



January – September 2020

Compared to January – September 2019

- Net operating profit increased by 14 per cent to EUR 27.4 M (24.1).
- Profit for the period attributable to shareholders rose by 14 per cent to EUR 21.7 M (19.1).
- Net interest income increased by 10 per cent to EUR 44.0 M (39.9).
- Net commission income increased by 15 per cent to EUR 47.9 M (41.7).
- Total expenses increased by 8 per cent to EUR 77.8 M (72.0).
- Net impairment losses on financial assets (including recoveries) totalled EUR 4.9 M (1.4), equivalent to a loan loss level of 0.16 (0.05) per cent.
- Return on equity after taxes (ROE) increased to 10.8 (10.5) per cent.
- Earnings per share increased by 13 per cent to EUR 1.39 (1.23).
- The common equity Tier 1 ratio was unchanged at 13.4 per cent (13.4 on December 31, 2019).
- Revised future outlook: Net operating profit is expected to be better or significantly better in 2020 than in the record year 2019, in other words better or significantly better than EUR 33.2 M.
- Dividend: On January 1, 2021, the Board of Directors intends to approve a dividend of EUR 1.00 per share for the 2019 financial year.

The third quarter of 2020

Compared to the third quarter of 2019

- Net operating profit increased by 12 per cent to EUR 10.7 M (9.5).
- Profit for the period attributable to shareholders rose by 12 per cent to EUR 8.5 M (7.6).
- Net interest income increased by 10 per cent to EUR 14.7 M (13.3).
- Net commission income increased by 10 per cent to EUR 15.2 M (13.8).
- Total expenses increased by 10 per cent to EUR 24.8 M (22.5).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.3 M (0.8), equivalent to a loan loss level of 0.03 (0.08) per cent.
- Return on equity after taxes (ROE) was unchanged at 12.3 (12.3) per cent.
- Earnings per share increased by 12 per cent to EUR 0.55 (0.49).

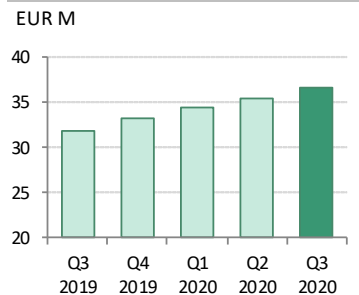
“The Bank of Åland continues to improve its situation, despite the prevailing uncertainty in the world around us. Because of our improved situation, this quarter we can report our best net operating profit ever, EUR 10.7 M. Our business volume, actively managed assets, deposits and lending have all reached new all-time highs thanks to a continued influx of new customers.

“We believe that in terms of net operating profit, we are on our way towards full-year earnings that are better or significantly better than our record-setting 2019 profit of EUR 33.2 M. I am pleased to report that there is a continued healthy demand for the relationship bank we wish to be and that we have employees who – despite the aggravating circumstances of the pandemic – are capable of delivering this.”

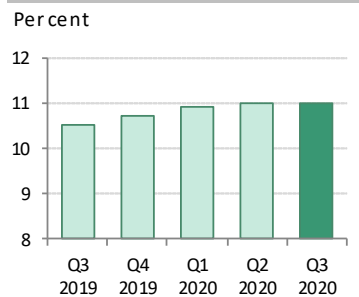
Peter Wiklöf, Managing Director and Chief Executive

The Bank of Åland is a bank with strong customer relationships and personalised service. The Bank has extensive financial investment expertise and at the same time can offer good financing services. The commercial bank was founded in 1919 and has been listed on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) since 1942. The Bank of Åland's Head Office is in Mariehamn. The Bank has two offices in the Åland Islands, five offices elsewhere in Finland and three offices in Sweden. Two subsidiaries, whose operations are connected in various ways to banking, belong to the Bank of Åland Group.

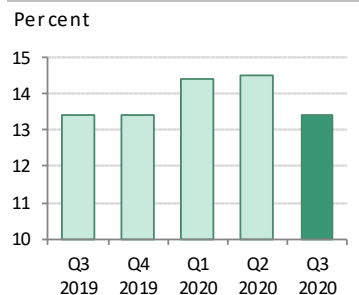
4-quarter moving net operating profit



4-quarter moving ROE



Common equity Tier 1 ratio



Financial summary

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Income								
Net interest income	14.7	14.8	-1	13.3	10	44.0	39.9	10
Net commission income	15.2	15.7	-3	13.8	10	47.9	41.7	15
Net income from financial items at fair value	0.6	0.0		1.6	-61	1.4	2.8	-50
Other income	5.3	5.7	-9	4.2	26	16.8	13.1	28
Total income	35.8	36.3	-1	32.9	9	110.0	97.5	13
Expenses								
Staff costs	-15.3	-15.6	-2	-13.4	15	-46.1	-42.4	9
Other expenses	-6.4	-7.1	-11	-6.3	0	-22.5	-21.1	7
Depreciation/amortisation	-3.1	-3.1	2	-2.9	9	-9.2	-8.5	9
Total expenses	-24.8	-25.8	-4	-22.5	10	-77.8	-72.0	8
Profit before impairment losses	11.0	10.6	4	10.4	6	32.3	25.5	27
Impairment losses on financial assets, net	-0.3	-0.8	-61	-0.8	-64	-4.9	-1.4	
Net operating profit	10.7	9.8	9	9.5	12	27.4	24.1	14
Income taxes	-2.2	-2.0	7	-1.9	11	-5.7	-5.0	15
Profit for the report period	8.5	7.8	10	7.6	12	21.7	19.1	14
Attributable to:								
Shareholders in Bank of Åland Plc	8.5	7.8	10	7.6	12	21.7	19.1	14
Volume								
Receivables from the public and public sector	4,221	4,188	1	3,985	6			
Deposits from the public and public sector	3,459	3,459	0	3,288	5			
Actively managed assets ¹	6,547	6,107	7	5,788	13			
Equity capital	280	271	3	247	13			
Balance sheet total	5,726	5,708	0	5,555	3			
Risk exposure amount	1,693	1,661	2	1,571	8			
Financial ratios								
Return on equity after taxes, % (ROE) ²	12.3	11.8		12.3		10.8	10.5	
Return on equity after taxes, % (ROE), moving 12-month average to end of report period	11.0	11.0		10.5				
Expense/income ratio ³	0.69	0.71		0.69		0.71	0.74	
Loan loss level, % ⁴	0.03	0.08		0.08		0.16	0.05	
Liquidity coverage ratio (LCR), % ⁵	138	142		163				
Loan/deposit ratio, % ⁶	122	121		121				
Core funding ratio, % ⁷	96	95		88				
Equity/assets ratio, % ⁸	4.9	4.8		4.4				
Common equity Tier 1 capital ratio, % ⁹	13.4	14.5		13.3				
Earnings per share, EUR ¹⁰	0.55	0.50	10	0.49	12	1.39	1.23	13
Earnings per share after dilution, EUR	0.55	0.50	10	0.49	12	1.39	1.23	13
Earnings per share, EUR, moving 12-month average to end of report period	1.86	1.80	3	1.63	14			
Equity capital per share, EUR ¹¹	17.95	17.41	3	15.86	13			
Equity capital per share after dilution, EUR	17.95	17.41	3	15.83	13			
Market price per Series A share, EUR	18.80	17.30	9	14.70	28			
Market price per Series B share, EUR	18.80	16.85	12	14.85	27			
Number of shares outstanding, oos	15,586	15,586	0	15,551	0			
Number of shares outstanding, after dilution, oos	15,598	15,599	0	15,587	0			
Working hours re-calculated to full-time equivalent positions	773	744	4	713	8	745	698	7

¹ Actively managed assets encompassed managed assets in the Group's own mutual funds, as well as discretionary and advisory securities volume.

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

³ Expenses / Income

⁴ Impairment losses on loan portfolio and other commitments / Receivables from the public and public sector at the beginning of the period

⁵ Liquidity coverage ratio (LCR) = liquid assets, level 1 and 2 / 30-day net outflow

⁶ Receivables from the public and public sector / Deposits from the public and public sector

⁷ Receivables from the public and public sector / Deposits including certificates of deposit, index bonds and debentures issued to the public and public sector plus covered bonds issued

⁸ Equity capital / Balance sheet total

⁹ Common equity Tier 1 capital / Risk exposure amount

¹⁰ Shareholders' portion of earnings for the period / Average number of shares

¹¹ Shareholders' portion of equity capital / Number of shares on closing day

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

The SARS-cov-2 coronavirus – which causes the disease known as COVID-19 – has spread all over the world, with devastating effects on both public health and economic health. Many countries that managed to show a downward trend in the number of new infections this past summer have been hit by a second wave during the autumn, causing them to face difficult choices regarding the reintroduction of social restrictions and prohibitions.

The coronavirus pandemic has led to changes in official regulations. Banking customers have been offered the possibility of postponing loan principal payments. Minimum requirements for the capital adequacy and liquidity of banks have been revised. The ability of banks to pay dividends to their shareholders has been curtailed. The Finnish Financial Supervision Authority (FIN-FSA) has announced that the risk weight floor on mortgage loans that the FSA's Board introduced in Finland on June 27, 2017 – and that went into effect in 2018 – will disappear as of January 1, 2021.

Public officials have launched both fiscal and monetary stimulus measures in an effort to soften the economic impact of the crisis. Concurrently, the world's central banks have launched massive stimulus programmes to ensure market liquidity and stability, in order to help both businesses and employees.

On March 3 the US Federal Reserve (Fed) cut its key interest rate by 50 basis points to 1.00-1.25 per cent, which was the first time since the global financial crisis that the Fed acted outside of its regular policy meetings. Less than two weeks later, the Fed slashed its key rate by another 100 points to 0-0.25 per cent. At its September policy meeting, the Fed chose to leave the key rate unchanged but meanwhile revised its economic forecasts somewhat upward compared to its June meeting.

Since early 2016 the European Central Bank (ECB) has kept its key rate at 0.00 per cent. At its latest interest rate policy meeting in September, it announced that the key rate will remain unchanged. Meanwhile the ECB is continuing with its stimulus programmes.

During the first quarter of 2020, Sweden's Riksbank hiked its most important key interest rate from -0.25 per cent to 0.00 per cent and has subsequently left this rate unchanged. At its latest interest rate policy meeting in September, the Riksbank issued guidance via its "rate path" indicating that a key rate cut is not to be expected during the period extending until 2023.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	Q3 2020	Q2 2020	Q3 2019
Euribor 3 mo	-0.47	-0.30	-0.40
Euribor 12 mo	-0.35	-0.11	-0.33
Stibor 3 mo	0.01	0.20	-0.03

During the first quarter of 2020, share prices according to the Nasdaq Helsinki (OMXHPI) equity index fell by 20 per cent and according to the Nasdaq Stockholm (OMXSPI) index by 18 per cent. During the second quarter, share prices on the Helsinki stock exchange rose by 17 per cent and on the Stockholm exchange by 16 per cent. During the third quarter, share prices

on the Helsinki exchange rose by 9 per cent and on the Stockholm exchange by 13 per cent. Overall during the first nine months of 2020, share prices on the Helsinki exchange rose by 1 per cent, while share prices on the Stockholm exchange rose by 7 per cent.

The average value of the Swedish krona (SEK) in relation to the euro (EUR) was at the same level during the first nine months of 2020 as in the year-earlier period. On September 30 the SEK was 1 per cent stronger than at year-end 2019. When converting the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period has been used, while the balance sheet has been converted at the exchange rate prevailing on the closing day of the report period.

IMPORTANT EVENTS

The global pandemic caused by the coronavirus has dramatically changed conditions for carrying out banking operations. The Bank of Åland's services are socially essential. The Bank has done its utmost to maintain high accessibility and to proactively contact customers. As far as possible, physical meetings with customers have been replaced by digital meetings. Most staff members have transitioned to working remotely. After this past summer, however, a larger proportion of Bank employees have been able to return to working at their offices. To some extent, it has been possible to resume customer activities that include physical meetings.

Customers are adversely affected by social lockdowns in all of our geographic markets, but the role of the Bank of Åland in local society is different in Åland from its role on the Finnish mainland and in Sweden. On the Finnish mainland and in Sweden, the Bank has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. In the Åland Islands, the Bank of Åland is a bank for all residents and has both a market-dominating position and a desire to help develop the Åland of the future.

In Åland, the Bank is both able and willing to participate in operations aimed at supporting the business community. We are actively involved in various working groups and have designed concrete support programmes together with the Åland provincial government, the Finnish state-owned financing company Finnvera, local interest organisations and other banks with an Åland presence. Together we have created a liquidity loan programme, in which the Åland government and Finnvera are guaranteeing 80 per cent of the liquidity loans that need to be taken out. In addition, the Åland government is providing 20 per cent of the loan amount as a direct grant to the businesses that take out liquidity loans.

The Annual General Meeting (AGM) on April 2, 2020 re-elected the Board of Directors consisting of Nils Lampi, Christoffer Taxell, Åsa Ceder, Anders Å. Karlsson, Ulrika Valassi and Anders Wiklöf. At the statutory meeting of the Board the same day, Nils Lampi was elected as Chairman and Christoffer Taxell as Deputy Chairman of the Board.

The AGM approved a decision to authorise the Board to decide on a maximum dividend of EUR 1.00 per share for the financial year 2019, to be distributed on one or more dates. This authorisation would be valid until the 2021 AGM.

Together with its customers, the Bank of Åland is continuing its commitment to a cleaner Baltic Sea. This year the Baltic Sea Project contributed EUR 445,000 to several projects that promote the health of the Baltic Sea. Since 1997 the Bank of Åland has awarded EUR 2.7 M to various environmentally related projects.

In May the Bank of Åland launched a new equity fund called Ålandsbanken Nordiska Småbolag. The fund invests in Nordic small and medium sized enterprises that we classify as “quality companies” – firms with stable balance sheets, strong cash flows, high profitability and good growth potential. The fund complies with the Bank’s general rules and guidelines concerning responsible investments and is also completely free of weapon- and fossil fuel-related companies. The fund has attracted great interest.

For the seventh consecutive year, the Bank of Åland (Ålandsbanken) Euro Bond Fund was named the best Nordic fund in its category and received the Refinitiv Lipper Nordics Fund Award. The Fund won the award for all management periods that were analysed: 3, 5 and 10 years. The Morningstar investment research company, which compares fund data and funds in their respective classes, assigned the Bank of Åland Euro Bond Fund its highest rating – five stars – in all its review cycles. This demonstrates the Fund’s success in relation to its reference group and benchmark indices.

The Bank of Åland’s global equity fund Ålandsbanken Global Aktie has become the second fund in the Bank’s asset management range to be granted the Nordic Swan Ecolabel. Together with the bond fund Ålandsbanken Green Bond ESG, which was granted the Nordic Swan Ecolabel in the autumn of 2019, the new equity fund is an important part of the Bank’s long-term commitment to sustainability. To earn the Nordic Swan Ecolabel, a fund must meet 25 mandatory requirements dealing with exclusions, inclusions, transparency and impacts.

During the report period, the number of Series B shares outstanding increased by 34,556 as a result of the Bank’s obligations within the framework of its incentive and share savings programmes.

EARNINGS FOR JANUARY – SEPTEMBER 2020

Profit for the period attributable to shareholders increased by EUR 2.6 M or 14 per cent to EUR 21.7 M (19.1). Excluding nonrecurring items, this was the highest-ever nine-month profit in the Bank’s history.

Net operating profit rose by EUR 3.3 M or 14 per cent to EUR 27.4 M (24.1).

Return on equity after taxes (ROE) increased to 10.8 per cent (10.5).

Total income rose by EUR 12.5 M or 13 per cent to EUR 110.0 M (97.5).

Net interest income rose by EUR 4.1 M or 10 per cent to EUR 44.0 M (39.9). The increase came from higher lending volume and higher Swedish market interest rates. In addition, the costs of deposits and capital market borrowing fell.

Net commission income rose by EUR 6.2 M or 15 per cent to EUR 47.9 M (41.7), mainly due to higher income from the Bank’s asset management business.

Net income on financial items fell by EUR 1.4 M to EUR 1.4 M (2.8), mainly due to lower capital gains.

Information technology (IT) income rose by EUR 3.3 M or 26 per cent to EUR 15.9 M (12.6). Crosskey’s new subsidiary Model IT is part of its operations this year. This was one explanation for the increase, alongside higher project income.

Total expenses increased by EUR 5.8 M or 8 per cent to EUR 77.8 M (72.0). About half of the increase in expenses was attributable to the subsidiary Crosskey and its acquisition Model IT, which is now part of operations. Another contributing factor was that the stability fee to the national Resolution Fund in Finland increased by EUR 0.8 M or by 50 per cent to EUR 2.6 M (1.8).

Model-driven impairment losses on financial assets increased because of the expected effects of the coronavirus pandemic, mainly in the form of a group provision of EUR 2.0 M related to heightened risk of losses in the corporate loan portfolio. Total net impairment losses on financial assets increased by EUR 3.5 M to EUR 4.9 M (1.4), equivalent to a loan loss level of 0.16 (0.05) per cent.

Tax expense amounted to EUR 5.7 M (5.0), equivalent to an effective tax rate of 20.8 (20.6) per cent.

EARNINGS FOR THE THIRD QUARTER OF 2020

Profit for the period attributable to shareholders increased by EUR 0.9 M or 12 per cent to EUR 8.5 M (7.6). Excluding nonrecurring items, this was the highest-ever quarterly profit in the Bank’s history.

Net operating profit rose by EUR 1.2 M or 12 per cent to EUR 10.7 M (9.5).

Return on equity after taxes (ROE) was unchanged at 12.3 per cent.

Total income rose by EUR 2.9 M or 9 per cent to EUR 35.8 M (32.9).

Net interest income rose by EUR 1.4 M or 10 per cent to EUR 14.7 M (13.3), mainly due to higher lending volume. In addition, the costs of deposits fell.

Net commission income rose by EUR 1.4 M or 10 per cent to EUR 15.2 M (13.8), mainly due to higher income from the Bank’s asset management business.

Net income on financial items decreased by EUR 1.0 M to EUR 0.6 M (1.6) because of lower capital gains.

Information technology (IT) income rose by EUR 0.9 M or 21 per cent to EUR 4.9 M (4.0). Crosskey’s new subsidiary Model IT is part of its operations this year, which is one of the explanations for the increase. Higher project income also contributed.

Total expenses increased by EUR 2.3 M or 10 per cent to EUR 24.8 M (22.5). Crosskey’s new subsidiary Model IT is part of its operations this year, which is one explanation for the increase. Higher staff costs in banking operations also contributed to the increase in total expenses.

Net impairment losses on financial assets totalled EUR 0.3 M (0.8), equivalent to a loan loss level of 0.03 (0.08) per cent.

STRATEGIC BUSINESS AREAS

The Group's EUR 3.3 M increase in net operating profit to EUR 27.4 M was allocated as follows:

- Private Banking +5.2 (higher income)
- Premium Banking -1.6 (higher impairment loss provisions)
- IT +0.3 (higher customer volume)
- Corporate Units & Eliminations -0.6

BUSINESS VOLUME

Actively managed assets on behalf of customers increased by EUR 204 M or 3 per cent compared to year-end 2019 and amounted to EUR 6,547 M (6,343). The increase was mainly due to positive net inflows.

Deposits from the public rose by 3 per cent compared to year-end 2019 and amounted to EUR 3,459 M (3,368).

Receivables from the public increased by 3 per cent compared to year-end 2019 and totalled EUR 4,221 M (4,110).

Each of these measures of business volume represented the highest level in the Bank's history.

CREDIT QUALITY

Lending to private individuals comprised 73 per cent of the loan portfolio. Home mortgage loans accounted for 77 per cent of this. Loans for the purchase of securities, with market-listed securities as collateral, comprised the second-largest type of lending to individuals. Historically, the Bank of Åland has not had any substantial loan losses on this type of lending. The corporate portfolio has a close affinity with the retail portfolio, since many of the companies are owned by customers who, as individuals, are also Private Banking customers.

The Bank of Åland is not yet seeing any increase in non-performing loans due to the coronavirus crisis.

Model-driven impairment loss provisions on financial assets in compliance with IFRS 9 increased sharply during the first quarter due to the coronavirus crisis, but so far it has not been necessary to utilise these provisions.

The Bank of Åland Group had EUR 12.2 M (12.4 on December 31, 2019) in impairment loss provisions, of which EUR 0.5 M (0.5) in Stage 1, EUR 3.0 M (0.9) in Stage 2 and EUR 8.6 M (11.1) in Stage 3.

Stage 3 loans increased during the first nine months of 2020 by EUR 21.4 M to EUR 54.9 M. Most of the increase was related to a single loan, which was renegotiated in early September and assigned further collateral. The loan in question remains in Stage 3 due to the waiting period required under the existing accounting principles. There is no need to report impairment losses, however. Stage 3 loans as a share of gross receivables from the public totalled 1.30 per cent (0.81). The level of provisions for Stage 3 loans amounted to 16 (33) per cent. Most of these loans have good collateral.

LIQUIDITY AND BORROWING

The Bank of Åland's liquidity reserve in the form of cash and deposits with the central bank, account balances and investments with other banks, liquid interest-bearing securities plus holdings of unencumbered covered bonds issued by the Bank amounted to EUR 1,028 M on September 30, 2020 (1,129 on December 31, 2019). This was equivalent to 18 (20) per cent

of total assets and 24 (27) per cent of receivables from the public.

In March EUR 100 M in non-covered bonds was repaid, and in May a further EUR 250 M in covered bonds. As a replacement for the capital market borrowing that was repaid, the Bank of Åland took advantage of the funding programme that Sveriges Riksbank (Sweden's central bank) is offering, secured among other things by a new covered bond that was issued from the Swedish pool. On September 30, 2020, the average remaining maturity of bonds outstanding was about 2.75 (2.5) years.

On September 30, 2020, the Bank of Åland's core funding ratio, defined as receivables from the public divided by deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued – amounted to 96 (90) per cent.

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

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 65 (65) per cent and covered bonds issued accounted for 17 (22) per cent.

The liquidity coverage ratio (LCR) amounted to 138 (139) per cent. The net stable funding ratio (NSFR) amounted to 109 (115) per cent.

RATING

The Bank of Åland has a credit rating from the Standard & Poor's Global Ratings agency of BBB/A-2 with a negative outlook for its long- and short-term borrowing. The outlook was downgraded from positive to negative in May 2020 based on the ratings agency's revision in its future economic outlook for Finland as a consequence of the coronavirus pandemic. Covered bonds issued by the Bank of Åland have a credit rating of AAA with a stable outlook.

EQUITY AND CAPITAL ADEQUACY

During the report period, equity capital changed in the amount of profit for the period, EUR 21.7 M; other comprehensive income, EUR -0.5 M; the issuance of new shares as part of the incentive programme, EUR 0.2 M; and EUR 0.0 M related to the share savings programme. On September 30, 2020, equity capital amounted to EUR 279.8 M (258.4 on December 31, 2019).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR -0.5 M after taxes, in compliance with IAS 19.

Common equity Tier 1 capital rose by EUR 14.5 M or 7 per cent during the first nine months of 2020 to EUR 226.0 M (211.5). Unlike the periods ending March 31 and June 30, the now-predicted dividend distribution for the 2019 financial year as well as the predicted dividend for the 2020 financial year have been subtracted from common equity Tier 1 capital.

The risk exposure amount increased by 7 per cent during the first nine months of 2020 and totalled EUR 1,693 M (1,583). The risk exposure amount for credit risk rose by EUR 103 M or 8 per cent. The operational risk exposure amount, calculated using a three-year moving average of the Group's income, increased by EUR 7 M.

The common equity Tier 1 (CET1) capital ratio was unchanged and amounted to 13.4 (13.4) per cent. Since the Bank of Åland

has no hybrid capital, its CET1 capital ratio is the same as its Tier 1 capital ratio.

Due to the coronavirus pandemic, regulatory authorities have introduced a number of mitigation measures in the calculation of capital adequacy. One of these is related to impairment losses in compliance with IFRS 9 that are directly connected to the pandemic. These losses may be added back to the capital base ("own funds") in their entirety and may then be phased out. This amount totalled EUR 2.1 M on September 30. In the fourth quarter, the Bank of Åland will utilise an additional mitigation measure related to a higher supporting factor for small and medium sized enterprises (SMEs). A further proposal, now being circulated for official commentary, is related to intangible assets that may be added back to own funds. The Bank intends to apply this measure as soon as it is approved. These two mitigation measures would have improved the bank's pro forma CET1 capital ratio on September 30 to 13.9 per cent.

The total capital ratio decreased to 15.5 (15.8) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. In light of the coronavirus crisis, several of these buffer requirements have been lowered.

The capital conservation buffer requirement, 2.5 per cent of common equity Tier 1 capital, applies in all European Union countries. The countercyclical capital buffer requirement may vary between 0-2.5 per cent. For Finnish exposures, the requirement remains 0.0 per cent. For Swedish exposures, the requirement was lowered from 2.5 per cent to 0.0 per cent.

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

The systemic risk buffer of 1 per cent introduced by the Finnish FSA on July 1, 2019 due to Nordea's move of its head office from Sweden to Finland has now been lowered to 0.0 per cent.

The buffer requirement established by FIN-FSA related to Pillar 2 capital adequacy regulations, totalling 1.5 per cent of the Group's risk exposure amount (REA), still applies. This requirement is related to credit concentration risk (1.0 per cent of REA) and interest rate risk in the balance sheet (0.5 per cent of REA).

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

- Common equity Tier 1 capital ratio 8.5 per cent
- Tier 1 capital ratio 10.0 per cent
- Total capital ratio 12.0 per cent

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

- Common equity Tier 1 capital ratio +4.9 percentage points
- Tier 1 capital ratio +3.4 percentage points
- Total capital ratio +3.5 percentage points

The Bank of Åland has no minimum requirement for own funds and eligible liabilities (MREL) under European Union regulations.

DIVIDEND

Because of the prevailing pandemic, on March 28 FIN-FSA recommended that small banks abstain from approving dividend distributions before October 1, 2020. On July 28, 2020, FIN-FSA announced that it is extending its recommendation not to

make binding decisions on dividend distributions before January 1, 2021.

The Bank of Åland's earnings for the 2019 financial year were the highest in the Bank's 100-year history. After three quarters, the Bank's forecast for the 2020 financial year indicates a net operating profit that will be better or significantly better than its 2019 net operating profit of EUR 33.2 M.

The Bank's Board of Directors notes that earnings for 2019 and the forecast for 2020 together make the Bank's dividend payment capacity significantly larger than during previous years.

Given the information that the Bank of Åland's Board has today on the Bank's financial trend, and given the information the Board has about the uncertainty in the world around us, on January 1, 2021 the Board intends to approve a dividend of EUR 1 per share (a regular dividend of EUR 0.80 and a 100th anniversary dividend of EUR 0.20) for the 2019 financial year, in compliance with the authorisation that the Board received from the Bank's Annual General Meeting on April 2, 2020. The planned record date for the dividend distribution is Tuesday, January 5, 2021. The planned dividend disbursement date is Tuesday, January 12, 2021 at the earliest.

IMPORTANT EVENTS AFTER CLOSE OF REPORT PERIOD

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

RISK AND UNCERTAINTIES

The single largest risk and uncertainty factor right now is the impact of the global coronavirus pandemic.

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.

Since 2017 the Bank of Åland has had a pending case with the Swedish Tax Agency concerning value-added tax (VAT) for the financial year 2016. The Tax Agency has announced a decision on the matter, in which it states that the Bank of Åland must pay about EUR 0.5 M in VAT. The Bank of Åland does not agree with the Tax Agency's assessment and has appealed its decision to the Administrative Court. No provision has been made in the accounts for any expense.

FUTURE OUTLOOK

On April 7, 2020, the Bank of Åland issued a stock exchange release announcing that due to low visibility and high volatility in the market, it had decided until further notice to refrain from issuing any outlook for 2020.

Now that the view has become clearer, the Bank announced in a stock exchange release on October 8, 2020 that its net operating profit is expected to be better or significantly better in 2020 than in the record year 2019, in other words better or significantly better than EUR 33.2 M.

FINANCIAL INFORMATION

The Year-end Report for 2020 will be published on Friday, February 5, 2021.

Mariehamn, October 22, 2020

THE BOARD OF DIRECTORS

Sustainability information

The Bank of Åland actively strives to lower the direct and indirect environmental impact caused by its operations.

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

Our target for 2020 is to reduce carbon dioxide emissions by 18 per cent compared to our 2019 outcome. Purchases of more green electricity starting in late 2019 have greatly reduced carbon dioxide emissions. Due to the coronavirus pandemic, the Bank suspended nearly all business travel during the second quarter. This also greatly reduced carbon dioxide emissions.

Bank of Åland Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
Carbon dioxide emissions, kg								
Paper	2,880	5,296	-46	3,870	-26	15,164	17,518	-13
Electricity	20,642	21,804	-5	27,940	-26	65,726	173,884	-62
Business travel	1,294	175		11,259	-89	32,946	87,731	-62
Total carbon dioxide	24,816	27,275	-9	43,069	-42	113,836	279,133	-59

Bank of Åland Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
Paper consumption, kg	3,182	5,852	-46	4,276	-26	15,357	17,804	-14
Energy consumption, GWh	0.54	0.45	20	0.57	-5	1.53	1.69	-9
<i>of which renewable</i>	0.47	0.38	25	0.48	-2	1.32	1.15	14
<i>of which other</i>	0.07	0.07	-5	0.09	-22	0.22	0.54	-59
Number of business trips	51	23		306	-83	914	2,669	-66
<i>of which aircraft</i>	30	5		239	-87	645	1,786	-64
<i>of which ship</i>	4	0		33	-88	91	503	-82
<i>of which train</i>	17	18	-6	34	-50	178	380	-53

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Summary income statement

Group	Note	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M									
Net interest income	5	14.7	14.8	-1	13.3	10	44.0	39.9	10
Net commission income	6	15.2	15.7	-3	13.8	10	47.9	41.7	15
Net income from financial items at fair value	7	0.6	0.0		1.6	-61	1.4	2.8	-50
IT income		4.9	5.4	-9	4.0	21	15.9	12.6	26
Other operating income		0.4	0.4	1	0.1		0.9	0.5	87
Total income		35.8	36.3	-1	32.9	9	110.0	97.5	13
Staff costs		-15.3	-15.6	-2	-13.4	15	-46.1	-42.4	9
Other expenses	8	-6.4	-7.1	-11	-6.3	0	-22.5	-21.1	7
Depreciation/amortisation		-3.1	-3.1	2	-2.9	9	-9.2	-8.5	9
Total expenses		-24.8	-25.8	-4	-22.5	10	-77.8	-72.0	8
Profit before impairment losses		11.0	10.6	4	10.4	6	32.3	25.5	27
Impairment losses on financial assets, net	9	-0.3	-0.8	-61	-0.8	-64	-4.9	-1.4	
Net operating profit		10.7	9.8	9	9.5	12	27.4	24.1	14
Income taxes		-2.2	-2.0	7	-1.9	11	-5.7	-5.0	15
Profit for the period		8.5	7.8	10	7.6	12	21.7	19.1	14
Attributable to:									
Non-controlling interests		0.0	0.0		0.0	52	0.0	0.0	
Shareholders in Bank of Åland Plc		8.5	7.8	10	7.6	12	21.7	19.1	14
Earnings per share, EUR		0.55	0.50	10	0.49	12	1.39	1.23	13
Earnings per share after dilution, EUR		0.55	0.50	10	0.49	12	1.39	1.23	13
Earnings per share, EUR, moving 12-month average to end of report period		1.86	1.80	3	1.63	14			

Summary statement of other comprehensive income

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Profit for the period	8.5	7.8	10	7.6	12	21.7	19.1	14
Assets measured via other comprehensive income								
Changes in valuation at fair value	0.9	3.0	-69	0.4		2.8	3.5	-21
Transferred to the income statement	-0.2	-0.4	-53	-1.5	-88	-1.6	-2.1	-25
Translation differences								
Gains/Losses arising during the period	-0.5	3.5		-0.7	-33	-0.8	-2.4	-68
Taxes on items that have been or may be reclassified to the income statement	-0.1	-0.5	-72	0.2		-0.2	-0.3	-15
<i>of which assets measured via other comprehensive income</i>	-0.1	-0.5	-72	0.2		-0.2	-0.3	-15
Items that have been or may be reclassified to the income statement	0.1	5.5	-98	-1.6		0.2	-1.3	
Changes in value of equity instruments	-0.1	0.5		0.0		-0.2	0.0	
Re-measurements of defined benefit pension plans	-0.1	-0.3	-71	-1.7	-95	-0.6	-4.0	-85
Taxes on items that may not be reclassified to the income statement	0.0	0.0		0.3	-91	0.2	0.8	-80
<i>of which changes in value of equity instruments</i>	0.0	-0.1		0.0		0.0	0.0	
<i>of which re-measurements of defined-benefit pension plans</i>	0.0	0.1	-71	0.3	-95	0.1	0.8	-85
Items that may not be reclassified to the income statement	-0.1	0.2		-1.4	-91	-0.6	-3.2	-80
Other comprehensive income	0.0	5.7		-3.0	-99	-0.5	-4.5	-89
Total comprehensive income for the period	8.5	13.5	-37	4.6	86	21.2	14.6	45
Attributable to:								
Non-controlling interests	0.0	0.0		0.0	52	0.0	0.0	
Shareholders in Bank of Åland Plc	8.5	13.5	-37	4.6	86	21.2	14.6	45

Income statement by quarter

Group	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
EUR M					
Net interest income	14.7	14.8	14.5	14.0	13.3
Net commission income	15.2	15.7	16.9	16.3	13.8
Net income from financial items at fair value	0.6	0.0	0.7	1.1	1.6
IT income	4.9	5.4	5.7	4.8	4.0
Other operating income	0.4	0.4	0.1	0.2	0.1
Total income	35.8	36.3	37.9	36.4	32.9
Staff costs	-15.3	-15.6	-15.2	-14.6	-13.4
Other expenses	-6.4	-7.1	-9.0	-7.6	-6.3
Depreciation/amortisation	-3.1	-3.1	-3.1	-3.3	-2.9
Total expenses	-24.8	-25.8	-27.2	-25.5	-22.5
Profit before impairment losses	11.0	10.6	10.7	10.9	10.4
Net impairment losses on financial assets	-0.3	-0.8	-3.8	-1.8	-0.8
Net operating profit	10.7	9.8	6.9	9.1	9.5
Income taxes	-2.2	-2.0	-1.5	-1.9	-1.9
Profit for the period	8.5	7.8	5.4	7.2	7.6
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	8.5	7.8	5.4	7.2	7.6

Summary balance sheet

Group	Note	Sep 30, 2020	Dec 31, 2019	%	Sep 30, 2019	%
EUR M						
Assets						
Cash and balances with central banks		560	490	14	397	41
Debt securities		736	789	-7	968	-24
Receivables from credit institutions		49	66	-25	63	-21
Receivables from the public and public sector	10, 11	4,221	4,110	3	3,985	6
Shares and participations		10	9	2	4	
Participations in associated companies		1	0		0	
Derivative instruments	13	23	21	8	26	-13
Intangible assets		24	25	-4	21	18
Tangible assets		34	32	6	33	3
Investment properties		0	0	-3	0	-3
Current tax assets		0	0	74	1	-79
Deferred tax assets		5	5	0	6	-17
Other assets		38	37	2	30	26
Accrued income and prepayments		25	22	16	21	17
Total assets		5,726	5,607	2	5,555	3
Liabilities						
Liabilities to credit institutions		474	210		195	
Liabilities to the public and public sector		3,459	3,368	3	3,288	5
Debt securities issued	12	1,335	1,604	-17	1,653	-19
Derivative instruments	13	13	12	7	12	6
Current tax liabilities		3	3	7	3	39
Deferred tax liabilities		32	31	3	30	5
Other liabilities		57	50	15	55	4
Provisions		0	0	71	0	20
Accrued expenses and prepaid income		37	35	4	35	3
Subordinated liabilities		36	36	-1	36	1
Total liabilities		5,446	5,349	2	5,308	3
Equity capital and non-controlling interests						
Share capital		42	42		42	
Share premium account		33	33		33	
Reserve fund		25	25		25	
Fair value reserve		2	2	1	-2	
Unrestricted equity capital fund		28	27	1	27	1
Retained earnings		151	129	16	121	24
Shareholders' portion of equity capital		280	258	8	247	13
Non-controlling interests' portion of equity capital		0	0	9	0	0
Total equity capital		280	258	8	247	13
Total liabilities and equity capital		5,726	5,607	2	5,555	3

Statement of changes in equity capital

Group

EUR M	Share capital	Share premium account	Reserve fund	Fair value reserve	Translation difference	Unrestricted equity capital fund	Retained earnings	Shareholders' portion of equity capital	Non-controlling interests' portion of equity capital	Total
Equity capital, Dec 31, 2018	42.0	32.7	25.1	-0.1	-0.4	27.1	116.0	242.4	0.0	242.4
Profit for the period							19.1	19.1	0.0	19.1
Other comprehensive income				1.1	-2.4		-3.2	-4.5		-4.5
<i>Transactions with the Group's owners</i>										
Dividends paid							-10.9	-10.9		-10.9
Incentive programme	0.1					0.3	0.0	0.4		0.4
Share savings programme							0.1	0.1		0.1
Equity capital, Sep 30, 2019	42.0	32.7	25.1	1.0	-2.8	27.4	121.2	246.6	0.0	246.7
Profit for the period							7.2	7.2	0.0	7.2
Other comprehensive income				2.0	1.5		0.9	4.5		4.5
<i>Transactions with the Group's owners</i>										
Share savings programme							0.0	0.0		0.0
Equity capital, Dec 31, 2019	42.0	32.7	25.1	3.1	-1.3	27.4	129.3	258.3	0.0	258.4
Profit for the period							21.7	21.7	0.0	21.7
Other comprehensive income				0.8	-0.8		-0.5	-0.5		-0.5
<i>Transactions with the Group's owners</i>										
Incentive programme						0.2		0.2		0.2
Share savings programme							0.0	0.0		0.0
Equity capital, Sep 30, 2020	42.0	32.7	25.1	3.9	-2.1	27.6	150.6	279.8	0.0	279.8

Summary cash flow statement

Group	Jan-Sep 2020		Jan-Dec 2019		Jan-Sep 2019	
EUR M						
Cash flow from operating activities						
Net operating profit	27.4		33.2		24.1	
Adjustment for net operating profit items not affecting cash flow	19.8		22.7		15.6	
Gains/losses from investing activities			-0.1		0.0	
Income taxes paid	-4.7		-2.1		-2.6	
Changes in assets and liabilities in operating activities	383.2	425.7	-88.7	-35.0	-250.3	-213.3
Cash flow from investing activities		-4.2		-12.8		-5.3
Cash flow from financing activities		-351.2		4.9		78.0
Exchange rate differences in cash and cash equivalents		-0.7		-2.4		-5.3
Change in cash and cash equivalents		69.6		-45.3		-146.0
Cash and cash equivalents at beginning of period		495.7		541.0		541.0
Cash and cash equivalents at end of period		565.3		495.7		395.1
Change in cash and cash equivalents		69.6		-45.3		-146.0

Notes to the consolidated Interim Report

1. Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public limited company with its Head Office in Mariehamn. It is a commercial bank with a total of 10 offices in the Åland Islands, elsewhere in Finland and in Sweden. 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 address:
Bank of Åland Plc
Nygatan 2
AX-22100 Mariehamn, Åland, Finland

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

This Interim Report for the period January 1–September 2020 was approved by the Board of Directors on October 21, 2020.

2. Basis for preparation of the Interim Report and essential accounting principles

BASIS FOR PREPARATION OF THE INTERIM REPORT

This Interim Report for the period January 1–September 30, 2020 has been prepared in compliance with the International Financial Reporting Standards (IFRSs) and International Accounting Standard IAS 34, "Interim Financial Reporting", which have been adopted by the European Union.

The Interim Report does not contain all information and all notes required in annual financial statements and should be read together with the consolidated financial statements for the year ending December 31, 2019.

Tables show correct rounded-off figures on each line, but this does not mean that rounded-off figures add up to the correct total. In cases where rounded-off figures add up to zero, they are shown as "0" in the tables, while a lack of figures is shown as an empty space.

ESSENTIAL ACCOUNTING PRINCIPLES

The essential accounting principles that have been used in preparing the Interim Report are the same as those used in preparing the financial statements for the year ended December 31, 2019.

ESTIMATES AND JUDGEMENTS

Preparation of this Interim Report in compliance with IFRSs requires the Company's Executive Team to make assessments, estimates and assumptions 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 estimates are based on the best knowledge of the Executive Team on current events and measures, the actual outcome may diverge from the estimates.

The substantial accounting assessments that have been made when applying the Group's accounting principles are primarily related to the application of the new impairment model in compliance with IFRS 9 and accounting of financial instruments.

Model-driven impairment losses on financial assets in compliance with IFRS 9 greatly increased due to an expected economic downturn. In the prevailing situation, with the

ongoing coronavirus crisis, the Bank of Åland has also analysed selected economic sectors and types of loans that it believes will be affected most by the crisis. This assessment is based on the expectation that the communities where the Bank operates will not be shut down again.

The Executive Team has concluded that a group provision should be made due to a heightened risk of losses, primarily in the corporate loan portfolio. This provision is related to all selected economic sectors, which for the Bank of Åland mainly refers to sectors classified as service operations. Customers who, under the prevailing circumstances, apply for postponement of loan principal payments are not automatically moved from Stage 1 to Stage 2, since the postponement of principal payments in itself does not represent a heightened risk of losses. For the Bank of Åland's part, the loan volume that has been granted postponement of principal payments without having been moved to Stage 2 amounts to EUR 0.5 B.

As for the recognition of leases in compliance with IFRS 16, estimates have been made in establishing the leasing period and the choice of discount rate.

3. Segment report

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 as well as Asset Management (Ålandsbanken Fondbolag Ab, Ålandsbanken Fonder Ab and Ålandsbanken Fonder II Ab). "Premium Banking" encompasses operations in all customer segments excluding private banking in Åland, on the Finnish mainland, in Sweden and Asset Management. "IT" encompasses the subsidiary Crosskey Banking Solutions Ab Ltd including Model IT Oy and S-Crosskey Ab. "Corporate and Other" encompasses all central corporate units in the Group including Treasury and external partner collaborations.

Group	Jan-Sep 2020					
EUR M	Private Banking	Premium Banking	IT	Corporate and Other	Eliminations	Total
Net interest income	21.3	20.2	0.0	2.5	0.0	44.0
Net commission income	34.5	10.8	-0.1	2.3	0.2	47.9
Net income from financial items at fair value	0.0	0.1	-0.1	1.4	0.0	1.4
IT income			27.2	0.9	-12.2	15.9
Other income	0.0	0.0	0.7	1.1	-0.9	0.9
Total income	55.8	31.1	27.8	8.2	-13.0	110.0
Staff costs	-11.8	-5.0	-14.4	-14.9	0.0	-46.1
Other expenses	-6.7	-3.9	-9.0	-14.4	11.6	-22.5
Depreciation/amortisation	-0.7	-0.2	-2.0	-8.1	1.8	-9.2
Internal allocation of expenses	-15.5	-14.6		30.1		0.0
Total expenses	-34.6	-23.8	-25.4	-7.3	13.3	-77.8
Profit before impairment losses	21.3	7.4	2.4	0.9	0.4	32.3
Net impairment losses on financial assets	-1.5	-3.1		-0.2		-4.9
Net operating profit	19.7	4.3	2.4	0.6	0.4	27.4
Income taxes	-4.1	-0.9	-0.5	-0.3		-5.7
Profit for the period attributable to shareholders in Bank of Åland Plc	15.7	3.4	1.9	0.4	0.4	21.7
Business volume						
Receivables from the public and public sector	1,853	2,248		122	-1	4,221
Deposits from the public and public sector	1,734	1,686		58	-19	3,459
Actively managed assets	6,100	442		5		6,547
Risk exposure amount	683	614	75	321		1,693
Equity capital	93	99	25	63		280
Financial ratios etc.						
Return on equity after taxes, % (ROE)	21.6	4.6	10.7	1.0		10.8
Expense/income ratio	0.62	0.76	0.91	0.89		0.71

Group

Jan-Sep 2019

EUR M	Private Banking	Premium Banking	IT	Corporate and Other	Eliminations	Total
Net interest income	17.4	19.5	0.0	3.0	0.0	39.9
Net commission income	30.3	9.2	0.0	1.9	0.4	41.7
Net income from financial items at fair value	0.0	0.1	0.0	2.7	0.0	2.8
IT income			24.3		-11.6	12.6
Other income	0.0	0.0	0.7	0.7	-1.0	0.5
Total income	47.7	28.8	24.9	8.2	-12.2	97.5
Staff costs	-11.1	-4.8	-12.3	-14.2		-42.4
Other expenses	-6.3	-3.4	-8.6	-12.7	9.9	-21.1
Depreciation/amortisation	-0.6	-0.2	-1.9	-7.2	1.5	-8.5
Internal allocation of expenses	-15.2	-13.3		28.6		0.0
Total expenses	-33.2	-21.7	-22.8	-5.6	11.4	-72.0
Profit before impairment losses	14.5	7.1	2.1	2.6	-0.8	25.5
Net impairment losses on financial assets	0.0	-1.2		-0.3	0.0	-1.4
Net operating profit	14.5	5.9	2.1	2.4	-0.8	24.1
Income taxes	-3.0	-1.2	-0.4	-0.3		-5.0
Profit for the period attributable to shareholders in Bank of Åland Plc	11.5	4.7	1.7	2.0	-0.8	19.1
Business volume						
Receivables from the public and public sector	1,754	2,218		14		3,985
Deposits from the public and public sector	1,639	1,609		61	-20	3,288
Actively managed assets	5,414	370		3		5,788
Risk exposure amount	695	602	36	238		1,571
Equity capital	102	103	13	29		247
Financial ratios etc.						
Return on equity after taxes, % (ROE)	15.8	6.2	17.5	8.4		10.5
Expense/income ratio	0.70	0.75	0.91	0.68		0.74

4. Changes in Group structure

During the second quarter, the Bank of Åland established the wholly owned subsidiary Kiinteistö Oy Espoon Koivurinne, which is in the property management business. In addition, Promodus Oy and Puiretti Oy were merged with Crosskey Banking Solutions Ab Ltd. These companies became part of the Group when Crosskey acquired Model IT Oy last year.

5. Net interest income

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Receivables from credit institutions and central banks	-0.1	-0.1	19	0.0		-0.1	-0.1	-26
Receivables from the public and public sector	16.3	16.4	-1	15.3	7	48.9	45.8	7
Debt securities	0.1	0.1	-17	0.1	-19	0.3	0.5	-44
Derivatives	0.3	0.4	-30	0.2	19	1.1	0.6	81
Other interest income	0.0	0.0		0.0	-39	0.0	0.0	-86
Total interest income	16.6	16.9	-1	15.6	6	50.1	46.7	7
<i>of which interest income according to the effective interest method</i>	<i>16.5</i>	<i>16.7</i>	<i>-1</i>	<i>15.6</i>	<i>6</i>	<i>49.8</i>	<i>46.6</i>	<i>7</i>
Liabilities to credit institutions and central banks	0.0	-0.1	-46	-0.1	-68	-0.3	-0.4	-26
Liabilities to the public and public sector	0.5	0.5	-2	1.0	-44	1.7	2.7	-36
Debt securities issued	0.8	0.7	15	0.8	2	2.2	2.7	-18
Subordinated liabilities	0.3	0.3	1	0.3	-5	0.9	1.0	-12
Derivatives	0.3	0.5	-48	0.3	-10	1.5	0.8	96
Other interest expenses	0.0	0.0	-16	0.0	-38	0.1	0.1	-35
Total interest expenses	1.9	2.0	-6	2.3	-16	6.1	6.9	-11
<i>of which interest expenses according to the effective interest method</i>	<i>1.9</i>	<i>2.0</i>	<i>-5</i>	<i>2.2</i>	<i>-16</i>	<i>5.9</i>	<i>7.0</i>	<i>-16</i>
Net interest income	14.7	14.8	-1	13.3	10	44.0	39.9	10
Interest margin, per cent	1.06	1.11		0.99		1.09	0.99	
Investment margin, per cent	1.01	1.05		0.96		1.03	0.96	

Interest from derivative instruments is recognised together with the item that they hedge within the framework of hedge accounting (fair value hedging and cash flow hedging). Interest margin is interest on interest-bearing assets divided by the average balance of assets minus interest on interest-bearing liabilities divided by the average balance of liabilities. Average balance is calculated as the average of end-of-month figures for the period in question plus the opening balance for the period. Investment margin is net interest income divided by the average balance sheet total.

6. Net commission income

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Bank commissions	2.4	2.5	-7	2.6	-9	7.3	7.1	3
Asset management commissions	12.2	12.5	-2	10.5	16	38.6	32.7	18
Other commissions	0.6	0.7	-9	0.6	3	2.0	1.9	2
Net commission income	15.2	15.7	-3	13.8	10	47.9	41.7	15

7. Net income from financial items at fair value

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Valuation category fair value via the income statement ("profit and losses")								
Derivative instruments	0.0	0.0		0.0		0.0	0.0	-93
Valuation category fair value via the income statement ("profit and losses")	0.0	0.0		0.0		0.0	0.0	-93
Hedge accounting								
<i>of which hedging instruments</i>	0.0	0.1		1.4		0.7	8.5	-92
<i>of which hedged item</i>	0.0	-0.3		-1.3		-0.9	-8.6	-89
Hedge accounting	0.0	-0.2		0.1	-79	-0.2	0.0	
Net income from foreign currency revaluation	0.0	-0.1	-81	0.0	-44	-0.4	0.0	
Modification results and expected credit losses	0.0	0.0		0.1	-73	0.1	0.1	31
Net income from financial assets	0.6	0.4	64	1.5	-60	2.0	2.8	-28
Total	0.6	0.0		1.6	-61	1.4	2.8	-50

8. Other expenses

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Stability fee	0.0	0.6	-100	0.0		2.6	1.8	50
Other administrative expenses	6.4	6.5	-2	6.3	0	19.8	19.3	3
Total	6.4	7.1	-11	6.3	0	22.5	21.1	7

9. Net impairment losses on financial assets

Group	Q3 2020	Q2 2020	%	Q3 2019	%	Jan-Sep 2020	Jan-Sep 2019	%
EUR M								
Impairment losses, Stage 1	-0.1	-0.1	-19	0.0		0.1	-0.1	
Impairment losses, Stage 2	-0.1	-0.2	-34	-0.1		2.2	-0.1	
Net impairment losses, Stages 1-2	-0.3	-0.4	-28	-0.1		2.3	-0.2	
Impairment losses, Stage 3								
New and increased individual provisions	1.9	1.7	14	2.0	-2	4.6	4.0	15
Recovered from previous provisions	-1.4	-0.6		-0.8	82	-2.2	-2.3	-2
Utilised for actual loan losses	-0.2	-0.7	-72	-1.1	-82	-4.8	-1.7	
Actual loan losses	0.3	0.8	-64	1.1	-73	5.3	2.2	
Recoveries of actual loan losses	-0.1	-0.1	-13	-0.4	-73	-0.2	-0.5	-56
Net impairment losses, Stage 3	0.6	1.1	-51	0.9	-38	2.6	1.7	57
Total impairment losses	0.3	0.8	-61	0.8	-64	4.9	1.4	
of which receivables from the public and public sector	0.3	0.8	-59	0.8	-63	4.8	1.4	
of which off-balance sheet commitments	0.0	0.0		0.0	-84	0.0	0.0	
of which debt securities at amortised cost	0.0	0.0		0.0		0.0	0.0	14
Loan loss level, receivables from the public and public sector, %	0.03	0.08		0.08		0.16	0.05	

Provisions increased during the first quarter of 2020 due to a group provision of EUR 2.0 M related to heightened risk of losses in the corporate loan portfolio, which is recognised in Stage 2.

10. Receivables from the public and public sector by purpose

Group	Sep 30, 2020			Dec 31, 2019	%	Sep 30, 2019	%
	Receivables before provisions	Provisions	Receivables after provisions	Receivables after provisions		Receivables after provisions	
EUR M							
Private individuals							
Home loans	2,358	-3	2,355	2,266	4	2,249	5
Securities and other investments	333	0	333	325	2	322	3
Business operations	105	-1	104	108	-4	103	1
Other household purposes	280	-3	277	267	4	243	14
Total, private individuals	3,077	-8	3,069	2,966	3	2,917	5
Companies							
Shipping	56	-1	55	50	9	55	1
Wholesale and retail trade	39	0	39	42	-7	45	-14
Housing operations	306	0	306	312	-2	292	5
Other real estate operations	195	-1	195	210	-7	199	-2
Financial and insurance operations	234	0	234	220	7	201	16
Hotel and restaurant operations	31	0	31	29	8	28	13
Agriculture, forestry and fishing	11	0	11	11	-7	12	-12
Construction	98	0	97	80	21	68	43
Other industry and crafts	38	0	38	36	3	36	4
Other service operations	103	-2	101	109	-8	91	11
Total, companies	1,110	-4	1,106	1,100	1	1,027	8
Public sector and non-profit organisations	47	0	47	44	5	41	13
Total, public sector and non-profit organisations	47	0	47	44	5	41	13
Total	4,234	-12	4,221	4,110	3	3,985	6

The Bank of Åland is not yet seeing any increase in non-performing loans due to the prevailing coronavirus crisis, but in light of an expected economic downturn the Bank has decided to set aside EUR 2.0 M in a group provision related to heightened risk of losses, primarily in the corporate loan portfolio. This group provision is recognised above as part of "Other service operations".

11. Receivables from the public and public sector by stage

Group	Jan 1, 2020 - Sep 30, 2020				Jan 1, 2019 - Sep 30, 2019
	Stage 1	Stage 2	Stage 3	Total	Total
EUR M					
Carrying amount, gross					
Opening balance, January 1	3,972.5	116.4	33.5	4,122.5	4,033.0
Closing balance, September 30	4,028.9	149.8	54.9	4,233.6	3,996.5
Provisions for expected losses					
Opening balance, January 1	0.5	0.9	11.1	12.4	11.3
Increases due to issuances and acquisitions	0.1	0.0	0.0	0.1	0.3
Decrease due to removal from balance sheet	-0.1	-0.1	-1.2	-1.4	-1.2
Decrease due to write-offs	0.0	0.0	-3.5	-3.5	-1.7
Transfer to Stage 1	0.7	-0.6	0.0	0.0	0.0
Transfer to Stage 2	-0.1	0.3	-0.2	0.0	0.0
Transfer to Stage 3	0.0	-0.5	0.5	0.0	0.0
Net changes due to changed credit risk	-0.5	3.1	1.8	4.5	2.4
Net changes due to changed estimation method	0.0	0.0	0.0	0.0	0.0
Exchange rate differences and other adjustments	0.0	0.0	0.0	0.0	0.0
Closing balance, September 30	0.5	3.0	8.6	12.2	11.0
Carrying amount, net					
Opening balance, January 1	3,972.0	115.5	22.5	4,110.0	4,021.7
Closing balance, September 30	4,028.4	146.7	46.3	4,221.4	3,985.5
	Sep 30,	Dec 31,	Sep 30,		
Impairment losses, IFRS 9 - Financial ratios	2020	2019	2019		
Total provision ratio, receivables from the public, %	0.29	0.30	0.28		
Provision ratio, Stage 1, receivables from the public, %	0.01	0.01	0.02		
Provision ratio, Stage 2, receivables from the public, %	2.03	0.74	0.69		
Provision ratio, Stage 3, receivables from the public, %	16	33	25		
Share of receivables from the public in Stage 3, %	1.30	0.81	0.93		

Provisions increased during the first quarter of 2020 due to a group provision of EUR 2.0 M related to heightened risk of losses in the corporate loan portfolio, which is recognised in Stage 2.

12. Debt securities issued

Group	Sep 30, 2020	Dec 31, 2019	%	Sep 30, 2019	%
EUR M					
Certificates of deposit	187	108	73	84	
Covered bonds	898	1,145	-22	1,217	-26
Senior non-covered bonds	251	351	-29	352	-29
Total	1,335	1,604	-17	1,653	-19

13. Derivative instruments

Group	Sep 30, 2020						Dec 31, 2019		
	Nominal amount/maturity			Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
EUR M	Under 1 yr	1-5 yrs	over 5 yrs						
Derivatives for trading									
Interest-related contracts									
<i>Interest rate swaps</i>		58	6	64	3	3	65	3	3
Currency-related contracts									
<i>Currency forward contracts</i>	409			409	4	4	716	4	5
Total	409	58	6	473	7	7	781	7	8
Derivatives for fair value hedge									
Interest-related contracts									
<i>Interest rate swaps</i>	261	825	39	1,125	16	6	1,356	14	4
Total	261	825	39	1,125	16	6	1,356	14	4
Total derivative instruments	670	883	45	1,598	23	13	2,136	21	12
<i>of which cleared</i>	261	880	42	1,183	17	9	1,414	16	7

14. Financial instruments measured at fair value

Group		Sep 30, 2020		
	Instruments with quoted prices (Level 1)	Measurement techniques based on observable market data (Level 2)	Measurement techniques based on non-observable market data (Level 3)	Total
EUR M				
Debt securities	456			456
Receivables from the public and public sector		120		120
Shares and participations	0	0	10	10
Derivative instruments		23		23
Total financial assets	456	142	10	607
Debt securities issued		901		901
Derivative instruments		13		13
Total financial liabilities		914		914

Group		Dec 31, 2019		
	Instruments with quoted prices (Level 1)	Measurement techniques based on observable market data (Level 2)	Measurement techniques based on non-observable market data (Level 3)	Total
EUR M				
Debt securities	545			545
Receivables from the public and public sector		102		102
Shares and participations	0	0	9	9
Derivative instruments		21		21
Total financial assets	545	123	9	677
Debt securities issued		1,158		1,158
Derivative instruments		12		12
Total financial liabilities		1,170		1,170

Changes in Level 3 holdings		Jan 1 - Sep 30, 2020
EUR M		Shares and participations
Carrying amount on January 1		9.4
New purchases/reclassifications		0.4
Change in value recognised in "Other comprehensive income"		-0.2
Carrying amount on June 30		9.5

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. In companies that have carried out a new share issue without preferential rights based on previous holdings, each share is valued at this issue price, with a deduction for share illiquidity. 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 tables on the previous page, 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, no instruments were moved between Levels 1 and 2. Changes in Level 3 are presented in a separate table on the previous page.

15. Off-balance sheet commitments

Group	Sep 30, 2020	Dec 31, 2019	%	Sep 30, 2019	%
EUR M					
Guarantees	40	9		8	
Unutilised overdraft limits	266	241	10	215	24
Unutilised credit card limits	85	79	8	79	8
Lines of credit	421	92		145	
Other commitments	29	23	29	30	-2
Total	842	444	90	477	77
Provision for expected loss	0	0	44	0	2

16. Assets pledged

Group	Sep 30, 2020	Dec 31, 2019	%	Sep 30, 2019	%
EUR M					
Lending to credit institutions	14	36	-59	40	-63
Debt securities	301	175	72	161	87
Loan receivables constituting collateral (cover pool) for covered bonds	1,515	1,584	-4	1,688	-10
Other assets pledged	3	3	20	3	21
Total	1,834	1,797	2	1,892	-3

During the period, no major shift has taken place concerning the scale of financial assets and liabilities that are subject to offsetting, netting agreements or similar agreements. Information about this type of agreements is included in the Bank of Åland's Annual Report, Note G45.

17. Capital adequacy

Group	Sep 30, 2020	Dec 31, 2019	%	Sep 30, 2019	%
EUR M					
Equity capital according to balance sheet	279.8	258.4	8	246.7	13
Foreseeable dividend	-26.0	-15.6	67	-9.1	
Common equity Tier 1 capital before deductions	253.9	242.8	5	237.6	7
Intangible assets	-24.1	-25.0	-4	-20.6	17
Non-controlling interests	0.0	0.0	9	0.0	0
Net other items	0.0	0.0	-32	0.0	-6
Further adjustments in value	-0.5	-0.6	-15	-0.8	-37
Expected losses according to IRB approach beyond recognised losses (deficit)	-5.8	-6.2	-8	-7.6	-24
Adjustments due to transitional rules related to IFRS 9	0.5	0.6	-18	0.6	-18
Mitigations related to IFRS 9 due to COVID-19	2.1				
Common equity Tier 1 capital	226.0	211.5	7	209.2	8
Additional Tier 1 capital					
Tier 1 capital	226.0	211.5	7	209.2	8
Supplementary capital instruments	36.0	36.2	-1	35.7	1
Expected losses according to IRB approach beyond recognised losses (surplus)		1.7	-100		
Supplementary capital	36.0	37.9	-5	35.7	1
Total capital base	262.0	249.4	5	244.9	7
Capital requirement for credit risk according to the IRB approach	42.7	40.8	5	41.0	4
Capital requirement for risk weighting floor, home mortgage loans	8.7	8.0	8	7.8	11
Capital requirement for credit risk according to standardised approach	65.9	60.2	9	59.3	11
Capital requirement for credit-worthiness adjustment risk	0.0	0.0	-22	0.0	68
Capital requirement for operational risk	18.2	17.6	3	17.6	3
Capital requirement	135.4	126.6	7	125.7	8
Capital ratios					
Common equity Tier 1 capital ratio, %*	13.4	13.4		13.3	
Tier 1 capital ratio, %	13.4	13.4		13.3	
Total capital ratio, %	15.5	15.8		15.6	
Risk exposure amount	1,693	1,583	7	1,571	8
of which % comprising credit risk	87	86		86	
of which % comprising credit-worthiness adjustment risk	0	0		0	
of which % comprising operational risk	13	14		14	

* If COVID-19 mitigation measures concerning the SME supporting factor and restoration of intangible assets to own funds had been taken into account and applied as of September 30, 2020, the Bank of Åland's common equity Tier 1 capital ratio would have been 13.9 per cent.

Requirements related to capital buffers, %	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019
Total common equity Tier 1 capital requirements including buffer requirements	8.5	10.7	10.7
of which common equity Pillar 1 capital requirement	4.5	4.5	4.5
of which common equity Pillar 2 capital requirement	1.5	1.5	1.5
of which capital conservation buffer requirement	2.5	2.5	2.5
of which countercyclical capital buffer requirement		1.2	1.2
of which systemic risk buffer requirement		1.0	1.0
Common equity Tier 1 capital available to be used as a buffer	13.4	13.4	13.3

Exposure class	Sep 30, 2020				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	177.0	143.8	59	85.1	6.8
Corporate, small and medium sized companies	372.9	336.1	63	211.8	16.9
Corporate, special lending	5.0	5.0	115	5.7	0.5
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	1,838.8	1,826.0	9	168.4	13.5
Retail with property as collateral (private individuals)	114.4	113.1	21	24.3	1.9
Retail, other (small and medium-sized companies)	34.3	32.8	21	6.9	0.5
Retail, other	339.7	291.6	11	31.2	2.5
Total exposures according to IRB approach	2,882.2	2,748.3	19	533.5	42.7
Credit risk according to standardised approach					
Central government or central banks	583.8	707.5	0	0.0	0.0
Regional governments or local authorities	59.6	85.7	0	0.0	0.0
Multilateral development banks	28.5	33.6	0	0.0	0.0
International organisations	4.0	4.0	0	0.0	0.0
Institutions	257.3	211.5	19	39.2	3.1
Corporates	574.7	211.3	99	209.2	16.7
Retail	556.5	141.1	74	104.3	8.3
Secured by mortgages on immovable property	1,052.8	1,049.0	33	345.5	27.6
Exposures in default	3.6	3.5	115	4.0	0.3
Covered bonds	470.2	470.0	10	49.2	3.9
Equity exposures	10.2	10.2	100	10.2	0.8
Other exposures	92.0	92.0	67	61.9	5.0
Total exposures according to standardised approach	3,693.1	3,019.5	27	823.4	65.9
Total risk exposure amount, credit risk	6,575.3	5,767.7	24	1,356.9	108.6

Exposure class	Dec 31, 2019				
EUR M	Gross exposure	Exposure at default	Risk weight %	Risk exposure amount	Capital requirement
Credit risk according to the IRB approach					
Without own LGD estimates					
Corporate, other large companies	143.9	130.5	57	75.0	6.0
Corporate, small and medium sized companies	352.6	313.6	60	189.6	15.2
Corporate, special lending	5.3	5.3	112	5.9	0.5
Using own LGD estimates					
Retail with property as collateral (small and medium-sized companies)	1,817.4	1,806.4	10	175.3	14.0
Retail with property as collateral (private individuals)	118.5	117.8	23	27.5	2.2
Retail, other (small and medium-sized companies)	35.6	35.1	21	7.2	0.6
Retail, other	350.6	308.0	9	29.0	2.3
Total exposures according to IRB approach	2,823.8	2,716.7	19	509.4	40.8
Credit risk according to standardised approach					
Central government or central banks	516.6	608.5	0	0.0	0.0
Regional governments or local authorities	45.2	69.9	0	0.0	0.0
Multilateral development banks	28.8	31.9	0	0.0	0.0
International organisations	4.0	4.0	0	0.0	0.0
Institutions	325.7	276.6	22	60.4	4.8
Corporates	479.7	184.0	99	182.2	14.6
Retail	249.7	88.6	73	64.7	5.2
Secured by mortgages on immovable property	993.5	991.9	33	322.7	25.8
Exposures in default	3.0	2.3	124	2.8	0.2
Covered bonds	503.4	503.3	10	52.1	4.2
Equity exposures	9.7	9.7	100	9.7	0.8
Other exposures	85.8	85.8	68	58.4	4.7
Total exposures according to standardised approach	3,245.1	2,856.5	26	752.9	60.2
Total risk exposure amount, credit risk	6,068.9	5,573.1	23	1,262.3	101.0

Leverage ratio	Sep 30, 2020	Dec 31, 2019	%	Sep 30, 2019	%
EUR M					
Tier 1 capital	226.0	211.5	7	209.2	8
Total exposure measure	5,872.1	5,663.4	4	5,628.8	4
of which balance sheet items	5,699.4	5,581.4	2	5,531.8	3
of which off-balance sheet items	172.7	82.0		96.9	78
Leverage ratio, %	3.8	3.7		3.7	

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

Translation

Report on review of the Interim Report of Bank of Åland Plc for the accounting period January 1 – September 30, 2020

To the Board of Directors of Bank of Åland Plc

Introduction

We have reviewed the summary balance sheet as of September 30, 2020 and the related summary income statement, summary statement of other comprehensive income, statement of changes in equity capital and summary cash flow statement of Bank of Åland Plc group for the nine-month period then ended, as well as other explanatory notes to the consolidated financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 Interim Financial Reporting and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the interim report based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and other generally accepted auditing practices and consequently does not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report, in all material respects, is not prepared in accordance with IAS 34 Interim Financial Reporting and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki, October 22, 2020

KPMG OY AB

Marcus Tötterman

Authorised Public Accountant, KHT

Fredrik Westerholm

Authorised Public Accountant, KHT

Jessica Björkgren

Authorised Public Accountant, KHT