the AGM on April 14, 2016, attended 2 of 2 meetings during the period.

### COMPENSATION COMMITTEE

The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

Since the 2016 AGM, the Compensation Committee has consisted of Nils Lampi, Chairman of the Board; Board member Christoffer Taxell and former Board member Agneta Karlsson as a co-opted member and Chairman of the Committee.

During 2016 the Compensation Committee met 3 (4) times. The average attendance of Committee members was 100 (100) per cent.

#### Attendance at Compensation Committee meetings, 2016

| Member   | Audit Committee meetings<br>Total number: 3<br>Number until 2016 AGM: 1 |
|--|---|
| Nils Lampi   | 3/3   |
| Christoffer Taxell   | 3/3   |
| Agneta Karlsson <sup>1</sup> ,<br><i>Chairman of the Committee</i> | 3/3   |

<sup>1</sup> Member of the Board and its Compensation Committee until the AGM on April 14, 2016, thereafter co-opted member of the Compensation Committee.

## Managing Director

Since 2008 the Managing Director of the Bank has been Peter Wiklöf, Master of Laws (born 1966). The Managing Director's shareholdings in the Bank can be seen in the table to the right.

Among other things, the Managing Director is responsible for the day-to-day administration of the Bank and for ensuring that this is managed in compliance with law, the Articles of Association, other regulations and the instructions and directions of the Board. In addition, the Managing Director is responsible for ensuring that the decisions of the Board are implemented. The Managing Director reports regularly to the Board.

The Managing Director is appointed and dismissed by the Board of Directors. His employment conditions are established in a written contract that is approved by the Board.

## The Group's Executive Team – other members

The Board appoints the other members of the Group-wide Executive Team.

The other members of the Executive Team advise the Managing Director, and the Executive Team deals with all major Bank-wide issues.

The Executive Team consists of the heads of the Bank's business areas and corporate units.

Their shareholdings in the Bank can be seen in the table to the right.

During 2016 the Executive Team met on 12 (12) occasions.

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

| Executive Team, 2016–2017   |  |  |
|---|--|--|
| Composition of the Executive Team and its members' areas of responsibility              | Education<br>Year of birth<br>Executive Team member since what year  | Shareholdings in the Bank on December 31, 2016 (direct ownership or via companies which the person controls). There are no shareholdings in other Bank of Åland Group companies. |
| Peter Wiklöf<br>Managing Director,<br>Chief Executive<br>Chairman of the Executive Team | Master of Laws<br>Born 1966<br>Member since 2008   | Series A shares: 500<br>Series B shares: 14,768  |
| Jan-Gunnar Eurell<br>Chief Financial Officer<br>Deputy Managing Director                | Bachelor of Science (Economics)<br>Master of Business Administration<br>Born 1959<br>Member since 2011                         | Series A shares: 0<br>Series B shares: 17,533  |
| Birgitta Dahlén<br>Director, Åland Business Area  | Bank officer training<br>Born 1954<br>Member from 2010 until January 31, 2017.<br>Resigned due to her retirement in March 2017 | Series A shares: 450<br>Series B shares: 2,697   |
| Tove Erikslund<br>Chief Administrative Officer  | Master of Business Administration<br>Born 1967<br>Member since 2006  | Series A shares: 0<br>Series B shares: 2,694   |
| Magnus Holm<br>Director, Sweden Business Area   | Economic studies<br>Born 1962<br>Member from 2011 until January 16, 2017   | Series A shares: 0<br>Series B shares: 5,985   |
| Magnus Johansson<br>Director, Sweden Business Area                                      | Bachelor of Science (Economics)<br>Born 1972<br>Member since January 16, 2017  | Series A shares: 0<br>Series B shares: 8,056   |
| Tony Karlström<br>Head, Asset Management  | Studies in financial economics<br>Born 1970<br>Member from 2015 until October 31, 2016   | Series A shares: 0<br>Series B shares: 529   |
| Mikael Mörn<br>Director, Åland Business Area  | Associate of Arts in Commerce<br>Born 1965<br>Member from February 1, 2017   | Series A shares: 0<br>Series B shares: 532   |
| Juhana Rauthovi<br>Chief Risk & Compliance Officer                                      | Licentiate in Laws, M.Sc. (Econ.), M.Sc. (Tech.)<br>Master in International Management<br>Born 1975<br>Member since 2012       | Series A shares: 0<br>Series B shares: 7,633   |
| Anne-Maria Salenius<br>Director, Finnish Mainland Business Area                         | Master of Laws<br>Attorney at Law<br>Born 1964<br>Member since 2010  | Series A shares: 0<br>Series B shares: 2,250   |

#### **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, financial control systems and internal auditing, tax analysis, accounting principles and instructions, the Group's reporting to regulatory authorities and publication of the Group's 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, Annual Report and Corporate Governance Statement and

submit an auditors' report 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 external interim reports or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examining the quarterly financial reports 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 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 and the Annual Report. The Board meets with the external auditors at least once a year.

##### **RISK MANAGEMENT**

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

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses claims on private individuals, companies, institutions and the public sector. These claims mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling

these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring, compliance with regulations, portfolio analysis and the loan granting process. This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Management. The Risk Office is also responsible for informational and corporate security in the Group.

The corporate unit also ensures that risks and risk management live up to the Bank's risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. The Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance.

In addition to the regulations and instructions of the Finnish Financial Supervisory Authority and legislation, the main foundations of the Group's risk management are the European Union's Capital Requirements Directive and Regulation, which are based on the regulations of the Basel Committee. For more detailed information on the Group's risk management, capital management, evaluation of capital requirements and capital adequacy information, see the "Risks and risk management" section in the Group's Annual Report.

##### **LENDING STRUCTURE**

At the Bank, the office responsible for a customer is responsible for that customer's loans. Customer and loan responsibility rests

with the head of the office and his/her fellow employees at the office. Those employees who work with lending have personal loan granting limits for those customers that they are responsible for. If larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units due to their size. The largest matters are decided by the Bank's Board of Directors.

#### COMPLIANCE

Monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance Department, with a focus on customer protection, behaviour in the market, combating money laundering and the financing of terrorism as well as permitting and regulatory matters. The Compliance Department regularly reports its observations to the Bank's Executive Team and Board of Directors.

#### Internal Auditing

The Internal Auditing Department is an independent department that reports directly to the Board of Directors.

The purpose of internal auditing work is to provide the Board and the Executive Team with objective and independent assessments of operational activities, operational business and management processes and the Group's risk management, governance and controls.

Internal Auditing reports regularly to the Board, the Audit Committee and the Executive Team. The Board adopts a yearly plan for internal auditing work.

#### Special decision making procedure concerning related party transactions

Decisions on loans to related parties who are entitled to the employee interest rate are made by the Bank's Board of Directors.

#### Insider administration

In their capacities as an investment firm and a fund management company, respectively, the Bank of Åland and its subsidiary Ålandsbanken Fondbolag maintain insider

registers of persons who are classified as insiders in the respective companies in accordance with the Act on Investment Services and the Act on Mutual Funds. The holdings of these insiders in listed Finnish securities are public information. Their holdings are updated automatically in the insider registers. Holdings of insiders at Ålandsbanken Fondbolag in that company's mutual funds are also public information.

Starting on July 3, 2016, when the European Union's Market Abuse Regulation entered into force, the Bank – in its capacity as a listed company – only maintains project-specific insider lists. These project-specific insider lists are established immediately when information that the Bank deems insider information arises. Persons included on project-specific insider lists are prohibited from trading in the Bank's financial instruments as long as they are included on such a list. The Bank does not maintain any permanent insider list, or any list of persons who participate in the preparation of interim reports and annual accounts. The Bank's public insider register, updated as of July 2, 2016 when the register ceased to exist, is found on the Bank's website [www.alandsbanken.fi](http://www.alandsbanken.fi) (in Swedish and Finnish).

According to the EU's Market Abuse Regulation, persons discharging managerial responsibilities at the Bank and persons closely associated with them are obligated to immediately report their transactions in the Bank's financial instruments. The Bank publishes stock exchange releases on these transactions.

In accordance with the EU's Market Abuse Regulation and the insider regulations of the Helsinki Stock Exchange, the Bank of Åland Group has introduced a trading restriction, under which persons in management positions as well as all Group employees may not trade in the Bank's financial instruments during a 30-day period before and including the publication date of the Bank's financial reports. The trading restriction also includes minors for whom persons in management positions or Group employees are guardians, as well as organisations in which people in management positions or Group employees have a controlling influence.

The Bank has a silent period in relation to analysts, investors and media for one month prior to the publication of an interim report or year-end report.

For employees who participate in providing investment services, the Bank also applies Group-wide trading restrictions that are based on the trading rules established by the Federation of Finnish Financial Services, the Swedish Securities Dealers Association and the Swedish Investment Fund Association.

The Bank's Legal Affairs Department regularly monitors information reported to the insider register and insider lists, as well as information about people in management positions and their related parties. The Bank's Compliance Department regularly monitors employee compliance with the trade restrictions in force.

#### Auditors

According to its Articles of Association, the Bank shall have at least three auditors and the necessary number of deputies for them. An auditor is appointed yearly at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The latest AGM in 2016 re-elected Mari Suomela and Oskar Orrström, Authorised Public Accountants (CGR), as auditors. Marcus Tötterman, Authorised Public Accountant (CGR), was also elected as a new auditor. The CGR-affiliated firm of KPMG Oy Ab was re-elected as deputy auditor.

During the autumn of 2016, Oskar Orrström resigned as an auditor.

During 2016, Group companies paid a total of EUR 273,448 (302,482) including value-added tax for auditing fees. In addition, they paid EUR 116,077 (264,590) 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 2016, has been published in Swedish and Finnish on the Bank's website [www.alandsbanken.fi](http://www.alandsbanken.fi).

## Board of Directors



**Nils Lampi**

CHAIRMAN

CEO, Wiklöf Holding Ab  
Bachelor of Economic Sciences  
Born 1948  
Chairman of the Board since 2013  
Board member since 2013

Shareholdings in Bank of Åland Plc\*:  
Series A shares: 500      Series B shares: 700



**Christoffer Taxell**

DEPUTY CHAIRMAN

Master of Laws  
Born 1948  
Deputy Chairman of the Board since 2013  
Board member since 2013

Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 1,000



**Åsa Ceder**

CEO, Försäkringsaktiebolaget Pensions-Alandia  
Master of Science in Economics  
Born 1965  
Board member since 2016

Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: None



**Anders Å Karlsson**

Business owner  
Bachelor of Commerce  
Born 1959  
Board member since 2012

Shareholdings in Bank of Åland Plc\*:  
Series A shares: 3,000      Series B shares: 1,500



### Göran Persson

Born 1949

Board member since 2015

Shareholdings in Bank of Åland Plc\*:

Series A shares: None

Series B shares: None



### Ulrika Valassi

Business owner

Master of Business Administration

Born 1967

Board member since 2015

Shareholdings in Bank of Åland Plc\*:

Series A shares: None

Series B shares: None



### Anders Wiklöf

Business owner

Doctor of Economics (honorary), Commercial Counsellor

Born 1946

Board member since 2006

Shareholdings in Bank of Åland Plc\*:

Series A shares: 1,605,496

Series B shares: 1,326,549



### Dan-Erik Woivalin

CEO, Ålands Ömsesidiga Försäkringsbolag

Master of Laws, Attorney at Law

Born 1959

Board member since 2013

Shareholdings in Bank of Åland Plc\*:

Series A shares: None

Series B shares: None

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website [www.alandsbanken.fi](http://www.alandsbanken.fi)

\*Shareholdings in the Bank on December 31, 2016 (direct ownership or via companies which the person controls).  
There are no shareholdings in other Bank of Åland Group companies.

## Executive Team



**Peter Wiklöf**

Managing Director, Chief Executive  
Master of Laws  
Born 1966  
Chairman and member of the Executive Team since 2008  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: 500      Series B shares: 14,768



**Jan-Gunnar Eurell**

Chief Financial Officer, Deputy Managing Director  
Master of Business Administration, Bachelor of Science (Economics)  
Born 1959  
Member of the Executive Team since 2011  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 17,533



**Tove Erikslund**

Chief Administrative Officer  
Master of Business Administration  
Born 1967  
Member of the Executive Team since 2006  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 2,694



**Magnus Johansson**

Director, Sweden Business Area  
Bachelor of Science (Economics)  
Born 1972  
Member of the Executive Team since 2017  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 8,056



### Mikael Mörn

Director, Åland Business Area  
Associate of Arts in Commerce  
Born 1965  
Member of the Executive Team since 2017  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 532



### Juhana Rauthovi

Chief Risk & Compliance Officer  
Licentiate in Laws, MSc (Econ), MSc (Tech),  
Master in International Management  
Born 1975  
Member of the Executive Team since 2012  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 7,633



### Anne-Maria Saloniuss

Director, Finnish Mainland Business Area  
Attorney at Law, Master of Laws  
Born 1964  
Member of the Executive Team since 2010  
Shareholdings in Bank of Åland Plc\*:  
Series A shares: None      Series B shares: 2,250

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website [www.alandsbanken.fi](http://www.alandsbanken.fi)

\*Shareholdings in the Bank on December 31, 2016 (direct ownership or via companies which the person controls).  
There are no shareholdings in other Bank of Åland Group companies.

## Stock exchange releases, 2016

### February

|                   |  |
|-------------------|--|
| February 11, 2016 | Issue of Series B share as part of the Bank of Åland's share savings programme for employees |
| February 12, 2016 | Year-end Report for the period January–December 2015   |
| February 19, 2016 | Bank of Åland Plc to lower prime rate  |

### March

|                |  |
|----------------|--|
| March 17, 2016 | The 2015 Annual Report of the Bank of Åland Plc with the future outlook for 2016   |
| March 17, 2016 | Bank of Åland Plc: Targeted issue of Series B shares and divestment of Series B shares for implementation of incentive programme |
| March 18, 2016 | Notice to convene the Annual General Meeting   |

### April

|                |  |
|----------------|--|
| April 14, 2016 | Decisions at the Annual General Meeting of the Bank of Åland Plc |
| April 26, 2016 | Interim Report for the period January–March 2016                 |

### July

|               |   |
|---------------|---|
| July 1, 2016  | Changes in the Bank of Åland's Executive Team                             |
| July 5, 2016  | Bank of Åland Plc to lower prime rate                                     |
| July 21, 2016 | Bank of Åland's net operating profit about the same or lower than in 2015 |
| July 22, 2016 | Interim Report for the period January–June 2016                           |

### September

|                    |  |
|--------------------|--|
| September 21, 2016 | Change in the number of shares and votes in the Bank of Åland* |
| September 22, 2016 | Managers' transaction  |
| September 22, 2016 | Managers' transactions   |
| September 23, 2016 | Managers' transactions   |
| September 25, 2016 | Managers' transactions   |

### October

|                  |  |
|------------------|--|
| October 25, 2016 | Interim Report for the period January–September 2016   |
| October 25, 2016 | Financial information and Annual General Meeting, 2017 |

### November

|                   |   |
|-------------------|---|
| November 18, 2016 | Standard & Poor's raises credit rating of Bank of Åland Plc |
|-------------------|---|

\*Published in Swedish and Finnish only.



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](http://www.alandsbanken.fi) [info@alandsbanken.fi](mailto:info@alandsbanken.fi)

# 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 0204 291 125

strandnas@alandsbanken.ax

Brändö

Finnvik

AX-22920 Brändö,

Åland, Finland

Telephone +358 204 291 676

brando@alandsbanken.ax

Finström

Von Knorringsvägen 1

AX-22410 Finström

Åland, Finland

Telephone +358 204 291 660

godby@alandsbanken.ax

Hammarland

Mörbyvägen 1

AX-22240 Frebbenby

Åland, Finland

Telephone +358 204 291 663

hammarland@alandsbanken.ax

Kumlinge

– cooperation with Åland Post

Kumlingeby

AX-22820 Kumlingeby

Åland, Finland

Telephone +358 204 291 160

aland@alandsbanken.ax

Kökar

– cooperation with Åland Post

Karlby

AX-22730 Karlby

Åland, Finland

Telephone +358 204 291 160

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

Kungsporsavenyen 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

AB COMPASS CARD OY LTD

Mariehamn

PB 3

AX-22101 Mariehamn

Åland, Finland

Telephone +358 204 29 033

compasscard@compasscard.fi

www.compasscard.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

Rådmanngatan 40

SE-113 58 Stockholm, Sweden

Telephone +46 8 791 49 00

information@crosskey.se

www.crosskey.se