

Interim Report

For the period January-September 2021 • October 26, 2021



January – September 2021

Compared to January – September 2020

- Net operating profit increased by 42 per cent to EUR 39.0 M (27.4).
- Net interest income increased by 5 per cent to EUR 46.0 M (44.0).
- Net commission income increased by 20 per cent to EUR 57.6 M (47.9).
- Total expenses increased by 15 per cent to EUR 89.5 M (77.8).
- Net impairment losses on financial assets (including recoveries) totalled EUR 1.4 M (4.9), equivalent to a loan loss level of 0.05 (0.16) per cent.
- Return on equity after taxes (ROE) increased to 15.1 (10.8) per cent.
- Earnings per share increased by 47 per cent to EUR 2.05 (1.39).
- The common equity Tier 1 capital ratio decreased to 13.9 per cent (14.3 per cent on December 31, 2020).
- Future outlook: The Bank of Åland expects its net operating profit in 2021 to be substantially better than in 2020.

The third quarter of 2021

Compared to the third quarter of 2020

- Net operating profit increased by 36 per cent to EUR 14.6 M (10.7).
- Net interest income increased by 5 per cent to EUR 15.5 M (14.7).
- Net commission income increased by 25 per cent to EUR 19.1 M (15.2).
- Total expenses increased by 20 per cent to EUR 29.8 M (24.8).
- Net impairment losses on financial assets (including recoveries) totalled EUR 0.8 M (0.3), equivalent to a loan loss level of 0.07 (0.03) per cent.
- Return on equity after taxes (ROE) increased to 16.7 (12.3) per cent.
- Earnings per share increased by 41 per cent to EUR 0.77 (0.55).

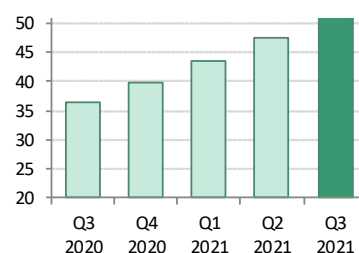
"We are continuing our strong growth in both Finland and Sweden. We have benefited from having continuously recruited new employees, and we have thus still had time to provide for both new and existing customers.

"All our volume metrics have reached new record levels. Over the 12-month period to September 30, 2021, actively managed assets grew to EUR 8,922 M (+36 per cent), deposits to EUR 3,836 M (+11 per cent) and lending to EUR 4,591 M (+9%), This positive volume trend has also generated our highest 9-month net operating profit ever, EUR 39.0 M, which was 42 per cent higher than during the corresponding period of last year."

Peter Wiklöf, Managing Director and Chief Executive

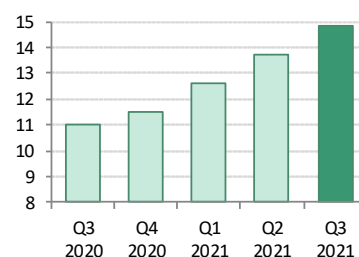
4-quarter moving net operating profit

EUR M



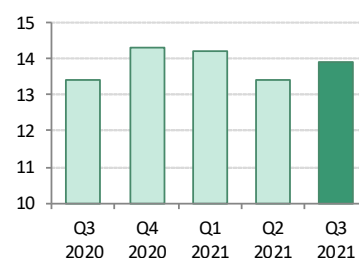
4-quarter moving ROE

Per cent



Common equity Tier 1 ratio

Per cent



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, six 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.

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Financial summary

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Income								
Net interest income	15.5	15.2	2	14.7	5	46.0	44.0	5
Net commission income	19.1	18.9	1	15.2	25	57.6	47.9	20
Net income from financial items at fair value	-1.7	-0.6		0.6		-1.9	1.4	
Other income	12.3	9.7	27	5.3		28.2	16.8	68
Total income	45.2	43.2	4	35.8	26	129.8	110.0	18
Total expenses								
Staff costs	-17.1	-18.5	-8	-15.3	12	-53.1	-46.1	15
Other expenses	-8.3	-7.7	7	-6.4	30	-26.2	-22.5	17
Depreciation/amortisation	-4.3	-2.9	49	-3.1	39	-10.2	-9.2	10
Total expenses	-29.8	-29.2	2	-24.8	20	-89.5	-77.8	15
Profit before impairment losses	15.4	14.1	9	11.0	40	40.4	32.3	25
Impairment losses on financial assets, net	-0.8	-0.5	69	-0.3		-1.4	-4.9	-72
Net operating profit	14.6	13.6	7	10.7	36	39.0	27.4	42
Income taxes	-2.5	-2.4	6	-2.2	16	-7.1	-5.7	24
Profit for the report period	12.1	11.2	8	8.5	42	31.9	21.7	47
Attributable to:								
Shareholders in Bank of Åland Plc	12.1	11.2	8	8.5	42	31.9	21.7	47
Volume								
Lending to the public	4,591	4,518	2	4,221	9			
Deposits from the public	3,836	3,801	1	3,459	11			
Actively managed assets ¹	8,922	8,541	4	6,547	36			
Equity capital	322	311	3	280	15			
Balance sheet total	6,353	6,261	1	5,726	11			
Risk exposure amount	1,827	1,812	1	1,693	8			
Financial ratios								
Return on equity after taxes, % (ROE) ²	16.7	16.4		12.3		15.1	10.8	
Return on equity after taxes, % (ROE), moving 12-month average to end of report period	14.8	13.7		11.0				
Expense/income ratio ³	0.66	0.67		0.69		0.69	0.71	
Loan loss level, % ⁴	0.07	0.05		0.03		0.05	0.16	
Gross share of loans in Stage 3, % ⁵	1.19	1.01		1.30				
Liquidity coverage ratio (LCR), % ⁶	149	152		138				
Net stable funding ratio (NSFR), % ⁷	109	110		109				
Loan/deposit ratio, % ⁸	120	119		122				
Common equity Tier 1 capital ratio, % ⁹	13.9	13.4		13.4				
Tier 1 capital ratio, % ¹⁰	15.5	15.1		13.4				
Total capital ratio, % ¹¹	16.7	16.6		15.5				
Leverage ratio, % ¹²	4.8	4.8		3.8				
Earnings per share, EUR ¹³	0.77	0.72	8	0.55	41	2.05	1.39	47
Earnings per share, EUR, moving 12-month average to end of report period	2.67	2.45	9	1.86	44			
Equity capital per share, EUR ¹⁴	18.74	18.09	4	17.95	4			
Working hours re-calculated to full-time equivalent	836	825	1	773	8	813	745	9

¹ Actively managed assets encompassed managed assets in the Group's own mutual funds, as well as discretionary and advisory securities volume plus external funds with contractual earnings

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 / Lending to the public at the beginning of the period

⁵ Share of loans in Stage 3 / Gross lending to the public

⁶ LCR, assets at levels 1 and 2 / 30-day net cash outflow

⁷ Available stable funding / Stable funding requirement

⁸ Lending to the public / Deposits from the public

⁹ Common equity Tier 1 capital / Risk exposure amount

¹⁰ Tier 1 capital / Risk exposure amount

¹¹ Own funds / Risk exposure amount

¹² Tier 1 capital / Total exposure metric

¹³ Shareholders' portion of the profit for the period / Average number of shares

¹⁴ Shareholders' portion of equity capital / Number of shares on closing day

Comments

MACRO SITUATION AND REGULATORY REQUIREMENTS

The COVID-19 (coronavirus) pandemic is beginning to fade in our area of operations, and most restrictions are being lifted. Fiscal and monetary stimulus measures remain very large. The economic recovery is strong. For the local economy in the Åland Islands, the record-strong summer tourist season represented a welcome positive injection.

Since the beginning of 2021, long-term market yields have begun to move higher, but short-term market interest rates – which are more important to the Bank of Åland's net interest income – remain at record-low levels. Central banks are expected to keep their key interest rates unchanged for a long time to come.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	Q3 2021	Q2 2021	Q3 2020
Euribor 3 mo	-0.55	-0.54	-0.47
Euribor 12 mo	-0.49	-0.48	-0.35
Stibor 3 mo	-0.02	-0.03	0.01

During the first nine months of 2021, share prices according to the Nasdaq Helsinki stock exchange's OMXHPI index rose by 15 per cent while the Nasdaq Stockholm's OMXSPI index rose by 21 per cent.

The average value of the Swedish krona (SEK) in relation to the euro (EUR) was 4 per cent higher during the first nine months of 2021 than in the year-earlier period and 2 per cent lower than at year-end 2020. 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

On January 1, 2021 the Board of Directors of the Bank of Åland approved the distribution of a dividend totalling 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.

On March 30, 2021, the Annual General Meeting (AGM) approved the distribution of a dividend of EUR 1.00 per share for the financial year 2020.

The AGM also decided to authorise the Board to approve acquisitions of no more than 1,500,000 of the Bank of Åland's Series B shares. This is equivalent to about 10 per cent of all shares in the Company and about 16.4 per cent of all Series B shares in the Company. The Company's own shares may be acquired in order to change the Company's capital structure, to be used as consideration in acquisitions of companies or sectoral reorganisations or as part of the Company's incentive programmes and may otherwise be transferred onward, be kept by the Company or be annulled. The shares may be acquired in one or more rounds.

The AGM re-elected the Board, 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.

In March, for the first time the Bank of Åland issued additional Tier 1 (AT1) capital instruments, totalling SEK 300 M. This is a perpetual financial instrument, with a possibility of early redemption after five years. For financial reporting purposes, the instrument is regarded as equity capital. The issue was priced at 3-month Stibor + 3.75 per cent. It attracted heavy interest and was oversubscribed.

During the report period, the number of Series B shares outstanding increased by 16,249 as a result of the Bank's obligations within the framework of its employee incentive programmes.

During the period, the Bank of Åland opened a new office in Oulu on the Finnish mainland.

In March 2021 Borgo AB, a Swedish-based associated company of the Bank of Åland, received permission from the Swedish Financial Supervisory Authority to operate a financing business and to issue covered bonds. Other preparatory work is continuing ahead of launching operations. In September 2019 Borgo entered into a partnership with ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland (IISÅ Holdco AB) for the purpose of creating a new Swedish mortgage company. In August 2021 Sparbanken Syd (a southern Swedish savings bank) also signed a declaration of intent with Borgo to join the partnership. Together with its information technology subsidiary Crosskey Banking Solutions, the Bank of Åland is supplying platform solutions for the new mortgage company and contributing its existing knowledge on mortgage loan management.

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 500,000 to various projects that promote the health of the Baltic Sea. Since 1997 the Bank of Åland has awarded EUR 3.3 M to various environmentally related projects.

For the eighth 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 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.

On June 30 Alandia Holding completed its acquisition of Rettig Group's entire stake (24.9 per cent) in the marine insurance company Alandia Försäkring. Alandia Holding is a company created by the Bank of Åland, the pension insurance company Veritas Pensionsförsäkring, the cruise ferry company Viking Line, Föreningen Konstsamfundet (an association that supports the arts in Swedish-speaking Finland), Lundquist Shipping Company and Wiklöf Holding for the purpose of acquiring this shareholding in Alandia Försäkring. Alandia Holding is an associated company of the Bank of Åland.

In August the Bank of Åland sold its shareholding in the company Åland Index Solutions as well as intellectual property

(IP) rights to the Åland Index to Doconomy, a Swedish-based fintech company.

EARNINGS FOR JANUARY – JUNE 2021

Net operating profit rose by EUR 11.6 M or 42 per cent to EUR 39.0 M (27.4). About EUR 5.0 M of net operating profit for the report period was attributable to nonrecurring items.

Profit for the period attributable to shareholders increased by EUR 10.2 M or 47 per cent to EUR 31.9 M (21.7).

Return on equity after taxes (ROE) increased to 15.1 per cent (10.8).

Total income rose by EUR 19.8 or 18 per cent to EUR 129.8 M (110.0).

Net interest income rose by EUR 2.0 M or 5 per cent to EUR 46.0 M (44.0). The increase came from higher lending volume and lower costs of deposits and capital market borrowing.

Net commission income rose by EUR 9.7 M or 20 per cent to EUR 57.6 M (47.9), mainly due to higher income from the Bank's asset management business.

Net income on financial items fell by EUR 3.3 M to EUR -1.9 M (1.4), mainly due to lower capital gains and re-measurement of liabilities attributable to an earn-out (contingent consideration) related to the purchase price of an asset.

Information technology (IT) income rose by EUR 2.2 M or 14 per cent to EUR 18.1 M (15.9). The increase came from higher project income.

Other income included nonrecurring positive effects related to associated companies and divestment of IP rights.

Total expenses increased by EUR 11.7 M or 15 per cent and totalled EUR 89.5 M (77.8). Higher staff costs and IT expenses were the main reasons behind these higher expenses.

Total net impairment losses on financial assets decreased by EUR 3.5 M to EUR 1.4 M (4.9), equivalent to a loan loss level of 0.05 (0.16) per cent. In the first quarter of 2020, the Bank made sizeable model-driven provisions for impairment losses in compliance with the IFRS 9 international financial reporting standard, which have not yet been utilised.

Tax expense amounted to EUR 7.1 M (5.7), equivalent to an effective tax rate of 18.1 (20.8) per cent.

EARNINGS FOR THE THIRD QUARTER OF 2021

Net operating profit rose by EUR 3.9 M or 36 per cent to EUR 14.6 M (10.7). About EUR 3.0 M of net operating profit for the report period was attributable to nonrecurring items.

Profit for the period attributable to shareholders increased by EUR 3.6 M or 42 per cent to EUR 12.1 M (8.5).

Return on equity after taxes (ROE) increased to 16.7 per cent (12.3).

Total income rose by EUR 9.4 M or 26 per cent to EUR 45.2 M (35.8).

Net interest income rose by EUR 0.8 M or 5 per cent to EUR 15.5 M (14.7). The increase came from higher lending volume and lower costs of deposits and capital market borrowing.

Net commission income rose by EUR 3.9 M or 25 per cent to EUR 19.1 M (15.2), mainly due to higher income from the Bank's asset management business.

Net income on financial items fell by EUR 2.3 M to EUR -1.7 M (0.6), mainly due to lower capital gains and re-measurement of liabilities attributable to an earn-out (contingent consideration) related to the purchase price of an asset.

IT income rose by EUR 0.5 M or 11 per cent to EUR 5.4 M (4.9). The increase came from higher project income.

Other income included nonrecurring positive effects related to divestment of IP rights.

Total expenses increased by EUR 5.0 M or 20 per cent and totalled EUR 29.8 M (24.8). Higher staff costs and IT expenses were the main reasons behind these higher expenses.

Total net impairment losses on financial assets increased by EUR 0.5 M to EUR 0.8 M (0.3), equivalent to a loan loss level of 0.07 (0.03) per cent.

Tax expense amounted to EUR 2.5 M (2.2), equivalent to an effective tax rate of 17.2 (20.2) per cent.

OPERATING SEGMENTS

The Group's EUR 11.6 M increase in net operating profit to EUR 39.0 M was allocated as follows:

- Private Banking +3.9 (higher income)
- Premium Banking +3.7 (lower impairment provisions)
- IT -2.1 (higher expenses and earn-out)
- Corporate Units +6.1 (nonrecurring effects)
& Eliminations

BUSINESS VOLUME

Actively managed assets on behalf of customers increased by EUR 1,486 M or 20 per cent compared to year-end 2020 and amounted to EUR 8,922 M (7,436). The increase was due to both positive net inflows and a positive market effect.

Deposits from the public rose by 6 per cent compared to year-end 2020 and amounted to EUR 3,836 M (3,605).

Lending to the public increased by 5 per cent compared to year-end 2020 and totalled EUR 4,591 M (4,378).

All these business volume figures were the highest recorded in the Bank of Åland's history.

CREDIT QUALITY

Lending to private individuals comprised 77 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 Group had EUR 13.1 M in impairment loss provisions on September 30, 2021 (11.9 on December 31, 2020), of which EUR 2.1 M (2.5) in Stage 1, EUR 1.0 M (1.0) in Stage 2 and EUR 10.0 M (8.3) in Stage 3. During the first half of 2021, Stage 3 loans increased by EUR 14.0 M to EUR 44.6 M.

Stage 3 loans as a share of gross lending to the public totalled 1.19 per cent (0.89). The level of provisions for Stage 3 loans amounted to 18 (21) 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 1,205 M on September 30, 2021 (1,175 on December 31, 2020). This was equivalent to 19 (19) per cent of total assets and 26 (27) per cent of lending to the public.

In September 2021 the Bank of Åland exercised its call option to carry out an early redemption of SEK 2.5 billion in covered bonds from the Swedish pool with a final due date in November 2022. At the same time, the Bank issued new covered bonds in the amount of SEK 5.5 billion with a final due date in September 2026. The bond issue was unique, since these bonds carry contractual conditions that allow them to move from the Finnish to the Swedish legislative framework, and from the Bank of Åland as initial issuer to Borgo as subsequent issuer, when the Bank's Swedish mortgage loan portfolio is transferred to Borgo during the first half of 2022.

In September EUR 250 M in non-covered bonds also matured. The Bank chose not to renew them.

On September 30, 2021, the average remaining maturity of the Bank of Åland's bonds outstanding was about 3.4 (2.5) years. The loan/deposit ratio amounted to 120 (121) per cent.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 66 (64) per cent and covered bonds issued accounted for 21 (16) per cent.

The liquidity coverage ratio (LCR) amounted to 149 (159) per cent.

The net stable funding ratio (NSFR) amounted to 109 (106) per cent.

RATING

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

EQUITY AND CAPITAL ADEQUACY

During the report period, equity capital changed in the amount of profit for the period, EUR 31.9 M; other comprehensive income, EUR -0.6 M; the issuance of new shares as part of the incentive programme, EUR 0.4 M; distributed dividends totalling EUR 31.2 M to shareholders; distributed dividends of EUR 0.6 M to holders of additional Tier 1 (AT1) capital instruments; and issuance of AT1 capital, EUR 29.4 M. On September 30, 2021, equity capital amounted to EUR 321.8 M (292.4 on December 31, 2020).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR 1.4 M after taxes, in compliance with IAS 19.

Common equity Tier 1 capital rose by EUR 16.0 M during the report period to EUR 254.5 M (238.5).

The risk exposure amount increased by 9 per cent during the report period and totalled EUR 1,827 M (1,671). The risk exposure amount for credit risk rose by EUR 196 M or 15 per cent. The elimination of the risk weight floor for mortgage loans in Finland decreased the risk exposure amount by EUR 108 M. A 15 per cent standardised upward adjustment of the risk exposure amount, calculated according to the IRB approach while awaiting an updated, approved IRB approach, increased the risk exposure amount by EUR 74 M. The operational risk exposure amount fell by EUR 4 M.

The common equity Tier 1 (CET1) capital ratio decreased to 13.9 (14.3) per cent.

The Tier 1 (T1) capital ratio, which had previously always been identical with the CET1 capital ratio, rose due to the issuance of AT1 instruments totalling SEK 300 M in March 2021 and amounted to 15.5 (14.3) per cent.

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 for Stage 1 and Stage 2 loans. These losses may be added back to the capital base ("own funds") in their entirety during 2020-2021 and may then be phased out. This amount totalled EUR 0.1 M on September 30, 2021. There is also a mitigation measure for certain intangible assets that may also be added back to own funds. The amount totalled EUR 7.1 M on September 30, 2021. Another mitigation measure that has been introduced is a higher supporting factor for small and medium sized enterprises (SMEs), which means lower risk exposure amounts. When these mitigation measures began to be applied, the effect on the Bank's CET1 ratio was +0.6 percentage points.

The total capital ratio increased to 16.7 (16.5) per cent.

In addition to mitigation measures in the calculation of capital adequacy, mitigation measures in the calculation of the leverage ratio have been introduced. Exposures to central banks with relevance for the transmission of monetary policy are exempted. The Bank of Åland has taken this into account in its calculation of the leverage ratio, which amounted to 4.8 (4.2) per cent on September 30, 2021. Excluding the mitigation measure, it would have amounted to 4.3 (3.9) per cent.

In addition to the basic capital requirement, various buffer requirements apply. These are mainly imposed by national regulatory authorities. Due to 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 and Swedish exposures, the requirement remains 0.0 per cent. However, the Swedish Financial Supervisory Authority has decided to raise the amount of the countercyclical buffer to 1.0 per cent. The new buffer amount applies starting on September 29, 2021. The Swedish FSA is aiming at gradually raising the buffer amount to 2.0 per cent during 2022 if the economic recovery continues.

The buffer requirement established by the Finnish Financial Supervisory Authority (FIN-FSA) related to Pillar 2 capital adequacy regulations, totalling 1.5 per cent of the Group's risk exposure amount (REA), was lowered to 1.0 per cent starting on September 30, 2021. This buffer requirement was previously supposed to be covered only by CET1 capital. Starting in 2021,

part of the Pillar 2 requirement may also be covered by AT1 capital and supplementary capital, respectively.

The new minimum levels applicable to the Bank of Åland starting on September 30, 2021 are:

- Common equity Tier 1 capital ratio 7.6 per cent
- Tier 1 capital ratio 9.3 per cent
- Total capital ratio 11.5 per cent

In relation to the above buffer requirements, the Bank of Åland has an ample capital surplus:

- Common equity Tier 1 capital ratio +6.3 percentage points
- Tier 1 capital ratio +6.2 percentage points
- Total capital ratio +5.2 percentage points

Effective on January 1, 2022, Finland's Financial Stability Authority has given the Bank of Åland a formal minimum requirement for own funds and eligible liabilities (MREL) under European Union regulations, but in practice this does not represent any extra capital requirement beyond the already existing minimum requirements related to the Bank's total capital ratio and leverage ratio.

SUSTAINABILITY INFORMATION

Between the first nine months of 2020 and the first nine months of 2021, the Bank of Åland's carbon dioxide emissions from electricity consumption, travel and paper print-outs decreased by 22 tonnes or 19 per cent to 95 tonnes. As a consequence of the coronavirus pandemic, nearly all business travel was suspended, which significantly decreased carbon dioxide emissions compared to the first nine months of 2020.

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 has been the impact of the global coronavirus pandemic, but this risk is now gradually decreasing.

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.

REVISED FUTURE OUTLOOK

In a stock exchange release dated July 8, 2021, the Bank of Åland revised its future outlook. The revised future outlook is as follows:

The Bank of Åland expects its net operating profit in 2021 to be substantially better than in 2020.

The Bank is especially dependent on the performance of the fixed income and stock markets. There are concerns about economic developments in a number of important markets. For this reason, there is some uncertainty about the Bank's current forecast.

UPDATED LONG-TERM FINANCIAL TARGETS

The Board of Directors has approved the following updated long-term financial targets:

- Return on equity after taxes (ROE) shall exceed 15 per cent over time.
- The common equity Tier 1 capital ratio shall exceed the FIN-FSA's minimum requirement by 1.75-3.0 percentage points.
- The payout ratio shall be 60 per cent of shareholders' interest in profit or higher, provided that capital adequacy does not fall below target.

The previous targets, which the Bank of Åland had since 2013 with only minor adjustments in their language, were:

- Return on equity after taxes (ROE) shall exceed 10 per cent.
- The Bank's capital adequacy, primarily defined as the common equity Tier 1 capital ratio under the Basel regulations, shall clearly exceed all regulatory requirements.
- The payout ratio shall eventually amount to 50 per cent. The payout ratio target presupposes that the capital adequacy target can be maintained.

The Bank of Åland has a strategy and business model which imply that a growing proportion of earnings will come from asset management operations, IT operations and business partnerships that require comparatively limited equity capital. Combined with the growth that the Bank has experienced, this justifies raising the profitability target – expressed as return on equity after taxes – from 10 to 15 per cent.

The newly quantified target of a common equity Tier 1 capital ratio that is at least 1.75 percentage points above the minimum required by regulatory authorities indicates a slightly higher minimum than is customary in the banking sector. This reflects the Bank of Åland's conservative approach to risk.

As long as the capital adequacy target is achieved, at least 60 per cent of profit for the year shall be distributed to shareholders. In order to ensure efficient use of capital, share repurchases may also be employed.

FINANCIAL INFORMATION CALENDAR

The Year-end Report for 2021 will be published on Wednesday, February 2, 2022.

Mariehamn, October 26, 2021

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.

Due to the coronavirus pandemic, the Bank suspended nearly all business travel, which greatly reduced carbon dioxide emissions compared to the nine months of 2020.

Bank of Åland Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
Carbon dioxide emissions, kg								
Paper	3,264	6,013	-46	4,192	-22	14,146	13,376	6
Electricity	21,612	26,890	-20	19,884	9	72,466	67,148	8
Business travel	6,635	590		930		8,042	36,605	-78
Total carbon dioxide	31,511	33,493	-6	25,006	26	94,654	117,129	-19

Bank of Åland Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
Paper consumption, kg	3,607	6,644	-46	4,632	-22	15,631	14,780	6
Energy consumption, GWh	0.55	0.52	6	0.54	2	1.60	1.62	-1
<i>of which renewable</i>	0.48	0.43	12	0.47	2	1.36	1.39	-2
<i>of which other</i>	0.07	0.09	-22	0.07	0	0.24	0.23	4
Number of business trips	169	24		33		230	957	-76
<i>of which aircraft</i>	94	12		16		123	692	-82
<i>of which ship</i>	47	0		0		47	87	-46
<i>of which train</i>	28	12		17	65	60	178	-66

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Summary income statement

Group	Note	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M									
Net interest income	5	15.5	15.2	2	14.7	5	46.0	44.0	5
Net commission income	6	19.1	18.9	1	15.2	25	57.6	47.9	20
Net income from financial items at fair value	7	-1.7	-0.6		0.6		-1.9	1.4	
IT income		5.4	6.7	-19	4.9	11	18.1	15.9	14
Other operating income		6.9	3.0		0.4		10.1	0.9	
Total income		45.2	43.2	4	35.8	26	129.8	110.0	18
Staff costs		-17.1	-18.5	-8	-15.3	12	-53.1	-46.1	15
Other expenses	8	-8.3	-7.7	7	-6.4	30	-26.2	-22.5	17
Depreciation/amortisation		-4.3	-2.9	49	-3.1	39	-10.2	-9.2	10
Total expenses		-29.8	-29.2	2	-24.8	20	-89.5	-77.8	15
Profit before impairment losses		15.4	14.1	9	11.0	40	40.4	32.3	25
Impairment losses on financial assets, net	9	-0.8	-0.5	69	-0.3		-1.4	-4.9	-72
Net operating profit		14.6	13.6	7	10.7	36	39.0	27.4	42
Income taxes		-2.5	-2.4	6	-2.2	16	-7.1	-5.7	24
Profit for the period		12.1	11.2	8	8.5	42	31.9	21.7	47
Attributable to:									
Non-controlling interests		0.0	0.0		0.0	-40	0.0	0.0	
Shareholders in Bank of Åland Plc		12.1	11.2	8	8.5	42	31.9	21.7	47
Earnings per share, EUR		0.77	0.72	8	0.55	41	2.05	1.39	47
Earnings per share, EUR, moving 12-month average to end of report period		2.67	2.45	9	1.86	44			

Summary statement of other comprehensive income

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Profit for the period	12.1	11.2	8	8.5	42	31.9	21.7	47
Assets measured via other comprehensive income								
Changes in valuation at fair value	0.1	0.2	-57	0.9	-91	-0.5	2.8	
Transferred to the income statement	-0.1	0.0		-0.2	-25	-0.4	-1.6	-74
Translation differences								
Gains/Losses arising during the period	-0.5	1.2		-0.5	10	-1.2	-0.8	50
Taxes on items that have been or may be reclassified to the income statement	0.0	0.0		-0.1		0.2	-0.2	
<i>of which assets measured via other comprehensive income</i>	0.0	0.0		-0.1		0.2	-0.2	
Items that have been or may be reclassified to the income statement	-0.5	1.3		0.1		-1.9	0.2	
Changes in value of equity instruments	-0.1	0.2		-0.1		-0.2	-0.2	-12
Translation differences	-0.2	0.5				0.0		
Re-measurements of defined benefit pension plans	-0.7	1.2		-0.1		1.7	-0.6	
Income taxes	0.3	-0.3		0.0		-0.2	0.2	
<i>of which changes in value of equity instruments</i>	0.0	0.0		0.0		0.0	0.0	-12
<i>of which translation differences</i>	0.0	-0.1				-0.1		
<i>of which re-measurements of defined-benefit pension plans</i>	0.1	-0.2		0.0		-0.3	0.1	
<i>of which taxes on dividends to holders of T1 capital instrument</i>	0.1	0.1	0			0.1		
Items that may not be reclassified to the income statement	-0.8	1.5		-0.1		1.3	-0.6	
Other comprehensive income for the period	-1.4	2.8		0.0		-0.6	-0.5	16
Total comprehensive income for the period	10.7	14.0	-33	8.5	26	31.4	21.2	48
Attributable to:								
Non-controlling interests	0.0	0.0		0.0	-40	0.0	0.0	
Shareholders in Bank of Åland Plc	10.7	14.0	-33	8.5	26	31.4	21.2	48

Income statement by quarter

Group	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
EUR M					
Net interest income	15.5	15.2	15.2	14.9	14.7
Net commission income	19.1	18.9	19.6	18.5	15.2
Net income from financial items at fair value	-1.7	-0.6	0.4	0.4	0.6
IT income	5.4	6.7	6.0	6.0	4.9
Other operating income	6.9	3.0	0.2	0.3	0.4
Total income	45.2	43.2	41.4	40.1	35.8
Staff costs	-17.1	-18.5	-17.4	-16.9	-15.3
Other expenses	-8.3	-7.7	-10.2	-7.9	-6.4
Depreciation/amortisation	-4.3	-2.9	-2.9	-3.1	-3.1
Total expenses	-29.8	-29.2	-30.5	-27.8	-24.8
Profit before impairment losses	15.4	14.1	10.9	12.3	11.0
Net impairment losses on financial assets	-0.8	-0.5	-0.1	0.0	-0.3
Net operating profit	14.6	13.6	10.8	12.3	10.7
Income taxes	-2.5	-2.4	-2.2	-2.5	-2.2
Profit for the period	12.1	11.2	8.6	9.8	8.5
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	12.1	11.2	8.6	9.8	8.5

Summary balance sheet

Group	Note	Sep 30, 2021	Dec 31, 2020	% Sep 30, 2020	%
EUR M					
Assets					
Cash and balances with central banks		789	665	19	41
Debt securities		707	778	-9	-4
Lending to credit institutions		53	51	4	8
Lending to the public	10, 11	4,591	4,378	5	9
Shares and participations		15	13	18	59
Participations in associated companies		8	1		1
Derivative instruments	13	14	25	-45	-40
Intangible assets		24	24	-2	-2
Tangible assets		31	33	-5	-8
Investment properties		0	0	-2	-3
Current tax assets		1	0		
Deferred tax assets		6	5	3	10
Other assets		85	36		38
Accrued income and prepayments		28	25	12	13
Total assets		6,353	6,035	5	11
Liabilities					
Liabilities to credit institutions and central banks		751	509	47	59
Deposits from the public		3,836	3,605	6	11
Debt securities issued	12	1,243	1,441	-14	-7
Derivative instruments	13	7	15	-54	-47
Current tax liabilities		3	5	-38	-9
Deferred tax liabilities		34	32	7	8
Other liabilities		94	57	64	64
Provisions		0	0	-10	0
Accrued expenses and prepaid income		41	40	2	11
Subordinated liabilities		22	37	-41	-39
Total liabilities		6,031	5,743	5	11
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		4	6	-33	2
Unrestricted equity capital fund		28	28	1	1
Retained earnings		160	159	1	6
Shareholders' portion of equity capital		292	292	0	4
Non-controlling interests' portion of equity capital					
Additional Tier 1 capital holders		29		21	0
Total equity capital		322	292	10	15
Total liabilities and equity capital		6,353	6,035	5	11

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	Additional Tier 1 capital holders	Total
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 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
Profit for the period							9.8	9.8	0.0		9.8
Other comprehensive income				0.3	4.3		-1.7	2.8			2.8
Equity capital, Dec 31, 2020	42.0	32.7	25.1	4.1	2.1	27.6	158.6	292.4	0.0		292.4
Profit for the period							31.9	31.9	0.0		31.9
Other comprehensive income				-0.9	-1.2		1.5	-0.6			-0.6
<i>Transactions with owners</i>											
Additional Tier 1 capital issue										29.4	29.4
Tier 1 capital instrument dividends							-0.6	-0.6			-0.6
Dividends paid							-31.2	-31.2			-31.2
Incentive programme						0.4		0.4			0.4
Equity capital, Sep 30, 2021	42.0	32.7	25.1	3.3	0.9	28.0	160.3	292.3	0.0	29.4	321.8

Summary cash flow statement

Group	Jan-Sep 2021	Jan-Dec 2020	Jan-Sep 2020
EUR M			
Operating activities			
Net operating profit	39.0	39.7	27.4
Adjustment for net operating profit items not affecting cash flow	17.1	24.6	19.8
Profit from investing activities	-2.6		
Income taxes paid	-7.6	-4.9	-4.7
Changes in assets and liabilities from operating activities	106.0	128.7	35.6
Cash flow from operating activities	151.9	188.2	78.1
Investing activities			
Changes in shares	-3.9	-4.4	-0.7
Changes in tangible assets	-1.8	-1.3	-0.8
Changes in intangible assets	-4.3	-3.8	-2.7
Cash flow from investing activities	-10.0	-9.5	-4.2
Financing activities			
Additional Tier 1 capital issue	29.4		
Share issue	0.4	0.2	0.2
Subordinated debt issue/payments of principal	-14.8		0.0
Payment of principal on lease liability	-3.1	-4.9	-3.8
Tier 1 capital instrument dividends	-0.6		
Dividends paid	-31.2		
Cash flow from financing activities	-19.8	-4.7	-3.5
Cash and cash equivalents at beginning of period	672.3	495.7	495.7
Cash flow during the period	122.1	174.0	70.3
Exchange rate differences in cash and cash equivalents	-1.1	2.5	-0.7
Cash and cash equivalents at end of period	793.2	672.3	565.3
Cash and cash equivalents consisted of the following items:			
Cash and deposits with central banks	758.2	635.6	530.4
Lending to credit institutions that is repayable on demand	35.1	36.7	34.9
Total cash and cash equivalents	793.2	672.3	565.3

Starting with the Interim Report for Q1 2021, cash flows from interest-bearing securities and certificates issued, excluding senior non-prioritised liabilities and subordinate liabilities, have been moved from financing activities to operating activities as securities issued. This change is being made to ensure consistency with the business model. Comparative figures have been recalculated.

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. The Bank of Åland Plc is a commercial bank with a total of 11 offices in Åland, on the Finnish mainland 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 registered 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).

The Interim Report for the accounting period January 1 – September 30, 2021 was approved by the Board of Directors on October 25, 2021.

2. Basis for preparation of the Half-Year Financial Report and essential accounting principles

BASIS FOR PREPARATION OF THE INTERIM REPORT

This Interim Report for the period January 1–September 30, 2021 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, 2020.

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, 2020.

The Bank of Åland has issued additional Tier 1 (AT1) capital. These instruments are classified as equity capital, since the instruments do not include any requirement that the Bank of Åland must pay the principal amount or interest to the holders. The Bank of Åland treats payments on financial instruments classified as equity capital (i.e. AT1 capital) as distributions of profits, and such payments are thus reported as dividends. Payment is made on a quarterly basis and the interest rate is the 3-month Stibor plus 3.75 per cent.

COMING CHANGES

During the second quarter of 2021, the International Financial Reporting Interpretations Committee (IFRIC) issued a new

agenda decision on accounting for development costs in cases where development involves software systems that an entity does not exercise control over, but instead buys as a service. In such cases, the entity is no longer allowed to capitalise the costs. Instead such development costs need to be expensed on a yearly basis. The decision is not expected to have any major effect on the Bank of Åland’s financial reports.

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.

Customers who, during the prevailing coronavirus crisis, 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 amounts to EUR 35 M. This volume is recognised in Stage 1 if there are no other reasons besides the postponement of principal payments that justify another stage. This approach was valid until March 31, 2021.

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, Ålandsbanken Fonder II Ab and Ålandsbanken Fonder III 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 and S-Crosskey Ab. "Corporate and Other" encompasses all central corporate units in the Group including Treasury and external partner collaboration.

Group	Jan-Sep 2021					
EUR M	Private Banking	Premium Banking	IT	Corporate and Other	Eliminations	Total
Net interest income	21.2	21.1	0.0	3.8	0.0	46.0
Net commission income	42.5	12.2	-0.1	2.8	0.2	57.6
Net income from financial items at fair value	0.0	0.0	-0.7	-1.2	0.0	-1.9
IT income			31.4	0.3	-13.7	18.1
Other income	0.7	0.0	0.7	9.7	-0.9	10.1
Total income	64.3	33.2	31.3	15.3	-14.3	129.8
Staff costs	-13.7	-5.1	-17.0	-17.3	0.0	-53.1
Other expenses	-7.0	-4.2	-11.6	-14.7	11.3	-26.2
Depreciation/amortisation	-1.6	-0.2	-2.4	-8.8	2.8	-10.2
Internal allocation of expenses	-17.2	-15.5		32.7		0.0
Total expenses	-39.5	-25.0	-30.9	-8.2	14.1	-89.5
Profit before impairment losses	24.8	8.3	0.3	7.2	-0.2	40.4
Net impairment losses on financial assets	-1.2	-0.2		0.1		-1.4
Net operating profit	23.6	8.0	0.3	7.2	-0.2	39.0
Income taxes	-4.9	-1.6	-0.2	-0.3		-7.1
Profit for the period attributable to shareholders in Bank of Åland Plc	18.8	6.4	0.1	6.9	-0.2	31.9
Business volume						
Lending to the public	1,892	2,292		407		4,591
Deposits from the public	1,841	1,941		68	-15	3,836
Actively managed assets	8,275	637		10		8,922
Risk exposure amount	691	546	75	515		1,827
Equity capital	83	90	27	122		322
Financial ratios etc.						
Return on equity after taxes, % (ROE)	28.4	9.2	0.6	12.5		15.1
Expense/income ratio	0.61	0.75	0.99	0.53		0.69

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						
Lending to the public	1,853	2,248		122	-1	4,221
Deposits from the public	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

4. Changes in Group structure

On June 30 Alandia Holding completed its acquisition of Rettig Group's entire stake (24.9 per cent) in the marine insurance company Alandia Försäkring. Alandia Holding is a company created by the Bank of Åland, the pension insurance company Veritas Pensionsförsäkring, the cruise ferry company Viking Line, Föreningen Konstsamfundet (an association that supports the arts in Swedish-speaking Finland), Lundquist Shipping Company and Wiklöf Holding for the purpose of acquiring this shareholding in Alandia Försäkring. Alandia Holding is an associated company of the Bank of Åland.

During the third quarter of 2021, the subsidiary Kiinteistö Oy Espoon Koivurinne and the Bank's shareholding in the associated company Åland Index Solutions were divested. The business of Kiinteistö Oy Espoon Koivurinne was property management connected to a real estate holding taken over as collateral. In addition, Model IT was merged with its parent company Crosskey during the third quarter.

5. Net interest income

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Lending to credit institutions and central banks	-0.3	-0.3	-20	-0.1		-0.7	-0.1	
Lending to the public	15.9	15.9	0	16.3	-2	47.7	48.9	-2
Debt securities	0.1	0.1	-13	0.1	-11	0.2	0.3	-10
Derivatives	0.3	0.3	-3	0.3	5	0.8	1.1	-23
Other interest income	0.0			0.0		0.0	0.0	
Total interest income	16.1	15.9	1	16.6	-3	48.1	50.1	-4
<i>of which interest income according to the effective interest method</i>	<i>16.0</i>	<i>15.9</i>	<i>0</i>	<i>16.5</i>	<i>-3</i>	<i>47.9</i>	<i>49.8</i>	<i>-4</i>
Liabilities to credit institutions and central banks	-0.8	-0.8	-3	0.0		-2.2	-0.3	
Deposits from the public	0.5	0.5	-3	0.5	-15	1.4	1.7	-21
Debt securities issued	0.3	0.3	-19	0.8	-68	1.0	2.2	-54
Subordinated liabilities	0.2	0.3	-31	0.3	-40	0.7	0.9	-18
Derivatives	0.4	0.4	8	0.3	64	1.2	1.5	-19
Other interest expenses	0.0	0.0	-15	0.0	-25	0.0	0.1	-40
Total interest expenses	0.6	0.7	-15	1.9	-69	2.1	6.1	-65
<i>of which interest expenses according to the effective interest method</i>	<i>0.5</i>	<i>0.6</i>	<i>-14</i>	<i>1.9</i>	<i>-71</i>	<i>2.0</i>	<i>5.9</i>	<i>-66</i>
Net interest income	15.5	15.2	2	14.7	5	46.0	44.0	5
Interest margin, per cent	1.06	1.06		1.06		1.04	1.09	
Investment margin, per cent	1.02	1.02		1.01		1.00	1.03	

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 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Bank commissions	2.7	2.6	5	2.4	16	7.9	7.3	8
Asset management commissions	15.7	15.6	1	12.2	28	47.5	38.6	23
Other commissions	0.7	0.8	-13	0.6	4	2.1	2.0	9
Net commission income	19.1	18.9	1	15.2	25	57.6	47.9	20

7. Net income from financial items at fair value

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Valuation category fair value via the income statement ("profit and losses")								
Derivative instruments	0.3	0.0		0.0		0.3	0.0	
Valuation category fair value via the income statement ("profit and losses")	0.3	0.0		0.0		0.3	0.0	
Hedge accounting								
<i>of which hedging instruments</i>	-0.9	-1.5	-39	0.0		-3.2	0.7	
<i>of which hedged item</i>	1.0	1.5	-38	0.0		3.3	-0.9	
Hedge accounting	0.0	0.0		0.0	5	0.1	-0.2	
Net income from foreign currency revaluation	0.0	0.0		0.0		-0.2	-0.4	-61
Modification results and expected credit losses	0.0	0.0		0.0		0.2	0.1	
Net income from financial assets and liabilities	-2.0	-0.6		0.6		-2.4	2.0	
Total	-1.7	-0.6		0.6		-1.9	1.4	

8. Other expenses

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Stability fee	0.0	-0.1		0.0		2.8	2.7	4
Other administrative expenses	8.3	7.8	6	6.4	30	23.4	19.8	18
Total	8.3	7.7	7	6.4	30	26.2	22.5	17

9. Net impairment losses on financial assets

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
EUR M								
Impairment losses, Stage 1	-0.1	-0.2	-43	-0.1	-17	-0.6	0.1	
Impairment losses, Stage 2	-0.1	0.0		-0.1	5	-0.1	2.2	
Net impairment losses, Stages 1-2	-0.2	-0.2	30	-0.3	-5	-0.6	2.3	
Impairment losses, Stage 3								
New and increased individual provisions	1.9	1.2	60	1.9	-4	3.8	4.6	-19
Recovered from previous provisions	-0.7	-0.5	49	-1.4	-46	-1.8	-2.2	-20
Utilised for actual loan losses	0.0	-0.1	-93	-0.2	-95	-0.3	-4.8	-94
Actual loan losses	0.1	0.2	-58	0.3	-69	0.6	5.3	-89
Recoveries of actual loan losses	-0.1	-0.1	60	-0.1	51	-0.3	-0.2	21
Net impairment losses, Stage 3	1.1	0.7	58	0.6	90	2.0	2.6	-23
Total impairment losses	0.8	0.5	69	0.3		1.4	4.9	-72
of which lending to the public	0.8	0.5	57	0.3		1.6	4.8	-68
of which off-balance sheet commitments	0.0	0.0		0.0	-68	0.0	0.0	
of which debt securities at amortised cost	0.0	0.0	-79	0.0	37	-0.1	0.0	
Loan loss level, lending to the public, %	0.07	0.05		0.03		0.05	0.16	

10. Lending to the public by purpose

Group	Sep 30, 2021			Dec 31, 2020	%	Sep 30, 2020	%
	Lending before provisions	Provisions	Lending after provisions	Lending after provisions		Lending after provisions	
EUR M							
Private individuals							
Home loans	2,704	-3	2,702	2,466	10	2,355	15
Securities and other investments	402	0	401	388	3	333	21
Business operations	95	-2	93	101	-8	104	-10
Other household purposes	329	-4	326	295	10	277	18
Total, private individuals	3,530	-8	3,522	3,250	8	3,069	15
Companies							
Shipping	56	-1	56	61	-9	55	1
Wholesale and retail trade	43	0	42	38	10	39	9
Housing operations	280	-1	279	260	7	306	-9
Other real estate operations	151	-1	150	181	-17	195	-23
Financial and insurance operations	229	0	229	253	-10	234	-2
Hotel and restaurant operations	33	-1	32	34	-5	31	4
Agriculture, forestry and fishing	12	0	12	12	1	11	11
Construction	54	0	54	87	-38	97	-45
Other industry and crafts	38	0	37	38	-2	38	-1
Other service operations	115	0	115	113	1	101	14
Total, companies	1,010	-5	1,005	1,078	-7	1,106	-9
Public sector and non-profit organisations	64	0	64	49	30	47	38
Total, public sector and non-profit organisations	64	0	64	49	30	47	38
Total	4,604	-13	4,591	4,378	5	4,221	9

11. Lending to the public by stage

Group	Jan 1, 2021 - Sep 30, 2021				Jan 1, 2020 - Sep 30, 2020
	Stage 1	Stage 2	Stage 3	Total	Total
EUR M					
Carrying amount, gross					
Opening balance, January 1	4,197.4	153.5	38.9	4,389.8	4,122.5
Closing balance, September 30	4,400.3	149.3	54.6	4,604.1	4,233.6
Provisions for expected losses					
Opening balance, January 1	2.5	1.0	8.3	11.9	12.4
Increases due to issuances and acquisitions	0.5	0.0	0.0	0.6	0.1
Decrease due to removal from balance sheet	-0.4	0.0	-0.6	-1.0	-1.4
Decrease due to write-offs	0.0	0.0	0.0	0.0	-3.5
Transfer to Stage 1	0.4	-0.4	0.0	0.0	0.0
Transfer to Stage 2	-0.4	0.8	-0.3	0.0	0.0
Transfer to Stage 3	0.0	-0.2	0.2	0.0	0.0
Net changes due to changed credit risk	-0.4	-0.3	2.3	1.7	4.5
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	2.1	1.0	10.0	13.1	12.2
Carrying amount, net					
Opening balance, January 1	4,194.9	152.4	30.6	4,377.9	4,110.0
Closing balance, September 30	4,398.1	148.3	44.6	4,591.0	4,221.4
	Sep 30,	Dec 31,	Sep 30,		
Impairment losses, IFRS 9 - Financial ratios	2021	2020	2020		
Total provision ratio, lending to the public, %	0.28	0.27	0.29		
Provision ratio, Stage 1, lending to the public, %	0.05	0.06	0.01		
Provision ratio, Stage 2, lending to the public, %	0.66	0.68	2.03		
Provision ratio, Stage 3, lending to the public, %	18	21	16		
Share of lending to the public in Stage 3, %	1.19	0.89	1.30		

12. Debt securities issued

Group	Sep 30, 2021	Dec 31, 2020	%	Sep 30, 2020	%
EUR M					
Certificates of deposit	39	280	-86	187	-79
Covered bonds	1,203	910	32	898	34
Senior non-covered bonds	0	251	-100	251	-100
Total	1,243	1,441	-14	1,335	-7

13. Derivative instruments

Group	Sep 30, 2021						Dec 31, 2020		
	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>	6	59	6	72	2	2	64	3	3
Currency-related contracts									
<i>Currency forward contracts</i>	459			459	1	1	420	6	6
Total	465	59	6	530	3	3	484	9	9
Derivatives for fair value hedge									
Interest-related contracts									
<i>Interest rate swaps</i>	2	815	61	877	10	4	1,118	16	6
Total	2	815	61	877	10	4	1,118	16	6
Total derivative instruments	466	874	67	1,408	14	7	1,602	25	15
<i>of which cleared</i>	5	874	64	943	11	6	1,176	17	9

14. Financial instruments measured at fair value

Group		Sep 30, 2021		
	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	443			443
Lending to the public		162		162
Shares and participations	1		14	15
Derivative instruments		14		14
Other assets			4	4
Total financial assets	444	176	18	638
Debt securities issued		646		646
Derivative instruments		7		7
Other liabilities			3	3
Total financial liabilities		653	3	655

Group		Dec 31, 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	478	13		491
Lending to the public		130		130
Shares and participations	1		12	13
Derivative instruments		25		25
Total financial assets	479	167	12	658
Debt securities issued		901		901
Derivative instruments		15		15
Total financial liabilities		916		916

Changes in Level 3 holdings		Jan 1 - Sep 30, 2021	Jan 1 - Dec 31, 2020
EUR M	Shares and participations		Shares and participations
	Carrying amount on January 1	12.0	9.4
	New purchases/reclassification	2.5	2.5
	Change in value recognised in "Other comprehensive income"	-0.2	0.2
	Carrying amount at end of period	14.3	12.0

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, 2021	Dec 31, 2020	%	Sep 30, 2020	%
EUR M					
Guarantees	43	42	4	40	8
Unutilised overdraft limits	304	276	10	266	14
Unutilised credit card limits	88	86	2	85	2
Lines of credit	617	315	96	421	47
Other commitments	32	32	0	29	10
Total	1,084	751	44	842	29
Provision for expected loss	0	0	-10	0	

16. Assets pledged

Group	Sep 30, 2021	Dec 31, 2020	%	Sep 30, 2020	%
EUR M					
Lending to credit institutions	18	14	26	14	25
Debt securities	316	299	6	301	5
Loan receivables constituting collateral (cover pool) for covered bonds	2,093	1,548	35	1,515	38
Other assets pledged	4	4	7	3	11
Total	2,432	1,864	30	1,834	33

During the report 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, 2021	Dec 31, 2020	%	Sep 30, 2020	%
EUR M					
Equity capital according to balance sheet	292.3	292.4	0	279.8	4
Foreseeable dividend	-15.8	-31.2	-49	-26.0	-39
Common equity Tier 1 capital before deductions	276.5	261.2	6	253.9	9
Intangible assets	-22.3	-22.9	-2	-24.1	-7
Non-controlling interests	0.0	0.0	21	0.0	0
Net other items	0.0	0.0		0.0	
Further adjustments in value	-0.5	-0.5	-9	-0.5	-4
Expected losses according to IRB approach beyond recognised losses (deficit)	-6.6	-3.7	78	-5.8	15
Adjustments due to transitional rules related to IFRS 9	0.3	0.5	-29	0.5	-29
Mitigations due to COVID-19	7.1	4.0	76	2.1	
Common equity Tier 1 capital	254.5	238.5	7	226.0	13
Tier 1 capital instruments	29.4				
Additional Tier 1 capital	29.4				
Tier 1 capital	283.9	238.5	19	226.0	26
Supplementary capital instruments	21.9	37.0	-41	36.0	-39
Supplementary capital	21.9	37.0	-41	36.0	-39
Total capital base	305.9	275.5	11	262.0	17
Capital requirement for credit risk according to the IRB approach	39.2	39.8	-1	42.7	-8
Additional capital requirement, IRB approach	5.9	8.7	-32	8.7	-32
Capital requirement for credit risk according to standardised approach	83.2	67.0	24	65.9	26
Capital requirement for credit-worthiness adjustment risk	0.0	0.0		0.0	
Capital requirement for operational risk	17.8	18.2	-2	18.2	-2
Capital requirement	146.2	133.6	9	135.4	8
Capital ratios					
Common equity Tier 1 capital ratio, %	13.9	14.3		13.4	
Tier 1 capital ratio, %	15.5	14.3		13.4	
Total capital ratio, %	16.7	16.5		15.5	
Risk exposure amount	1,827	1,671	9	1,693	8
of which % comprising credit risk	88	86		87	
of which % comprising operational risk	12	14		13	

Requirements related to capital buffers, %	Sep 30, 2021	Dec 31, 2020	Sep 30, 2020
Total common equity Tier 1 capital requirements including buffer requirements	7.6	8.5	8.5
of which common equity Pillar 1 capital requirement	4.5	4.5	4.5
of which common equity Pillar 2 capital requirement	0.6	1.5	1.5
of which capital conservation buffer requirement	2.5	2.5	2.5
of which countercyclical capital buffer requirement	0.0	0.0	0.0
of which systemic risk buffer requirement	0.0	0.0	0.0
Common equity Tier 1 capital available to be used as a buffer	13.9	14.3	13.4

Exposure class	Sep 30, 2021				
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	276.3	216.8	50	109.4	8.7
Corporate, small and medium sized companies	310.0	275.5	53	146.5	11.7
Corporate, special lending	5.0	5.0	71	3.6	0.3
Using own LGD estimates					
Retail with property as collateral (private individuals)	1,846.0	1,831.2	9	164.7	13.2
Retail with property as collateral (small and medium-sized companies)	124.8	122.8	21	25.8	2.1
Retail, other (small and medium-sized companies)	34.8	33.5	20	6.8	0.5
Retail, other	388.7	334.9	10	33.7	2.7
Total exposures according to IRB approach	2,985.7	2,819.6	17	490.6	39.2
Credit risk according to standardised approach					
Central government or central banks	814.4	898.0	0	0.0	0.0
Regional governments or local authorities	63.2	90.7	0	0.0	0.0
Multilateral development banks	40.3	47.7	0	0.0	0.0
International organisations	4.0	4.0	0	0.0	0.0
Institutions	257.2	217.7	21	46.4	3.7
Corporates	665.4	254.8	96	244.7	19.6
Retail	709.0	260.6	49	128.8	10.3
Secured by mortgages on immovable property	1,330.7	1,329.2	34	447.0	35.8
Exposures in default	15.6	13.5	117	15.8	1.3
Covered bonds	437.1	437.1	11	47.6	3.8
Collective investment undertakings	0.9	0.9	116	1.1	0.1
Equity exposures	22.7	22.7	154	35.0	2.8
Other exposures	140.0	140.0	53	73.5	5.9
Total exposures according to standardised approach	4,500.6	3,716.8	28	1,040.0	83.2
Total risk exposure amount, credit risk	7,486.4	6,536.5	23	1,530.5	122.4

Exposure class	Dec 31, 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	183.0	144.9	50	73.1	5.8
Corporate, small and medium sized companies	397.7	352.5	53	187.0	15.0
Corporate, special lending	5.0	5.0	93	4.7	0.4
Using own LGD estimates					
Retail with property as collateral (private individuals)	1,833.8	1,821.3	9	169.5	13.6
Retail with property as collateral (small and medium-sized companies)	118.6	117.7	21	24.5	2.0
Retail, other (small and medium-sized companies)	32.8	31.2	21	6.5	0.5
Retail, other	362.9	313.8	10	31.7	2.5
Total exposures according to IRB approach	2,933.8	2,786.3	18	497.0	39.8
Credit risk according to standardised approach					
Central government or central banks	700.5	812.8	0	0.0	0.0
Regional governments or local authorities	64.2	90.1	0	0.0	0.0
Public sector entities	11.7	11.7	0	0.0	0.0
Multilateral development banks	53.5	58.6	0	0.0	0.0
International organisations	4.0	4.0	0	0.0	0.0
Institutions	264.8	209.0	20	42.6	3.4
Corporates	555.6	195.5	95	185.2	14.8
Retail	459.5	207.6	43	90.1	7.2
Secured by mortgages on immovable property	1,158.2	1,155.5	33	382.9	30.6
Exposures in default	2.9	2.3	121	2.8	0.2
Covered bonds	470.8	470.6	11	51.7	4.1
Equity exposures	14.3	14.3	100	14.3	1.1
Other exposures	93.7	93.7	71	67.0	5.4
Total exposures according to standardised approach	3,853.7	3,325.9	25	836.7	67.0
Total risk exposure amount, credit risk	6,787.5	6,112.1	22	1,333.7	106.7

Leverage ratio	Sep 30, 2021	Dec 31, 2020	%	Sep 30, 2020	%
EUR M					
Tier 1 capital	283.9	238.5	19	226.0	26
Total exposure measure	5,920.1	5,624.8	5	5,872.1	1
of which balance sheet items	5,698.1	5,466.7	4	5,699.4	0
of which off-balance sheet items	222.0	158.1	40	172.7	29
Leverage ratio, %*	4.8	4.2		3.8	

* Excluding mitigation due to COVID-19, the Bank of Åland's leverage ratio on September 30, 2021 would have been 4.3 per cent.

The leverage ratio was calculated according to the situation at the end of the report period. Tier 1 capital included profit for the period.

18. Share-related information

Group	Sep 30, 2021	Dec 31, 2020	%	Sep 30, 2020	%
thousands					
Number of Series A shares outstanding	6,476	6,476		6,476	
Number of Series B shares outstanding	9,126	9,110	0	9,110	0
Number of shares outstanding	15,602	15,586	0	15,586	0
Number of shares outstanding after dilution	15,616	15,634	0	15,598	0
Shareholders' portion of equity capital per share, EUR	18.74	18.76	0	17.95	4
Closing price per Series A share, EUR	28.60	21.60	32	18.80	52
Closing price per Series B share, EUR	27.70	20.90	33	18.80	47
Market capitalisation, EUR M	438	330	33	293	49
Market capitalisation/shareholders' portion of equity capital, %	150	113		105	

Group	Q3 2021	Q2 2021	%	Q3 2020	%	Jan-Sep 2021	Jan-Sep 2020	%
thousands								
Average number of shares outstanding	15,602	15,602		15,586	0	15,598	15,577	0
Average number of shares outstanding after dilution	15,602	15,602		15,586	0	15,598	15,577	0
Earnings per share, EUR	0.77	0.72	8	0.55	41	2.05	1.39	47
Earnings per share after dilution, EUR	0.77	0.72	8	0.55	41	2.05	1.39	47
Earnings per share, rolling 12 months, EUR	2.67	2.45	9	1.86	44			

Translation

Report on review of the interim report of Bank of Åland Plc for the accounting period January 1 – September 30, 2021

To the Board of Directors of Bank of Åland Plc

Introduction

We have reviewed the summary balance sheet as of September 30, 2021 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 26, 2021

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Authorised Public Accountant, KHT

FREDRIK WESTERHOLM
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HENRY MAARALA
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