

An aerial photograph of a small, rocky island in the middle of a dark blue sea. On the left side of the island stands a lighthouse with a red and black striped body and a red lantern room. The island is rugged with dark rocks and some patches of light-colored sand or coral. The water around the island shows some ripples and a slight wake.

Annual Report 2020

Bank of Åland Plc

ÅLANDSBANKEN

Going our own way

Table of contents

Sustainability is a natural element of our operations, and this year we have integrated our sustainability reporting into the existing chapters of our Annual Report.

About the Bank of Åland	2
The year 2020 in brief.	3
Legal structure of the Group and organisational chart	4
Statement by the Managing Director	5
Strategy	7
Employee interview	8
The Baltic Sea Project	9
Our contribution to the UN sustainable development goals	10
Private Banking	18
Premium Banking	20
Partnerships	22
Corporate units	24
Information Technology	27

REPORT OF THE DIRECTORS

Report of the Directors	29
Facts on Bank of Åland shares	36
Measuring our environmental impact.	39

FINANCIAL STATEMENTS

Consolidated income statement	44
Consolidated statement of comprehensive income	45
Consolidated balance sheet	46
Statement of changes in equity capital	47
Consolidated cash flow statement.	48
<i>Table of contents, notes to the consolidated financial statements.</i>	50
Notes to the consolidated financial statements.	51
Parent Company income statement	97
Parent Company balance sheet	98
Parent Company statement of changes in equity capital ...	99
Parent Company cash flow statement.	100
<i>Table of contents, notes to the Parent Company financial statements</i>	101
Notes to the Parent Company financial statements	102
Proposed allocation of profit	119
Auditors' Report.	120

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement	124
Board of Directors	130
Executive Team.	132
Definitions	134
Stock exchange releases in 2020	135
Address list	136

Financial calendar

The Bank of Åland will publish the following Interim Reports during the 2021 financial year:

- January–March Interim Report April 27, 2021
- January–June Half-Year Financial Report July 20, 2021
- January–September Interim Report October 26, 2021

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

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

The Head Office of the Bank of Åland is in Mariehamn, capital of the autonomous Finnish province of Åland. Located in the Baltic Sea midway between Sweden and Finland, the 6,700-island Åland archipelago has more than 30,000 inhabitants. Its official language is Swedish.

This translation of the Swedish-language Annual Report uses the international currency codes for the European Central Bank euro (EUR) and the Swedish krona (SEK). At year-end 2020, the middle rate for EUR 1 was USD 1.2271 and SEK 10.0343.

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

Translation: Victor Kayfet, SCAN EDIT, Oakland, CA
Cover: Anton Sucksdorff

About the Bank of Åland

- The Bank of Åland (Ålandsbanken) was founded in 1919 as Ålands Aktiebank and has been listed on the Helsinki Stock Exchange (now the Nasdaq Helsinki Oy) since 1942.
- The Head Office is located in Mariehamn, Åland. The Bank of Åland has a total of two offices in the Åland Islands and five offices on the Finnish mainland: in Helsinki, Tampere, Vaasa, Turku and Parainen. In Sweden, the Bank of Åland has three offices: Stockholm, Gothenburg and Malmö.
- The Bank of Åland Group has two subsidiaries: the fund management company Ålandsbanken Fondbolag Ab and the information technology company Crosskey Banking Solutions Ab Ltd.
- In the Åland Islands, the Bank of Åland is a bank for all residents and is both in a position and with a desire to help develop the Åland of the future.
- On the Finnish mainland and in Sweden, the Bank of Åland has a niche strategy targeted to entrepreneurs, wealthy families and individual customers with sound finances. We offer two concepts: Private Banking and Premium Banking®.
- Over the years, the Bank of Åland has been an innovative pioneer in the financial services industry. The Bank of Åland's Premium Banking®, launched in 2004, has served as a model for competitors in the Nordic countries. The Åland Index, launched in 2016, has become established as an international standard for measuring the climate impact of consumption.
- The Bank of Åland has business partnerships with several financial technology ("fintech") companies and supplies services to companies operating in the financial services sector. The Bank is also a shareholder in a number of strategic partners.
- The Bank of Åland has proactively chosen to offer products that benefit the customer at various levels: first and foremost financially, but also by contributing to sustainable development. Including the 2020 amount, over the years the Bank's Baltic Sea Account (formerly the Environmental Account) has contributed almost EUR 2.8 M to projects that improve and protect the environment.

Bank of Åland Group	2020	2019	2018	2017	2016
EUR M					
Income					
Net operating profit	39.7	33.2	29.0	26.0	25.1
Profit for the year attributable to shareholders	31.5	26.3	22.9	20.7	19.7
Volume					
Lending to the public	4,378	4,110	4,022	3,979	3,808
Deposits from the public	3,605	3,368	3,304	3,148	3,028
Actively managed assets ¹	7,436	6,343	5,177	5,737	3,900
Equity capital	292	258	242	234	222
Risk exposure amount	1,671	1,583	1,578	1,538	1,576
Financial ratios					
Return on equity after taxes (ROE), % ²	11.6	10.7	9.8	9.1	9.1
Expense/income ratio ³	0.70	0.73	0.77	0.78	0.76
Loan loss level, % ⁴	0.11	0.08	0.02	0.06	0.11
Core funding ratio, % ⁵	96	90	90	88	89
Equity/assets ratio, % ⁶	4.8	4.6	4.4	4.4	4.3
Common equity Tier 1 capital ratio, % ⁷	14.3	13.4	13.0	12.9	11.8
Working hours re-calculated to full-time equivalent positions	751	700	691	691	683
Earnings per share, EUR	2.02	1.69	1.48	1.35	1.29
Equity capital per share, EUR	18.76	16.61	15.67	15.14	14.50
Dividend per share, EUR	1.00	1.00	0.70	0.65	0.60

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

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

³ Expenses/Income.

⁴ Impairment losses on loans and other commitments/Lending to the public at the beginning of the period.

⁵ Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued.

⁶ Equity capital/Balance sheet total.

⁷ (Common equity Tier 1 capital/Capital requirement) ×8 per cent.

The year 2020 in brief

Financial summary of 2020

- Net operating profit increased by 20 per cent to EUR 39.7 M (33.2).
- Earnings per share increased by 19 per cent to EUR 2.02 (1.69).
- Return on equity after taxes (ROE) increased to 11.6 per cent (10.7).
- Net interest income increased by 9 per cent to EUR 58.9 M (53.9).
- Net commission income increased by 14 per cent to EUR 66.3 M (58.0).
- Total expenses increased by 8 per cent to EUR 105.6 M (97.5).
- Net impairment losses (including recoveries) amounted to EUR 4.9 M (3.2), equivalent to a loan loss level of 0.11 (0.08) per cent.
- Actively managed assets increased by 17 per cent to EUR 7,436 M (6,343).
- Lending increased by 7 per cent to EUR 4,378 M (4,110).
- Deposits increased by 7 per cent to EUR 3,605 M (3,368).
- The common equity Tier 1 capital ratio increased to 14.3 per cent (13.4).
- The Board of Directors proposed a dividend of EUR 1.00 per share (a regular dividend of EUR 0.80 plus an anniversary dividend of EUR 0.20) for the 2019 financial year.

Important events in 2020

FIRST QUARTER

- The coronavirus (COVID-19) pandemic struck Finland and Sweden. Due to great uncertainty about how the Bank and its customers would be affected, the Bank of Åland announced that until further notice it would refrain from issuing any future outlook about its net operating profit.
- 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 prestigious Lipper Fund Award Nordic. The fund won the award for all management periods that were analysed: 3, 5 and 10 years.
- Together with its customers, the Bank of Åland continued its commitment to a cleaner Baltic Sea. The Baltic Sea Project contributed EUR 445,000 to various projects that promote the health of the Baltic Sea.

SECOND QUARTER

- The Annual General Meeting 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 Vice Chairman.
- In compliance with the recommendation of the Finnish Financial Supervisory Authority (FIN-FSA) due to the coronavirus pandemic, the Bank postponed payment of the dividend for 2019 until an undetermined future date.

- 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.
- Net operating profit during the quarter was the highest ever in the Bank's history.

THIRD QUARTER

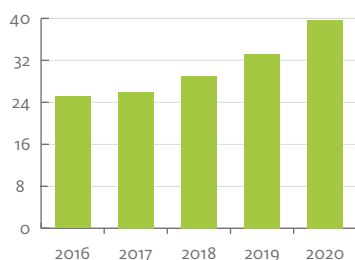
- The Bank of Åland's global equity fund became the second fund in the Bank's asset management range to be granted the Nordic Swan Ecolabel.
- Net operating profit during the quarter was again the highest ever in the Bank's history.

FOURTH QUARTER

- The Bank of Åland further strengthened its position in sustainable investments by launching Finland's first special placement fund for investing in wind power – Ålandsbanken Vindkraft (the Ålandsbanken Wind Power Fund).
- For the third straight quarter, net operating profit was the highest ever in the Bank's history. For the second straight year, full-year net operating profit was the highest ever.

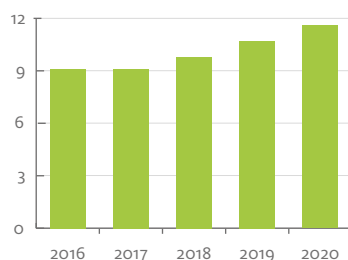
Net operating profit

EUR M



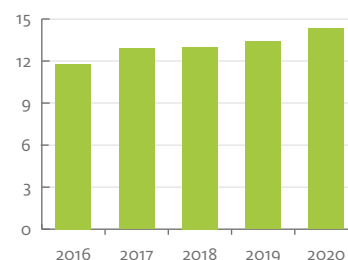
Return on equity after taxes (ROE)

Per cent

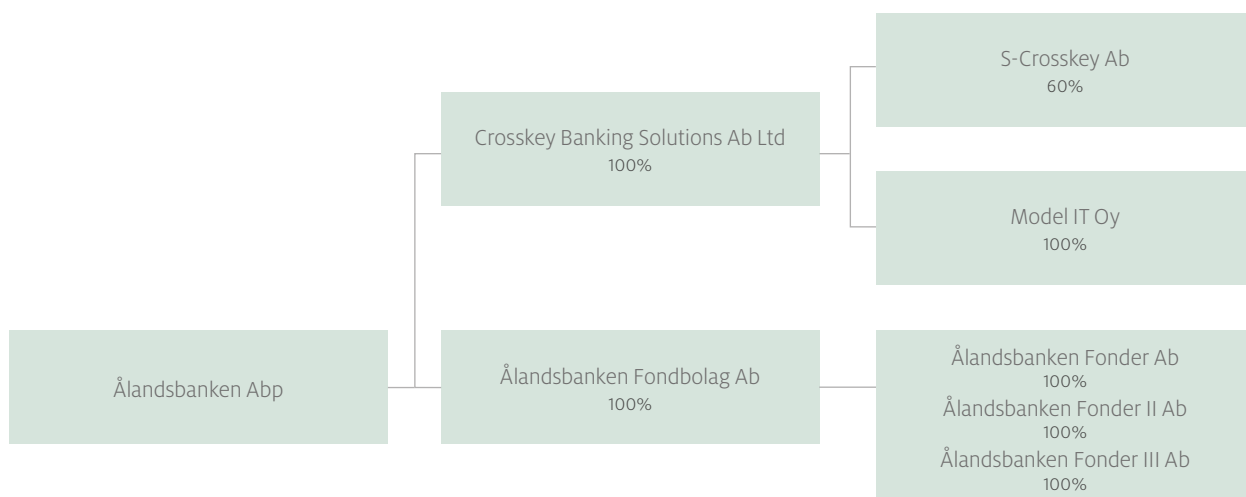


Common equity Tier 1 capital ratio

Per cent

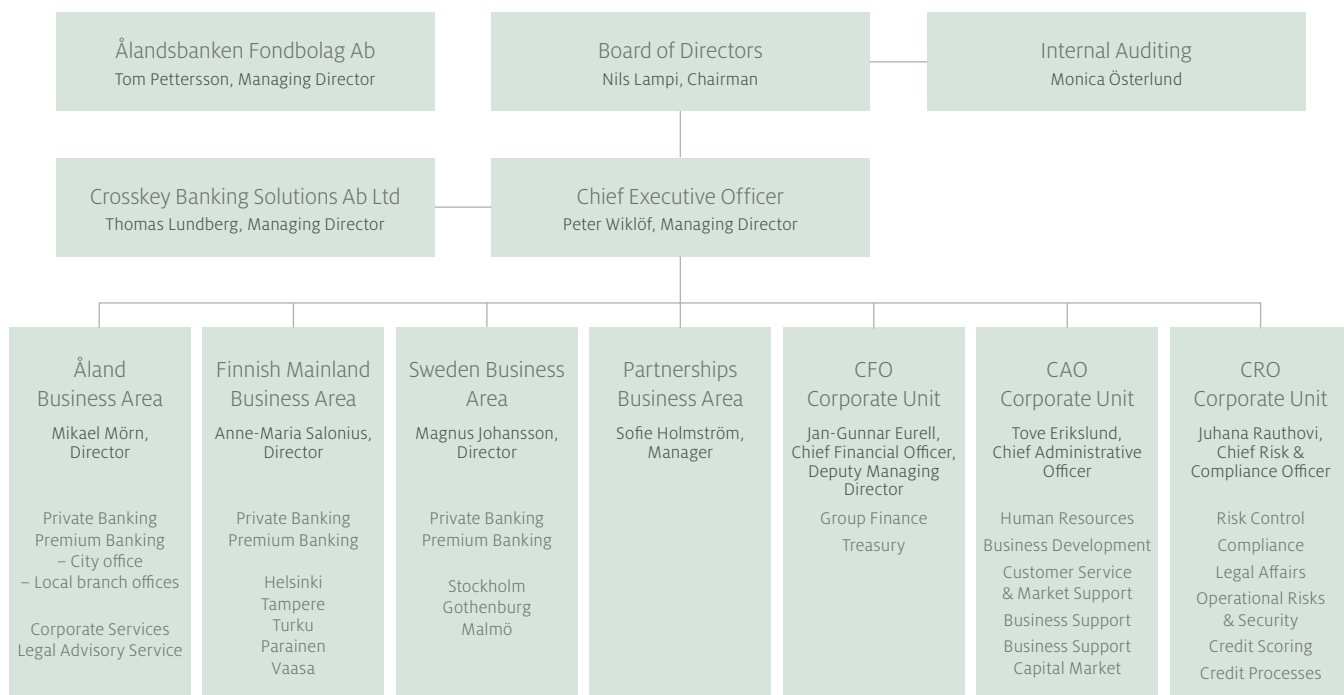


Legal structure of the Group



Associated companies consolidated in the Group: Åland Index Solutions AB, 50%; Mäklarhuset Åland AB, 29%; IISÅ Holdco AB, 25%; Borgo AB, 100%.

Organisational chart



We will not soon forget 2020



Peter Wiklöf, Managing Director

If you read our income statement for 2020 and note its associated volume trend, you can confirm that the Bank of Åland had a successful year. Add the realisation that we achieved this during a pandemic, and the outcome looks even better.

Our hopes for 2020 were high after we closed out 2019 – our 100th financial year – with record earnings. Little did we suspect the drama that we and the rest of the world would experience as the novel coronavirus spread like wildfire around the globe. Stock markets plunged during March, and fixed income markets largely ceased to function.

RAPID ADJUSTMENT AND CALM CUSTOMERS

Let me offer some personal reflections about the initial shock phase of the pandemic. I am grateful that we have highly responsive and adaptable employees. When the need for social distancing increased, we were quickly able to adjust and continue our work from home without any major complications.

Our customers also showed great understanding and acceptance when we began to deliver a much larger proportion of our advisory services via digital channels. We saw some of our competitors facing challenges, with large outflows of investment assets when markets collapsed, but we did not see that. Our customers chose almost exclusively to listen to our advice and stay in

the markets until the worst drama subsided. That advice proved to be correct.

We also saw the authorities respond much faster than during the global financial crisis of 2008–2009. Central banks, national governments and the Åland provincial government quickly came out with comprehensive relief measures to help sustain the economic sectors that were hardest hit when people were asked to stop travelling and meeting. These measures probably contributed to the fact that at the Bank of Åland, we did not see our non-performing loans grow during 2020. Another result of the relief measures was that there was no reason to use the larger impairment loss provisions we set aside during the first quarter of 2020. They will instead remain as reserves for future years.

ASSET PURCHASES PUSHED DOWN INTEREST RATES AND YIELDS

The capital markets that have the greatest influence on our performance are the fixed income and stock markets. Few people could have guessed that after stock markets fell by 20–30 per cent last spring, then would close the year at higher levels than they started. Yet by the end of 2020, it was clear that most stock markets had more than recovered. The Stockholm exchange gained 13 per cent during the year and the Helsinki exchange rose by 10 per cent. Extensive asset purchases by central banks pushed down both short-term interest rates and long-term yields. At the end of 2020, we consequently saw our most important market interest rates in Finland and Sweden move into negative territory: 3-month Euribor to –0.52 per cent and 3-month Stibor to –0.08 per cent.

At the Bank of Åland, we have continued to give our customers the option of physical meetings. We must offer high-quality digital services, but giving people a chance to meet their personal advisor face to face is still important to us. The pandemic hampered our ability to provide our full range of services. In spite of this, we managed to continue growing our business volumes in a very satisfactory way. During 2020, actively managed assets grew by 17 per cent to EUR 7,436 million, driven by an influx of new capital from new and existing customers and by valuation growth.

NEW MUTUAL FUNDS WERE WARMLY RECEIVED

During the year, we launched two new investment funds: the Nordiska Småbolag equity fund, specialising in Nordic small and medium sized enterprises, and the Nordic region's first investment fund specialising exclusively in wind power. Both funds were very well received. In December, the Wind Power Fund announced that it had reached an agreement with the construction company YIT to build a wind farm with fifteen turbines in Murtomäki, north-western Finland, and a total capacity of 90 megawatts. Our largest mutual fund, Ålandsbanken Global – with over EUR 1 billion in investment assets – was granted the Nordic

Swan Ecolabel during the year. This is in line with our long-term sustainability strategy, which includes phasing out fossil fuel-related investments from our product range.

Given our continued good rapport with customers, our deposits and our lending each grew by 7 per cent during the year, reaching EUR 3,605 M and EUR 4,378 M, respectively. Lending growth was supported by our collaboration with Sweden's ICA Bank – managing their mortgages in our balance sheet until our new jointly owned mortgage company, Borgo, is launched in 2021. The Bank of Åland will provide this newly established mortgage company with everything from IT services to normal back office and accounting services.

LAUNCHING OUR SUSTAINABILITY EFFORTS ON A GLOBAL SCALE

The Bank of Åland's ambition is to continuously improve our operations from a sustainability perspective. In some areas, the Bank is at the forefront. For example, every quarter we transparently report our carbon footprint from electricity use, business travel and paper consumption. This footprint shrank by a full 60 per cent in 2020 thanks to active decisions, but also because the coronavirus pandemic made many business trips impossible. A few years ago we created the Åland Index, which enables card customers to calculate to calculate their own carbon footprint. Together with the Swedish-based fintech company Doconomy, we are now successfully launching it on a global scale.

In 2019, the Bank of Åland signed the United Nations Principles for Responsible Banking. During 2020, we did our homework by conducting a materiality analysis based on the UN's 17 Sustainable Development Goals. This analysis focused on areas where we have a negative or positive impact on our environment. We are now setting new targets in these areas in order to systematically reduce our impact and to monitor the progress of our own sustainability work. The long-term objective is that we should be completely climate-neutral, and during 2021 we will define this objective more clearly.

A STRONG TALENT FOR ADAPTING TO CHANGE

The world around us is constantly changing. Companies that can adapt to changes in their surroundings will survive, while others will disappear. For many decades, the Bank of Åland has shown a strong talent for adapting to the prevailing operating conditions. Last year was no exception – on the contrary. Rarely has our organisation demonstrated such an impressive ability to adapt quickly as during the 2020 financial year. We passed this test with good marks.

The Bank of Åland is financially stronger than we have ever been before. With a return on equity that reached 11.6 per cent last year, we are one of the most profitable full-service banks in Europe. If we combine this knowledge with the positive trend we have shown in recent years, we can undoubtedly look forward to the coming years with confidence.

I would like to thank our customers and all our employees for their great flexibility and their ability to take on the challenges they faced during 2020. Hopefully during 2021 we can return to a more normalised world.

Daring to go our own way

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

OUR VISION

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

OUR POSITION

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

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

A BANK FOR INVESTORS, WITH FINANCING KNOW-HOW

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

CUSTOMER RELATIONSHIPS AND TRUST

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

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

GOOD SERVICE VIA ALL CHANNELS

The Bank of Åland has always welcomed new technology that makes everyday life easier for our customers. Our Internet Bank has thus been a forerunner in the industry since its inception. In our development work, we draw no distinctions between personal

and digital encounters. Regardless of the channel, our customers shall always feel that they are receiving good service. Our relationships shall be equally strong in every channel. But we also take advantage of the special strengths of the various channels.

Personal meetings are the most suitable channel for advisory services, while our Internet Office – delivered via the Web – and our banking app using mobile devices enable customers to gain a clear overview and seamlessly manage their everyday finances.

AN EVER-BROADENING RANGE OF PARTNERSHIPS

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

MAKING OURSELVES CLIMATE NEUTRAL

Given our close connection to the small community of Åland, located among thousands of islands in the middle of the Baltic Sea, sustainability work has been a natural element of our core values for a long time. Together with our customers, we have created products and services that both increase awareness and support concrete sustainability projects. Sustainability issues are an integral part of our usual operational management, where the Board of Directors, the Executive Team and all our employees have their role. Each quarter we transparently report our carbon footprint from business travel as well as electricity and paper consumption.

In 2019 the Bank of Åland signed the United Nations Principles for Responsible Banking. Our starting point is the materiality analysis that we conduct on the basis of the UN's 17 sustainable development goals. Here we analyse all of our operations and see where our impact is positive and where it is negative. Then we set clear development targets and follow them up on a regular basis. Our long-term objective is to become a climate neutral group.

A job at the Bank gave Eli hope for the future

Eli Ghaderpour grew up in Tehran, Iran – a city of millions – and arrived in Åland with a university degree in economics. It was a difficult adjustment, but when she landed a job at the Bank of Åland, her situation changed. “I’m so happy there, and now it feels meaningful to stay in Åland,” she says.

Eli Ghaderpour, 31, has worked since January 2020 as a portfolio administrator with the Business Support – Capital Market department at the Bank’s head office in Mariehamn. She remembers very well when she first came in contact with the Bank. At the time, she was a student in a Swedish for Immigrants (SFI) course.

“We went on a study visit to the Bank of Åland. They treated us to coffee and pastries and gave us an introduction that I understood a fraction of. But I was courageous and asked in halting Swedish whether there was any chance for us to get jobs at the Bank,” Eli explains.

Hope awakened

The reply filled her with hope. “Yes indeed, it depends entirely on your experience and the job you’re applying for.” Eli was ready to fight. She wanted so badly to land a job at the Bank of Åland in particular. She already spoke three languages – Persia, Kurdish and Turkish – and realised that she had to learn Swedish really well. She also had her economics degree evaluated. She had studied for more than six years at Urmia University in Iran, and her degree was approved as being equivalent to a Finnish bachelor’s degree in economics and business administration.

When a job as a portfolio administrator was advertised in December 2019, Eli applied for it. She had been unemployed for several weeks after a holiday job behind the meat counter at

a grocery store. She waited nervously for a week or so before being invited to the Bank for an interview.

A new life

Later she got a phone call, saying “The job is yours.” This marked the beginning of a new life in Åland.

“In Iran, I’d worked as an accountant at a large sweets company, and the tasks performed by a portfolio administrator were completely new to me. But I’m so motivated and want to take on my responsibilities and do my very best all the time. I learn new things every day, and I’m incredibly grateful to my supervisor and my colleagues. They help me and answer all my questions. Now, after more than a year in my position, I’m beginning to feel comfortable,” she says.

People might wonder: How did Eli end up in Åland? The answer is simple: love. She met her husband, Karo Amin – who was born in Iraqi Kurdistan – when he was on a visit to Iran. He had worked in Åland for many years and wanted to continue living here.

“Of course it’s a major adjustment, arriving in Mariehamn from a huge city like Tehran with a vibrant atmosphere – getting used to silence and empty streets. But after I landed my job at the Bank of Åland, which means so much to me, Åland feels more and more like our real home. Now we’ve also started to build our own house in Mariehamn,” she says.



Photographer: Therese Andersson

Collaboration benefits Baltic Sea

The Bank of Åland has supported the important work of various environmental organisations for more than 20 years. Through the Baltic Sea Project, the Bank has funded projects that promote a healthier Baltic Sea since 2014. Funding is divided into five different categories – digital innovations, concrete kilograms, engaging projects, local water protection projects as well as children's and youth projects.

In 2020, the Baltic Sea Project strengthened its cooperation with Finland's largest Baltic Sea actors by funding their projects and efforts to promote the well-being of the Baltic Sea.

Among the recipients were a number of major actors around the Baltic Sea such as the Baltic Sea Action Group, the John Nurminen Foundation, the Keep the Archipelago Tidy Association, WWF Finland and Race for the Baltic. In 2020 the Bank of Åland initiated long-term collaboration with the John Nurminen Foundation, becoming its main sponsor and providing EUR 80,000 in funding. In 2019 the Bank joined forces with the Baltic Sea Action Group to launch the Living Baltic Sea project to promote greater marine biodiversity. In 2020 the Bank expanded this collaboration and provided EUR 80,000 in funding.



Largest amount to Åland

Emmaus Åland was granted two years of funding, totalling EUR 120,000 euros. This was the largest single funding decision in 2020. It will enable Emmaus Åland to pursue its project illustrating the water cycle and how it affects us and our natural surroundings.

To strengthen the ReGeneration 2030 movement, whose members are youth and young adults in the Nordic and Baltic Sea regions, EUR 50,000 in funding was provided in order to establish a foundation. Its objective is to create a sustainable society in line with the UN sustainable development goals.

In prior years, funding from the Bank of Åland's Baltic Sea project enabled various startup companies to launch and expand their business.

Among applications were a variety of proposals and solutions to improve the health of the Baltic Sea. As in prior years, reducing plastic waste and recycling waste and other materials were recurring themes.

"I'm really pleased that we again received numerous applications for innovations aimed at improving the state of the Baltic Sea," says Anne-Maria Salenius, head of the Bank's Finnish mainland operations and chairperson of the Baltic Sea Project jury.

Our contribution to the UN sustainable development goals

In recent years, the 17 United Nations sustainable development goals have been a source of guidance in our sustainability work. As part of our materiality analysis, in 2019 we included for the first time all 169 targets that are associated with the UN's global goals.

In 2020, we carried out a more in-depth analysis based on these targets in our materiality analysis, which means that for the first time we can report our operations based on them. We use the materiality analysis to examine our operations from four perspectives: our responsibility as a lender, investments, the environment and social issues.

With the insights and lessons learned from our 2019 work, the materiality analysis for 2020 was more comprehensive than before. For this reason, our reporting of the Group's operations is now directly linked to the UN's global goals and their related targets.

Our commitment and our efforts focus on four of the global goals:

- Sustainable energy for all
- Life below water
- Climate action
- Decent work and economic growth

Our ambition is to define further long-term objectives in these areas during 2021.

The purpose of the Bank's materiality analysis is to identify areas for short- and long-term sustainable development. The analysis is based on the requirements or needs of our identified stakeholder categories plus other business intelligence and identified areas where the Bank's operations have a positive or negative impact based on the UN global goals.

The number of stakeholders is growing rapidly. This is due to several reasons. First, there is increasing awareness and interest in sustainability issues, and second, there is growing concern about climate change. Meanwhile public authorities, the media and others are showing a greater sense of commitment. In addition, our ever-broadening stakeholder categories include customers, employees, shareholders, competitors, resellers, suppliers, recruitment candidates, business partners and society at large (citizens, interest groups, political leaders).

Contact with the above stakeholders takes place continuously and through many different channels. Dialogues are initiated both by the Bank of Åland and by the stakeholders. The common denominator is that people expect transparency, credibility and more information than a few years ago.

Our materiality analysis for 2020 made it clear that other UN goals besides the four mentioned above are also important to us and our stakeholders. Our development plans thus also include these goals.

Analysing one's operations from a global sustainability perspective can be challenging. But at the same time, the insights that this work provides are an important factor that drives sustainability issues forward. One example of a challenge is the two UN goals "No poverty" and "Zero hunger", which we have discussed extensively. Although on an emotional level these goals feel extremely important, we are forced to realise – and to admit – that we are not currently contributing to them. On the other hand, we are convinced that in the long run we will be able to pull our weight in terms of furthering those goals.

In the following pages, we provide an overview of our sustainability efforts and how we connect them to the UN goals. Sustainability is a natural element of our operations, and this year we have integrated our sustainability reporting into the existing chapters of our Annual Report.



7 AFFORDABLE AND CLEAN ENERGY



Targets

7.2 Increase the share of renewable energy in the world

By 2030, increase substantially the share of renewable energy in the global energy mix.

7.3 Double the increase in energy efficiency

By 2030, double the global rate of improvement in energy efficiency.

7.a Promote access to research, technology and investments in clean energy

By 2030, enhance international cooperation to promote access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.

SUSTAINABLE ENERGY USE

90% of all energy via renewable sources ("green" energy)



Affordable and clean energy

Our ambition is to raise awareness about our carbon dioxide emissions. We shall continuously reduce these emissions, among other things through sustainable consumption, production and energy use. We offer solutions to our customers that contribute to climate transition through continuous development of a sustainable product range.

WE PROVIDE GREEN INVESTMENT PRODUCTS

We offer our customers mutual funds that invest in wind power.

WE INVEST IN WIND FARMS

By investing in wind farm projects, we help increase the share of renewable energy in the Nordic and Baltic countries.

AT LEAST 90% FROM RENEWABLE SOURCES

We maximise the use of renewable energy in the Group, including our own solar energy production and purchased renewable energy (read more on page 39).

Target for
2021:
90%



Photographer: Anton Sucksdorff

Decent work and economic growth

Our operations are continuously growing. We are a sizeable employer in the Åland community, thus contributing jobs and tax revenues to the community. As an employer, the Bank maintains decent working conditions based on collective-bargaining agreements and current regulations. We work actively to promote social sustainability, encompassing inclusion, equal worth, sound values and a strong commitment to the community, as well as following regulations and requirements to help combat corruption, money laundering and other criminal activities.

RESPONSIBLE LENDING

To us, it is important to ensure that a customer has sufficient repayment capacity and that a loan meets the customer's needs. We endeavour to integrate sustainability risk into our risk assessment when approving new loans.

INTEGRATION AND DIVERSITY

We welcome work and language trainees and contribute to employment, Integration and diversity (read more on page 8)

EQUAL PAY FOR EQUAL WORK

We apply a salary model and carry out a yearly salary survey that ensures equal pay for equal work.

BUSINESS PARTNERSHIPS

In collaboration with business partners in the fintech sector, we achieve financial efficiency and technological innovation. By working with partners that share our values, we contribute to sustainable development (read more on page 22).

LOCAL AND GLOBAL COMMITMENT

We are a proactive member of the business community and have a strong social commitment, especially in Åland. We participate in various networks and share our expertise and experience when asked to do so.



8 DECENT WORK AND ECONOMIC GROWTH



8.1 Sustainable economic growth

Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.

8.2 Diversify, innovate and upgrade for economic productivity

Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors.

8.3 Promote policies to support job creation and growing enterprises

Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro, small and medium sized enterprises, including through access to financial services.

8.5 Full employment and decent work with equal pay

By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

8.8 Protect labour rights and promote safe working environments

Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants and those in precarious employment.

8.10 Universal access to banking, insurance and financial services

Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all

13 CLIMATE ACTION



13.1 Strengthen resilience and adaptive capacity to climate-related disasters

Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

13.2 Integrate climate change measures into policies and planning

Integrate climate change measures into national policies, strategies and planning.

13.3 Build knowledge and capacity to meet climate change

Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

Climate action

We endeavour to continuously reduce our carbon dioxide emissions by means of sustainable consumption and production, as well as sustainable energy use and business travel and a range of products that aim at reducing carbon dioxide emissions. We enable our customers to increase their environmental awareness via the Åland Index and via our business partner Doconomy.

SUSTAINABLE INVESTMENTS

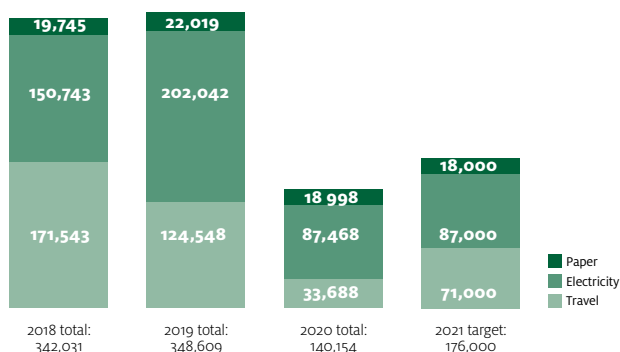
Our investment process includes analyses from the global index supplier MSCI. We monitor company data related to such matters as the environment, social responsibility, corporate governance, sustainability risks and combating climate change. This gives us a clearer overall picture of each company that is analysed. We offer our customers Nordic Swan Eco-labelled funds with the ambition of expanding our product range further. We measure the carbon dioxide intensity of our mutual funds (read more on page 18).



REDUCED CARBON DIOXIDE EMISSIONS

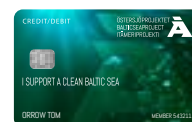
We transparently report our carbon footprint from business travel, electricity and paper consumption each quarter. Our footprint shrank by a full 60 per cent during 2020 thanks to proactive decisions, but also because the coronavirus pandemic made many business trips impossible. Our long-term objective is to become completely climate neutral (see chart below).

Prioritisation in the Bank's transport work:



ÅLAND INDEX

The Åland Index is one of our most important tools for raising awareness among our customers and employees about their own carbon footprint. Thanks to the index and our work to ensure a healthier Baltic Sea, our customers' awareness has increased. In our yearly survey of Premium and Private Banking customers, 67 per cent said they were familiar with the Åland Index and 23 per cent said it had affected their consumption habits. A growing number of organisations worldwide are starting to use the Åland Index. In the next three years, 3 billion people are expected to be offered this opportunity (read more on page 22).



Doconomy

92,000,000

Bank customers worldwide can monitor the carbon footprint of their card purchases via Åland Index Solutions.

Life below water

Through the Baltic Sea Project and the Baltic Sea Account, we and our customers work together to help reduce pollution in the Baltic Sea. Various stakeholders are offered the opportunity to receive funding to implement their ideas for achieving a cleaner Baltic Sea.

We have been doing this since 1997. Our environmental work is based on our geographic location in the middle of the Baltic Sea.

THE BALTIC SEA PROJECT

Via the Baltic Sea Project, we distribute at least EUR 500,000 yearly to projects that promote a cleaner Baltic Sea. We regularly discuss the Baltic Sea Project and the Baltic Sea Account with our stakeholders and invite them to join our efforts (read more on page 9).

ÖSTERSJÖPROJEKTET
BALTICSEAPROJECT
ITÄMERIPROJEKTI



€ 2,800,000

funding good ideas for the
environment since 1997.

14 LIFE BELOW WATER



14.1 Reduce marine pollution

By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.

14.2 Protect and restore ecosystems

By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.

14.3 Reduce ocean acidification

Minimise and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels.

14.5 Conserve coastal and marine areas

By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information.



3 GOOD HEALTH AND WELL-BEING



HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages

We strive to maintain a good physical and psychological work environment, as well as a high level of commitment among all employees. In 2020, employee commitment was 77 on a scale of 0–100. This is a decrease from the previous year, when it was 78, but we still see this as a positive confirmation that we have managed to maintain a high level despite the coronavirus pandemic. Our long-term target is a commitment index above 80.

As for the psychological work environment, we have zero tolerance for discrimination, harassment and bullying. Through dialogue, education, awareness, clear guidelines and resolute action, our goal is openness and a safe environment for all.

4 QUALITY EDUCATION



QUALITY EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

We create conditions that enable our customers to study by offering them student loans as well as affordable and specially tailored banking services for students.

The Bank of Åland donates scholarship money to the Åland schools each year and we also offer internships and language training (read more on page 42).

5 GENDER EQUALITY



GENDER EQUALITY

Achieve gender equality and empower all women and girls

We contribute by judging all customers and their repayment ability on the same basis. In the Group's gender equality work, we aim at achieving at least 40/60 gender balance when filling job openings. At team and department levels, as well as in certain positions, there may still be imbalances.

We make a conscious effort to ensure that all employees enjoy equal rights and opportunities with regard to compensation and professional development. Our salary model and annual salary survey aim at ensuring equal pay for equal work.

6 CLEAN WATER AND SANITATION



CLEAN WATER AND SANITATION

Ensure availability and sustainable management of water and sanitation for all

The world's water resources are rapidly shrinking. This is why we want to increase awareness within the Group by means of efficient water use. We need to review our methods for measuring and analysing water consumption, which will also include a more detailed follow-up.

Thirty years ago the Bank of Åland was a co-founder of the Stockholm Water Prize, which is awarded by Stockholm International Water Institute (SIWI). We still contribute funding for this annual prize.

We have informally eco-labelled ("kranmärkt") the water taps in our offices, which means that we only serve non-bottled water.



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

We support local entrepreneurship in Åland by providing funding guaranteed by the European Investment Fund (EIF). Our ambition is to contribute to greater awareness of sustainability issues among our corporate customers. This is done primarily through a dialogue about a company's sustainability plans at the time of lending.

10 REDUCED INEQUALITIES



REDUCED INEQUALITY

Reduce inequality within and among countries

All employees must enjoy the same rights regarding professional development.

As for the psychological work environment, we have zero tolerance for discrimination, harassment and bullying. Through dialogue, education, awareness, clear guidelines and resolute action, our goal is openness and a safe environment for all.

We judge all customers and their repayment ability on the same basis. Our salary model and annual salary survey aim at ensuring equal pay for equal work.



SUSTAINABLE CITIES AND COMMUNITIES

Make cities and human settlements inclusive, safe, resilient and sustainable

Through the Bank's two real estate mutual funds – Bostadsfonden and Tomtfonden – we contribute to urban infrastructure, while generating jobs.

In the premises where we work, we are expanding waste recycling and are thereby helping to reduce our environmental impact. Our employees are encouraged to use fossil fuel-free modes of transport or use public transport.



LIFE ON LAND

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Through the Åland Index, we are increasing awareness among our employees and customers about their personal carbon footprint. At the same time, we are working to reduce the Bank's carbon dioxide emissions. Our employees are trained and engaged in sustainability and environmental work, among other things through local keep-nature-clean-projects.



RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns

We communicate openly and transparently about our investments. Sustainability data from index provider MSCI are included in our investment management. We take responsibility for our investments and influence by voting at corporate annual meetings and participating in nomination committee work. We continuously train our employees about sustainability issues, including responsible lending and responsible investments.

We provide financing to local producers and enterprises, while excluding financing for companies in the weapons trade and customers associated with a high risk of illegal financial flows.



PEACE, JUSTICE AND STRONG INSTITUTIONS

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

We maintain high ethical standards and follow both regulations and policy documents on ethical conduct as well as identifying and managing conflicts of interest. Through educational efforts and technical development, we help combat corruption, money laundering and other criminal activities.

Our corporate culture is characterised by openness to different opinions. There is a high level of commitment within our organisation and we are continuing our efforts to improve it.



PARTNERSHIPS FOR THE GOALS

By connecting our operations to the UN's sustainable development goals and by being transparent, we are helping make these goals known to our stakeholders.

Thanks to several business partnerships, we are able to contribute to national and global awareness of sustainable development.

We have adopted the UN principles for responsible banking and responsible investment.



Strong growth due to high level of trust



Photographer: Viktor Fremling

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

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

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

Net operating profit from Private Banking in 2020 amounted to EUR 29.3 M, which was equivalent to 74 per cent of the Bank's total net operating profit. Return on allocated equity was 24.2 per cent. Actively managed assets rose by 17 per cent.

Private Banking continued to attract new customers in all three geographic home markets. During 2020 a number of new members were added to the team in order to meet heavy demand and be able to serve customers in the best way. There are many indications that recruitments will continue during 2021.

Due to the coronavirus pandemic, most customer meetings and customer events have taken place in digital formats, but the Bank's customer surveys show that customers continue to appreciate us greatly, especially due to the Bank's expertise and personalised service as well as high ethical standards and sustainability work.

ASSET MANAGEMENT

Ålandsbanken Fondbolag manages the Bank of Åland's mutual funds and, as an intra-Group service, delivers all material supporting the Bank's asset management

services to customers: from overall market outlook reports and asset allocation recommendations to model portfolios for individual securities.

The final outcome of our management of most Bank of Åland mutual funds and asset management mandates for the full year 2020 was in line with or above our expectations. This outcome was supported by the strong recovery of the stock market.

The corporate bond market was worst affected by the coronavirus pandemic and experienced a crisis during March and April. Liquidity practically disappeared from the corporate bond market, which also affected the performance of the Bank of Åland's fixed income funds. Yet our customers did not panic in this weak market situation, as did various other fund management companies and banks, which in some cases were forced to halt fund redemptions in order to secure their fund management. We interpret the healthy calm of our own customers as a result of good advisory services when they made their investments. Our customers have been aware of the risk level and potential returns on their investments. By the end of 2020, the Bank of Åland's fixed income funds had recovered in valuation terms to pre-crisis levels and had also attracted a large proportion of new assets under management by investors who saw an opportunity to take advantage of the recovery in the fixed income market. It is especially gratifying that the Ålandsbanken Green Bond ESG fund grew by EUR 40 M in new capital during the year.

After last spring's initial coronavirus crisis, stock markets in particular entered a strong recovery phase. In light of this, the timing of our launch of the new Ålandsbanken Nordiska Småbolag equity fund – specialising in small and medium sized enterprises (SMEs) – was very successful. The fund has provided very strong returns from the start, both in absolute and relative terms. It attracted a total of EUR 46 M in investments during 2020 and also helped to further raise the profile of Ålandsbanken Fondbolag as a Nordic equities manager.

Other equity funds and equity management mandates performed largely in line with the markets during 2020.

Among equity funds, we can be pleased about receiving another Nordic Swan

Ecolabel. The global equity fund Ålandsbanken Global Aktie was awarded this label in October for its sustainable investment strategy. Among other things, the Nordic Swan Ecolabel requires a fund not to invest in fossil fuel-related operations. The global equity fund, with managed assets of more than EUR 1 billion, is the Bank's largest equity fund and one of the largest in Finland. The reason why this became our first fossil-free fund is that there is a broad spectrum of attractive companies that can replace investments in companies with traditional fossil energy operations. The narrower the market, the harder it is to find good replacements for companies that are no longer potential investments. However, we plan to expand the number of fossil-free alternatives. Our Nordisk Småbolag fund, specialising in Nordic SMEs, is also fossil fuel-free in nature.

Our housing mutual funds continued their solid performance during 2020. Ålandsbanken Bostadsfond carried out several successful property divestments that resulted in strong returns to fund investors.

Ålandsbanken Tomtfond, which specialises in housing sites, continued to perform as expected. Activity in the housing site market increased during 2020. The fund identified a larger number of attractive investment opportunities than in prior years, which allowed it to bring in more capital. During the year, nearly EUR 70 M in new capital flowed into the fund.

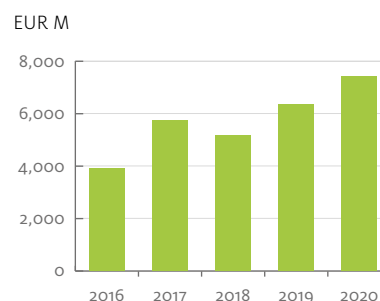
During the summer and autumn, asset management staff devoted significant efforts to acquiring a permit for the new Ålandsbanken Vindkraft Specialplaceringsfond. Investing in wind power via an open special placement fund with trading opportunities twice a year is new to investors in the Finnish mutual fund market. The fund attracted heavy interest. During its launch in November and December, the fund attracted EUR 60 M in capital. Late in 2020 the fund bought its first wind farm.

Today the wind power fund appears to have solid growth prospects. Wind power is the cheapest way to produce electricity, and the business is profitable without government subsidies. Meanwhile global climate goals are becoming stricter, requiring reduced emissions from fossil fuel energy production. Combined with very rapid

developments in turbine technology for wind power production in recent years, this gives the fund good potential.

According to the mutual fund report published in December 2020 by the trade organisation Finance Finland, net flows of new capital into Finnish mutual funds totalled EUR 1.2 billion during the year. This implies that the net inflows of EUR 215 M into the Bank of Åland's mutual funds during 2020 represented a market share of about 18 per cent, compared to the Bank's share of total Finnish mutual fund market assets, which was less than 3 per cent.

Actively managed assets



More customers have financial investment potential

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

During 2020 the Premium Banking concept continued its focus on asset management business, mainly for customers in the upper segment of its target group who have large investable resources. Growth in actively managed assets was again very high. Deposits also continued to grow. Even though the Bank of Åland chose not to participate in price competition in the home mortgage market, but instead to concentrate on providing personalised service and advice, lending volume also increased.

Net operating profit from Premium Banking totalled EUR 6.2 M in 2020. Earnings were lowered by large impairment loss provisions. Before write-downs, net operating profit increased by 8 per cent and totalled EUR 10.3 M.

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

During the year, we launched share trading via the Internet account in Sweden, which our customers had requested.

The number of Premium Banking customers is largest on the Finnish mainland.

Sustainability considerations follow us in everything we do. Among other things, we are ambitiously involved in both new sustainable mutual funds and our Baltic Sea Project. With our debit cards and Åland Index, we are raising awareness about sustainability issues. We encourage our employees to travel to and from their workplace in climate-smart ways, we avoid unnecessary paper consumption and we have expanded remote working opportunities.

During 2021 we will continue to work towards profitable growth. A special focus area will be investments on behalf of wealthy private individuals. One innovation in 2021 will be that, as the first bank in Finland, we will offer a share savings account with discretionary management, a product that provides a very good complement to our mutual fund offering

THE ÅLAND CORPORATE SERVICES UNIT

The Bank of Åland's Corporate Services unit is the market leader in Åland and offers a wide range of services and products adapted for Åland-based companies. The target group is broad and includes small and medium sized businesses as well as large corporations with international operations. The number of corporate customers continued to grow during 2020 and the level of customer activity was high.

During 2020 the Corporate Services unit worked actively to offer Åland-based companies liquidity loans supported by the Åland provincial government to bridge over the negative impact of the coronavirus pandemic and related restrictions on their operations. The Åland business community is also being offered funding guaranteed by the European Investment Fund (EIF). With the help of EIF guarantees, the Bank's capital and credit risk expenses are decreasing. This, in turn, benefits companies. As a result, the Bank of Åland has been able to offer better funding conditions for small and medium sized companies, for example to expand their operations or make environmental or sustainability-related investments.

The ambition of the Corporate Services unit is to be in the forefront in supplying the Åland business community with capital to invest in our transformation to a more sustainable society.

During 2020 the Corporate Services unit continued its involvement in projects and working groups organised by the Åland Chamber of Commerce and the Åland provincial government. In this way, we want to contribute to a positive view of entrepreneurship and give business owners the opportunity to get started or expand their operations more easily with the help of effective tools.



International partnerships provide economies of scale



Photographer: Kjell Söderlund

Sofie Holmström, Manager of the Partnerships Business Area.

The Bank of Åland's external partnerships include collaboration with Swedish fintech companies, service deliveries in the payments field in Sweden and Finland and delivery of complete services to a new Swedish mortgage company. Increasing collaboration related to home mortgage loans in the Swedish market is showing growth, while partnerships related to sustainability and the Åland Index are having an impact on sustainability efforts worldwide.

Partnerships are a success factor as digitisation generates a wave of innovation and tech start-ups in the financial services sector. The Bank of Åland was among the pioneers of this trend, having initiated its first fintech partnership as early as 2015 with the Swedish-based Dreams Nordic AB.

In 2020, external partnerships became a fully integrated element of the Bank of Åland's operations. During the year, collaboration with Dreams grew in terms of business volume for deposits and mutual

fund savings. The Bank's products and services are thus reaching more and more customers. Via its mobile app, Dreams offers a customer experience that focuses on financial well-being, using the Bank of Åland's services for account management, payments services, bank savings and mutual fund savings in the Swedish market. In the upcoming launch of Dreams elsewhere in Europe, the Bank of Åland will serve as a partner in payment services.

Dreams is also planning to broaden its

product range in Sweden during 2021 by launching a product that will help private individuals become debt-free more quickly and achieve balanced personal finances.

The Partnerships business area is also growing as a result of collaboration that is emerging in the Swedish home mortgage loan market. Together with ICA Bank, Ikano Bank and Söderberg & Partners, the Bank of Åland is developing the jointly owned mortgage company Borgo. All four co-owners in Borgo will distribute their own mortgage loans via the new company. The Bank of Åland will be responsible for service deliveries to Borgo in the lending field, payments and account management as well as accounting and treasury operations. During 2021 the Swedish Financial Supervisory Authority is expected to grant Borgo a permit as a credit market company and an issuer of covered bonds. Until permits are granted, the Bank of Åland has a distribution agreement with ICA Bank, under which ICA Bank is offering its mortgage loans through the Bank of Åland.

Sustainability permeates all of the Bank's partnerships in a natural way, since digital tools require neither paper products nor travel to personal meetings. Via its collaboration with the fintech company Doconomy, the Bank of Åland is helping to lead the banking world towards greater awareness and opportunities to track our environmental footprint. Doconomy was established in 2018 and launched its DO mobile banking service in 2019, enabling private individuals to easily track their climate impact and compensate for it, both via certified climate compensation and sustainable savings. In 2020 Doconomy expanded its product range by launching a credit card linked to its DO app, where customers see their carbon footprint from every card transaction. During 2021 the aim is to offer customers mutual fund savings with the help of a selection of sustainable investment products.

The Bank of Åland and Doconomy are co-owners of Åland Index Solutions, a company that delivers Doconomy's

product range to other companies. These products are based on the Åland Index, the Bank's climate impact calculation standard, and during 2020 Åland Index Solutions made a large-scale international breakthrough.

Thanks to Åland Index Solutions, climate-aware users in the United States, Germany, Italy and the Nordic countries can now measure their climate impact and change their consumption habits. During 2020 Doconomy expanded its partner banks from Bank of the West (a U.S.-based subsidiary of France's BNP Paribas) and the Nordic-based bank Nordea to also include Flowe, part of Italy's Banca Mediolanum. Late in 2020, Doconomy also announced partnerships with Germany's Oldenburgische Landesbank and Italy's Findomestic Banca, a unit of BNP Paribas. By the end of 2020, 92 million people had the option of accessing the Åland Index via banks all over the world. During 2021 additional market players are expected to embrace Doconomy's product range, and the target is to reach a billion people worldwide by the end of 2021.

During 2020 Doconomy added to its offering a method for calculating carbon dioxide emissions at the product level. The company's "2030 Calculator" enables manufacturers to easily calculate the cradle-to-gate carbon footprint of their products and display it to their customers. Thanks to the 2030 Calculator, consumers can make better-informed everyday choices, basing their purchasing decisions on comparing price, quality and carbon footprint.

Together with its information technology subsidiary Crosskey, the Bank of Åland also has partnerships with companies in paytech, the payments field in fintech. Based on its long-time presence in both the euro and SEK areas, the Bank of Åland can offer innovative payment services to many different players in the financial sector. The main markets are Sweden, Finland and the rest of the Single Euro Payments Area (SEPA).

An important reason behind the Bank's success



Photographer: Viktor Fremling

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

CFO Corporate Unit

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

Treasury is responsible for optimising the Bank of Åland's portfolio and liquidity management. The department ensures that the Bank can meet its need for cost-effective refinancing in both the short and long term. Its responsibility for portfolio management

also includes managing the interest rate, foreign exchange and liquidity risks that the Bank's business operations transfer to Treasury via internal prices.

Treasury manages a portfolio of about EUR 1.3 billion, of which about EUR 1.0 billion is the Bank's liquidity reserve. About 10 per cent of the holdings of debt instruments in the Treasury portfolio consist of green bonds. Treasury manages capital market borrowing of about EUR 1.9 billion. Treasury operations are highly important to the Bank's earnings. Fortunately, the trend towards falling capital market funding costs continued during 2020.

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

The processes at Group Finance maintain high standards, with consolidated financial statements and internal financial control reports ready on the fifth banking day after each report period. Estimated customer

analysis and profitability reports are updated from the data warehouse. Work station equipment has gradually been modernised and rationalised, enabling the department to successfully manage the need for remote work during the coronavirus pandemic. A multi-year, systematic effort to streamline purchasing and supplier relationships has led to gradually lower expenses for purchased services. The last big piece of the puzzle for the department was to improve the efficiency of ledger systems, which it achieved during 2020.

During 2021 the CFO Corporate Unit will continue its efforts to streamline and raise the quality of its work processes. Service deliveries to the new Swedish mortgage company Borgo, which is an associated company, will have a major impact on the corporate unit.

An additional Tier 1 (AT1) capital issue during the first half of 2021 will further reinforce the Bank of Åland's already strong capital adequacy ratios. If possible, the Bank will issue its first green instruments during 2021.

Starting in 2020, the Bank of Åland integrated sustainability information into its interim reports. There are increasing demands for systematic reporting of various targets and key ratios in compliance with the United Nations declarations that the Bank of Åland has signed, for example the UN Principles for Responsible Banking. The Bank's ambition is to increasingly integrate sustainability as a natural element of its financial reporting.

CAO Corporate Unit

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

The Business Support Capital Market and Business Support departments are the largest clients of the Bank's prioritised development projects. During 2020 the main focus continued to be development work based on regulatory requirements. About 40 per

cent of prioritised development investments are based on regulatory requirements.

Although the CAO Corporate Unit will continue to perform development work connected to regulatory requirements in 2021, the influx of new regulatory requirements is expected to decrease. Starting in 2022 this will lead to a welcome shift in development resources towards efficiency improvements, increased digitisation and the customer experience. Adjustments to regulations connected to the capital market were previously the biggest area. Today adjustments to regulations in the payments and credit areas are now also required to a greater extent.

During the year, efficiency improvement projects focused on reducing licensing expenses for IT systems, developing functionality that decreases administrative time for customer advisors and reducing internal paperwork at the Bank. To run efficient back office operations, it is increasingly important to develop common processes and systems for all business areas and different customer segments. IT development for the Bank's business partners and management of these services are creating new requirements.

During 2020 a change of systems for the management of customer documentation made it possible to achieve cost savings related to IT systems and a standardisation of the way customer documents are handled across different business areas. As part of the Bank's efficiency improvement work, the Bank placed Robotic Process Automation (RPA) technology in service; this will be one focus of future development work.

A large proportion of development work during 2020 was related to the Bank's investment in the Swedish mortgage company Borgo, where the Bank will supply its platform service.

In the digitisation field, a number of innovations and improvements were made in the Internet Office and the Mobile Bank. For example, share trading was launched in Swedish operations, both via the Internet Office and the Mobile Bank.

For all customers who use the Mobile Bank, the Bank added options for ordering a new debit card and for activating dark mode on their screen, which prolongs battery life on a mobile phone, for example.

The Internet Office and the Bank of Åland website have also been adapted to increase accessibility for customers with various special needs.

During 2020 the Bank's range of services expanded to include a share savings account for customers in Åland and on the Finnish mainland. Credit and debit cards were also delivered to Doconomy.

Development work related to anti-money laundering and combating the financing of terrorism (AML/CFT) is continuously under way, since the field is steadily growing and banks are required to meet ever-higher standards. Meanwhile the Bank's customer segments are expanding, among other things via our business partners. During 2020 the EU's Fifth Money Laundering Directive went into effect, and the Bank of Åland has adapted its processes accordingly.

The volume of cases handled by Customer Service continued to increase during 2020. Customers can contact the Bank via telephone, the Internet Office messaging service, email or online chat. One explanation for the increase in cases is the accessibility offered by the Mobile Bank. During 2020 the number of cases per month averaged about 13,700, compared to 12,500 in 2019. More and more customers are choosing to activate their e-ID, which makes it easier to identify themselves as well as log into the Internet Office and Mobile Bank.

The surveys that we continuously conduct show that Customer Service maintains high quality in its encounters with our customers. The surveys provide comparative background data on some 20 other banks in Finland and Sweden. The Bank of Åland's Net Promotor Score (NPS) of 49.2 represents an improvement over last year, when its NPS was 46.2. The banking sector's average was 31.4. General satisfaction with Customer Service was 88.5 per cent during the year, compared to 87.7 for the banking sector.

An updated visual concept for internal and external communication was developed during 2020 in collaboration with the Bank's business areas. The overall visual theme is the Bank's Åland origins.

For Human Resources, the focus during 2020 was on managing the coronavirus crisis. During some periods, a large proportion

of employees worked remotely. For those who were present at their regular work stations, the department worked to minimise infection risk. To monitor employee well-being, regular surveys were conducted. Index levels for job dedication and working environment remained at encouragingly high levels, despite the pandemic.

During 2020 the Bank of Åland placed in service a new e-course management platform, which improves our ability to measure training programmes at the Bank. During the year, 119 Group employees participated in the mandatory introductory training course for newly hired staff.

The CAO Corporate Unit works continuously to reduce printouts and physical mailings, but various regulatory requirements include increased reporting, which in turn contributes to increased paper consumption. Employees have a high level of awareness about sustainability issues – with an emphasis on environment, climate and social responsibility – and this ensures a strong sense of commitment, initiative-taking and openness.

CRO Corporate Unit

Chief Risk & Compliance Officer Juhana Rauthovi is in charge of the Risk Control, Compliance, Operational Risks & Security, Legal Affairs, Credit Scoring and Credit Processes departments. The corporate unit consists of about 60 people in Mariehamn, Helsinki and Stockholm.

The Risk Office Corporate Unit is primarily entrusted with protecting the Bank of Åland's assets, earnings and brand by providing a framework for risk and credit management. Its purpose is to maintain a healthy risk culture that corresponds to the Bank's risk appetite and risk-bearing ability. Despite the coronavirus pandemic, the Bank of Åland's total risk level is low. This is a clear sign that the Bank's credit strategy has worked well, despite a stressed situation and an economic downturn.

The Risk Control department is responsible for independent oversight and reporting of the Bank's financial risks. The 2020 financial year was dominated by new regulatory requirements, and this will continue during 2021. During 2020, Risk Control worked with a new internal definition of default and applied for approval of this definition by the

Financial Supervisory Authority. It also implemented a new supporting factor for small and medium sized enterprises in order to help them during the coronavirus pandemic.

During the 2021 financial year, the department will continue with implementation of new regulatory requirements, including the EU "banking package" and the Basel IV regulation. The Bank's credit risk models will be adapted to the new definition of default, while being changed to better reflect risk in the Bank's loan portfolios. The department will continue to develop processes for the services that will be delivered to the new mortgage company.

Risk Control also works with the Bank's sustainability plan and strategy as they relate to responsible lending. This work has two aspects: both to preserve those parts of the Bank's lending that already have a positive impact on sustainable development and to design its lending to ensure that it has a positive impact on selected targets under the UN sustainable development goals.

The Compliance department is responsible for independent oversight and reporting of the Bank's compliance rules. It provides advisory services and back-up to the Executive Team and business operations, as well as training on how to manage compliance risks to ensure that banking operations can follow regulatory requirements, with a focus on the interests of customers. The main areas for the department's oversight and monitoring are market behaviour, customer protection issues and combating money laundering and financing of terrorism. During 2020 Compliance worked with such areas as conflicts of interest and ethics, new and amended regulation of outsourcing arrangements and measures to prevent money laundering and financing of terrorism.

Operational Risks & Security is an independent department that provides backup and advisory services and sets standards for operational risk management. The department focuses on promoting a healthy risk culture by increasing awareness of operational risk and personal information management. In practice, this has included providing support to operations through risk mapping and contingency planning, analysis and reporting of operational risks, updating of internal regulations, training, participation in project work and in further development of the Bank's new product approval (NPA)

process. The department also provides back-up in the further development of authorisation structures. It takes initiatives for regular continuity drills and security reviews.

The Legal Affairs department is responsible for meeting the needs of the Bank and the Group for legal expertise, since the Bank operates as a credit institution and issuer of securities. The department works continuously to provide backup for both business areas and corporate units in developing and supplying products and services to the Bank's customers. During 2020 the department worked with the implementation of new regulations, modifications due to changes in the business environment, legal issues related to the new mortgage company and the expansion of existing business partnerships.

The Credit Scoring department develops and carries out credit analyses and oversight in order to ensure good credit quality in the Bank's lending. Despite the coronavirus pandemic, the proportion of unsettled loans in the lending portfolio remained at about the same level during 2020. There is good potential to keep the proportion of unsettled loans at current levels, provided the economy remains stable and real estate and share prices are steady as the pandemic begins to fade.

The department actively participates in the work of deliveries related to the new mortgage partnership as well as deliveries required by the European Banking Authority (EBA) guidelines on loan origination and monitoring.

The Credit Processes department is responsible for developing the Bank's lending process and ensuring that it fulfils internal and external regulations. During 2020 its focus was on implementation of coming new regulations, for example the new definition of default that went into effect on January 1, 2021 and the EBA guidelines on loan origination and monitoring, which go into effect during 2021. The department has also worked with developing a home loan platform for the new jointly owned mortgage company Borgo. During 2020 the coronavirus pandemic also required quick adjustments to enable the Bank to provide support measures for its loan customers. During 2021 there will be a continued focus on effective, scalable processes related to new regulations and the mortgage partnership.

Continued sustainable growth at Crosskey

Crosskey had a successful year in 2020. Net operating profit amounted to EUR 3.1 M, which was 10 per cent better than in 2019.

In September a new, well-respected customer – Sweden's Länsförsäkringar Bank – signed a contract to adopt Crosskey's capital market system and capital market services in the Swedish market. After implementation, Länsförsäkringar Bank will be one of Crosskey's largest capital market customers.

Crosskey's largest project during 2020 was the implementation and development of a new banking platform to ensure the Group's deliveries to the new mortgage bank Borgo, which a joint mortgage project of ICA Bank, Ikano Bank, Söderberg & Partners and the Bank of Åland in Sweden. According to plans, the launch will occur in 2021.

Implementation of wealth manager Garantum's new capital market system in Sweden continued during 2020, and the launch will occur in 2021.

During 2020 Crosskey launched its project for the Swedish savings bank card company Sparbankernas Kort. The new card platform enables Sparbankernas Kort's affiliated savings banks to sign up new credit card customers through a completely digitised card application process.

As a consequence of the coronavirus pandemic, in March Crosskey rolled out support for large-scale remote work within the Bank of Åland Group. Crosskey's IT delivery enabled a large number of employees to perform their work assignments remotely.

Among the ongoing technical improvement projects during 2020 were more cloud solutions for a number of Crosskey apps, as well as continued technology harmonisation.

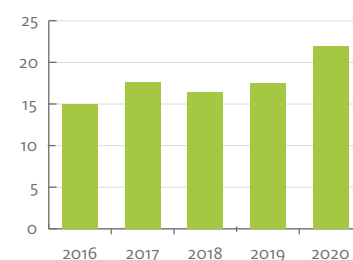
During the fourth quarter of 2019 Crosskey bought the Finnish software company Model IT Oy. In 2020 integration of the new subsidiary occurred in stages. Several planned synergies have already materialised. The most visible is Crosskey's move from Vantaa to Model IT's office in Helsinki. During 2021 the intention is to merge Model IT with Crosskey.

From a sustainability perspective, during 2020 all Crosskey offices switched to green electricity. Crosskey's computer centres are also 100 per cent powered by electricity from renewable sources. In Åland, Crosskey is participating in a large company-wide partnership aimed at turning Åland's vision of being a completely sustainable community by 20151 into a reality. One milestone along this path will be to meet the United Nations Agenda 2030 with its 17 global sustainable development goals by 2030.

Employee satisfaction, as measured in our yearly employee survey, is an important metric for Crosskey's efforts to achieve a sustainable human resource policy. During the spring of 2020, the employee satisfaction level climbed to the highest in company history. Satisfaction among Crosskey's customers also rose to a record level, which is an important confirmation of the company's efforts to build long-term, sustainable customer relationships.

Non-Group income, Crosskey

EUR M



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

Report of the Directors



Report of the Directors

Macro situation and regulatory requirements

In many ways, 2020 was a special year. The SARS-cov-2 coronavirus – which causes the disease known as COVID-19 – has spread from country to country, 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 were 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 led to changes in official regulations. Banking customers were offered the possibility of postponing loan principal payments. Minimum requirements for the capital adequacy and liquidity of banks were revised. The ability of banks to pay dividends to their shareholders was curtailed. The Finnish Financial Supervision Authority (FIN-FSA) 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 – would disappear as of January 1, 2021.

Public officials launched both fiscal and monetary stimulus measures in an effort to soften the economic impact of the crisis. Concurrently, the world's central banks 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. As expected, at its December policy meeting the Fed left the key rate unchanged. Nor did it make any changes in the current pace and direction of its asset purchases.

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 December, 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 and repeated that it is expected to

remain at this level for the next few years. At its latest interest rate policy meeting, the Riksbank announced that its asset purchases are being extended and their limit is being expanded.

BENCHMARK INTEREST RATES, AVERAGES, PER CENT

	2020	2019
Euribor 3 mo	–0.43	–0.36
Euribor 12 mo	–0.30	–0.22
Stibor 3 mo	0.08	–0.03

During the first quarter of 2020, share prices on the world's stock exchanges fell sharply as a reaction to the global pandemic, but during the year as a whole the Nasdaq Helsinki (OMXHPI) equity index rose by 10 per cent, while the Nasdaq Stockholm (OMXSPI) index rose by 13 per cent.

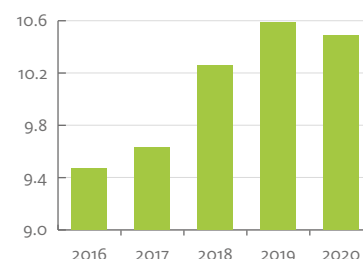
The average value of the Swedish krona (SEK) in relation to the euro (EUR) was 1 per cent higher during 2020 than in 2019 and 4 per cent stronger than at year-end 2019. When converting the income statement of the Bank of Åland's Swedish operations into euros, the average exchange rate for the period 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 during 2020 were replaced by digital meetings. A majority of staff members worked remotely.

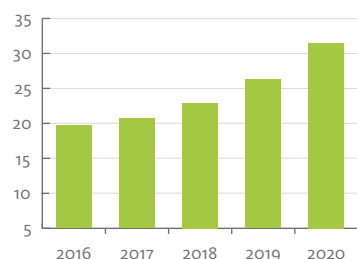
Customers are adversely affected by social lockdowns in all of our geographic markets, but the role of the Bank of Åland in local society is different in Åland from its role on the Finnish mainland and in Sweden. On the Finnish mainland and in Sweden, the Bank has a niche strategy targeted to individual customers with sound finances, wealthy families and entrepreneurs. 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.

Average EUR/SEK exchange rate



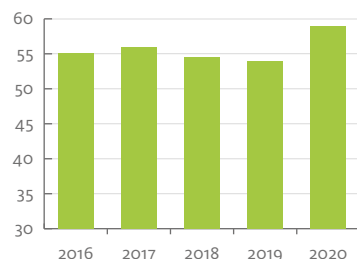
Profit attributable to shareholders

EUR M



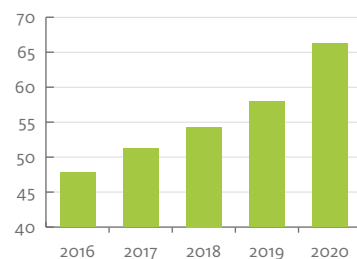
Net interest income

EUR M



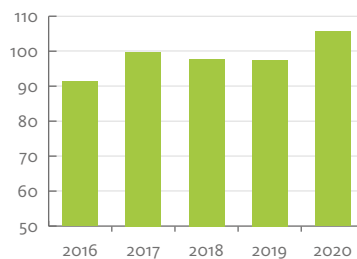
Net commission income

EUR M



Total expenses

EUR M



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 our 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.

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.

In November the Bank of Åland further strengthened its position in sustainable investments by launching Finland’s first special placement fund for investing in wind power – Ålandsbanken Vindkraft (the Ålandsbanken Wind Power Fund). The fund invests in wind power projects that have all the required permits to begin construction, or in already active wind farms in Finland and other Nordic countries. By investing in wind power, the Bank’s customers can contribute to a climate-neutral society, while the fund is expected to generate attractive returns.

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 became 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.

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.

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

Net operating profit rose by EUR 6.5 M or 20 per cent to EUR 39.7 M (33.2). This was the highest profit in the Bank’s history.

Profit for the year attributable to shareholders increased by EUR 5.2 M or 20 per cent to EUR 31.5 M (26.3).

Return on equity after taxes (ROE) increased to 11.6 per cent (10.7).

Total income rose by EUR 16.2 M or 12 per cent to EUR 150.1 M (133.9).

Net interest income rose by EUR 5.0 M or 9 per cent to EUR 58.9 M (53.9). 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 8.3 M or 14 per cent to EUR 66.3 M (58.0), mainly due to higher income from the Bank’s asset management business.

Net income on financial items fell by EUR 2.1 M to EUR 1.8 M (3.9), mainly due to lower capital gains.

Information technology (IT) income rose by EUR 4.5 M or 25 per cent to EUR 21.9 M (17.5). 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 8.1 M or 8 per cent to EUR 105.6 M (97.5). About half of the increase in expenses was attributable to the subsidiary Crosskey and its acquisition Model IT. Another contributing factor was that the stability fee to Finland's Resolution Fund increased by EUR 0.8 M or 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. During the first quarter of 2020, the Bank made a group provision of EUR 2.0 M related to heightened risk of losses in the corporate loan portfolio. During the fourth quarter, this group provision was absorbed into the model for expected losses and distributed at the loan level, with the largest share allocated to corporate loans. Total net impairment losses on financial assets increased by EUR 1.7 M to EUR 4.9 M (3.2), equivalent to a loan loss level of 0.11 (0.08) per cent.

Tax expense amounted to EUR 8.2 M (6.9), equivalent to an effective tax rate of 20.7 (20.7) per cent.

Strategic business areas

The Group's EUR 6.5 M increase in net operating profit to EUR 39.7 M was allocated as follows:

- Private Banking +8.2
(higher income)

- Premium Banking –0.4
(higher impairment loss provisions)
- IT +0.2
(higher customer volume)
- Corporate units & eliminations –1.5

Business volume

Actively managed assets on behalf of customers increased by EUR 1,093 M or 17 per cent compared to year-end 2019 and amounted to EUR 7,436 M (6,343). The increase was due to both positive net inflows and a positive market effect.

Deposits from the public rose by 7 per cent compared to year-end 2019 and amounted to EUR 3,605 M (3,368).

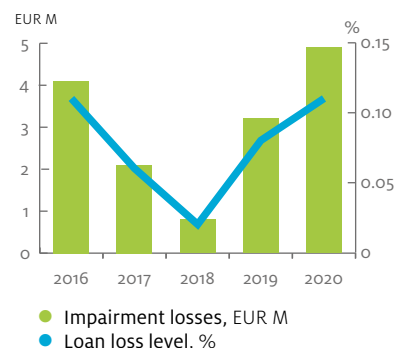
Lending to the public increased by 7 per cent compared to year-end 2019 and totalled EUR 4,378 M (4,110).

All business volumes represented the highest figure in the Bank of Åland's history.

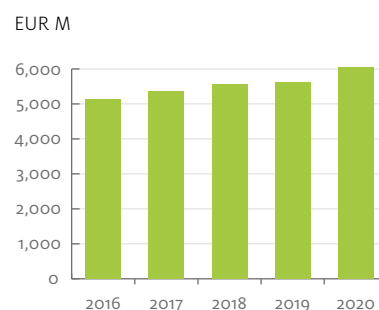
Balance sheet total and off-balance sheet obligations

During 2020, the Group's balance sheet increased by EUR 428 M or 8 per cent to EUR 6,035 M (5,507). The increase was primarily related to lending to the public. The increase in assets was funded mainly through increased deposits from the public. Off-balance sheet obligations rose by EUR 307 M or 69 per cent to EUR 751 M (444). The increase was mainly related to lines of credit.

Impairment losses and loan loss level

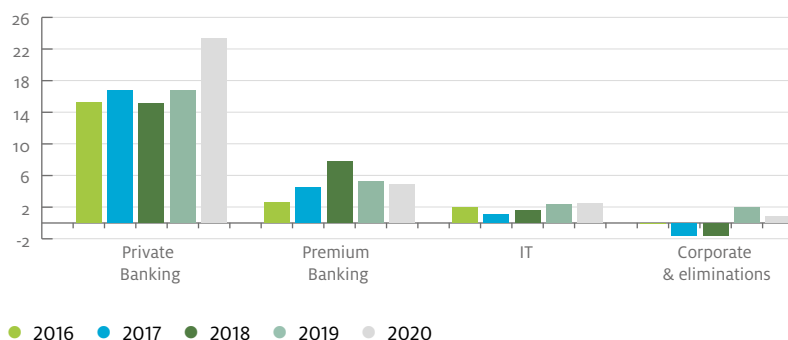


Balance sheet total



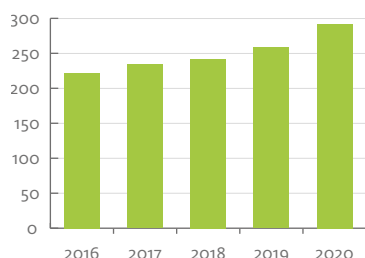
Profit attributable to shareholders, by segment

EUR M



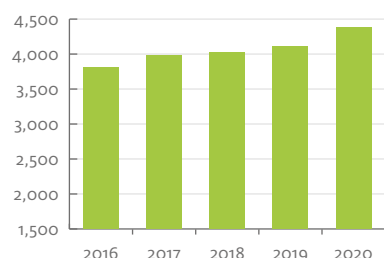
Equity capital attributable to shareholders

EUR M



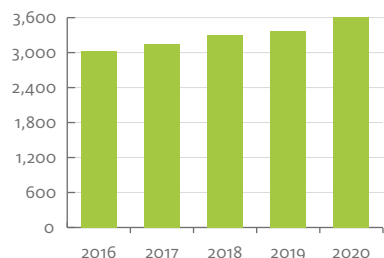
Lending

EUR M



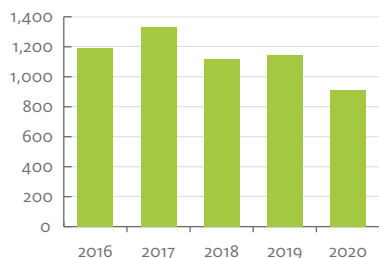
Deposits

EUR M



Covered bonds

EUR M



Credit quality

Lending to private individuals comprised 74 per cent of the loan portfolio. Home mortgage loans accounted for 76 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 pandemic.

Model-driven impairment losses on financial assets in compliance with IFRS 9, in stages 1 and 2, increased sharply during 2020. So far it has not been necessary to utilise these provisions.

The Bank of Åland Group had EUR 11.9 M (12.4 on December 31, 2019) in impairment loss provisions, of which EUR 2.5 M (0.5) in Stage 1, EUR 1.0 M (0.9) in Stage 2 and EUR 8.3 M (11.1) in Stage 3.

Stage 3 loans increased during 2020 by EUR 4.4 M to EUR 37.9 M. Stage 3 loans as a share of gross lending to the public totalled 0.86 per cent (0.81). The level of provisions for Stage 3 loans amounted to 22 (33) per cent. Most of these loans have good collateral.

Actual loan losses (EUR 5.6 M) increased mainly because individual corporate loans that had been listed as impairment losses during previous financial years were classified as final losses during the first quarter of the financial year.

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 1,175 M on December 31, 2020 (1,129 on December 31, 2019). This was equivalent to 19 (20) per cent of total assets and 27 (27) per cent of lending to 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 December 31, 2020, the average remaining maturity of bonds outstanding was about 2.5 (2.5) years.

On December 31, 2020, the Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued – amounted to 96 (90) per cent.

The loan/deposit ratio amounted to 121 (122) per cent.

Of the Bank of Åland's external funding sources aside from equity capital, deposits from the public accounted for 64 (65) per cent and covered bonds issued accounted for 16 (22) per cent.

The liquidity coverage ratio (LCR) amounted to 158 (139) per cent. The net stable funding ratio (NSFR) amounted to 105 (115) 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 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 the country of 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.

The Bank of Åland's outlook was changed from negative to positive in January 2021.

Equity and capital adequacy

During the report period, equity capital changed in the amount of profit for the period, EUR 31.5 M; other comprehensive income, EUR 2.3 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 December 31, 2020, equity capital amounted to EUR 292.4 M (258.4 on December 31, 2019).

Other comprehensive income included re-measurements of defined-benefit pension plans by EUR -2.2 M after taxes, in compliance with IAS 19.

Common equity Tier 1 capital rose by EUR 27.0 M or 13 per cent during 2020 to EUR 238.5 M (211.5).

The risk exposure amount increased by 6 per cent during 2020 and totalled EUR 1,671 M (1,583). The risk exposure amount for credit risk rose by EUR 80 M or 6 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 increased to 14.3 (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 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 0.5 M on December 31. There is also a mitigation measure for certain intangible assets that may also be added back to own funds. The amount totalled EUR 3.6 M on December 31, 2020. 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. Excluding all these mitigation measures, the Bank's CET1 ratio would have amounted to 13.7 per cent.

The total capital ratio increased to 16.5 (15.8) 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 4.2 per cent on December 31, 2020. Excluding the mitigation measure, it would have amounted to 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 pandemic, 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 an ample capital surplus:

- Common equity Tier 1 capital ratio, +5.8 per cent
- Tier 1 capital ratio, +4.3 per cent
- Total capital ratio, +4.5 per cent

Sustainability information

Between 2019 and 2020, the Bank of Åland's carbon dioxide emissions from electricity consumption, travel and paper print-outs decreased by 208 tonnes or 60 per cent to 140 tonnes. Purchases of more green electricity starting in late 2019 significantly lowered carbon dioxide emissions. As a consequence of the coronavirus pandemic, nearly all business travel was suspended, which also significantly decreased carbon dioxide emissions.

Dividends for 2019 and 2020

The Board of Directors proposes that the Annual General Meeting approve payment of a regular dividend of EUR 1.00 per share for the 2020 financial year, equivalent to a total amount of EUR 15.6 M. The dividend is equivalent to a 50 per cent payout ratio.

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 December 18, 2020, FIN-FSA issued a new non-binding recommendation that – in practice – further extended its earlier limitation on dividends or share buy-backs until September 30, 2021. The Bank of Åland chose not to follow this recommendation.

Regulatory authorities have classified all banks in Finland, except the two largest, as "less significant institutions". This implies that the Bank of Åland and the other banks in this category are not expected to be rescued by the government in case of any future crisis. For more than a century the Bank of Åland has acted with a long-term perspective and responsibly, which we also intend to do in the future.

The regulatory recommendations challenge the prerequisites for long-term shareholders to invest in banks. For "less significant institutions", it is vital to have long-term shareholders and for them to be there if any future crisis should require their input.

For this reason, the Bank of Åland's Board believes that the long-term risks to the Bank may be larger if – based on our current level of earnings and risks – we choose to follow the regulatory recommendation than if we also begin to take the Bank's other important stakeholder groups into account.

One of these stakeholder groups is the Bank's approximately 5,300 shareholders in the Åland Islands, who own about 56 per cent of the Bank. In the Board's assessment, the Åland community has a substantially greater need for these dividends than the Bank of Åland has.

Important events after close of report period

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.

In January the Standard & Poor's Global Ratings agency changed the outlook for the Bank of Åland's credit rating from negative to positive. The outlook was upgraded based on the ratings agency's revision in its future economic outlook for the country of Finland and because the agency expects that the Bank of Åland's risk-adjusted capitalisation (RAC) will improve significantly over the next two years.

The Bank of Åland opened a new office in Oulu on the Finnish mainland.

Risks 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

The Bank of Åland expects its net operating profit in 2021 to be at about the same level as 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.

Future capital adequacy

The approved dividend distribution for the 2019 financial year and the proposed dividend distribution for the 2020 financial year have already been subtracted from the Bank's common equity Tier 1 capital ratio on December 31, 2020. Implementation of dividend distribution will thus not affect the Bank's important capital adequacy ratios.

A previously planned capital market issue of additional Tier 1 (AT1) capital during the first half of 2021 will further strengthen the Bank of Åland's already strong capital adequacy ratios when it is implemented.

Long-term financial targets

During 2021 the Bank of Åland will review its long-term financial targets, which are currently:

- *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 had these long-term financial targets since 2013, with only minor adjustments in their language.

One point to be proposed for approval by the Annual General Meeting on March 30, 2021 will be to authorise repurchases of Series B shares up to a maximum of 10 per cent of the total number of shares outstanding.

FIVE-YEAR GROUP SUMMARY

Bank of Åland Group	2020	2019	2018	2017	2016
EUR M					
Net interest income	58.9	53.9	54.5	55.9	55.1
Net commission income	66.3	58.0	54.3	52.9	48.0
Net income from financial items carried at fair value	1.8	3.9	1.5	-0.1	1.1
IT income	21.9	17.5	16.4	17.6	14.9
Other income	1.2	0.7	1.0	1.6	1.3
Total income	150.1	133.9	127.6	128.0	120.4
Staff costs	-62.9	-57.0	-57.1	-59.8	-57.0
Other expenses	-30.3	-28.7	-33.4	-32.9	-28.3
Depreciation/amortisation and impairment losses on tangible and intangible assets	-12.3	-11.8	-7.3	-7.1	-5.9
Total expenses	-105.6	-97.5	-97.8	-99.8	-91.3
Profit before impairment losses	44.6	36.4	29.8	28.2	29.2
Impairment losses on loans and other commitments	-4.9	-3.2	-0.8	-2.1	-4.1
Net operating profit	39.7	33.2	29.0	26.0	25.1
Income taxes	-8.2	-6.9	-6.1	-5.3	-5.4
Profit for the report period	31.5	26.3	22.9	20.7	19.7
Attributable to:					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholders in Bank of Åland Plc	31.5	26.3	22.9	20.7	19.7
Volume					
Lending to the public	4,378	4,110	4,022	3,979	3,808
Deposits from the public	3,605	3,368	3,304	3,148	3,028
Actively managed assets ¹	7,436	6,343	5,177	5,737	3,900
Equity capital	292	258	242	234	222
Balance sheet total	6,035	5,607	5,558	5,352	5,137
Risk exposure amount	1,671	1,583	1,578	1,538	1,576
Financial ratios					
Return on equity after taxes (ROE), % ²	11.6	10.7	9.8	9.1	9.1
Expense/income ratio, % ³	0.70	0.73	0.77	0.78	0.76
Loan loss level, % ⁴	0.11	0.08	0.02	0.06	0.11
Core funding ratio, % ⁵	96	90	90	88	89
Equity/assets ratio, % ⁶	4.8	4.6	4.4	4.4	4.3
Common equity Tier 1 capital ratio, % ⁷	14.3	13.4	13.0	12.9	11.8
Working hours re-calculated to full-time equivalent positions	751	700	691	691	683

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

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

³ Expenses/Income.

⁴ Impairment losses on loans and other commitments/Lending to the public at the beginning of the period.

⁵ Lending to the public/Deposits including certificates of deposit, index bonds and debentures issued to the public and covered bonds issued.

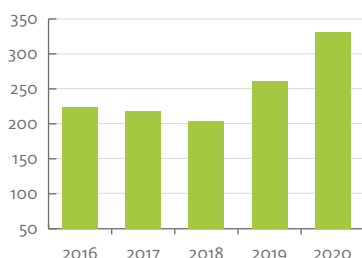
⁶ Equity capital/Balance sheet total.

⁷ (Common equity Tier 1 capital/Capital requirement) × 8 per cent.

Facts on Bank of Åland shares

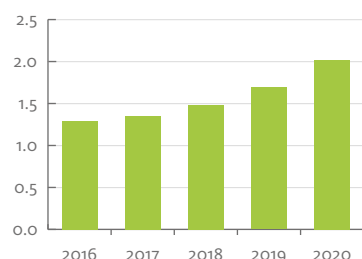
Market capitalisation

EUR M



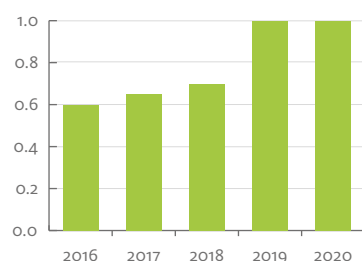
Earnings per share

euros



Dividend per share

euros



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

Share capital

The share capital of the Bank of Åland is EUR 42,029,289.89. The shares are divided into 6,476,138 Series A and 9,075,360 Series B shares. Each Series A share represents twenty (20) votes at shareholders' meetings and each Series B share one (1) vote. The Articles of Association stipulate that no representative at a General Meeting may vote for more than one fortieth of the number of shares represented at the Meeting.

In April 2019, the Annual General Meeting voted to authorise the Board to decide on the issuance of shares, option rights and other special rights entitling their holders to shares, as provided by the Finnish Companies Act, Chapter 10, Section 1. The authorisation concerns Series B shares. The total number of shares that may be issued with the support of the authorisation may not exceed 3,000,000 Series B shares. The authorisation covers one or more issues in exchange for payment or without payment and may also cover divestment of the Company's own shares. The authorisation replaces all of the Annual Meeting's earlier unutilised authorisations of shares, option rights and other special rights entitling their holders to shares. The Board's mandate is in force until April 3, 2024. So far 60,947 Series B shares (as of December 31, 2020) have been issued or divested as authorised, and consequently an additional 2,939,053 Series B shares may be issued or divested on the basis of the authorisation.

Share savings programmes

The Group had two share savings programmes from 2015 and 2016 for its employees. These programmes are now closed. Based on these programmes, a total of 223,983 Series B shares were issued during the years 2015–2020, of which 23,591 were issued in 2020.

Shares as part of variable compensation programmes

Newly issued or purchased Series B shares in the Bank are paid as part of the Bank of Åland's incentive programmes. In spring 2020, 10,965 newly issued Series B shares were disbursed. In March 2021, about 18,000 newly issued Series B shares will be disbursed. Another approximately 29,000 Series B shares will be disbursed as a delayed portion of incentive programmes during the years 2022–2024, provided that the criteria for disbursement are fulfilled. The number of shares is dependent on the share price on the disbursement date.

Changes in share capital

Year	Share capital, EUR	Series A shares	Series B shares
2020	42,029,289.89	6,476,138	9,109,916
2019	42,029,289.89	6,476,138	9,075,360
2018	41,974,063.28	6,476,138	8,995,547
2017	41,949,003.76	6,476,138	8,959,175
2016	41,674,226.83	6,476,138	8,823,012

Trading in the Bank's shares

During 2020, the volume of trading in the Bank's Series A shares on the Nasdaq Helsinki Oy (Helsinki Stock Exchange) was EUR 3.7 M. Their average price was EUR 18.71. The highest quotation per share was EUR 21.80, the lowest EUR 14.90. Trading in Series B shares totalled EUR 1.1 M at an average price of EUR 18.22. The highest quotation was EUR 21.20, the lowest EUR 13.55.

On December 31, 2020, the number of registered shareholders was 10,859 and they owned 14,237,907 shares. There were also a total of 1,312,147 shares registered in the names of nominees.

The ten largest shareholders

Shareholder	Series A shares	Series B shares	Total	% of shares	% of votes
1 Wiklöf Anders and companies	1,993,534	1,332,961	3,326,495	21.34	29.72
2 Alandia Insurance	754,908	302,632	1,057,540	6.79	11.11
3 OP Corporate Bank plc (nominee registered shares)	1,637	929,255	930,892	5.97	0.69
4 Fennogens Investments S.A.	569,264	165,467	734,731	4.71	8.33
5 Pensionsförsäkringsaktiebolaget Veritas (pension insurance company)	123,668	265,754	389,422	2.50	1.98
6 Lundqvist Ben	253,574	0	253,574	2.50	3.66
7 Nordea Bank AB (nominee registered shares)	20,607	227,096	247,703	1.59	0.46
8 Chilla Capital	230,000	0	230,000	1.48	3.32
9 Oy Etra Invest Ab (investment company)	0	225,000	225,000	1.44	0.16
10 Svenska Litteratursällskapet i Finland rf (literary society)	208,750	0	208,750	1.34	3.01

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

Shareholders by size of holding

Number of shares	Number of shareholders	Total number of shares held	Average holding	Voting power, %
1–100	4,880	207,994	43	1.2
101–1,000	4,731	1,689,369	357	7.2
1,001–10,000	1,135	2,824,489	2,489	11.9
10,001–	113	10,864,202	96,143	79.7
<i>of which nominee registered shares</i>		1,312,147		1.5

Shareholders by category

Category	Number of shares	% of shares
Private individuals	5,847,901	37.5
Companies	4,421,618	28.4
Financial institutions and insurance companies	2,133,082	13.7
Non-profit organisations	649,867	4.2
Government organisations	1,538	0.0
Foreign investors	1,219,901	7.8
Nominee registered shares	1,312,147	8.4
Total	15,586,054	100.0

Bank of Åland share data	2020	2019	2018	2017	2016
Number of shares, thousands ¹	15,586	15,551	15,472	15,435	15,299
Number of shares after dilution, thousands	15,634	15,601	15,590	15,586	15,572
Average number of shares, thousands	15,579	15,523	15,453	15,330	15,266
Earnings per share, EUR ²	2.02	1.69	1.48	1.35	1.29
Earnings per share after dilution, EUR	2.02	1.69	1.48	1.34	1.28
Dividend per share, EUR	1.00 ³	0.80	0.70	0.65	0.60
Anniversary dividend per share, EUR		0.20			
Dividend payout ratio ⁴	49.5	47.3	47.2	48.5	46.6
Anniversary dividend payout ratio ⁴		11.8			
Equity capital per share, EUR ⁵	18.76 ⁶	16.61	15.67	15.14	14.50
Equity capital per share after dilution, EUR	18.76 ⁶	16.59	15.58	15.02	14.37
Market price per share, closing day, EUR					
Series A	21.60	17.00	13.30	14.20	14.84
Series B	20.90	16.55	13.10	14.05	14.38
Price/earnings ratio ⁷					
Series A	10.7	10.0	9.0	10.5	11.5
Series B	10.3	9.8	8.8	10.4	11.2
Effective dividend yield, % ⁸					
Series A	4.6	5.9	5.3	4.6	4.0
Series B	4.8	6.0	5.3	4.6	4.2
Market capitalisation, EUR M	330.3	260.3	204.0	217.8	223.0

1 Number of registered share minus own shares on closing day

5 Shareholders' portion of equity capital
Number of shares minus own shares on closing day

7 Share price on closing day
Earnings per share

2 Shareholders' interest in profit for the accounting period
Average number of shares

6 Including the dividend of EUR 1.00 per share for 2019 approved on January 1, 2021 and disbursed.

8 Dividend
Share price on closing day × 100

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

4 Dividend for the accounting period
Shareholders' interest in profit for the accounting period × 100

Bank of Åland shares traded, Helsinki Stock Exchange					
Year		Thousands of shares	Volume as % of shares	Price paid, EUR: Highest/Lowest	Average price, EUR
2020	A	198	3.1	21.80–14.90	18.71
2020	B	1,141	12.5	21.20–13.55	18.22
2019	A	914	14.1	17.00–13.10	14.95
2019	B	874	9.6	16.75–12.70	14.22
2018	A	81	1.3	17.10–13.20	14.11
2018	B	545	6.1	15.00–12.80	13.63
2017	A	167	2.6	15.89–13.06	14.85
2017	B	482	5.4	15.49–13.27	14.41
2016	A	208	3.2	16.99–12.11	14.45
2016	B	809	9.2	16.10–12.62	14.11

Measuring our environmental impact

Our climate impact calculation is based on carbon dioxide emissions from the Group's energy and paper consumption as well as business travel. Our ambition is to expand our climate impact calculation to include more parameters.

We lowered our carbon dioxide emissions by 60 per cent, from nearly 350,000 kg to just over 140,000 kg in 2020. The biggest reason was a sharp decrease in carbon dioxide emissions generated by energy consumption and business travel.

The coronavirus pandemic strongly affected our carbon dioxide emissions because business travel largely came to a halt in the second quarter.

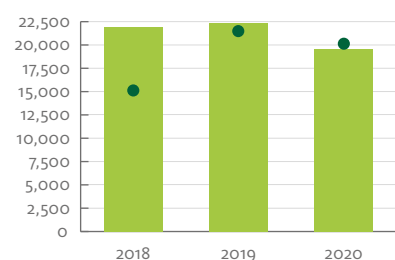
Our long-term ambition is to exclusively use "green" electricity. During 2020 we negotiated further green energy contracts with electricity suppliers.

All paper that the Group uses today is eco-labelled. Our target is to decrease our paper consumption by 10 per cent yearly, which would reduce carbon dioxide emissions by about 2,000 kg.

Paper consumption

Group paper consumption

kg



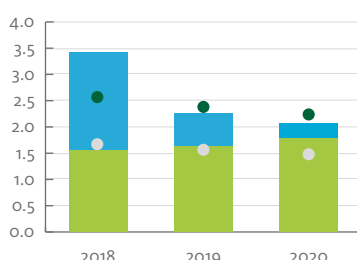
● Our target

Our target is an annual decrease of about 10 per cent, which we managed to achieve during 2020.

Energy consumption

Group energy consumption

GWh

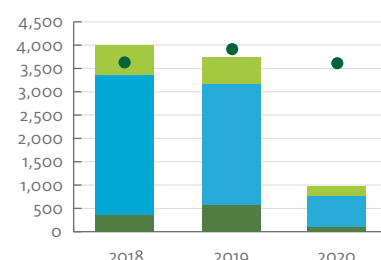


● GWh other ● GWh renewable
● Our total target
● Our green energy target

During 2020, total energy consumption fell from 2.24 GWh to 2.11 GWh. Of the energy consumed, 77 per cent was generated using renewable sources ("green energy"), which means that we achieved our 70 per cent target.

Business travel

Number of business trips in the Group

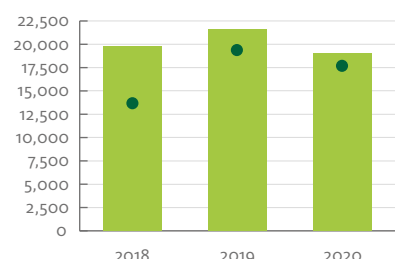


● Train ● Aircraft ● Ship
● Our total target

The number of business trips during 2020 was greatly affected by the coronavirus pandemic, decreasing by 74 per cent compared to 2019. Our target for 2020 was to take 25 per cent of trips on modes of transport with lower carbon dioxide emissions than aircraft. More than 30 per cent of all trips used alternative modes of transport.

Quantity of carbon dioxide emissions caused by paper consumption

CO₂ in kg

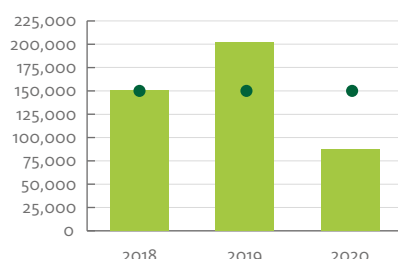


● Our total target

Decreased paper consumption during 2020 led to a carbon dioxide emissions reduction of about 2,600 kg, or 12 per cent, while the target was 10 per cent.

Indirect carbon dioxide emissions from Group energy consumption

CO₂ in kg

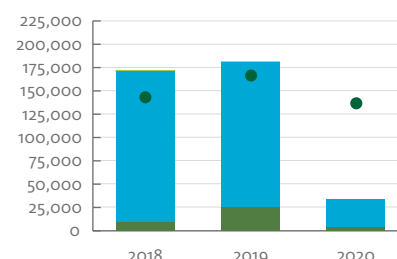


● Our target

Carbon dioxide emissions decreased from more than 200,000 kg to 87,468 kg, i.e. a sharp decline of 57 per cent. The reason behind this was that during all of 2020, we used green electricity produced from renewable sources, compared to 2019 when we transitioned to a larger share of green energy.

Quantity of carbon dioxide emissions caused by travel

CO₂ in kg



● Train ● Aircraft ● Ship
● Our total target

Due to the coronavirus pandemic, business travel virtually halted during the second quarter. This, in turn, was reflected by total carbon dioxide emissions, which decreased significantly in 2020. Emissions from all business travel fell from 124,548 kg to 33,688 kg, a 73 per cent decline.

Information about employees

Employee mobility	2020	2019	2018
Expansion, %	14.4	13.1	12.6
Employee turnover, %	8.1	9.7	12.2

Expansion

By gender



● Women
● Men

By age category



● <30
● 30-50
● >50

By region



● Åland
● Finnish mainland
● Sweden

The Group hired 108 new regular employees during 2020. Expansion was 14.4 per cent compared to total full-time equivalent employees, which was an increase from 13.1 per cent in 2019.

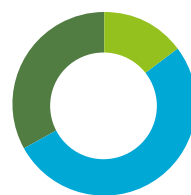
Employee turnover

By gender



● Women
● Men

By age category



● <30
● 30-50
● >50

By region

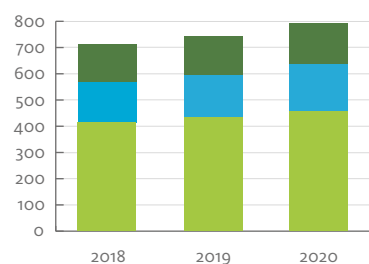


● Åland
● Finnish mainland
● Sweden

In the Bank of Åland Group, 61 people ended their regular employment during 2020. This included 13 retirements. As a percentage of total full-time equivalent employees, this was an employee turnover of 8.1 per cent, a decrease from 13.1 per cent in 2019.

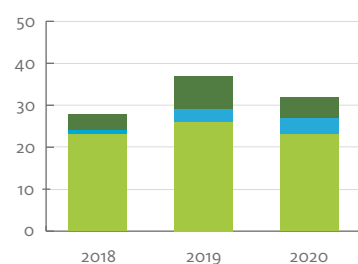
Employment contract type by region

Regular



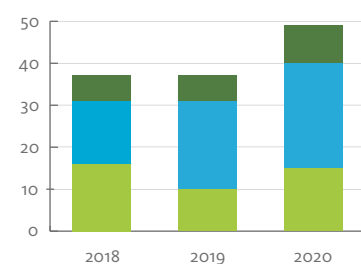
● Åland ● Finnish mainland ● Sweden

Temporary, monthly



● Åland ● Finnish mainland ● Sweden

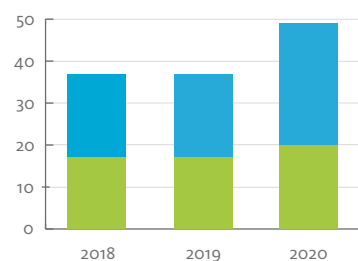
Temporary, hourly



● Åland ● Finnish mainland ● Sweden

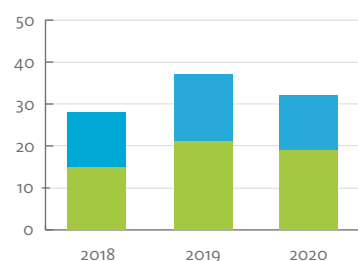
Employment contract type by gender

Regular



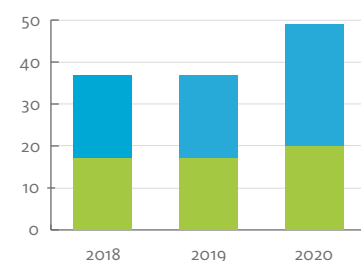
● Women ● Men

Temporary, monthly



● Women ● Men

Temporary, hourly



● Women ● Men

Part-time/full-time by gender		2020			2019			2018		
Gender	Part-time	Full-time	Total	Part-time	Full-time	Total	Part-time	Full-time	Total	
Women	45	361	406	51	337	388	69	316	385	
Men	39	428	467	35	393	428	30	363	393	
Total	84	789	873	86	730	816	99	679	778	

The number of jobs in the Group totalled 873 at the end of 2020, which was an increase of 57 during the year. Of these 873 employees, 792 (91 per cent) had permanent contracts and 81 (9 per cent) had temporary contracts. Women accounted for 46 per cent and men for 54 per cent of those with permanent contracts.

Women accounted for 54 per cent of all part-time jobs while men accounted for 46 per cent. Just over half the work force was stationed in Åland, while the Finnish mainland and Sweden each accounted for half of the remainder.

Healthy attendance and accidents			
	2020	2019	2018
Healthy attendance, %	93.6	93.6	94.1
Accidents	14	9	12

Healthy attendance means the percentage of unique individuals among all employees who did not have a continuous absence longer than two weeks due to illness.

Information about diversity

Gender breakdown						
	2020		2019		2018	
Gender	Number	%	Number	%	Number	%
Governing bodies						
Women	2	18	2	18	3	23
Men	9	82	9	82	10	77
Total	11	100	11	100	13	100
Board						
Women	3	27	3	27	4	27
Men	8	73	8	73	11	73
Total	11	100	11	100	15	100
Employees						
Women	406	47	388	48	385	49
Men	467	53	428	52	393	51
Total	873	100	816	100	778	100

The breakdown for 2018 also includes senior executives and Board members of Compass Card.

Our goal is a balanced gender breakdown (at least 40/60). Total gender representation in the Group was 47/53 during 2020. Among senior executives the breakdown was 18 per cent women and 82 per cent men. At the Board level, the breakdown was 27 per cent women and 73 per cent men.

Age breakdown						
	2020		2019		2018	
Age category	Number	%	Number	%	Number	%
Governing bodies						
<30	0	0	0	0	0	0
30–50	4	36	4	36	6	46
>50	7	64	7	64	7	54
Total	11	100	11	100	13	100
Board						
<30	0	0	0	0	0	0
30–50	2	18	2	18	3	20
>50	9	82	9	82	12	80
Total	11	100	11	100	15	100
Employees						
<30	144	16	134	16	121	16
30–50	478	55	434	53	425	55
>50	251	29	248	30	232	30
Total	873	100	816	100	778	100

“Senior executives” refers to the Group’s Executive Team plus the managing director and deputy managing director of subsidiaries. “Board” refers to all board members in each Group company. These figures were compiled on the last day of each respective year.

The Bank of Åland's community involvement

Aside from paying income and value added taxes to the Finnish government, the Bank of Åland is a sizeable employer, especially in its Åland home market.

The Bank contributes to employment by providing more than 500 jobs in Åland, which makes us the second largest private employer in Åland.

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

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

Through the Bank's employees, we participate actively in numerous community functions that are important to Åland.

Training programmes

In 2020 the Bank of Åland placed in service a completely new e-course management platform, which improves our ability to measure training programmes at the Bank.

During the year, 119 Group employees participated in the mandatory introductory training course for newly hired staff.

The total quantity of training provided during the year was 6,558 hours, counting both external and internal courses.

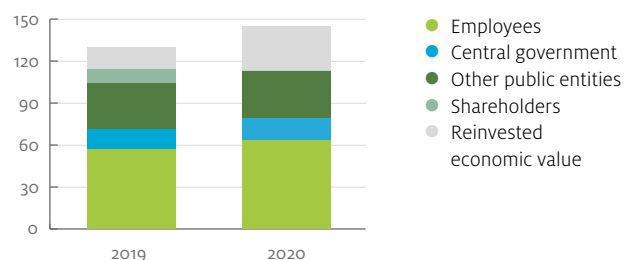
Information about social commitments

Economic value-added	2020	2019
EUR M		
Total income minus impairment losses	145.3	130.7
Value-added generated by serving the Bank's customers	145.3	130.7
Employees		
Salaries	47.1	42.5
Social security and other staff costs	15.8	14.5
Total value to employees	62.9	57.0
To central government		
Income taxes	8.2	6.9
Non-deductible value-added taxes	5.6	5.6
Deposit guarantee fees	0.0	0.0
Fees to government stability fund	2.7	1.8
Total value to central government	16.5	14.2
Suppliers ¹	33.8	32.7
Sponsorships	0.7	0.5
Total other value to society	34.4	33.2
Transactions with shareholders		
Dividend paid ²	0.0	10.9
New share issue	-0.2	-0.6
Total transactions with shareholders	-0.2	10.3
Remaining in the Bank		
Reinvested economic value	31.7	16.0

¹ Refers to miscellaneous administrative expenses and depreciation/amortisation.

² On January 1, 2021, the Board of Directors approved a dividend of EUR 1 per share for the 2019 financial year. The dividend was paid to shareholders in January 2021, and after this the Bank's reinvested economic value amounted to EUR 16.1 M.

Economic value-added



A photograph of a rocky coastline. In the foreground, a pool of water is nestled between large, reddish-brown rocks. The water in the pool is dark and reflects the sky. The rocks are rugged and have some small patches of green grass. In the background, the ocean is visible, with blue water and whitecaps. The sky is not clearly visible, but the overall scene is bright and sunny.

Financial statements

Consolidated income statement

(EUR K)

Bank of Åland Group		Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
	Note		
Interest income		68,064	64,373
Interest expenses		–9,174	–10,458
Net interest income	G7	58 890	53,915
Commission income		91,290	81,647
Commission expenses		–24,977	–23,670
Net commission income	G8	66,313	57,977
Net income from financial items carried at fair value	G9	1,836	3,894
IT income		21,929	17,474
Share of income in associated companies		89	79
Other operating income	G10	1,090	575
Total income		150,148	133,914
Staff costs	G11	–62,921	–56,970
Other costs	G12	–30,348	–28,694
Depreciation/amortisation and impairment losses on tangible and intangible assets	G25, G26	–12,304	–11,834
Total expenses		–105,573	–97,498
Profit before impairment losses		44,575	36,415
Net impairment loss on financial assets	G13	–4,857	–3,221
Net operating profit		39,717	33,195
Income taxes	G14	–8,232	–6,885
Net profit for the period		31,485	26,309
Attributable to:			
Non-controlling interests		1	1
Shareholders in Bank of Åland Plc		31,486	26,310
Earnings per share, EUR	G15	2.02	1.69
Earnings per share after dilution, EUR	G15	2.02	1.69

Consolidated statement of comprehensive income

(EUR K)

Bank of Åland Group		Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
	Note		
Profit for the accounting period		31,485	26,309
Assets measured via other comprehensive income			
Change in valuation at fair value		3,160	2,197
Realised change in value			-124
Transferred to the income statement		-2,046	-2,846
Translation differences			
Gains/losses arising during the period		3,479	-943
Taxes on items that have been or may be reclassified to the income statement	G14	-223	130
<i>of which assets measured via other comprehensive income</i>		-223	130
Items that have been or may be reclassified to the income statement		4,371	-1,586
Changes in value of equity instruments		214	4,636
Re-measurements of defined benefit pension plans	K42	-2,801	-2,692
Taxes on items that may not be reclassified to the income statement	K14	517	-389
<i>of which changes in value of equity instruments</i>		-43	-927
<i>of which re-measurements of defined-benefit pension plans</i>		560	538
Items that have been or may be reclassified to the income statement		-2,069	1,555
Other comprehensive income		2,302	-30
Total comprehensive income for the period		33,787	26,279
Attributable to:			
Non-controlling interests		-1	-1
Shareholders in Bank of Åland Plc		33,789	26,280

Consolidated balance sheet

(EUR K)

Bank of Åland Group		Dec 31, 2020	Dec 31, 2019
	Note		
Assets			
Cash and deposits with central banks		665,072	489,886
Debt securities	G19	777,683	789,286
Lending to credit institutions	G20	51,038	66,085
Lending to the public	G21	4,377,912	4,110,029
Shares and participations	G22	12,882	9,370
Shares and participations in associated companies	G23	1,449	293
Derivative instruments	G24	24,620	21,240
Intangible assets	G25	24,388	25,315
Tangible assets	G26	32,861	32,000
Investment properties	G26	313	326
Current tax assets		139	107
Deferred tax assets	G27	5,421	5,120
Other assets	G28	35,878	36,831
Accrued income and prepayments	G29	25,400	21,611
Total assets		6,035,058	5,607,500
Liabilities			
Liabilities to credit institutions	G30	509,491	210,035
Deposits from the public	G31	3,605,371	3,368,001
Debt securities issued	G32	1,440,933	1,603,957
Derivative instruments	G24	14,968	12,065
Current tax liabilities		5,131	3,246
Deferred tax liabilities	G27	32,231	30,903
Other liabilities	G33	57,372	49,678
Provisions	G34	409	38
Accrued expenses and prepaid income	G35	39,872	35,122
Subordinated liabilities	G36	36,913	36,100
Total liabilities		5,742,690	5,349,145
Equity capital and non-controlling interests			
Equity capital and non-controlling interests	G37		
Share capital		42,029	42,029
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Hedging reserve			0
Fair value reserve		4,129	3,066
Translation differences		2,133	-1,347
Unrestricted equity capital fund		27,611	27,398
Retained earnings		158,589	129,330
Shareholders' portion of equity capital		292,357	258,343
Non-controlling interests' portion of equity capital		11	13
Total equity capital		292,368	258,355
Total liabilities and equity capital		6,035,058	5,607,500

Statement of changes in equity capital

(EUR K)

Bank of Åland Group										
	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	41,974	32,736	25,129	-124	-403	27,075	115,983	242,370	13	242,383
Profit for the period							26,310	26,310	-1	26,309
Other comprehensive income				3,190	-943		-2,278	-30		-30
Transactions with the Group's owners										
Dividend paid							-10,868	-10,868		-10,868
Incentive programme	55					323	16	394		394
Share savings programme							166	166		166
Equity capital, Dec 31, 2019	42,029	32,736	25,129	3,066	-1,347	27,398	129,330	258,343	13	258,355
Profit for the period							31,486	31,486	-1	31,485
Other comprehensive income				1,063	3,479		-2,241	2,302		2,302
Transactions with the Group's owners										
Incentive programme						213		213		213
Share savings programme							12	12		12
Equity capital, Dec 31, 2020	42,029	32,736	25,129	4,129	2,133	27,611	158,589	292,357	11	292,368

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

Consolidated cash flow statement

(EUR K)

Bank of Åland Group	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Cash flow from operating activities		
Net operating profit	39,717	33,195
Adjustment for net operating profit items not affecting cash flow		
<i>Depreciation/amortisation and impairment losses on intangible and tangible assets</i>	12,304	11,834
<i>Impairment losses on loans and other commitments</i>	5,462	3,809
<i>Unrealised changes in value</i>	479	-68
<i>Accrued surpluses/deficits on debt securities and bonds issued</i>	5,829	6,599
<i>Defined benefit pension plan</i>	564	495
Gains/losses from investment activity	0	-75
Income taxes paid	-4,856	-2,143
Increase (-) or decrease (+) in receivables from operating activities		
<i>Debt securities</i>	8,438	20,135
<i>Lending to credit institutions</i>	21,788	-9,708
<i>Lending to the public</i>	-216,527	-114,117
<i>Other assets</i>	1,229	8,697
Increase (+) or decrease (-) in liabilities from operating activities		
<i>Liabilities to credit institutions</i>	280,247	-33,135
<i>Deposits from the public</i>	199,380	81,961
<i>Debt securities issued</i>	162,687	-33,895
<i>Other liabilities</i>	19,092	-8,620
Cash flow from operating activities	535,835	-35,038
Cash flow from investing activities		
Investment in shares and participations	-3,249	-2,151
Divestment of shares and participations	0	29
Investment in shares of associated companies and subsidiaries	-1,139	-4,376
Investment in tangible assets	-1,373	-2,438
Divestment of tangible assets	60	177
Investment in intangible assets	-3,757	-4,053
Cash flow from investing activities	-9,457	-12,812
Cash flow from financing activities		
Share issue	213	378
Payment of principal on lease liability	-4,945	-4,425
Increase in unsecured bonds issued	-100,000	0
Increase in covered bonds issued	9,348	297,989
Decrease in covered bonds issued	-257,000	-267,708
Decrease in subordinated debentures	0	-10,460
Dividend paid	0	-10,868
Cash flow from financing activities	-352,385	4,908
Exchange rate differences in cash and cash equivalents	2,536	-2,368
Change in cash and cash equivalents	176,528	-45,310
Cash and cash equivalents at beginning of year	495,727	541,037
Cash flow from operating activities	535,835	-35,038
Cash flow from investing activities	-9,457	-12,812
Cash flow from financing activities	-352,385	4,908
Exchange rate differences in cash and cash equivalents	2,536	-2,368
Cash and cash equivalents at end of year	672,255	495,727
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	635,551	465,185
Lending to credit institutions that is repayable on demand	36,704	30,542
Total cash and cash equivalents	672,255	495,727

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

"Operating activities" included interest received of EUR 68,101 K (64,585), interest paid of EUR 9,870 K (11,853) and dividend income received of EUR 0 K (1).

Reconciliation of liabilities attributable to funding activities

	Dec 31, 2019	Cash flow from funding activities	Changes not affecting cash flows			Other	Dec 31, 2020
			Effect of exchange rate changes	Change in fair value	Accrual of surplus/deficit value		
Covered bonds	1,144,959	-247,652	10,456	1,879	583		910,225
Unsecured bonds	350,803	-100,000		-459	308		250,652
Subordinated debenture loans	36,100		787		26		36,913
Leasing liabilities	11,779	-4,945	507			6,502	13,843
Total liabilities attributable to funding activities	1,543,641	-352,597	11,750	1,420	917	6,502	1,211,633

Table of contents, notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

G1. Corporate information	51
G2. Accounting principles.....	51
G3. The Group's risk management.....	61
G4. Segment report	70
G5. Product areas	72
G6. Geographic distribution.....	72
G7. Net interest income	73
G8. Net commission income	73
G9. Net income from financial items carried at fair value.....	74
G10. Other income	74
G11. Staff costs.....	74
G12. Other expenses	77
G13. Expected credit (loan) losses.....	78
G14. Income taxes.....	79
G15. Earnings per share	79

NOTES TO THE CONSOLIDATED BALANCE SHEET

G16. Classification of financial assets and liabilities	79
G17. Measurement of financial assets and liabilities carried at fair value.....	81
G18. Assets and liabilities by currency.....	82
G19. Holdings of debt securities.....	83
G20. Lending to credit institutions	84
G21. Lending to the public	84
G22. Shares and participations.....	84
G23. Shares in associated companies.....	84
G24. Derivative instruments	85
G25. Intangible assets	85
G26. Tangible assets.....	86
G27. Deferred tax assets and liabilities.....	87
G28. Other assets	88
G29. Accrued income and prepayments.....	88
G30. Liabilities to credit institutions.....	88
G31. Deposits from the public.....	89
G32. Debt securities issued.....	89
G33. Other liabilities	89
G34. Provisions.....	89
G35. Accrued expenses and prepaid income	89
G36. Subordinated liabilities	90
G37. Specification of changes in equity capital	90

OTHER NOTES

G38. Group structure	91
G39. Actively managed assets.....	92
G40. Assets pledged	92
G41. Off-balance sheet obligations	92
K42. Pension liabilities	92
G43. Lease liabilities	94
G44. Disclosures about related parties	95
G45. of financial assets and liabilities.....	95
G46. Important events after the close of the accounting period.....	96

Notes to the consolidated financial statements

(EUR K)

G1. Corporate information

The Bank of Åland Plc (Ålandsbanken Abp) is a Finnish public company, organised in compliance with Finnish legislation and with its Head Office in Mariehamn. The Bank of Åland Plc is a commercial bank with a total of 10 offices. Through its subsidiary Crosskey Banking Solutions Ab Ltd, the Bank of Åland Group is also a supplier of modern banking computer systems for small and medium-sized banks.

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

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

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

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

The consolidated financial statements for the financial year ending on December 31, 2020 were approved by the Board of Directors on February 26, 2021 and will be submitted to the 2021 Annual General Meeting for adoption. The Annual General Meeting has the opportunity to adopt or abstain from adopting the financial statements.

G2. Accounting principles

1. Basis for the report

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

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

2. Changes in accounting principles

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

A number of changes in accounting rules that have been adopted starting in 2020 have had no major effect on the Group's financial position, earnings or disclosures.

COMING REGULATORY CHANGES

A number of new standards and interpretations take effect for accounting years that begin after January 1, 2021. These coming regulatory changes are not expected to have any significant effect on the Group's financial position, earnings or disclosures.

3. Presentation of financial reports

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

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

4. Principles of consolidation

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

In elimination, the acquisition method of accounting has been used. The acquisition method means that the payment which is transferred, the identifiable assets of the acquired company and liabilities assumed plus any non-controlling interests are carried at fair value on the acquisition date. Intangible assets that are not found in the balance sheet of the acquired company, for example patents, brand names or customer relationships, are identified and measured at the time of the acquisition. In case of an acquisition where the payment which is transferred, any non-controlling interests and the fair value of any previously owned portion exceeds the fair value of the acquired assets and the liabilities assumed, the difference is recognised either as goodwill or negative goodwill. If goodwill arises, it is tested at least in conjunction with the annual financial statements. If negative goodwill arises, it is recognised as income in its entirety at the time of the acquisition. For goodwill amounts in companies where the Group has a controlling influence, or in subsidiaries where it has significant holdings without decision-making rights, see Note G25.

Transaction expenditures – except for those attributable to the issuance of equity instruments or debt instruments – are recognised directly in the income statement. The portions of equity capital and profit for the accounting period in subsidiaries that are attributable to

non-controlling interests are split off and shown as separate items in the consolidated income statement and balance sheet. Losses attributable to non-controlling interests are allocated even in those cases where non-controlling interests will be negative.

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

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

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

5. Items in foreign currencies

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

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

6. Recognition of assets and liabilities in the balance sheet

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

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

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

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

7. Classification of financial assets and liabilities

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

FINANCIAL ASSETS

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

FINANCIAL LIABILITIES

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

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

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

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

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

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

FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT AMORTISED COST

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

Loans and accounts receivable are recognised at amortised cost, that is, the discounted present value of all future payments attributable to the instrument, where the discount rate consists of the effective interest rate of the asset on the purchase date. When interest income is calculated, the effective interest rate for the recognised gross amount of a financial asset is used, except for those financial

assets that have later been assigned poorer credit ratings. For these financial assets, the effective interest rate of the financial asset's amortised cost is used during subsequent report periods (minus credit reserves). Loans and receivables are impairment tested according to the model for expected loan losses. Loans and accounts receivable that are defined as belonging to Stage 3 undergo impairment testing regularly and individually for each receivable. Impairment losses are recognised in the balance sheet at their net amounts, after subtracting expected and actual loan losses. Lease liabilities are reported as financial liabilities that are recognised at amortised cost.

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

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

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

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

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

FINANCIAL LIABILITIES

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

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

EMBEDDED DERIVATIVES

An embedded derivative is a component of a combined financial instrument that also includes a host contract that is not a derivative, with the effect that some of the hybrid instrument's cash flows vary in a way similar to the cash flows from a stand-alone derivative.

An embedded derivative is separate from the host contract and is recognised separately among "Derivative instruments" in the balance sheet when its financial features are not closely related to those of the host contract, provided that the combined financial instrument is not recognised at fair value via the income statement.

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

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

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

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

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

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

DEBT SECURITIES

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

EQUITY INSTRUMENTS

Shares listed in an active market are valued at market price. When measuring unlisted shares and participations, the choice of valuation

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

DERIVATIVES

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

9. Impairment losses on loans and accounts receivable

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

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

For all exposures, the Group applies a credit rating model for calculating expected loan losses. These calculations are based on internally developed models (probability of default = PD, loss given default = LGD and expected exposure at default = EAD), which take into account both historical data and probability-weighted forward-looking scenarios. A 12-month probability of default (PD) indicates the probability that a given commitment will default within 12 months, while a lifetime PD (for the remaining maturity) is equivalent to the probability that a given commitment will default during the entire remaining maturity of the financial asset. The PD model is based on

historical data, the conditions that exist on the reporting date and future economic conditions that affect credit risk. Loss given default (LGD) is stated per commitment and is an estimate of the expected loss that the Group will incur assuming that the commitment defaults. The Group's LGD model is based on historical data. Exposure at default (EAD) refers to an estimated credit exposure at a future default date, taking into account expected changes in the credit exposure on the balance sheet date. The Group's EAD model takes into account such factors as current contractual terms, assumptions about the honouring of guarantees, expected utilisation of credit limits and irrevocable off-balance sheet obligations.

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

The impairment model in compliance with IFRS 9 requires the Executive Team to make judgements and estimates and make assumptions, and it makes assumptions that affect the application of accounting principles. Model-driven impairment losses on financial instruments in compliance with IFRS 9 greatly increased due to the economic downturn. In the prevailing situation, with the ongoing coronavirus pandemic, the Bank of Åland also analysed selected economic sectors and types of loans that it believed would be affected most by the crisis. In the first quarter of 2020, the Executive Team concluded that a group provision should be made due to a heightened risk of losses, primarily in the corporate loan portfolio. Assumptions in the expected credit loss (ECL) model were updated during the fourth quarter, and the group provision was specified through assessments including sectoral and loan-specific circumstances. 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 amounts to EUR 180 M. This volume is recognised in Stage 1 if there are no other reasons besides the postponement of principal payments that justify another stage.

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

10. Hedge accounting

HEDGE ACCOUNTING AT FAIR VALUE

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

CASH FLOW HEDGING

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

HEDGING OF NET INVESTMENTS IN FOREIGN OPERATIONS

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

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

11. Intangible assets

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

CAPITALISATION OF PRODUCTION FOR OWN USE

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

AMORTISATION

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

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

EXTERNALLY PROCURED SYSTEMS

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

ACQUIRED CONTRACTS

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

OTHER INTANGIBLE ASSETS

Other intangible assets include acquired customer contracts.

IMPAIRMENT LOSSES

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

GOODWILL

Goodwill corresponds to the share of cost that exceeds the fair value of assets purchased and liabilities taken over. Goodwill is not amortised but is tested yearly – or more often if a need exists – for impairment by discounting expected future cash flows in cash-generating units. Impairment losses are recognised in the income statement. See Note G25 for Group goodwill amounts.

12. Tangible assets

INVESTMENT PROPERTIES

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

PROPERTIES FOR THE GROUP’S OWN USE

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

OTHER TANGIBLE ASSETS

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

RIGHT-OF-USE ASSETS

“Right-of-use assets” refers to rental contracts and leases where the Group is the lessee and which are recognised as tangible assets in compliance with IFRS 16. When it comes to properties for the Group’s own use, these right-of-use assets primarily consist of bank and office premises. When it comes to other tangible assets, they primarily consist of IT equipment and vehicles. The depreciation period is usually

a fixed period of between 1–9 years, with an average lease period of 4 years. For further information on lease management, see Point 14.

DEPRECIATION

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

Buildings	40 years
Technical equipment in buildings	12 years
Renovation in rented customer premises	5 years
Renovation in other rented premises.....	10 years
Machinery and equipment	4–10 years
Other tangible assets	3–5 years
Right-of-use assets	1–9 years
Land is not depreciated.	

IMPAIRMENT LOSSES

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

13. Provisions

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

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

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

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

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

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

14. Leases

IFRS 16 removes the requirement that lessees must distinguish between finance and operating leases and requires lessees to report a “right-of-use” asset and a lease liability for most leases in the balance sheet. A single discount rate has been applied to a portfolio of leases with essentially similar characteristics. The Bank of Åland applies the exemptions that the standard allows regarding leases running for 12 months or less (short-term leases) and leases where the underlying asset is of low value. These leases are recognised as expenses in the income statement.

LEASES WHERE THE BANK OF ÅLAND IS THE LESSEE

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

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

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

LEASES WHERE THE BANK OF ÅLAND IS THE LESSOR

When the Bank of Åland is the lessor, on the initial date of the lease it determines whether the lease shall be classified as a finance or operating lease. A finance lease transfers from the lessor to the lessee substantially all the economic risks and rewards incidental to ownership of an asset. As a lessor, the Bank of Åland's leasing operations consist of finance leases and are recognised as loan receivables. The carrying amount is equivalent to the present value of future lease payments. The difference between future lease payments and the present value of future lease payments is unearned income. As a result, lease fees received are recognised both in the income statement as interest income and in the balance sheet as a principal payment.

Since lessors bear the economic risks and advantages, the lease is classified as an operating lease. The Bank of Åland recognises fees for operating leases as income on a straight-line basis over the lease period under “Other income”. See Note G10. The Bank of Åland classifies subleases on the basis of the right-of-use that arises from the main lease, not on the basis of the underlying asset.

15. Revenue

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

NET INTEREST INCOME

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

NET COMMISSION INCOME

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

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

NET INCOME FROM FINANCIAL ITEMS AT FAIR VALUE

Under “net income from financial items at fair value”, realised and unrealised gains and losses from financial instruments carried at fair value via the income statement (“profit and loss”) are recognised via the income statement, along with the ineffective portion in hedge accounting.

Recognised under “Net income from foreign exchange dealing” are gains and losses on exchange rate differences that arise from translation of assets and liabilities to euros.

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

IT INCOME

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

OTHER INCOME

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

16. Employee benefits

PENSION LIABILITIES

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

Pension coverage for employees in Finland has been arranged through the Finnish national pension system (a defined contribution-plan). There is also an older system via a pension fund (Ålandsbanken Abps Pensionsstiftelse r.s., a so-called A Fund defined benefit plan), which has been closed since 1991. Pension coverage for employees in Sweden follows the so-called BTP1 plan, which is defined contribution. A few previously agreed defined benefit BTP2 plans still exist.

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

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

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

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

17. Share-based payment

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

18. Income tax

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

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

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

Non-current assets or disposal groups held for sale are presented on a separate line in the balance sheet and are measured at the lower of carrying amount and fair value less expected costs to sell. Liabilities that are related to these non-current assets are also presented on a separate line in the balance sheet. There were no non-current assets held for sale at the end of 2018 or 2019.

20. Operating segments

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

21. Cash and cash equivalents

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

22. Significant judgements and estimation uncertainty

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

MEASUREMENT OF LOANS AND ACCOUNTS RECEIVABLE

Loans and accounts receivable that are defined as belonging in Stage 3 undergo impairment testing regularly and individually for each receivable. Exposures that are subject to individual testing are identified on the basis of background data covering customers with defaulting commitments or commitments that will probably default during a given quarter. If necessary, the receivable is written down

to its estimated recoverable value. This estimated recoverable value is based on an assessment of the counterparty's financial repayment ability and assumptions about the sale value of any collateral.

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

ACTUARIAL CALCULATIONS OF PENSION OBLIGATIONS

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

FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

APPRAISAL OF INVESTMENT PROPERTIES AND PROPERTIES FOR OWN USE

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

LEASES

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

MEASUREMENT OF DEFERRED TAX

A deferred tax asset is recognised for identified taxable losses to the extent that it is probable that future taxable income will arise. The Executive Team regularly assesses when deferred tax should be recognised in the consolidated financial statements, based on expected future earnings performance. On every closing day, an assessment is made as to whether recognising a deferred tax is justified, based on the size of expected future taxable income. For further information, see Note G27.

SHARE-BASED PAYMENT

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

1. General

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

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

2. Internal controls and risk management

2.1 RISK ORGANISATION

The Board of Directors has overall responsibility for risk management and control. The Board defines the risk appetite of the Bank's operations and adopts yearly policy documents that specify the overall principles for risk management as well as restrictions in the form of limits that operations shall stay within. The Bank's compliance with risk management principles and its risk positions are monitored regularly. The Board also approves essential methods and models that are used to measure the Bank's risks. The Audit Committee of the Board of Directors assists the Board in handling its tasks related to oversight of risk management, methods and models for risk measurement, risk reporting and internal controls.

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

The Board of Directors appoints the members of the Group-wide Executive Team. These members consist of the heads of the Bank's business areas and corporate units; they serve as advisors to the Managing Director. The Managing Director and the other members of the Executive Team regularly receive reports on the Bank's limit positions and risk indicators.

Matters related to certain types of financial risks are handled by committees consisting of Executive Team members and other persons appointed by the Managing Director.

ALCO – the Asset and Liability Committee – is a decision-making body reporting to the Managing Director that deals with issues concerning financial risks, liquidity, funding and capitalisation. The Credit Committee of the Executive Team makes lending decisions for the Bank on large loan commitments according to approved credit limits.

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

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

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

Risk Control is responsible for continuously identifying, measuring, analysing, overseeing and reporting the Bank's financial risks. This includes regular oversight to ensure that the Bank's operations remain within the established risk tolerances and regular reporting of the Bank's financial risks to the Executive Team, the Board and regulatory authorities. Risk Control is responsible for coordinating internal asset and liquidity evaluations and analyses the impact of stress tests on capital adequacy and liquidity positions. Risk Control is also responsible for coordinating and updating the Bank's recovery plan and for monitoring and reporting on the recovery plan's indicators.

The Operational Risks and Security department is responsible for analysing and reporting the Group's operational risks as well as information management, data protection and physical security.

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

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

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

2.2 RISK MANAGEMENT MODEL

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

The model consists of:

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

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

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

3. Capital management

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

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

- A common equity Tier 1 (CET1) capital ratio of at least 4.5 per cent
- A Tier 1 capital ratio of at least 6 per cent
- A total capital ratio of at least 8 per cent

The Pillar 2 capital requirements are calculated by evaluating other risks that are not covered by Pillar 1 regulations. In addition to these requirements, institutions must also maintain capital in the form of

combined buffer requirements against economic downturns.

These combined buffer requirements are established in the CRD.

Own funds are divided into two types: Tier 1 capital (T1) and supplementary capital (T2). Since the Bank has not issued any instruments in the "Additional Tier 1 capital" (AT1) category so far, its entire Tier 1 capital consists of common equity Tier 1 capital (CET1). Common equity Tier 1 capital comprises the most permanent form of capital and is equivalent to equity capital according to the balance sheet after certain statutory adjustments.

The Bank of Åland's capital requirement for credit risks is calculated according to the IRB approach in the Finnish retail lending portfolio. For the corporate exposure class, the Bank applies the fundamental internal ratings based (FIRB) approach. In Sweden and other countries, the capital requirement is calculated entirely using the standardised approach. For all other exposure categories, including equity exposures, the Bank uses the standardised approach to calculate the capital requirement for credit risk.

Table 3.1 shows the Group's capital adequacy calculation according to Pillar 1 at the end of 2020.

Table 3.1

Capital adequacy	2020	2019
EUR M		
Equity capital according to balance sheet	292.4	258.4
Foreseeable dividend	-31.2	-15.6
Common equity Tier 1 capital before deductions	261.2	242.8
Intangible assets	-22.9	-25.0
Non-controlling interests	0.0	0.0
Other items, net	0.0	0.0
Additional adjustments in value	-0.5	-0.6
Expected losses according to IRB approach beyond recognised losses (deficit)	-3.7	-6.2
Adjustments due to transitional rules related to IFRS 9	0.5	0.6
Relief measures due to COVID-19	4.0	
Common equity Tier 1 capital	238.5	211.5
Supplementary capital instruments	37.0	36.2
Expected losses according to IRB approach beyond recognised losses (surpluses)	0.0	1.7
Supplementary capital	37.0	37.9
Total own funds	275.5	249.4
Capital requirements for credit risks according to IRB approach	39.8	40.8
Additional capital requirements for risk weight floor for mortgage loans	8.7	8.0
Capital requirements for credit risks according to standardised approach	67.0	60.2
Capital requirement for credit value adjustment risk	0.0	0.0
Capital requirement for operational risk	18.2	17.6
Capital requirement	133.6	126.6
Capital ratios, %		
Common equity Tier 1 capital ratio	14.3	13.4
Tier 1 capital ratio	14.3	13.4
Total capital ratio	16.5	15.8
Risk exposure amount	1,670.8	1,583.1
of which % comprising credit risk	86	86
of which % comprising credit-worthiness adjustment risk	0	0
of which % comprising operational risk	14	14
Requirements related to capital buffers, %		
Total common equity Tier 1 capital requirement including buffer requirement	8.5	10.7
Of which common equity Tier 1 capital requirement under Pillar 1	4.5	4.5
Of which common equity Tier 1 capital requirement under Pillar 2	1.5	1.5
Of which capital conservation buffer requirement	2.5	2.5
Of which countercyclical capital buffer requirement		1.2
Of which systemic risk buffer requirement		1.0
Common equity Tier 1 capital available to be used as a buffer	14.3	13.4

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

Leverage is a measure of bank solvency aimed at avoiding excessive debt. The leverage ratio is calculated as the ratio of Tier 1 capital to a specially defined exposure metric that includes both assets and off-balance sheet items. Unlike the capital adequacy calculation, the exposures are not risk-weighted when calculating the ratio.

Taking into account relief measures due to the COVID-19 pandemic, which represent temporary exemptions for certain exposures to central banks from the total exposure metric, the Bank of Åland's leverage ratio amounted to 4.2 per cent at the end of 2020, compared to 3.7 per cent at the end of 2019. Without taking these relief measures into account, the leverage ratio at the end of 2020 would have been 3.9 per cent.

Table 3.2

Exposure and risk amounts allocated by exposure class

EUR M	Original exposure	(-) Value adjustments	Inflows via credit risk protection	(-) Outflows via credit risk protection	Exposure amount	Average risk weight, %	Risk exposure amount	Capital requirement
Credit risk, IRB approach								
Using own estimates of LGD								
Retail – Real estate as collateral SMEs	118.6	-0.7	0.0	-1.0	117.7	0	24.5	2.0
Retail – Real estate as collateral, private individuals	1,833.8	-1.5	0.0	-15.7	1,821.3	0	169.5	13.6
Retail – Other SMEs	32.8	-0.7	0.0	-1.7	31.2	0	6.5	0.5
Other retail exposures	362.9	-5.2	0.0	-50.3	313.8	0	31.7	2.5
Without own estimates of LGD								
Corporate – Other large companies	183.0	-0.2	0.0	-3.3	144.9	57	73.1	5.8
Corporate – SMEs	397.7	-2.1	0.0	-20.2	352.5	60	187.0	15.0
Corporate – Specialised lending	5.0	0.0	0.0	0.0	5.0	112	4.7	0.4
Total exposures, IRB approach	2,933.8	-10.5	0.0	-92.2	2,786.3	18	497.0	39.8
Credit risk, standardised approach								
Governments and central banks	700.5	0.0	121.9	0.0	812.8	0	0.0	0.0
Regional or local governments or agencies	64.2	0.0	32.7	0.0	90.1	0	0.0	0.0
Public sector entities	11.7	0.0	0.0	0.0	11.7	0	0.0	0.0
Multilateral development banks	53.5	0.0	5.5	0.0	58.6	0	0.0	0.0
International organisations	4.0	0.0	4.0	0.0	4.0	0	0.0	0.0
Institutions	264.8	-0.2	0.4	0.0	209.0	20	42.6	3.4
Corporates	555.6	-0.2	0.0	-66.4	195.5	95	185.2	14.8
Retail	459.5	-0.7	0.0	-2.3	207.6	43	90.1	7.2
Secured by real estate	1,158.2	-0.3	0.0	0.0	1,155.5	33	382.9	30.6
In default	2.9	-0.6	0.0	0.0	2.3	121	2.8	0.2
Associated with particularly high risks	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0
Covered bonds	470.8	-0.1	0.0	0.0	470.6	11	51.7	4.1
Collective investment undertakings (funds)	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0
Equity exposures	14.3	0.0	0.0	0.0	14.3	100	14.3	1.1
Other exposures	93.7	0.0	0.0	0.0	93.7	71	67.0	5.4
Total exposures, standardised approach	3,853.7	-2.3	164.4	-68.7	3,325.9	25.0	836.7	66.9
Total risk exposure amount	6,787.5	-12.8	164.4	-160.9	6,112.1	22.0	1,333.7	106.7

Table 3.3

Leverage ratio	2020	2019
EUR M		
Tier 1 capital	238.5	211.5
Total exposure metric	5,624.8	5,663.4
of which balance sheet items	5,466.7	5,581.4
of which off-balance sheet items	158.1	82.0
Leverage ratio, %	4.2	3.7

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

4. Credit risk

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

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

4.1 RISK MANAGEMENT

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

The internal risk classification system is the most important cornerstone of the credit approval process and for pricing credit risks when granting new loans. The Bank also relies on the internal system for monthly risk monitoring, internal capital management, the calculation of risk-adjusted returns and reporting of credit risk to the Executive Team. The general risk management principles applied for managing risks that have a bearing on both ECL and capital requirements are the same in the Bank. Both ECL and regulatory capital requirements are included in the Bank's reporting to the Executive Team and the Board of Directors and have a strong connection to risk control in the Bank's risk management system. The Bank's operating units also monitor their credit risk based on these key figures on a monthly basis. The degree of loan loss provisions in relation to the volume of unsettled exposures is based on this reporting and is analysed.

4.2 MEASURING CREDIT RISK

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

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

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

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

The table below shows how large a percentage of exposures were found within each respective stage at the end of 2020. Exposures with lifetime PD of up to 10 per cent are viewed as "low risk", exposures from 10 up to and including 50 per cent as "medium risk" and exposures from 50 up to 100 per cent as "high risk". Defaulted exposures are always assigned a PD of 100 per cent.

4.2.1 Collateral management and credit risk mitigation

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

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

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

By applying conservative loan-to-value (LTV) ratios on collateral, the Bank makes allowances for a possible negative price trend for various forms of collateral, for example housing prices and market price changes for financial collateral. As a general rule, a loan may not exceed 70–85 per cent of the market value of residential property used as collateral. The LTV ratio on financial collateral is mainly determined on the basis of the liquidity and credit quality of the financial instrument.

Receivables which are reported in Stage 3 in compliance with IFRS 9 were at a higher level at the end of 2020 than at the beginning of the year. The recognised gross value of receivables reported in Stage 3 amounted to EUR 38.9 M. The corresponding figure on December 31, 2019 was EUR 33.5 M.

Table 4.2.1

Credit risk		2020				2019
EUR M		Stage 1	Stage 2	Stage 3	Total	Total
Lending to the public						
Low risk		4,037.4	17.2	2.9	4,057.4	3,902.6
Medium risk		153.8	95.5	5.4	254.7	150.4
High risk		5.8	40.2	0.4	46.4	37.9
Ungraded ¹		0.5	0.0	0.2	0.7	0.6
Defaulted		0.0	0.6	30.1	30.7	30.9
Gross carrying amount		4,197.4	153.5	38.9	4,389.8	4,122.5
Provision for expected credit loss		-2.5	-1.0	-8.3	-11.9	-12.4
Net carrying amount		4,194.9	152.4	30.5	4,377.9	4,110.0
Unutilised credit lines and guarantees						
Low risk		440.8	0.7	0.0	441.5	395.8
Medium risk		38.0	2.4	0.0	40.5	3.1
High risk		0.0	0.0	0.0	0.0	0.1
Ungraded ¹		268.0	0.0	0.0	268.0	44.8
Defaulted		0.4	0.3	0.1	0.8	0.1
Gross nominal amount		747.3	3.4	0.1	750.8	443.8
Provision for expected loss		-0.4	0.0	0.0	-0.4	0.0
Net carrying amount (provision)		-0.4	0.0	0.0	-0.4	0.0
Debt securities recognised at amortised cost						
Low risk		287.0			287.0	244.9
Gross carrying amount		287.0	0.0	0.0	287.0	244.9
Provision for expected credit loss		-0.2			-0.2	-0.1
Net carrying amount		286.8	0.0	0.0	286.8	244.8
Debt securities recognised at fair value via other comprehensive income						
Low risk		324.0			324.0	356.9
Gross carrying amount		324.0	0.0	0.0	324.0	356.9
Provision for expected credit loss		-0.2			-0.2	-0.1
Net carrying amount		323.8	0.0	0.0	323.8	356.8

¹Instruments for which no probability of default has been established are reported as "ungraded".

Table 4.2.2

Lending to the public		2020				2019
EUR M		Stage 1	Stage 2	Stage 3	Total	Total
Receivables without non-performing amounts						
		4,140.5	134.7	25.0	4,300.1	4,023.2
Receivables with non-performing amounts <=30 days						
		41.0	13.2	0.1	54.3	65.8
Receivables with non-performing amounts >30 days						
		16.0	5.6	13.8	35.3	33.4
Gross carrying amount		4,197.4	153.5	38.9	4,389.8	4,122.5

5. Liquidity risk

Liquidity risk refers to the risk of not being able to fulfil payment obligations on the maturity date due to a shortage of liquid assets, or that these obligations can only be fulfilled by obtaining the means of payment at a substantially higher cost or by selling positions at substantially lower market prices than expected.

5.1 RISK MANAGEMENT

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

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

Based on the Bank's risk tolerance, the Board of Directors has established limits for the Bank's liquidity coverage ratio, survival horizon and how large the percentage of covered bonds issued may be in relation to the available collateral. Liquidity risk is managed by the Bank's Treasury unit, which is responsible for ensuring that risks meet the limits established by the Board of Directors.

5.1.1 Liquidity reserve

In order to decrease its liquidity risk, the Bank maintains a liquidity reserve containing high-quality assets that shall serve as an alternative source of liquidity at times of limited or non-existent opportunities to borrow money in the external capital market. The reserve may consist of cash, accounts with central banks or other well-reputed banks that have a good credit rating, deposits with short maturities, holdings of debt securities issued by the Bank and securities of such credit quality that they are eligible for refinancing with central banks. To safeguard the good quality of the Bank of Åland's liquidity reserve, these investments are regulated by the Board of Directors. The size of the liquidity reserve must be sufficient to maintain the targeted survival horizon as well as the liquidity coverage ratio.

5.1.2 Funding

Aside from equity capital, the Bank of Åland's funding sources consist mainly of deposits from the public, covered bonds and unsecured bonds, certificates of deposit and short- and long-term borrowing from credit institutions. At the end of 2020, deposits and covered bonds comprised more than 80 per cent of the funding structure.

The Bank's ambition is not to be dependent on funding sources for its lending other than customer deposits and covered bonds. Unsecured capital market funding may be used when the price situation in the market makes it appropriate.

Table 5.1.1

Liquidity reserve	2020	2019
EUR M		
Cash and deposits with central banks	665	490
Debt securities issued by sovereigns and public authorities	140	83
Covered bonds (ratings of AA- or higher)	334	495
Accounts with other banks	26	20
Debt securities issued by financial companies	4	42
Debt securities issued by non-financial companies	6	0
Total	1,175	1,129
<i>of which LCR-qualified</i>	1,118	1,014

5.2 MEASURING LIQUIDITY RISK

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

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

Regulatory authorities have adopted rules for liquidity risk that cover both short-term and structural liquidity under stressed conditions. The purpose of the liquidity coverage ratio (LCR) is to ensure that banks have enough liquid assets to deal with short-term liquidity stress. This means that banks must have liquid assets of very high quality equivalent to at least the net cash outflow for 30 days under stressed conditions, that is, at least 100 per cent.

The net stable funding ratio (NSFR), a structural liquidity metric, requires that banks have enough stable funding to cover their funding needs in a one-year perspective, both under normal and stressed conditions. In June 2021, a minimum NSFR requirement of 100 per cent is being introduced. At the end of 2020 the Bank's NSFR was 106 per cent, compared to 115 per cent at the end of 2019.

On December 31, 2020, the Bank of Åland's core funding ratio, defined as lending to the public divided by deposits from the public – including certificates of deposit, index bonds and subordinated debentures issued to the public, as well as covered bonds issued – amounted to 96 per cent, compared to 90 per cent at the end of 2019.

The loan/deposit ratio amounted to 122 (122) per cent at the end of 2020 was 121 per cent, compared to 122 per cent at the end of 2019.

5.3 ENCUMBERED ASSETS

Encumbered assets predominantly consist of home mortgage loans that are used as collateral for the Bank of Åland's covered bond issues outstanding. The size of encumbered assets for covered bonds is based on the level of over-collateralisation that the credit rating agency Standard & Poor's requires of the Bank of Åland to ensure that the bonds are assigned a credit rating of AAA. In addition to home mortgage loans, the Bank of Åland has provided collateral for its own liabilities, payment systems, brokerage operations and clearing in the form of government securities and bonds, mainly to central banks and credit institutions.

Table 5.2.1

Remaining maturity		2020							
		Undiscounted contractual cash flows							
EUR M	Repayable on demand	<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs	Not classified by maturity	Total
Assets									
Cash and receivable from central banks	665.1								665.1
Debt securities eligible for refinancing with central banks		60.9	31.7	20.4	619.8	26.1	0.0		759.0
Other debt securities		13.0	0.0	0.0	5.1	0.6	0.0		18.7
Lending to credit institutions	31.2	0.0	0.0	0.0	0.0	0.0	0.0	19.9	51.0
Lending to the public	16.8	383.8	154.4	284.3	1,420.2	724.4	1,324.4	69.5	4,377.9
Shares and participations								14.3	14.3
Derivative instruments		2.2	3.5	0.9	16.0	0.0	2.0		24.6
Intangible assets								24.4	24.4
Tangible assets								32.9	32.9
Investment properties								0.3	0.3
Other assets								66.8	66.8
Total	713.1	460.0	189.6	305.6	2,061.1	751.2	1,326.4	228.1	6,035.1
Liabilities									
Liabilities to credit institutions	53.1	330.9	5.0	3.5	117.0	0.0	0.0		509.5
Deposits from the public	3,481.3	106.7	2.5	13.8	1.0	0.0	0.0		3,605.4
Debt securities issued		139.5	140.6	250.7	910.2	0.0	0.0		1,440.9
Derivative instruments		2.3	3.5	0.1	5.4	1.8	1.9		14.9
Other liabilities								135.0	135.0
Subordinated liabilities		0.0	8.6	6.2	2.3	0.0	19.9		36.9
Equity capital								292.4	292.4
Total	3,534.3	579.5	160.3	274.2	1,035.9	1.8	21.8	427.4	6,035.1

Table 5.2.1.1

Liquidity coverage ratio (LCR)	2020	2019
EUR M		
Liquid assets, level 1	1,037	920
Liquid assets, level 2	82	93
Liquid assets, total	1,118	1,014
Deposits from the public	167	156
Capital market funding	590	659
Other cash flows	53	37
Cash outflows	811	853
Inflows from fully performing exposures	50	58
Other cash inflows	58	65
Total cash inflows	108	123
Net cash outflow	703	729
Liquidity coverage ratio (LCR), %	159	139

Table 5.3.1

Encumbered assets, carrying amount	2020			2019		
EUR M	Encumbered assets	Unencumbered assets	Total assets	Encumbered assets	Unencumbered assets	Total assets
Interest-bearing securities	292	485	778	174	615	789
Lending to the public	1,548	2,830	4,378	1,583	2,527	4,110
Other assets	3	752	755	17	571	587
Non-encumberable assets		124	124		121	121
Total	1,843	4,192	6,035	1,775	3,834	5,607
Per cent of total assets	31	69	100	32	68	100

6. Market risk

Market risk is the risk that earnings, equity capital or value will decrease due to price changes and risk factors in financial markets. Market risk includes interest rate risk, foreign exchange risk and equity risk.

6.1 RISK MANAGEMENT

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

6.2 INTEREST RATE RISK

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

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

The Bank measures interest rate risk by means of sensitivity analyses of net interest income and the value of interest-bearing assets and liabilities in scenarios where the yield curve is stressed in various ways. Net interest income risk is measured as the sensitivity of net interest income during the next twelve months, assuming a constant balance sheet. Positions in the balance sheet undergo interest rate adjustments on their contractual or assumed interest rate adjustment dates. In the model, the interest rate refixing period of demand deposits is set at

one day. Value change risk is measured as the sensitivity of the estimated present value of all existing interest-bearing items. When calculating value change risk, the Bank uses two methods for the interest rate refixing period of demand deposits. In the first model, demand deposits are assigned a period of one day, while in the second model their refixing period is based on European Banking Authority (EBA) and Basel Committee regulations.

6.3 FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the risk of unfavourable results due to changes in the exchange rates of currencies that the Bank is exposed to. The Bank's operations occur mainly in its two base currencies, euros and Swedish kronor. A limited proportion of its lending and deposits occurs in other currencies. The foreign exchange risk is primarily managed by means of matching, and if the potential foreign exchange risk remains at the end of day, the Bank adjusts it.

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

6.4 EQUITY RISK

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

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

Table 6.2.1

Interest rate refixing periods for assets and liabilities		2020				
EUR M	Up to 3 mo	3–6 mo	6–12 mo	1–5 yrs	Over 5 yrs	Total
Assets						
Cash and deposits with central banks	665	0	0	0	0	665
Debt securities eligible for refinancing with central banks	238	10	14	492	27	781
Lending to credit institutions	31	0	0	0	0	31
Lending to the public	2,523	559	1,018	422	422	4,944
Total interest-bearing assets	3,457	568	1,033	914	449	6,421
Liabilities						
Liabilities to credit institutions	420	5	3	115	0	544
Deposits from the public	3,601	3	14	1	0	3,618
Debt securities issued	402	141	252	648	0	1,443
Subordinated liabilities	20	9	7	4	6	46
Total interest-bearing liabilities	4,443	158	276	769	6	5,651
Off-balance sheet items	-711	89	248	411	-33	4
Difference between assets and liabilities	-1,697	500	1,004	556	410	774

7. Operational risk

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

7.1 RISK MANAGEMENT

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

The Operational Risks & Security unit is responsible for "second line of defence" analyses of the Group's operational risks and for reporting these. The same is true of the Compliance department, which analyses risk from a compliance standpoint. The "third line of defence" also analyses the Group's risks, including operational risks. To obtain a completely current picture of the Group's risks, risk mapping and analyses from all three lines of defence must be coordinated. The Compliance and Operational Risk & Security units rely on risk analyses when developing focus areas for the work of the following year.

There are many ways to provide support to the Group's operations. Internal training courses are an important element of second defence line support for operational risk management. Processes that support a risk-based way of working as well as internal regulations and controls are other means of support and of raising awareness. The new products approval process (NPAP) is one of the key processes for promoting risk management as early as in the development phase. Internal regulations relating to the operational risk management and compliance with the

rules also serve as operational aids and directives. The Group has continuity plans for all business units, in order to maintain operations and limit interruptions, losses and damage in the event of various operational disruptions. At the Group level, insurance policies have been obtained to cover directors and officers, professional liability and crime. In addition to these insurance policies, Group companies have obtained company-specific insurance coverage.

Group operational risks are mapped yearly by first defence line operations through self-evaluation and other methods. Self-evaluations assess the probability and consequences of operational risks. Risks that are identified in the yearly self-evaluation and classified as risks at a high or unacceptable level must be managed without delay and be addressed as needed by the Group's Executive Team to ensure that sufficient steps are taken in order not to exceed the Group's risk appetite. Operational Risks & Security and Compliance analyse risks based, among other things, on the self-evaluations and risk mapping carried out in the organisation, and they monitor and report the results to the Executive Team. In addition, AML-CFT (Anti Money Laundering – Combating the Financing of Terrorism) risk analysis is performed within the bank at least once a year and reported to the Executive Team and the Board in a corresponding manner. The second defence line also carries out risk assessments, such as information security risk assessments, the Compliance department's yearly risk analysis in its field, and Operational Risks & Security's mapping of the Bank's operational risks. The most significant risks are referred to the Executive Team and the Board. During project work, NPAP is applied. Risk mapping is an important part of this process. The purpose of a comprehensive analysis that highlights a variety of risks is to avoid inadvertent risk-taking. Products and services that are new or have undergone significant changes must be secure and functional when they are put into use.

G4. Segment report		2020				
	Private Banking	Premium Banking	IT	Corporate and other	Eliminations	Total
Net interest income	28,431	27,124	2	3,341	-8	58,890
Net commission income	47,962	14,955	-75	3,171	300	66,313
Net income from financial items carried at fair value	-26	49	-80	1,879	15	1,836
IT income	0	0	37,499	1,163	-16,733	21,929
Other income	45	20	883	1,495	-1,264	1,180
Total income	76,412	42,148	38,229	11,049	-17,690	150,148
Staff costs	-15,812	-6,719	-19,945	-20,445	0	-62,921
Other expenses	-8,765	-4,943	-12,418	-20,070	15,849	-30,348
Depreciation/amortisation and impairment losses on intangible and tangible assets	-870	-271	-2,753	-10,844	2,433	-12,304
Internal allocation of expenses	-21,231	-19,906	0	41,137	0	0
Total expenses	-46,677	-31,839	-35,116	-10,223	18,282	-105,573
Profit before impairment losses	29,735	10,309	3,112	826	593	44,575
Impairment losses on loans and other commitments	-442	-4,102	0	-314	0	-4,857
Net operating profit	29,293	6,207	3,112	512	593	39,717
Income taxes	-6,022	-1,273	-643	-295	0	-8,232
Non-controlling interests	0	0	1	0	0	1
Profit for the period attributable to shareholders in Bank of Åland Plc	23,271	4,935	2,471	217	593	31,486
Net commission income						
Deposits	66	462	0	254	0	782
Lending	437	1,787	0	20	-1	2,243
Payment intermediation	1,509	6,103	0	3,054	0	10,666
Mutual fund commissions	45,836	4,690	0	707	-5,277	45,957
Asset management commissions	11,504	901	0	3	-88	12,319
Securities brokerage	13,758	1,058	0	1,236	0	16,052
Other commissions	409	2,482	0	436	-56	3,271
Total commission income	73,519	17,483	0	5,710	-5,422	91,290
Commission expenses	-25,557	-2,528	-75	-2,539	5,722	-24,977
Total net commission income	47,962	14,955	-75	3,171	300	66,313
Business volume, December 31						
Lending to the public	1,906,010	2,269,915	0	203,088	-1,100	4,377,912
Deposits from the public	1,708,260	1,850,522	0	59,435	-12,847	3,605,371
Actively managed assets	6,926,757	503,058	0	6,373	0	7,436,187
Risk exposure amount	668,441	591,737	75,000	335,672	0	1,670,850
Shareholders' portion of equity capital	87,969	92,142	25,531	86,714		292,357
Financial ratios etc.						
Return on equity (ROE), %	24.2	5.0	10.3	0.4		11.6
Expense/income ratio	0.61	0.76	0.92	0.93		0.70

2019

	Private Banking	Premium Banking	IT	Corporate and other	Eliminations	Total
Net interest income	23,630	26,306	0	3,988	-8	53,915
Net commission income	41,931	12,884	-66	2,773	455	57,977
Net income from financial items carried at fair value	45	91	-22	3,780	1	3,894
IT income	0	0	33,281	114	-15,921	17,474
Other income	75	15	932	920	-1,288	654
Total income	65,681	39,295	34,125	11,574	-16,761	133,914
Staff costs	-14,777	-6,306	-17,015	-18,872	0	-56,970
Other expenses	-8,322	-4,677	-11,623	-18,088	14,016	-28,694
Depreciation/amortisation and impairment losses on intangible and tangible assets	-863	-326	-2,629	-10,409	2,394	-11,834
Internal allocation of expenses	-20,694	-18,403	0	39,097	0	0
Total expenses	-44,656	-29,713	-31,267	-8,273	16,411	-97,498
Profit before impairment losses	21,025	9,582	2,858	3,301	-351	36,415
Impairment losses on loans and other commitments	49	-2,968	0	-301	0	-3,221
Net operating profit	21,073	6,614	2,858	3,000	-351	33,195
Income taxes	-4,337	-1,356	-590	-602	0	-6,885
Non-controlling interests	0	0	1	0	0	1
Profit for the period attributable to shareholders in Bank of Åland Plc	16,736	5,258	2,268	2,398	-351	26,310
Net commission income						
Deposits	74	475	0	305	0	854
Lending	520	2,056	0	7	-2	2,581
Payment intermediation	1,246	4,829	0	4,136	0	10,210
Mutual fund commissions	40,643	3,742	0	656	-4,328	40,712
Asset management commissions	10,699	683	0	-40	-49	11,293
Securities brokerage	11,206	697	0	928	0	12,831
Other commissions	454	2,191	0	575	-54	3,166
Total commission income	64,841	14,673	0	6,567	-4,433	81,647
Commission expenses	-22,910	-1,788	-66	-3,794	4,888	-23,670
Total net commission income	41,931	12,884	-66	2,773	455	57,977
Business volume, December 31						
Lending to the public	1,875,540	2,220,801	0	13,688	0	4,110,029
Deposits from the public	1,709,835	1,620,502	0	51,383	-13,718	3,368,001
Actively managed assets	5,921,715	417,490	0	3,443	0	6,342,648
Risk exposure amount	704,402	603,533	36,118	239,053	0	1,583,106
Shareholders' portion of equity capital	106,530	98,028	21,273	32,512		258,343
Financial ratios etc.						
Return on equity after taxes (ROE), %	16.8	5.2	16.7	7.6		10.7
Expense/income ratio	0.68	0.76	0.92	0.71		0.73

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

G5. Product areas		2020				
	Daily banking services incl. deposits	Financing services	Investment services	IT services	Other	Total
Net interest income	7,197	50,706	0	-73	1,060	58,890
Net commission income	9,904	2,660	53,833	-75	-7	66,313
Net income from financial items carried at fair value	0	50	0	-80	1,866	1,836
IT income	0	0	0	21,929	0	21,929
Other income	0	0	0	0	1,180	1,180
Total income	17,101	53,416	53,833	21,701	4,098	150,148

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

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

Financing services consisted of net interest income from all lending products, i.e. also securities account loans, as well as lending commissions and guarantee commissions. Investment services included income from discretionary asset management, advisory asset management, fund management and securities brokerage. Income from deposit accounts and loans that may be part of a customer's asset management were reported under daily banking services and financing services, respectively.

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

G6. Geographic distribution		2020			2019		
	Finland	Sweden	Total	Finland	Sweden	Total	
Net interest income	31,695	27,194	58,890	32,340	21,575	53,915	
Net commission income	51,506	14,807	66,313	45,924	12,053	57,977	
Net income from financial items carried at fair value	2,043	-206	1,836	4,001	-108	3,894	
IT income	19,395	2,533	21,929	16,013	1,461	17,474	
Other income	988	192	1,180	585	69	654	
Total income	105,628	44,520	150,148	98,863	35,050	133,914	
Staff costs	-47,897	-15,024	-62,921	-43,395	-13,575	-56,970	
Other expenses	-14,330	-16,018	-30,348	-13,874	-14,820	-28,694	
Depreciation/amortisation	-11,101	-1,203	-12,304	-10,543	-1,291	-11,834	
Total expenses	-73,328	-32,245	-105,573	-67,811	-29,687	-97,498	
Profit before impairment losses	32,299	12,275	44,575	31,052	5,364	36,415	
Impairment losses on loans and other commitments	-4,580	-278	-4,857	-3,236	16	-3,221	
Net operating profit	27,719	11,998	39,717	27,815	5,379	33,195	
Income taxes	-5,745	-2,487	-8,232	-5,770	-1,116	-6,885	
Non-controlling interests	1	0	1	1	0	1	
Profit for the period attributable to shareholders in Bank of Åland Plc	21,975	9,511	31,486	22,046	4,263	26,310	
Business volume, December 31							
Lending to the public	2,818,884	1,559,029	4,377,912	2,751,887	1,358,142	4,110,029	
Deposits from the public	2,572,244	1,033,127	3,605,371	2,443,877	924,124	3,368,001	
Actively managed assets	3,961,021	3,475,166	7,436,187	3,638,064	2,704,583	6,342,648	
Risk exposure amount	1,037,299	633,551	1,670,850	1,033,877	549,229	1,583,106	
Allocated equity capital	232,870	59,486	292,357	200,583	57,759	258,343	
Financial ratios etc.							
Return on equity (ROE), %	10.2	16.6	11.6	11.4	7.9	10.7	
Expense/income ratio	0.69	0.72	0.70	0.69	0.85	0.73	

G7. Net interest income	2020			2019		
	Average balance	Interest	Average interest rate, %	Average balance	Interest	Average interest rate, %
Lending to credit institutions and central banks	599,227	-217	-0.04	519,875	-143	-0.03
Lending to the public	4,192,994	65,120	1.55	4,008,195	61,281	1.53
Debt securities	745,678	304	0.04	841,936	550	0.07
Interest-bearing assets	5,537,900	65,206	1.18	5,370,006	61,689	1.15
Derivative instruments	23,731	1,309		21,614	995	
Other assets	173,748	7		133,019	30	
Total assets	5,735,379	66,523		5,524,639	62,713	
<i>of which interest according to the effective interest method</i>		66,124			62,462	
Liabilities to credit institutions and central banks	394,405	-408	-0.10	200,718	-506	-0.25
Deposits from the public	3,424,885	2,305	0.07	3,235,900	3,439	0.11
Debt securities issued	1,446,689	2,749	0.19	1,661,438	3,276	0.20
Subordinated liabilities	36,065	1,148	3.18	41,331	1,259	3.05
Interest-bearing liabilities	5,302,044	5,794	0.11	5,139,387	7,469	0.15
Derivative instruments	13,898	1,740		10,987	1,196	
Other liabilities	146,873	99		128,765	135	
Total liabilities	5,462,815	7,633		5,279,139	8,800	
Total equity capital	272,564			245,500		
Total liabilities and equity capital	5,735,379			5,524,639		
<i>of which negative interest</i>		7,303			-8,750	
Net interest income		58,890			53,915	
Interest margin			1.07			1.00
Investment margin			1.03			0.98

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

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

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

G8. Net commission income	2020	2019
Deposits	782	854
Lending	2,243	2,581
Payment intermediation	10,666	10,210
Mutual fund commissions	45,957	40,712
Asset management commissions	12,319	11,293
Securities brokerage	16,052	12,831
Legal services	732	664
Guarantee commissions	417	192
Other commissions	2,123	2,310
Total commission income	91,290	81,647
Payment commission expenses	-3,808	-4,021
Mutual fund commission expenses	-17,389	-16,642
Asset management commission expenses	-1,048	-810
Securities brokerage commission expenses	-2,132	-1,628
Other commission expenses	-599	-569
Total commission expenses	-24,977	-23,670
Net commission income	66,313	57,977

G9. Net income from financial items carried at fair value						
	2020			2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total
Valuation category fair value via the income statement ("profit and loss")						
Derivative instruments	0	-15	-15	0	-11	-11
Valuation category fair value via the income statement ("profit and loss")	0	-15	-15	0	-11	-11
Hedge accounting						
of which hedging instruments	268	-428	-160	-477	3,468	2,991
of which hedged item	-425	334	-91	522	-3,413	-2,890
Hedge accounting	-157	-94	-251	46	55	101
Net income from foreign currency revaluation	0	-331	-331	0	162	162
Modification results and ECL	0	-40	-40	0	113	113
Net income from financial assets	2,472	0	2,472	3,528	0	3,641
Total	2,315	-479	1,836	3,574	319	3,894

G10. Other income				2020		2019	
Income from equity capital investments					0		1
Net income from investment properties					16		-43
Rental income on properties					50		65
Miscellaneous income					1,023		552
Total					1,090		575
Specification of net income from investment properties							
Rental income					40		14
Capital gains					18		0
Other expenses					-41		-56
Total					16		-43

G11. Staff costs				2020		2019	
Salaries and fees					48,935		44,219
Compensation in the form of shares in Bank of Åland Plc					546		259
Pension expenses					8,221		7,834
Other social security expenses					5,220		4,658
Total					62,921		56,970
of which variable staff costs					2,559		2,259
of which staff outplacement expenses					309		79

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

Salaries and fees							
Boards of Directors					339		357
Senior executives					2,824		2,733
Others					46,318		41,389
Total					49,481		44,479

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

Salaries and fees to senior executives							
Salaries and fees					2,463		2,499
Share-based payment					361		234
Total					2,824		2,733

Pension expenses							
Senior executives			75				71
Managing Director			375				405
Others			7,771				7,358
Total			8,221				7,834
Pension expenses							
Defined benefit plan			1,005				944
Defined contribution plan			7,216				6,890
Total			8,221				7,834
	Men	Women	Total	Men	Women	Total	
Number of employees							
Åland	262	233	495	247	222	469	
Finnish Mainland	104	106	210	83	103	186	
Sweden	101	67	168	98	63	161	
Total	467	406	873	428	388	816	
Hours worked, recalculated to full-time equivalent positions							
Bank of Åland Plc			452				434
Crosskey Banking Solutions Ab Ltd			268				238
Ab Compass Card Oy Ltd							2
Ålandsbanken Fondbolag Ab			31				26
Total number of positions, recalculated from hours worked			751				700
	Men	Women		Men	Women		
Gender breakdown, %							
Board of Directors	67	33		67	33		
Senior executives	82	18		82	18		

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

	2020				2019			
	Managing Director	Senior executives	Other risk-takers	Others	Managing Director	Senior executives	Other risk-takers	Others
Total compensation								
Fixed compensation earned	351	1,750	11,405	33,724	331	1,850	10,764	29,640
Provisions for pensions	75	375	2,029	5,742	71	405	2,072	5,224
Variable compensation earned	152	571	1,309	218	114	437	1,098	244
Total	578	2,696	14,743	39,684	517	2,692	13,933	35,171
<i>of which postponed variable compensation</i>	61	228	227	0	46	142	172	0
<i>of which variable compensation paid</i>	91	343	1,081	218	68	295	925	244
Number of persons who received only fixed compensation	0	3	88	757	0	5	89	734
Number of persons who received both fixed and variable compensation	1	7	69	43	1	7	59	44
Total	1	10	157	800	1	12	148	778
Postponed variable compensation, January 1	139	299	677	0	211	531	823	0
Variable compensation postponed during the year	61	228	227	0	46	142	172	0
Disbursed during the year	-24	-33	-171	0	-113	-362	-307	0
Adjusted during the year	0	-2	-211	0	-4	-13	-11	0
Postponed variable compensation, December 31	176	492	523	0	139	299	677	0
2015–2016 share savings programmes								
2015 programme								
Recognised expense related to payment in the form of shares in the Bank of Åland Plc				0				11
Recognised expense for social security fees related to share-based portion				0				2
2016 programme								
Recognised expense related to payment in the form of shares in the Bank of Åland Plc				12				156
Recognised expense for social security fees related to share-based portion				5				10
Total recognised expense				17				179

CONDITIONS AND COMPENSATION

General

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

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

Board of Directors

The fees of the Board members are established by the General Meeting. During the period from the 2020 Annual General Meeting to the end of the 2021 Annual General Meeting, the members of the Board receive an annual fee as well as a fee for each Board and Committee meeting attended. The Chairman of the Board receives an annual fee of EUR 30,000, and the Deputy Chairman receives an annual fee of EUR 28,000. Other Board members each receive an annual fee of EUR 26,000. In addition, Board members are paid a meeting fee for each Board meeting they attend. The meeting fee amounts to EUR 1,000 for the Chairman and EUR 750 for other members per meeting attended. Each member of a Board committee is paid EUR 750 per committee meeting attended. The chairman of each respective committee receives a meeting fee of EUR 1,000 per committee meeting attended. The members of the Bank's Board of Directors are not included in share-based compensation systems.

Managing Director

The Managing Director receives a monthly salary of EUR 28,000. He also receives free automobile benefits and is entitled to the employee benefits that are generally applicable at the Bank. During 2020, the Managing Director was paid compensation totalling EUR 450,188 including fringe benefits and variable compensation. Of the variable compensation paid in 2020, EUR 46,242 was paid in cash and EUR 40,726 in Bank shares, in compliance with external regulations.

The Managing Director's minimum retirement age is 65 and his maximum retirement age is 70. He will receive a pension in accordance with the Finnish national pension system. He is not entitled to a supplementary pension in addition to the statutory public pension. The notice period in case of resignation initiated by the Managing Director is nine (9) months. During this notice period, he will receive a regular monthly salary. According to his employment contract, the Managing Director is entitled to severance pay totalling nine (9) months' salary in case of dismissal by the Bank. Upon resignation, the Managing Director is not entitled to any other compensation.

Senior executives

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

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

Earnings-based compensation for risk-takers¹ is paid in its entirety when the compensation is set, if the actual compensation sum for a single individual amounts to a maximum of EUR 50,000. If the compensation exceeds EUR 50,000, disbursement of at least 40 per cent of earnings-based compensation shall be postponed by at least three years (vesting period). If the earnings-based compensation for an individual amounts to an especially large percentage of total fixed and earnings-based compensation, the disbursement of at least 60 per cent of the earnings-based compensation is postponed in a similar way. Since the Bank of Åland Plc is a listed company, at least 50 per cent of the earnings-based compensation is paid in the Bank's shares. Since Ålandsbanken Fondbolag Ab is a fund management company, at least 50 per cent of variable compensation to risk-takers must be paid in fund units. The allocated shares/fund units must be held for at least 12 months (deferral period) before the recipient of the compensation may have access to them. The disbursement may be further postponed in light of a comprehensive assessment based on the Group's economic cycle, the nature of its business operations and risks and the job duties and responsibilities of the individual. The Bank is entitled to abstain from disbursing postponed earnings-based compensation if the Group's financial position has substantially deteriorated.

Share savings programmes

Since 2015 the Bank of Åland has had two ongoing share savings programmes that encompass all Group employees. The programmes consist of share-based payment that is delayed by 3 years. The share-based payment is allocated in the form of performance rights (future shares in the Bank of Åland Plc) for those participants who still have their share savings in a specially designated custody account at the close of the share savings programme. The objective of the programme is to further strengthen employee motivation, participation and long-term affinity with the Group by offering all employees the opportunity to obtain shares in the Bank on favourable terms. The first share savings programme, which began in 2015, was closed down during 2019. In March 2020 the Bank of Åland issued new Series B shares to fulfil its obligations as part of the first share savings programme that began in 2016. In conjunction with this, the share savings programme was closed down.

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

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

G12. Other expenses	2020	2019
IT expenses (excluding market data)	13,165	9,853
Rents	659	447
Other costs of premises and property	1,516	1,410
Marketing expenses	2,346	2,763
Information services	2,435	2,395
Staff-related expenses	1,796	2,572
Travel expenses	368	1,211
Purchased services	2,638	2,049
Guarantee fee ¹	5	4
Stability fee	2,656	1,762
Other expenses	6,475	6,778
Production for own use	-3,711	-2,549
Total	30,348	28,694

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

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,268	1,132
Paid by old deposit guarantee fund	-1,268	-1,132
Stability fee	2,656	1,762
Administration fee	23	32
Total	2,679	1,794

Based on the 2020 fee level, the Bank has prepaid deposit guarantee fees for about 11 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	380	407
Consulting fees paid		
<i>In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2</i>	50	76
<i>Tax matters</i>	125	80
<i>Other</i>	141	76
Total	696	639

These amounts include value-added tax (VAT).

Fees paid to KPMG Oy Ab for expenses other than auditing totalled EUR 150 K (109).

G13. Expected credit (loan) losses

2020

	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Lending to the public	12,106	-7,669	-5,021	5,619	-605	4,430
Off-balance sheet obligations	439	-69	0	0	0	370
Debt securities	180	-123	0	0	0	58
Total expected loan losses	12,725	-7,861	-5,021	5,619	-605	4,857
Expected loss from financial assets recognised at fair value via other comprehensive income						
Debt securities	403	-313				90
Total expected loan losses via other comprehensive income	403	-313	0	0	0	90

2019

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

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

2020

2019

	Reserve for individually assessed Lending to the public	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed Lending to the public	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total
Change in impairment loss reserve								
Reserve on January 1	12,445	38	135	12,618	11,308	65	111	11,485
New and increased individual impairment losses	10,016	80	180	10,276	10,882	105	291	11,278
Net changes due to revisions in estimation method	2,091	358		2,449	-233	-23		-255
Recovered from earlier provisions	-7,669	-69	-123	-7,861	-7,540	-108	-267	-7,916
Utilised for actual losses	-5,021	0	0	-5,021	-1,982	-2	0	-1,983
Exchange rate differences	23	1		25	9	0		9
Reserve on December 31	11,884	409	193	12,486	12,445	38	135	12,618
Receivables with forbearance measures								
Lending to the public								
Receivables without past-due amounts and receivables with past-due amounts <=30 days				23,282				23,748
Receivables with past-due amounts >30 days				370				378
Defaulted receivables				3,072				1,061
Gross carrying amount				26,724				25,188

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

G14. Income taxes	2020	2019
Income statement		
Taxes related to prior years	331	-113
Current taxes	6,519	4,332
Changes in deferred taxes	1,381	2,666
Total	8,232	6,885
Nominal tax rate in Finland, %	20.0	20.0
Non-taxable income/deductible expenses, %	0.0	0.3
Swedish tax rate, %	0.6	0.4
Taxes related to prior years, %	0.2	-0.3
Other, %	0.0	0.4
Effective tax rate, %	20.7	20.7
Other comprehensive income		
Changes in deferred taxes	-294	259
Total	-294	259

The tax rate in Sweden is 21.4 per cent.

G15. Earnings per share	2020	2019
Profit for the period attributable to shareholders	31,486	26,310
Average number of shares before dilution	15,579,412	15,523,141
Average dilution effect		23,845
Average number of shares after dilution	15,579,412	15,546,986
Earnings per share, EUR	2,02	1,69
Earnings per share after dilution, EUR	2,02	1,69

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

Notes to the consolidated balance sheet

G16. Classification of financial assets and liabilities	2020						
	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost		
	Held for trading	Hedge accounting	Hedge accounting ¹	Other	Hedge accounting ¹	Other	Total carrying amount
Cash and deposits with central banks						665,072	665,072
Debt securities			166,869	324,057		286,757	777,683
Lending to credit institutions						51,038	51,038
Lending to the public					129,784	4,248,129	4,377,912
Shares and participations				12,882			12,882
Shares and participations in associated companies						1,449	1,449
Derivative instruments	7,856	16,764					24,620
Accrued interest income						9,507	9,507
Receivables on mutual fund settlement proceeds						25,859	25,859
Total financial assets	7,856	16,764	166,869	336,939	129,784	5,287,810	5,946,022
Non-financial assets							89,036
Total assets							6,035,058

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

2020								
	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost		Total carrying amount	Fair value
	Held for trading	Hedge accounting	Hedge accounting ¹	Other	Hedge accounting ¹	Other		
Liabilities to credit institutions						509,491	509,491	509,537
Deposits from the public						3,605,371	3,605,371	3,605,410
Debt securities issued					900,903	540,029	1,440,933	1,442,560
Derivative instruments	7,847	7,121					14,968	14,968
Subordinated liabilities						36,913	36,913	37,415
Accrued interest expenses						4,287	4,287	4,287
Liabilities on mutual fund settlement proceeds						18,636	18,636	18,636
Other liabilities						14,664	14,664	14,664
Total financial liabilities	7,847	7,121			900,903	4,729,391	5,645,262	5,647,477
Non-financial liabilities							97,428	
Total liabilities							5,742,690	

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

2019								
	Carried at fair value via income statement		Measurement via other comprehensive income		Measurement at amortised cost		Total carrying amount	Fair value
	Held for trading	Hedge accounting	Hedge accounting ¹	Other	Hedge accounting ¹	Other		
Cash and deposits with central banks						489,886	489,886	489,886
Debt securities			187,696	356,807		244,783	789,286	790,787
Lending to credit institutions						66,085	66,085	66,085
Lending to the public					101,680	4,008,349	4,110,029	4,130,215
Shares and participations				9,370			9,370	9,370
Shares and participations in associated companies						293	293	293
Derivative instruments	5,467	15,773					21,240	21,240
Accrued interest income						9,044	9,044	9,044
Receivables on mutual fund settlement proceeds						20,194	20,194	20,194
Total financial assets	5,467	15,773	187,696	366,176	101,680	4,838,635	5,515,428	5,537,115
Non-financial assets							92 072	
Total assets							5 607 500	
Liabilities to credit institutions						210,035	210,035	209,088
Deposits from the public						3,368,001	3,368,001	3,368,100
Debt securities issued					1,155,208	448,749	1,603,957	1,618,022
Derivative instruments	6,912	5,153					12,065	12,065
Subordinated liabilities						36,100	36,100	38,479
Accrued interest expenses						5,033	5,033	5,033
Liabilities on mutual fund settlement proceeds						13,041	13,041	13,041
Other liabilities						12,599	12,599	12,599
Total financial liabilities	6,912	5,153			1,155,208	4,093,559	5,260,831	5,276,427
Non-financial liabilities							88,313	
Total liabilities							5,349,145	

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

G17. Measurement of financial assets and liabilities carried at fair value					2020
	Level 1	Level 2	Level 3	Total	
Debt securities	477,918	13,008		490,926	
Lending to the public		129,784		129,784	
Shares and participations	857		12,026	12,882	
Derivative instruments		24,620		24,620	
Total financial liabilities carried at fair value	478,775	167,411	12,026	658,212	
Debt securities issued		900,903		900,903	
Derivative instruments		14,968		14,968	
Total financial liabilities carried at fair value	0	915,871	0	915,871	
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
<i>Cash and deposits with central banks</i>	665,072		665,072		665,072
<i>Debt securities</i>	286,757		289,294		289,294
<i>Lending to credit institutions</i>	51,038		51,038		51,038
<i>Shares in associated companies</i>	1,449			1,449	1,449
<i>Lending to the public</i>	4,248,129		4,297,930		4,297,930
Total financial assets at amortised cost	5,252,445	0	5,303,333	1,449	5,304,783
Liabilities					
<i>Liabilities to credit institutions</i>	509,491		509,537		509,537
<i>Deposits from the public</i>	3,605,371		3,605,410		3,605,410
<i>Debt securities issued</i>	1,440,933		541,657		541,657
<i>Subordinated liabilities</i>	36,913		37,415		37,415
Total financial liabilities at amortised cost	5,592,707	0	4,694,019	0	4,694,019
					2019
	Level 1	Level 2	Level 3	Total	
Debt securities	544,503			544,503	
Lending to the public		101,680		101,680	
Shares and participations	8	4	9,358	9,370	
Derivative instruments		21,240		21,240	
Total financial liabilities carried at fair value	544,510	122,924	9,358	676,793	
Debt securities issued		1,155,208		1,155,208	
Derivative instruments	0	12,065		12,065	
Total financial liabilities carried at fair value	0	1,167,273	0	1,167,273	
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets and liabilities recognised at amortised cost					
Assets					
<i>Cash and deposits with central banks</i>	489,886		489,886		489,886
<i>Debt securities eligible for refinancing with central banks</i>	244,783		246,284		246,284
<i>Lending to credit institutions</i>	66,085		66,085		66,085
<i>Shares in associated companies</i>	293			293	293
<i>Lending to the public</i>	4,008,349		4,028,535		4,028,535
Total financial assets at amortised cost	4,809,397	0	4,830,791	293	4,831,084
Liabilities					
<i>Liabilities to credit institutions</i>	210,035		209,088		209,088
<i>Deposits from the public</i>	3,368,001		3,368,100		3,368,100
<i>Debt securities issued</i>	1,603,957		462,814		462,814
<i>Subordinated liabilities</i>	36,100		38,479		38,479
Total financial liabilities at amortised cost	5,218,093	0	4,078,481	0	4,078,481
Level 1	Instruments with quoted market prices				
Level 2	Measurement techniques based on observable market data				
Level 3	Measurement techniques based on non-observable market data				

	2020	2019
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	9,358	2,538
New purchases	2,506	2,823
Divested/reached maturity during the year		-641
Realised change in value		151
Change in value recognised in other comprehensive income	161	4,488
Carrying amount on December 31	12,026	9,358

No transfer between Level 1 and 2 has occurred.

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

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

THE MEASUREMENT HIERARCHY

Financial instruments that are measured according to quoted prices in an active market for identical assets/liabilities are categorised as Level 1. Financial instruments that are measured using measure-

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

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

G18. Assets and liabilities by currency	2020				
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	593,681	71,066	120	205	665,072
Debt securities	399,139	338,561	39,984	0	777,683
Lending to credit institutions	29,750	6,032	2,252	13,004	51,038
Lending to the public	2,795,200	1,560,479	22,233	0	4,377,912
Derivative instruments	18,868	5,751	0	0	24,620
Other items not allocated by currency	138,733				138,733
Total assets	3,975,371	1,981,889	64,590	13,209	6,035,058
Liabilities to credit institutions	147,665	361,133	692	0	509,491
Deposits from the public	2,508,712	1,006,055	72,084	18,521	3,605,371
Debt securities issued	936,879	504,053	0	0	1,440,933
Derivative instruments	9,208	5,760	0	0	14,968
Subordinated liabilities	16,981	19,932	0	0	36,913
Other items not allocated by currency, including equity capital	427,383				427,383
Total liabilities and equity capital	4,046,828	1,896,933	72,776	18,521	6,035,058
Other assets and liabilities allocated by currency as well as off-balance sheet items		-1,917	-8,984	-5,787	
Net position in currencies (EUR)		86,873	798	475	88,145

The net position in Swedish kronor is mainly the structural position that arises because the consolidated accounts are prepared in euros and the Swedish branch's accounts are in Swedish kronor.

2019

	EUR	SEK	USD	Others	Total
Cash and cash equivalents	440,684	48,929	99	175	489,886
Debt securities	488,737	300,549	0	0	789,286
Lending to credit institutions	20,515	31,258	2,847	11,465	66,085
Lending to the public	2,723,728	1,359,551	26,749	0	4,110,029
Derivative instruments	17,693	3,547	0	0	21,240
Other items not allocated by currency	130,973				130,973
Total assets	3,822,330	1,743,835	29,695	11,640	5,607,500
Liabilities to credit institutions	176,326	29,346	1,672	2,691	210,035
Deposits from the public	2,327,265	938,392	82,957	19,388	3,368,001
Debt securities issued	1,278,342	325,615	0	0	1,603,957
Derivative instruments	7,049	3,810	1,206	0	12,065
Subordinated liabilities	16,955	19,145	0	0	36,100
Other items not allocated by currency, including equity capital	377,342				377,342
Total liabilities and equity capital	4,183,279	1,316,308	85,835	22,078	5,607,500
Other assets and liabilities allocated by currency as well as off-balance sheet items		361,959	-56,146	-10,591	
Net position in currencies (EUR)		65,569	5	152	65,726

G19. Holdings of debt securities

2020

2019

	Nominal amount	Carrying amount	Loss reserve	Nominal amount	Carrying amount	Loss reserve
Debt securities eligible for refinancing with central banks						
Holdings at fair value via other comprehensive income						
<i>Government bonds</i>	18,149	18,512	21	10,000	10,166	7
<i>Covered mortgage bonds</i>	286,874	294,716	77	325,236	333,076	68
<i>Debt securities issued by credit institutions</i>	120,118	121,625	139	150,245	151,527	82
<i>Other debt securities</i>	42,522	43,056	15	48,874	49,738	6
Holdings at amortised cost						
<i>Government bonds</i>	15,481	15,746	8	15,265	15,710	1
<i>Covered mortgage bonds</i>	170,974	174,428	63	164,847	168,040	44
<i>Debt securities issued by credit institutions</i>	32,493	32,460	100	37,201	37,317	87
<i>Other debt securities</i>	57,317	58,429	19	23,530	23,713	2
Total debt securities eligible for refinancing with central banks	743,929	758,976	442	775,196	789,286	298
The entire holding consists of publicly listed debt securities.						
Other debt securities						
Holdings at fair value via other comprehensive income						
<i>Municipal certificates</i>	13,000	13,008	1			
Holdings at accrued cost						
<i>Corporate bonds</i>	5,645	5,700	3			
Total other debt securities	18,645	18,707	4			
Total debt securities	762,574	777,683	447			

G20. Lending to credit institutions	2020				2019			
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Provision for expected loss	Total
Finnish credit institutions	1,266	0	0	1,266	1,535	0	0	1,535
Foreign banks and credit institutions	49,772	0	0	49,772	64,550	0	0	64,550
Total	51,038	0	0	51,038	66,085	0	0	66,085

G21. Lending to the public	2020			2019		
	Gross carrying amount	Provision for expected loss (IFRS 9)	Net carrying amount	Gross carrying amount	Provision for expected loss (IAS 39)	Net carrying amount
Companies	616,182	-3,170	613,013	569,893	-1,165	568,728
Public sector entities	1,425	-4	1,421	377	0	377
Households	2,029,695	-7,180	2,022,516	2,009,860	-7,161	2,002,699
Household interest organisations	12,917	-19	12,899	12,756	-1	12,754
Outside Finland	1,729,575	-1,510	1,728,064	1,529,588	-4,117	1,525,471
Total	4,389,795	-11,883	4,377,912	4,122,474	-12,445	4,110,029
<i>of which subordinated receivables</i>			262			920

G22. Shares and participations	2020		2019	
Listed		857		8
Unlisted		12,026		9,362
Total shares and participations		12,882		9,370

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

G23. Shares in associated companies	2020		2019	
Carrying amount on January 1		293		153
Share of profit for the year		89		79
Shareholder contributions		1,139		120
Dividends		-73		-58
Carrying amount on December 31		1,449		293

The following associated companies and joint ventures were consolidated according to the equity method of accounting on December 31, 2020:

	Registered office	Ownership, %
Mäklarhuset Åland Ab	Mariehamn	29 %
IISÅ Holdco AB	Stockholm	25 %
Borgo AB	Stockholm	100 %
Åland Index Solutions AB	Stockholm	50 %

Combined financial information about these associated companies:

Assets	13,972	1,333
Liabilities	6,303	214
Sales	1,644	1,380
Profit for the year	-234	271

G24. Derivative instruments				2020			2019		
	Nominal amount/maturity			Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
	Under 1 yr	1–5 yrs	over 5 yrs						
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	0	58,050	6,060	64,110	2,992	2,973	64,635	3,246	3,306
Currency-related contracts									
Currency forward contracts	419,898	0	0	419,898	5,751	5,760	716,125	3,554	5,028
Total	419,898	58,050	6,060	484,008	8,743	8,734	780,760	6,800	8,334
Derivatives for fair value hedges									
Interest-related contracts									
Interest rate swaps	262,393	823,041	32,730	1,118,164	15,877	6,234	1,355,731	14,440	3,731
Total	262,393	823,041	32,730	1,118,164	15,877	6,234	1,355,731	14,440	3,731
Total derivative instruments	682,291	881,091	38,790	1,602,172	24,620	14,968	2,136,491	21,240	12,065
of which cleared	262,393	878,091	35,760	1,176,244	16,764	9,176	1,414,074	15,773	6,927

Derivatives are recognised together with their associated accrued interest.

G25. Intangible assets		2020			
		Software developed in-house	Other software	Goodwill	Other intangible assets
Cost on January 1		26,923	22,094	2,932	7,478
Cost of intangible assets added		3,735	190	0	0
Divestments and disposals		0	–2	0	0
Exchange rate effect		106	112	0	0
Cost on December 31		30,764	22,395	2,932	7,478
Accumulated amortisation and impairment losses on January 1		–15,733	–17,361	–30	–988
Divestments and disposals		0	2	0	0
Amortisation for the year		–2,917	–1,090	0	–901
Impairment losses for the year		0	0	0	0
Exchange rate effect		–75	–87	0	0
Accumulated amortisation and impairment losses on December 31		–18,725	–18,537	–30	–1,889
Residual value on December 31		12,039	3,858	2,901	5,589

“Other intangible assets” include acquired contracts.

Impairment testing for cash-generating Model IT operations was carried out. A sensitivity analysis was performed, in which the variables included in the value in use model were changed and the effect was analysed. For the projected cash flow, important factors are growth, profit margin and investments. The discount factor is another

important parameter for valuation. The profit margin assumed in the model is also at the level of the final 2020 outcome. A negative 1 per cent change in growth, the profitability trend and the discount factor did not result in any impairment losses.

2019					
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total
Cost on January 1	24,705	20,071	30	6,334	51,141
Cost of intangible assets added	2,549	609	0	944	4,101
Increase through acquisitions of businesses ¹		1,602	2,901	200	4,703
Impairment losses for the year	-283	-50	0	0	-333
Divestments and disposals	0	-33	0	0	-33
Exchange rate effect	-48	-104	0	0	-152
Cost on December 31	26,923	22,094	2,932	7,478	59,427
Accumulated amortisation and impairment losses on January 1	-12,961	-16,402	-30	-165	-29,559
Divestments and disposals	0	32	0	0	32
Amortisation for the year	-2,784	-1,019	0	-822	-4,626
Increase through acquisitions of businesses ¹		-1			-1
Exchange rate effect	13	29	0	0	41
Accumulated amortisation and impairment losses on December 31	-15,733	-17,361	-30	-988	-34,112
Residual value on December 31	11,190	4,733	2,901	6,491	25,315

¹ Attributable to the acquisition of Model IT.

"Other intangible assets" include acquired contracts.

G26. Tangible assets	2020			2019		
Investment properties			313			326
Properties for own use			14 702			15 817
Other tangible assets			4 734			4 657
Right-of-use assets			13 425			11 526
Total			33 175			32 326
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	496	36,225	29,760	484	35,864	35,428
Adjustment for application of IFRS 16 ²	0	0	0	0	0	-7,110
Adjusted carrying amount on January 1	496	36,225	29,760	484	35,864	28,318
New acquisitions	0	127	1,689	12	370	2,176
Increase through acquisitions of businesses ¹			0			29
Impairment losses	0	0	0	0	0	0
Divestments and disposals	-13	-4	-261	0	-5	-608
Transfer between items	0	-5	5	0	0	0
Exchange rate effect	0	11	343	0	-4	-155
Cost on December 31	483	36,354	31,535	496	36,225	29,760
Accumulated depreciation	-169	-20,408	-25,102	-169	-19,163	-29,912
Adjustment for application of IFRS 16 ²			0			5,676
Adjusted accumulated depreciation on January 1	-169	-20,408	-25,102	-169	-19,163	-24,236
Depreciation for the year	0	-1,245	-1,590	0	-1,261	-1,436
Increase through acquisitions of businesses ¹			0			-2
Impairment losses for the year	0	0	0	0	0	0
Divestments and disposals	0	12	224	0	16	430
Exchange rate effects	0	-10	-333	0	0	143
Accumulated depreciation on December 31	-169	-21,652	-26,801	-169	-20,408	-25,102
Carrying amount	313	14,702	4,734	326	15,817	4,657
<i>of which buildings</i>	0	12,733		0	13,844	
<i>of which land and water</i>	0	1,825		0	1,825	
<i>of which shares in real estate companies</i>	313	144		326	148	

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

¹ Attributable to the acquisition of Model IT.

² Adjustment for application of IFRS 16 refers to finance leases which, in compliance with IAS 17, "Leases", were recognised as part of "Other tangible assets" in 2018. The assets, consisting of IT equipment, were presented in 2018 as part of "Other tangible assets" and were reported separately starting in 2019 together with newly acquired "right-of-use" assets in compliance with IFRS 16.

	2020		2019	
	Properties for own use	Other tangible assets	Properties for own use	Other tangible assets
Cost on January 1	13,757	7,586		
Adjustment for application of IFRS 16 ²				7,110
Cost on January 1, 2019			13,858	477
New acquisitions	5,518	485		
Divestments and disposals	-117	-218		
Exchange rate effects	555	2	-101	-1
Cost on December 31	19,713	7,856	13,757	7,586
Accumulated depreciation on January 1	-3,262	-6,556		
Adjustment for application of IFRS 16 ²				-5,676
Depreciation for the year	-3,664	-944	-3,245	-880
Divestments and disposals	117	218		
Exchange rate effects	-52	0	-17	0
Accumulated depreciation on December 31	-6,860	-7,282	-3,262	-6,556
Carrying amount	12,852	573	10,496	1,030

² "Adjustment for application of IFRS 16" refers to finance leases which, in compliance with IAS 17, "Leases", were recognised as part of "Other tangible assets" in 2018. The assets, which consisted of IT equipment, were presented in 2018 as part of "Other tangible assets" and were recognised separately starting in 2019 together with added right-of-use assets in compliance with IFRS 16.

The table concerning right-of-use assets provides information about the leases where the Group is the lessee. The Group recognises right-of-use for properties for the Group's own use, primarily consisting of bank and office premises, and for other tangible assets primarily consisting of IT equipment and vehicles. The average lease period is 4 years. In some cases, especially for IT equipment, the Group has options to buy the leased assets at the end of the lease period. Some of the leases related to bank and office premises include both options to extend the leases and index clauses.

A maturity analysis of lease liabilities is presented in Note G33.

	2020	2019
Amounts recognised in the income statement		
Depreciation of right-to-use assets	-4,546	-3,609
Interest expenses for lease liabilities	-555	-405
Expenses attributable to short-term leases	-554	-392
Expenses attributable to low-value leases	-101	-26
Income from subleasing right-of-use assets	90	79

Total cash flow related to leases during 2020 was EUR 4,945 K (4,425).

G27. Deferred tax assets and liabilities	2020	2019
Deferred tax assets		
Provisions	0	8
Intangible assets	2,310	2,762
Pension liabilities	2,445	1,750
Income received in advance	222	0
Other	444	408
Financial assets measured via other comprehensive income		
Debt securities	0	193
Total deferred tax assets	5,421	5,120
Deferred tax liabilities		
Taxable temporary differences		
Untaxed reserves	28,155	26,660
Intangible assets	1,491	1,661
Tangible assets	1,602	1,655
Financial assets measured via other comprehensive income		
Debt securities	12	
Shares and participations	970	927
Total deferred tax liabilities	32,231	30,903
Net deferred taxes	-26,809	-25,783

2020					
	31.12.2019	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2020
Changes in deferred taxes, 2020					
Provisions	8	-8			0
Intangible assets	1,101	-301		18	819
Pension liabilities	1,750	113	561	22	2,445
Income received in advance	0	222			222
Untaxed reserves	-26,660	-1,495			-28,155
Tangible assets	-1,622	86		2	-1,534
Debt securities measured via other comprehensive income	193		-205		-12
Shares and participations measured via other comprehensive income	-927		-43		-970
Other	374	2			376
Total	-25,783	-1,381	313	42	-26,809

2019						
	31.12.2018	Acquisitions of businesses	Recognised in income statement	Recognised in other comprehensive income	Exchange rate effects	Dec 31, 2019
Changes in deferred taxes, 2019						
Taxable losses	20		-20			0
Provisions	25		-17			8
Fair value hedging	289		-289			0
Intangible assets	1,693	-360	-201		-30	1,101
Pension liabilities	1,115		99	541	-6	1,750
Impairment losses	481		-479		-2	0
Untaxed reserves	-24,797		-1,864			-26,660
Tangible assets	-1,711		88		1	-1,622
Debt securities measured via other comprehensive income	68			126		193
Shares and participations measured via other comprehensive income	0			-927		-927
Other	358		16			374
Total	-22,459	-360	-2,666	-261	-37	-25,783

G28. Other assets	2020	2019
Payment intermediation receivables	1,477	1,381
Receivables on mutual fund settlement proceeds	25,859	26,145
Accounts receivable	5,946	5,156
Other	2,597	4,148
Total	35,878	36,831

G29. Accrued income and prepayments	2020	2019
Accrued interest income	9,507	9,044
Other accrued income	11,673	8,672
Other prepaid expenses	4,220	3,895
Total	25,400	21,611

G30. Liabilities to credit institutions	2020			2019		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		415,975	415,975		130,340	130,340
Finnish credit institutions	7,802	2,350	10,152	2,342	4,950	7,292
Foreign credit institutions	50,406	32,958	83,364	38,043	34,360	72,403
Total	58,208	451,283	509,491	40,385	169,650	210,035

G31. Deposits from the public	2020	2019
Companies	1,034,817	929,877
Public sector entities	44,927	48,270
Households	1,309,410	1,249,222
Household interest organisations	61,244	46,857
Outside Finland	1,154,973	1,093,775
Total	3,605,371	3,368,001

G32. Debt securities issued	2020		2019	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Certificates of deposit	280,163	280,056	108,194	108,194
<i>of which at amortised cost</i>	280,163	280,056	108,194	108,194
Covered bonds	899,111	910,225	1,136,308	1,144,959
<i>of which at amortised cost</i>	259,111	259,974	239,308	240,566
<i>of which for fair value hedge</i>	640,000	650,251	897,000	907,393
Unsecured bonds	250,000	250,652	350,000	350,803
<i>of which at amortised cost</i>	0	0	100,000	99,989
<i>of which for fair value hedge</i>	250,000	250,652	250,000	250,815
Total	1,429,274	1,440,933	1,594,501	1,603,957

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

G33. Other liabilities	2020	2019
Payment intermediation liabilities	13,870	9,159
Liabilities on mutual fund settlement proceeds	18,636	13,041
Trade payables	1,836	3,026
Lease liabilities	13,843	11,779
Other	9,187	12,673
Total	57,372	49,678
Lease liabilities		
Short-term	3,677	3,550
Long-term	10,166	8,229
Total	13,843	11,779

G34. Provisions	2020				2019			
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total
Provisions on December 31 of the previous year	0	38	0	38	36	65	89	191
Provisions made during the year		439	165	603	24	82	60	167
Amounts utilised		0	-165	-165	-59	-2	-91	-151
Unutilised amounts recovered		-69		-69	-1	-108	-56	-165
Exchange rate changes		1	0	1	-1		-3	-4
Provisions on December 31	0	409	0	409	0	38	0	38

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

Since 2017 the Bank of Åland has had an ongoing dispute with the Swedish Tax Agency regarding value-added tax (VAT) for the financial year 2016. The Agency announced a decision in the matter in which it believes that the Bank should pay about EUR 0.5 M in additional VAT. The Bank of Åland does not share the Agency's view and has appealed the decision to the Administrative Court. No provision for any expense has been made in the accounts.

G35. Accrued expenses and prepaid income	2020	2019
Accrued interest expenses	4,287	5,033
Other accrued expenses	21,953	19,563
Pension liabilities	12,264	8,785
Prepaid income	1,369	1,741
Total	39,872	35,122

G36. Subordinated liabilities	2020			2019		
	Nominal amount	Carrying amount	Amount in own funds	Nominal amount	Carrying amount	Amount in own funds
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,932	19,871	19,932	19,145	19,058	19,145
Total	36,974	36,913	36,974	36,187	36,100	36,187

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

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

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

G37. Specification of changes in equity capital	2020	2019
Change in equity capital		
Equity capital on January 1	42,029	41,974
Share-based payment, incentive programme		55
Equity capital on December 31	42,029	42,029
Change in fair value reserve		
Fair value reserve on January 1	3,066	-124
Divested or reached maturity during the year	137	30
Unrealised change in market value for remaining and new holdings	926	3,161
Fair value reserve on December 31	4,129	3,066
Change in translation differences		
Translation differences on January 1	-1,347	-403
Change in translation differences attributable to branches	3,644	-1,020
Change in translation differences due to subsidiaries	-48	94
Other changes	-116	-17
Translation differences on December 31	2,133	-1,346
Change in paid-up unrestricted equity capital fund		
Paid-up unrestricted equity capital fund on January 1	27,398	27,075
Share-based payment, incentive programme	213	323
Paid-up unrestricted equity fund on December 31	27,611	27,398
Retained earnings		
Retained earnings on January 1	129,330	115,984
Shareholders' portion of profit for the accounting period	31,486	26,310
Dividend paid	0	-10,868
Re-measurement of defined benefit pension plans	-2,241	-2,154
Share savings programmes	12	166
Other	0	-108
Retained earnings on December 31	158,589	129,330

Items under "Equity capital"

"Share premium account" includes amounts that were paid at the time of new share issues for shares in addition to their nominal value before September 1, 2006.

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

"Translation differences" comprises all exchange rate differences that arise when translating financial reports from foreign operations that have drawn up their financial reports in a currency other than the currency in which the Group's financial reports are presented.

"Unrestricted equity capital fund" comprises amounts that were paid at the time of new share issues for shares in addition to their nominal value starting on September 1, 2006.

Changes in number of shares	2020		2019	
	Series A shares	Series B shares	Series A shares	Series B shares
Number of shares on January 1	6,476,138	9,075,360	6,476,138	8,995,547
Shares issued, share savings programme		23,591		52,446
Shares issued, incentive programme		10,965		27,367
Number of shares on December 31	6,476,138	9,109,916	6,476,138	9,075,360

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

Other notes

G38. Group structure

The Bank of Åland has two subsidiaries whose operations are connected in various ways to banking. The Bank holds a majority of the voting power in all subsidiaries.

Subsidiary	Registered office	Field of operations	Ownership, %
Ålandsbanken Fondbolag Ab	Finland/Mariehamn	Mutual fund management	100
Ålandsbanken Fonder Ab	Finland/Helsingfors	Mutual fund management	100
Ålandsbanken Fonder II Ab	Finland/Helsingfors	Mutual fund management	100
Ålandsbanken Fonder III Ab	Finland/Helsingfors	Mutual fund management	100
Crosskey Banking Solutions Ab Ltd	Finland/Mariehamn	Information technology	100
Model IT Oy	Finland/Helsingfors	Information technology	100
S-Crosskey Ab	Finland/Mariehamn	Information technology	60
Kiinteistö Oy Espoon Koivurinne	Finland/Espoo	Property management	100

The Bank of Åland has no holdings of structured entities. Ålandsbanken Fondbolag Ab manages mutual funds and alternate investment funds with a total value of EUR 3.4 billion.

Changes in Group structure

During 2020 Crosskey Banking Solutions Ab Ltd's wholly owned subsidiaries Promodus Oy and Puiretti Oy merged.

The associated company IISP Holdco AB expanded its ownership in Borgo AB to 100 per cent during the year.

Shares in associated companies and joint ventures	Registered office	Field of operations	Ownership, %
Mäklarhuset Åland Ab	Finland/Mariehamn	Estate agents	29
IISÅ Holdco AB	Sweden/Stockholm	Holding company	25
Borgo AB	Sweden/Stockholm	Home mortgage lending	100
Åland Index Solutions AB	Sweden/Stockholm	Intangible service	50

Holdings in real estate companies

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

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

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

G39. Actively managed assets	2020	2019
Mutual fund management	3,439,096	3,057,045
Discretionary asset management	2,013,950	1,827,925
Advisory asset management	1,983,141	1,457,677
Total	7,436,187	6,342,648
<i>of which own funds in discretionary and advisory asset management</i>	614,663	508,168

G40. Assets pledged	2020	2019
Collateral pledged for own liabilities		
Lending to credit institutions	13,689	10,242
Government securities and bonds	279,199	140,862
Lending to the public	1,547,808	1,583,625
Other	3,510	2,795
Total assets pledged for own liabilities	1,844,206	1,737,524

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. "Lending to the public" that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. "Other assets pledged for own liabilities" refers mainly to endowment insurance.

Other assets pledged		
Government securities and bonds	19,446	33,977
Other	711	25,363
Total other assets pledged	20,157	59,340

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

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

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

G41. Off-balance sheet obligations	2020	2019
Guarantees	41,776	8,562
Unutilised overdraft limits	276,396	240,983
Unutilised credit card limits	85,559	79,274
Unutilised credit facilities	315,059	92,425
Other commitments	31,967	22,546
Total	750,757	443,789
<i>Provision for expected loss</i>	409	39

K42. Pension liabilities

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

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

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

The duration of defined benefit plans in Finland is 17 years and in Sweden 24 years.

	2020	2019
Carrying amount in the income statement		
Current service costs	337	292
Effects of curtailments and settlements	0	0
Interest expenses	97	123
Administrative expenses	196	136
Expenses (+)/revenue (–) recognised in the income statement	630	551
Restatement of defined benefit pension plans in “Other comprehensive income”		
Actuarial gain (+)/loss (–), demographic assumptions	0	29
Actuarial gain (+)/loss (–), financial assumptions	–2,199	–4,604
Actuarial gain (+)/loss (–), experience-based	–1,350	621
Actuarial gain (+)/loss (–) on plan assets	748	1,261
Other comprehensive income	–2,801	–2,692
Total	–3,431	–3,244
Carrying amount in the balance sheet		
Pension obligations	34,995	31,396
Fair value of plan assets	22,731	22,611
Net pension assets (+)/pension liabilities (–)	–12,264	–8,785
Net pension assets (+)/pension liabilities (–) in Finland	–9,399	–6,195
Net pension assets (+)/pension liabilities (–) in Sweden	–2,865	–2,590
	–12,264	–8,785

	2020	2019
Net change in pension assets		
January 1	–8,785	–5,614
Income	–630	–551
Other comprehensive income	–2,801	–2,692
Premium payments	66	56
Exchange rate effects	–114	16
On December 31	–12,264	–8,785
Pension obligations		
January 1	31,499	27,421
Current service costs	337	292
Interest expenses	304	564
Benefits paid	–836	–768
Exchange rate effect	142	37
Actuarial gains (+)/losses (–)	3,549	3,953
Pension obligations on December 31	34,995	31,499
Plan assets		
January 1	22,611	21,808
Interest income	207	441
Premium payments	66	56
Benefits paid	–836	–768
Actuarial gains (+)/losses (–)	748	1,261
Exchange rate effects	131	–52
Administrative expenses	–196	–136
Plan assets on December 31	22,731	22,611
Breakdown of plan assets		
Listed shares and participations	6,332	6,777
Listed mutual fund units	4,283	4,384
Listed interest-bearing securities	7,681	7,787
Properties	2,301	2,267
Other plan assets	2,275	1,395
Total plan assets	22,872	22,610

Plan assets included shares in the Bank of Åland Plc with a market value of EUR 27 K (22), bonds worth EUR 613 K (614) and bank accounts worth EUR 1,041 K (438).

	Outcome, 2020	Forecast, 2021
Future cash flows		
Benefits paid	66	58

	2020		2019	
	Finland, %	Sweden, %	Finland, %	Sweden, %
Assumptions				
Discount rate	0.40	1.25	0.80	1.80
Increase in salary expenses	1.20	3.00	1.30	3.00
Pension index increase	1.50	1.80	1.60	2.00

Sensitivity of defined benefit obligations to changes in significant assumptions

	Change in assumptions, %	Increase in assumption	Decrease in assumption
Sensitivity analysis, net present value of pension obligation: increase (+)/decrease (-)			
Discount rate	0.5	-3,026	3,486
Expected increase in salaries	0.5	250	-266
Expected increase in pensions	0.5	3,009	-2,659

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

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

ASSET VOLATILITY

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

CHANGES IN BOND YIELDS

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

INFLATION RISK

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

LIFE EXPECTANCY

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

G43. Lease liabilities	2020			2019		
Financial lease liabilities will be paid as follows:	Minimum rents	Interest	Present value	Minimum rents	Interest	Present value
Under 1 year	4,122	444	3,677	3,881	331	3,550
1-5 years	10,641	993	9,648	7,794	562	7,233
Over 5 years	530	12	518	1,035	40	996
Total	15,293	1,450	13,843	12,711	932	11,779

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

G44. Disclosures about related parties		2020			2019		
		Board and Executive Team	Related companies	Associated companies	Board and Executive Team	Related companies	Associated companies
Assets							
Lending to the public		4,142	11,294	1,392	4,092	6,601	293
Other assets			1			2	
Accrued income and prepayments			63			64	
Total		4,142	11,358	1,392	4,092	6,666	293
Liabilities							
Deposits from the public		3,200	4,755	1,226	2,098	2,342	589
Subordinated liabilities			600			600	
Accrued expenses and prepaid income			11			11	
Total		3,200	5,366	1,226	2,098	2,953	589
Income and expenses							
Interest income		36	188	9	36	113	8
Interest expenses		-1	-23		-1	-34	
Commission income		7	169	2	4	74	2
Other income			10			19	
Other expenses			0			1	
Total		42	344	11	39	193	10

The Bank of Åland Group consists of the parent company, the Bank of Åland Plc (Ålandsbanken Abp), the subsidiaries that are consolidated in the Group, associated companies, the Executive Team and other related companies. "Board and Executive Team" includes the Managing Director, individuals on the Board of Directors and other members of the Executive Team, as well as their close family members. "Related parties" includes companies or persons with significant influence. "Related companies" also refers to companies in which an individual belonging to the Executive Team or a close family member of such an individual has significant influence. "Related parties" include the pension fund Ålandsbanken Abp:s Pensionsstiftelse r.s.

Loans to employees are granted on commercial terms. "On commercial terms" means that loans, guarantees, collateral or financing occur on the same terms and according to the same assessments applied to the Bank of Åland's customers in general. The employee interest rate is used for loans to employees in Finnish operations. The employee interest rate is set by the Executive Team and amounted to 0.25 (0.25) per cent on December 31, 2020.

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

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

For disclosures on Group structure, see Note P39.

Compensation to senior executives		2020		2019	
Salaries and other short-term compensation ¹			1,837		1,961
Share-based compensation			172		344
Total			2,009		2,295

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

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

G45. Offsetting of financial assets and liabilities		2020		2019	
		Assets	Liabilities	Assets	Liabilities
Financial assets and liabilities that are subject to offsetting, netting agreements or similar agreements					
Gross amount		24,620	55,961	21,240	51,215
Offset amounts					
Total		24,620	55,961	21,240	51,215
Related amounts not offset					
Financial instruments, netting agreements		-9,374	-9,374	-7,790	-7,790
Financial instruments, collateral			-40,348		-13,850
Cash, collateral		-4,570	-170	-1,980	-25,907
Total amounts not offset		-13,944	-49,892	-9,770	-47,547
Net amount		10,676	6,069	11,470	3,668

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

G46. Important events after the close of the accounting period

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.

In January the Standard & Poor's Global Ratings agency changed the outlook for the Bank of Åland's credit rating from negative to posi-

tive. The outlook was upgraded based on the ratings agency's revision in its future economic outlook for the country of Finland and because the agency expects that the Bank of Åland's risk-adjusted capitalisation (RAC) will improve significantly over the next two years.

Parent Company income statement

(EUR K)

Parent Company		Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
	Note		
Interest income		68,086	63,562
Interest expenses		–8,619	–10,013
Net interest income	P2	59,468	53,549
Commission income		45,909	39,585
Commission expenses		–7,930	–6,404
Net commission income	P3	37,979	33,181
Net income from financial items carried at fair value	P4	1,948	3,875
Income from equity capital investments	P5	6,423	4,759
Other income	P6	14,870	14,435
Total income		120,688	109,800
Staff costs	P7	–38,389	–35,302
Other expenses	P8	–40,097	–36,478
Depreciation/amortisation and impairment losses on tangible and intangible assets	P18, P19	–8,228	–9,545
Total expenses		–86,714	–81,326
Profit before loan losses		33,974	28,474
Expected loan losses from financial assets recognised at amortised cost	P9	–4,802	–2,953
Expected loan losses from other financial assets and impairment losses	P9	–58	–24
Net operating profit		29,114	25,497
Appropriations		–7,400	–9,463
Income taxes	P10	–3,520	–2,701
Net profit for the accounting period		18,194	13,333

Parent Company balance sheet

(EUR K)

Parent Company		Dec 31, 2020	Dec 31, 2019
	Note		
Assets			
Cash and deposits with central banks		665,072	489,886
Debt securities eligible for refinancing with central banks	P13	758,976	789,286
Lending to credit institutions	P14	49,693	65,179
Lending to the public	P15	4,377,905	4,110,029
Debt securities	P13	18,707	
Shares and participations	P16	12,882	9,370
Shares and participations in associated companies	P16	1,280	140
Shares and participations in Group companies	P16	3,458	3,346
Derivative instruments	P17	24,620	21,240
Intangible assets	P18	20,022	25,008
Tangible assets	P19	13,817	14,652
Other assets	P20	31,010	32,551
Accrued income and prepayments	P21	21,555	25,317
Deferred tax assets	P22	369	351
Total assets		5,999,366	5,586,355
Liabilities			
Liabilities to credit institutions	P23	509,421	209,962
Deposits from the public	P24	3,618,264	3,381,772
Debt securities issued	P25	1,440,933	1,603,957
Derivative instruments	P17	14,968	12,065
Other liabilities	P26	41,726	36,811
Provisions	P27	410	39
Accrued expenses and prepaid income	P28	23,643	23,069
Subordinated liabilities	P29	36,913	36,100
Deferred tax liabilities	P22	982	927
Total liabilities		5,687,258	5,304,703
Appropriations			
General loan loss reserve ¹		140,401	133,001
Total appropriations		140,401	133,001
Equity capital			
Share capital		42,029	42,029
Share premium account		32,736	32,736
Reserve fund		25,129	25,129
Fair value reserve		4,129	3,066
Translation differences		1,285	-2,302
Unrestricted equity capital fund		27,807	27,595
Retained earnings		38,592	20,398
Total equity capital		171,707	148,651
Total liabilities and equity capital		5,999,366	5,586,355
Off-balance sheet obligations			
Obligations to a third party on behalf of customers	P37		
Guarantees		44,032	10,555
Irrevocable commitments given on behalf of customers		683,637	419,108

¹ Loan loss provisions in compliance with Finland's Business Income Tax Act, Section 46.

Parent Company statement of changes in equity capital

(EUR K)

Parent Company								
	Share capital	Share premium account	Reserve fund	Fair value reserve	Translation difference	Unrestricted equity capital fund	Retained earnings	Total
Dec 31, 2018	41,974	32,736	25,129	-124	-1,342	27,271	18,040	143,684
Profit for the year							13,333	13,333
Change in fair value				3,190			-124	3,066
Translation difference					-960			-960
Dividend paid							-10,868	-10,868
Incentive programme	55					323	16	394
Dec 31, 2019	42,029	32,736	25,129	3,066	-2,302	27,595	20,398	148,651
Profit for the year							18,194	18,194
Change in fair value				1,063				1,063
Translation difference					3,587			3,587
Incentive programme						213		213
Dec 31, 2020	42,029	32,736	25,129	4,129	1,285	27,807	38,592	171,707

For further data, see Note P40 and the section entitled "Facts on Bank of Åland shares".

Parent Company cash flow statement

(EUR K)

Parent Company	Jan 1–Dec 31, 2020	Jan 1–Dec 31, 2019
Cash flow from operating activities		
Net operating profit	29,114	25,497
Adjustment for net operating profit items not affecting cash flow		
<i>Depreciation/amortisation and impairment losses on intangible and tangible assets</i>	8,228	9,545
<i>Impairment losses on loans and other commitments</i>	5,464	3,529
<i>Unrealised changes in value</i>	387	-45
<i>Accrued surpluses/deficits on debt securities and bonds issued</i>	5,829	6,599
Income from investing activities	-19	-71
Dividends from associated companies and subsidiaries	-6,423	-4,758
Income taxes paid	-2,624	27
Increase (-) or decrease (+) in receivables from operating activities		
<i>Debt securities eligible for refinancing with central banks</i>	8,438	20,135
<i>Lending to credit institutions</i>	21,788	-15,789
<i>Lending to the public</i>	-216,521	-113,656
<i>Other assets</i>	8,851	14,665
Increase (+) or decrease (-) in liabilities from operating activities		
<i>Liabilities to credit institutions</i>	280,250	-33,127
<i>Deposits from the public</i>	198,501	77,699
<i>Debt securities issued</i>	162,687	-33,895
<i>Other liabilities</i>	17,319	-9,044
Total cash flow from operating activities	521,271	-52,689
Cash flow from investing activities		
Investment in shares and participations	-3,298	-2,151
Divestment of shares and participations	0	29
Investment in shares of associated companies and subsidiaries	-1,251	-120
Dividends received from associated companies and subsidiaries	6,423	4,758
Investment in tangible assets	-315	-797
Divestment of tangible assets	19	152
Investment in intangible assets	-1,854	-4,189
Total cash flow from investing activities	-276	-2,318
Cash flow from financing activities		
Share issue	213	378
Decrease in unsecured bonds issued	-100,000	0
Increase in covered bonds issued	9,348	297,989
Decrease in covered bonds issued	-257,000	-267,708
Decrease in subordinated debentures	0	-10,460
Dividend paid	0	-10,868
Total cash flow from financial activities	-347,440	9,332
Cash and cash equivalents at beginning of year	494,821	542,863
Cash flow from operating activities	521,271	-52,689
Cash flow from investing activities	-276	-2,318
Cash flow from financing activities	-347,440	9,332
Exchange rate differences in cash and cash equivalents	2,536	-2,368
Cash and cash equivalents at end of year	670,911	494,821
Cash and cash equivalents consisted of the following items:		
Cash and deposits with central banks	635,551	465,185
Lending to credit institutions that is repayable on demand	35,360	29,635
Total	670,911	494,821

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

"Operating activities" included interest received of EUR 68,341 K (63,960), interest paid of EUR 9,679 K (11,580) and dividend income received of EUR 0 K (1).

Table of contents, notes to the Parent Company financial statements

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

P1. Parent Company accounting principles.....	102
P2. Net interest income.....	103
P3. Net commission income.....	103
P4. Net income from financial items carried at fair value.....	104
P5. Income from equity instruments	104
P6. Other income	104
P7. Staff costs.....	104
P8. Other expenses	105
P9. Expected credit (loan) losses.....	105
P10. Income taxes.....	106

NOTES TO THE BALANCE SHEET

P12. Assets and liabilities by currency.....	108
P13. Holdings of debt securities.....	109
P14. Lending to credit institutions	109
P15. Lending to the public	109
P16. Shares and participations.....	109
P17. Derivative instruments	110
P18. Intangible assets	110
P19. Tangible assets.....	111
P20. Other assets	111
P21. Accrued income and prepayments.....	111
P22. Deferred tax assets and liabilities.....	112
P23. Liabilities to credit institutions.....	112
P24. Deposits from the public.....	113
P25. Debt securities issued.....	113
P26. Other liabilities	113
P27. Provisions.....	113
P28. Accrued expenses and prepaid income	113
P29. Subordinated debentures	114
P30. Maturity breakdown of assets and liabilities.....	115
P31. Claims on Group companies	117
P32. Liabilities to Group companies	117

NOTES CONCERNING STAFF, BOARD OF DIRECTORS AND EXECUTIVE TEAM

P33. Salaries/fees paid to the Board of Directors and Executive Team.....	117
P34. Private shareholdings of the Board of Directors and the Executive Team in Bank of Åland Plc	117
P35. Financial transactions with related parties.....	117

NOTES CONCERNING ASSETS PLEDGED AND CONTINGENT LIABILITIES

P36. Assets pledged	117
P37. Off-balance sheet obligations	118
P38. Rental obligations	118

OTHER NOTES

P39. Subsidiaries and associated companies	118
P40. Distributable profit	118

Notes to the Parent Company financial statements

(EUR K)

P1. Parent Company accounting principles

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

Goodwill

Goodwill is amortised over 10 years.

Appropriations

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

Otherwise, please see the consolidated accounting principles.

Notes to the income statement

P2. Net interest income	2020	2019
Lending to credit institutions	810	1,180
Lending to the public	65,575	60,757
Debt securities	385	601
Derivative instruments	1,309	995
Other interest income	7	30
Total interest income	68,086	63,562
<i>of which interest according to the effective interest method¹</i>	67,687	63,309
Liabilities to credit institutions	621	817
Deposits from the public	2,756	3,724
Debt securities	2,331	3,000
Subordinated liabilities	1,148	1,259
Derivative instruments	1,740	1,196
Other interest expenses	23	17
Total interest expenses	8,619	10,013
<i>of which interest according to the effective interest method¹</i>	8,364	
Net interest income	59,468	53,549

Interest income received from Group companies was EUR 72 K (167).

Interest expenses paid to Group companies was EUR 0 K (0).

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

¹ Negative interest income from investments is recognised as interest expenses, while negative interest received for liabilities is recognised as interest income.

P3. Net commission income	2020	2019
Deposits	782	854
Lending	2,244	2,583
Payment intermediation	10,633	8,445
Mutual fund commissions	551	359
Asset management commissions	12,319	11,293
Securities brokerage	16,052	12,831
Legal services	732	664
Guarantee commissions	473	241
Other commissions	2,123	2,314
Total commission income	45,909	39,585
Payment intermediation commission expenses	-4,119	-3,399
Asset management commission expenses	-1,048	-810
Securities brokerage commission expenses	-2,132	-1,628
Other commission expenses	-630	-566
Total commission expenses	-7,930	-6,404
Net commission income	37,979	33,181

P4. Net income from financial items carried at fair value			2020			2019		
	Realised	Unrealised	Total	Realised	Unrealised	Total		
Valuation category fair value via the income statement ("profit and loss")								
Derivative instruments	0	-15	-15	0	-11	-11		
Valuation category fair value via the income statement ("profit and loss")	0	-15	-15	0	-11	-11		
Hedge accounting								
of which hedging instruments	268	-428	-160	-477	3,468	2,991		
of which hedged item	-425	334	-91	522	-3,413	-2,890		
Hedge accounting	-157	-94	-251	46	55	101		
Net income from foreign currency revaluation	0	-219	-219	0	143	143		
Modification results and ECL	0	-40	-40	0	113	113		
Net income from financial assets	2,472	0	2,472	3,528	0	3,641		
Total	2,315	-367	1,948	3,574	300	3,875		

P5. Income from equity instruments			2020			2019		
Holdings recognised at fair value via other comprehensive income			0			1		
Associated companies			73			58		
Group companies, dividend paid			6,350			4,700		
Total			6,423			4,759		

P6. Other income			2020			2019		
Rental income on properties			87			65		
Intra-Group services			10,770			10,800		
Income from acquired contracts			1,500			1,500		
Platform service			1,453			144		
Merger gain			0			1,186		
Miscellaneous income			1,060			741		
Total			14,870			14,435		
Net income from investment properties								
Rental income			40			14		
Capital gains			18			0		
Other expenses			-41			-56		
Total			16			-43		

P7. Staff costs			2019			2018		
Salaries and fees			29,408			27,152		
Compensation in the form of shares in Bank of Åland Plc			508			214		
Pension expenses			6,181			4,670		
Other social security expenses			3,574			3,266		
Total			38,389			35,302		
Number of employees								
Permanent full-time employees			462			433		
Permanent part-time employees			16			17		
Temporary employees			55			64		
Total			533			514		

P8. Other expenses	2020	2019
IT expenses (excluding market data)	17,486	14,881
Rents	3,223	2,788
Other costs of premises and property	1,273	1,154
Marketing expenses	2,150	2,471
Market data	1,724	1,726
Staff-related expenses	1,159	1,657
Travel expenses	187	698
Purchased services	2,751	1,974
Guarantee fee ¹	5	4
Stability fee	2,656	1,762
Other expenses	7,485	7,363
Total	40,097	36,478

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

Fees to the Financial Stability Authority		
Deposit guarantee fee	1,268	1,132
Paid by old deposit guarantee fund	-1,268	-1,132
Stability fee	2,656	1,762
Administration fee	23	32
Total	2,679	1,794

Based on the 2020 fee level, the Bank has prepaid deposit guarantee fees for about 11 years.

	Auditors elected by General Meeting	Auditors elected by General Meeting
Fees paid to auditors		
Auditing fees paid	246	322
Consulting fees paid		
<i>In compliance with Finnish Auditing Act, Ch. 1, Sec. 1, Par. 2</i>	49	76
<i>Tax matters</i>	118	50
<i>Other</i>	99	43
Total	511	492

These amounts include value-added tax (VAT).

Fees paid to KPMG OY Ab for expenses other than auditing totalled EUR 102 K (47).

P9. Expected credit (loan) losses	2020					
	New and increased individual impairment losses	Recovered from earlier provisions	Utilised for actual losses	Actual losses	Recovery of actual losses	Total
Expected losses from financial assets recognised at amortised cost and from off-balance sheet obligations						
Lending to the public	12,108	-7,670	-5,021	5,619	-605	4,432
Off-balance sheet obligations	446	-75	0	0	0	370
Debt securities	180	-123	0	0	0	58
Total expected loan losses	12,734	-7,868	-5,021	5,619	-605	4,860
Expected losses from financial assets recognised at fair value via other comprehensive income						
Debt securities	403	-313				90
Total	403	-313	0	0	0	90

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

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

	2020				2019			
	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total	Reserve for individually assessed receivables from the public sector and public sector entities	Provision for expected losses on off-balance sheet obligations	Reserve for expected losses on debt securities recognised at amortised cost	Total
Change in impairment loss reserve								
Reserve on January 1	12,444	39	135	12,618	9,793	70	111	9,974
Merger effect, Compass Card					1,232	5	0	1,237
New and increased individual impairment losses	10,018	88	180	10,286	9,859	108	291	10,257
Net changes due to revisions in estimation method	2,091	358		2,449	-233	-23		-255
Recovered from earlier provisions	-7,670	-75	-123	-7,868	-6,321	-119	-267	-6,707
Utilised for actual losses	-5,021	0	0	-5,021	-1,895	-2	0	-1,896
Exchange rate differences	22	1		23	9	0		9
Reserve on December 31	11,884	410	193	12,486	12,444	39	135	12,618

P10. Income taxes	2020	2019
Income statement		
Taxes related to prior years	296	-113
Current taxes	3,435	2,066
Changes in deferred taxes	-211	747
Total	3,520	2,701
Nominal tax rate in Finland, %	20,0	20,0
Non-taxable income/deductible expenses, %	-4,8	-3,9
Swedish tax rate 22%	1,0	0,8
Taxes related to prior years, %	-0,2	-0,7
Other, %	0,1	0,6
Effective tax rate, %	16,2	16,8

Deferred tax assets and liabilities were calculated according to a 20.0 per cent tax rate, which went into effect on January 1, 2014.

The tax rate in Sweden is 21.4 per cent.

Notes to the balance sheet

P11. Fair values and carrying amounts of financial assets, liabilities and fair value levels	2020		2019	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash and accounts with central banks	665,072	665,072	489,886	489,886
Debt securities eligible for refinancing with central banks	758,976	761,468	789,286	790,787
Lending to credit institutions	49,693	49,693	65,179	65,179
Lending to the public	4,377,905	4,427,713	4,110,029	4,130,215
Debt securities	18,707	18,752		
Shares and participations	12,882	12,882	9,370	9,370
Shares and participations in associated companies	1,280	1,280	140	140
Shares in subsidiaries	3,458	3,458	3,346	3,346
Derivative instruments	24,620	24,620	21,240	21,240
Total financial assets	5,912,593	5,964,938	5,488,476	5,510,163
Liabilities to credit institutions	509,421	509,467	209,962	209,015
Deposits from the public	3,618,264	3,618,303	3,381,772	3,381,871
Debt securities issued	1,440,933	1,442,560	1,603,957	1,618,022
Derivative instruments	14,968	14,968	12,065	12,065
Subordinated liabilities	36,913	37,415	36,100	38,479
Subordinated liabilities	5,620,498	5,622,713	5,243,856	5,259,452

2020				
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	477,918			477,918
Lending to the public		129,784		129,784
Debt securities		13,008		13,008
Shares and participations	857		12,026	12,882
Derivative instruments		24,620		24,620
Total	478,775	167,411	12,026	658,212
Liabilities				
Debt securities issued		900,903		900,903
Derivative instruments		14,968		14,968
Total	0	915,871	0	915,871

2019				
	Level 1	Level 2	Level 3	Total
Financial instruments carried at fair value in the balance sheet				
Assets				
Debt securities eligible for refinancing with central banks	544,503			544,503
Lending to the public		101,680		101,680
Shares and participations	8	4	9,358	9,370
Derivative instruments		21,240		21,240
Total	544,510	122,924	9,358	676,793
Liabilities				
Debt securities issued		1,155,208		1,155,208
Derivative instruments		12,065		12,065
Total	0	1,167,273	0	1,167,273

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

	2020	2019
	Shares and participations	Shares and participations
Change in Level 3 holdings		
Carrying amount on January 1	9,358	2,538
New purchases	2,506	2,823
Divested/reached maturity during the year		-641
Unrealised foreign exchange valuation		151
Realised change in value	161	4,488
Carrying amount on December 31	12,026	9,358

No transfer occurred between Level 1 and Level 2.

P12. Assets and liabilities by currency		2020			
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	593,681	71,066	120	205	665,072
Debt securities eligible for refinancing with central banks	380,432	338,561	39,984	0	758,976
Lending to credit institutions	28,937	5,501	2,252	13,004	49,693
Lending to the public	2,795,193	1,560,479	22,233	0	4,377,905
Debt securities	18,707	0	0	0	18,707
Derivative instruments	18,868	5,751	0	0	24,620
Other items not allocated by currency	104,393				104,393
Total assets	3,940,210	1,981,358	64,590	13,209	5,999,366
Liabilities to credit institutions	147,595	361,133	692	0	509,421
Deposits from the public	2,517,169	1,010,490	72,084	18,521	3,618,264
Debt securities issued	936,879	504,053	0	0	1,440,933
Derivative instruments	9,208	5,760	0	0	14,968
Subordinated liabilities	16,981	19,932	0	0	36,913
Other items not allocated by currency, including equity capital	378,868				346,784
Total liabilities and equity capital	4,006,700	1,901,369	72,776	18,521	5,999,366
Other assets and liabilities allocated by currency as well as off-balance sheet items		9,746	8,984	5,787	
Net position in currencies (EUR)		89,734	798	475	91,007

The net position in Swedish kronor is mainly the structural position that arises because the Bank's financial accounts are prepared in euros and the Swedish branch's financial accounts are in Swedish kronor.

		2019			
	EUR	SEK	USD	Others	Total
Cash and cash equivalents	440,684	48,929	99	175	489,886
Debt securities eligible for refinancing with central banks	488,737	300,549	0	0	789,286
Lending to credit institutions	20,029	30,837	2,847	11,465	65,179
Lending to the public	2,723,728	1,359,551	26,749	0	4,110,029
Derivative instruments	17,693	3,547	0	0	21,240
Other items not allocated by currency, including equity capital	110,734				110,734
Total assets	3,801,606	1,743,414	29,695	11,640	5,586,355
Liabilities to credit institutions	176,254	29,346	1,672	2,691	209,962
Deposits from the public	2,337,218	942,210	82,957	19,388	3,381,772
Debt securities issued	1,278,342	325,615	0	0	1,603,957
Derivative instruments	7,049	3,810	1,206	0	12,065
Subordinated liabilities	16,955	19,145	0	0	36,100
Other items not allocated by currency, including equity capital	342,498				346,784
Total liabilities and equity capital	4,158,316	1,320,126	85,835	22,078	5,586,355
Other assets and liabilities allocated by currency as well as off-balance sheet items		353,205	-56,146	-10,591	
Net position in currencies (EUR)		70,083	5	152	70,241

P13. Holdings of debt securities		2020			2019		
	Nominal amount	Carrying amount	Loss reserve	Nominal amount	Carrying amount	Loss reserve	
Debt securities eligible for refinancing with central banks							
Holdings at fair value via other comprehensive income							
Government bonds	18,149	18,512	21	10,000	10,166	7	
Covered mortgage bonds	286,874	294,716	77	325,236	333,076	68	
Debt securities issued by credit institutions	120,118	121,625	139	150,245	151,527	82	
Other debt securities	42,522	43,056	15	48,874	49,738	6	
Holdings at amortised cost							
Government bonds	15,481	15,746	8	15,265	15,710	1	
Covered mortgage bonds	170,974	174,428	63	164,847	168,040	44	
Debt securities issued by credit institutions	32,493	32,460	100	37,201	37,317	87	
Other debt securities	57,317	58,429	19	23,530	23,713	2	
Total debt securities eligible for refinancing with central banks	743,929	758,976	442	775,196	789,286	298	

The entire holding consists of publicly listed debt securities.

Other debt securities							
Holdings at fair value via other comprehensive income							
Municipal certificates	13,000	13,008	1				
Holdings at accrued cost							
Corporate bonds	5,645	5,700	3				
Total other debt securities	18,645	18,707	4				
Total debt securities	762,574	777,683	447				

P14. Lending to credit institutions		2020				2019			
	Repayable on demand	Other	Provision for expected loss	Total	Repayable on demand	Other	Provision for expected loss	Total	
Finnish credit institutions	453	0	0	453	1,073	0	0	1,073	
Foreign banks and credit institutions	49,240	0	0	49,240	64,105	0	0	64,105	
Total	49,693	0	0	49,693	65,179	0	0	65,179	

P15. Lending to the public		2020			2019		
	Gross carrying amount	Provision for expected loss	Net carrying amount	Gross carrying amount	Provision for expected loss	Net carrying amount	
Companies	616,176	-3,171	613,005	569,893	-1,165	568,728	
Public sector entities	1,425	-4	1,421	377	0	377	
Households	2,029,695	-7,180	2,022,516	2,009,860	-7,161	2,002,699	
Household interest organisations	12,917	-19	12,899	12,756	-1	12,754	
Outside Finland	1,729,575	-1,510	1,728,064	1,529,588	-4,117	1,525,471	
Total	4,389,789	-11,884	4,377,905	4,122,473	-12,445	4,110,029	
<i>of which subordinated receivables</i>			262			920	

P16. Shares and participations		2020		2019	
Holdings recognised at fair value via other comprehensive income					
Listed			857		8
Unlisted			12,026		9,362
Total			12,882		9,370
Shares and participations in associated companies			1,280		140
Shares and participations in Group companies			3,458		3,346
Total shares and participations			17,619		12,856

P17. Derivative instruments				2020			2019		
	Nominal amount/maturity			Nominal amount	Positive market values	Negative market values	Nominal amount	Positive market values	Negative market values
	Under 1 yr	1–5 yrs	over 5 yrs						
Derivatives for trading									
Interest-related contracts									
Interest rate swaps	0	58,050	6,060	64,110	2,992	2,973	64,635	3,246	3,306
Currency-related contracts									
Currency forward contracts	419,898	0	0	419,898	5,751	5,760	716,125	3,554	5,028
Total	419,898	58,050	6,060	484,008	8,743	8,734	780,760	6,800	8,334
Derivatives for fair value hedges									
Interest-related contracts									
Interest rate swaps	262,393	823,041	32,730	1,118,164	15,877	6,234	1,355,731	14,440	3,731
Total	262,393	823,041	32,730	1,118,164	15,877	6,234	1,355,731	14,440	3,731
Total derivative instruments	682,291	881,091	38,790	1,602,172	24,620	14,968	2,136,491	21,240	12,065
<i>of which cleared</i>	262,393	878,091	35,760	1,176,244	16,764	9,176	1,414,074	15,773	6,927

Derivatives are recognised together with their associated accrued interest.

P18. Intangible assets						2020	
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total		
Cost on January 1	1 441	35 256	30 870	7 278	74 846		
Cost of intangible assets added	0	1 962	0	0	1 962		
Impairment losses for the year	0	0	0	0	0		
Divestments and disposals	0	0	0	0	0		
Merger effect	0	0	0	0	0		
Exchange rate effects	14	265	714	0	993		
Cost on December 31	1 455	37 483	31 584	7 278	77 800		
Accumulated amortisation and impairment losses on January 1	–515	–21 880	–26 462	–981	–49 838		
Divestments and disposals	0	0	0	0	0		
Merger effect	0	0	0	0	0		
Amortisation for the year	–206	–3 241	–2 757	–861	–7 065		
Impairment losses for the year	0	0	0	0	0		
Exchange rate effects	–7	–216	–653	0	–876		
Accumulated amortisation and impairment losses on December 31	–728	–25 337	–29 872	–1 842	–57 779		
Residual value on December 31	728	12 146	1 712	5 436	20 022		

						2019	
	Software developed in-house	Other software	Goodwill	Other intangible assets	Total		
Cost on January 1	1,448	32,472	31,195	6,334	71,448		
Cost of intangible assets added	0	3,279	0	944	4,223		
Impairment losses for the year	0	–479	0	0	–479		
Divestments and disposals		–289	0	0	–289		
Merger effect		388	0	0	388		
Exchange rate effects	–6	–115	–325	0	–446		
Cost on December 31	1,441	35,256	30,870	7,278	74,846		

Accumulated amortisation and impairment losses on January 1	-310	-19,394	-22,490	-165	-42,360
Divestments and disposals	0	288	0	0	288
Merger effect	0	-161		0	-161
Amortisation for the year	-205	-2,676	-4,178	-816	-7,875
Exchange rate effects	1	63	206	0	270
Accumulated amortisation and impairment losses on December 31	-515	-21,880	-26,462	-981	-49,838
Residual value on December 31	927	13,376	4,408	6,297	25,008

"Other intangible assets" include acquired contracts.

P19. Tangible assets	2020			2019		
Investment properties			402			411
Properties for own use			11,643			12,402
Other tangible assets			1,772			1,839
Total			13,817			14,652
	Investment properties	Properties for own use	Other tangible assets	Investment properties	Properties for own use	Other tangible assets
Cost on January 1	581	21,060	15,281	581	20,712	15,368
New acquisitions	0	127	223	0	348	453
Divestments and disposals	-10	0	-253	0	0	-493
Merger effect	0	0	0	0	0	79
Transfer between items	0	-5	5	0	0	0
Exchange rate effects	0	3	273	0	0	-126
Cost on December 31	571	21,185	15,529	581	21,060	15,281
Accumulated depreciation on January 1	-169	-13,947	-13,442	-169	-13,051	-13,598
Depreciation for the year	0	-882	-267	0	-897	-295
Impairment losses for the year	0	0	0	0	0	0
Divestments and disposals	0	0	217	0	0	411
Merger effect	0	0	0	0	0	-79
Exchange rate effects	0	-2	-265	0	0	118
Accumulated depreciation on December 31	-169	-14,831	-13,756	-169	-13,947	-13,442
Revaluations on January 1		5,289			5,289	
Accumulated revaluations on December 31		5,289			5,289	
Carrying amount	402	11,643	1,772	411	12,402	1,839
<i>of which buildings</i>	0	11,404		0	12,163	
<i>of which land and water</i>	0	139		0	139	
<i>of which shares in property companies</i>	402	100		411	100	

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

P20. Other assets	2020		2019	
Payment intermediation receivables		1,477		1,381
Receivables on mutual fund settlement proceeds		25,859		26,145
Accounts receivable		1,099		925
Other		2,576		4,099
Total		31,010		32,551

P21. Accrued income and prepayments	2020		2019	
Accrued interest income		9,520		9,044
Other accrued income		9,924		13,965
Other prepaid expenses		2,112		2,308
Total		21,555		25,317

P22. Deferred tax assets and liabilities	2020	2019
Deferred tax assets		
Provisions	0	8
Unused tax depreciation	102	123
Income received in advance	222	0
Debt securities measured via other comprehensive income	0	193
Other	46	27
Total deferred tax assets	369	351
Deferred tax liabilities		
Financial assets measured via other comprehensive income		
Debt securities	12	0
Shares and participations	970	927
Total deferred tax liabilities	982	927
Net deferred taxes	-613	-576

Accumulated appropriations included a deferred tax liability of EUR 28,080 K (26,600).

	2020			
	Dec 31, 2019	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2020
Changes in deferred taxes				
Provisions	8	-8		0
Unused tax depreciation	123	-21		102
Debt securities measured via other comprehensive income	193		-205	-12
Shares and participations measured via other comprehensive income	-927		-43	-970
Income received in advance	0	222		222
Other	27	19		46
Total	-576	211	-248	-613

	2019			
	Dec 31, 2018	Recognised in income statement	Recognised in other comprehensive income	Dec 31, 2019
Changes in deferred taxes				
Provisions	25	-17		8
Unused tax depreciation	100	23		123
Fair value hedge	289	-289		0
Debt securities measured via other comprehensive income	68		126	193
Shares and participations measured via other comprehensive income	0		-927	-927
Impairment losses	431	-431		0
Other	18	9		27
Summa	932	-706	-801	-576

P23. Liabilities to credit institutions	2020			2019		
	Repayable on demand	Other	Total	Repayable on demand	Other	Total
Central banks		415,975	415,975		130,340	130,340
Finnish credit institutions	7,733	2,350	10,083	2,270	4,950	7,220
Foreign banks and credit institutions	50,406	32,958	83,364	38,043	34,360	72,403
Total	58,138	451,283	509,421	40,312	169,650	209,962

P24. Deposits from the public	2020	2019
Companies	1,047,710	943,648
Public sector entities	44,927	48,270
Households	1,309,410	1,249,222
Household interest organisations	61,244	46,857
Outside Finland	1,154,973	1,093,775
Total	3,618,264	3,381,772

P25. Debt securities issued	2020		2019	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Certificates of deposit	280,163	280,056	108,194	108,194
<i>of which at amortised cost</i>	280,163	280,056	108,194	108,194
Covered bonds	899,111	910,225	1,136,308	1,144,959
<i>of which at amortised cost</i>	259,111	259,974	239,308	240,566
<i>of which fair value hedge</i>	640,000	650,251	897,000	907,393
Unsecured bonds	250,000	250,652	350,000	350,803
<i>of which at amortised cost</i>	0	0	100,000	99,989
<i>of which fair value hedge</i>	250,000	250,652	250,000	250,815
Total	1,429,274	1,440,933	1,594,501	1,603,957

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

P26. Other liabilities	2020	2019
Payment intermediation liabilities	13,870	9,216
Fund settlement liabilities	18,636	13,041
Trade payables	1,344	2,715
Other	7,876	11,839
Total	41,726	36,811

P27. Provisions	2020				2019			
	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total	Provisions for restructuring reserves	Provision for off-balance sheet obligations	Other provisions	Total
Provisions on December 31 of the previous year	0	39	0	39	34	70	89	194
Provisions during the year		446	10	456	24	85		109
Amounts utilised		0	-10	-11	-58	-2	-31	-90
Unutilised amounts recovered		-75		-75		-119	-56	-175
Merger effect				0		5		5
Exchange rate changes		1		1	-1		-3	-4
Provisions on December 31	0	410	0	410	0	39	0	39

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

Since 2017 the Bank of Åland has had an ongoing dispute with the Swedish Tax Agency regarding value-added tax (VAT) for the financial year 2016. The Agency announced a decision in the matter in which it believes that the Bank should pay additional VAT. The Bank of Åland does not share the Agency's view and has appealed the decision to the Administrative Court. No provision for any expense has been made in the accounts.

P28. Accrued expenses and prepaid income	2020	2019
Accrued interest expenses	4,287	5,033
Other accrued expenses	12,322	10,247
Accrued taxes	3,691	2,564
Prepaid income	3,343	5,225
Total	23,643	23,069

P29. Subordinated debentures	2020			2019		
	Nominal amount	Carrying amount	Amount in own funds	Nominal amount	Carrying amount	Amount in own funds
Debenture loan 1/2015	8,603	8,603	8,603	8,603	8,603	8,603
Debenture loan 1/2016	6,173	6,173	6,173	6,173	6,173	6,173
Debenture loan 1/2017	2,266	2,266	2,266	2,266	2,266	2,266
Debenture loan 1/2018	19,932	19,871	19,932	19,145	19,058	19,145
Total	36,974	36,913	36,974	36,187	36,100	36,187

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

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

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

P30. Maturity breakdown of assets and liabilities

2020

	Repayable on demand	Undiscounted contractual cash flows						Not classified by maturity	Total
		<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs		
Assets									
Cash and receivable from central banks	665,072								665,072
Debt securities eligible for refinancing with central banks		60,898	31,710	20,372	619,847	26,149			758,976
Lending to credit institutions	29,856	–15						19,853	49,693
Lending to the public	16,849	383,821	154,425	284,315	1,420,179	724,385	1,324,399	69,532	4,377,905
Other debt securities		13,007			5,074	626			18,707
Shares and participations								17,619	17,619
Derivative instruments									
Intangible assets		2,244	3,500	887	16,026		1,963	20,022	24,620
Tangible assets								13,817	13,817
Other assets								52,934	52,934
Total	711,777	459,956	189,635	305,573	2,061,126	751,160	1,326,362	193,777	5,999,366
Liabilities									
Liabilities to credit institutions	53,008	330,938	4,983	3,492	117,000				509,421
Deposits from the public	3,490,068	110,771	2,548	13,830	1,048				3,618,264
Debt securities issued		139,539	140,624	250,652	910,118				1,440,933
Derivative instruments		2,271	3,501	70	5,398	1,798	1,929		14,968
Other liabilities								66,760	66,760
Subordinated liabilities			8,603	6,173	2,266		19,871		36,913
Equity capital and appropriations								312,108	312,108
Total	3,543,076	583,518	160,258	274,217	1,035,830	1,798	21,800	378,868	5,999,366

2019								
	Undiscounted contractual cash flows							
	Repayable on demand	<3 mo	3–6 mo	6–12 mo	1–5 yrs	5–10 yrs	>10 yrs	Not classified by maturity
Assets								Total
Cash and receivable from central banks	489,886							489,886
Debt securities eligible for refinancing with central banks		17,000	64,789	70,616	575,991	46,800		14,090
Lending to credit institutions	65,179							65,179
Lending to the public	214,259	158,485	128,664	273,181	1,517,334	627,148	1,171,722	19,236
Shares and participations								12,856
Derivative instruments		3,133	1,638		14,744	1,724		21,240
Intangible assets								25,008
Tangible assets								14,652
Other assets								58,219
Total	769,324	178,619	195,091	343,798	2,108,069	675,672	1,171,722	144,061
Liabilities								
Liabilities to credit institutions	54,745	14,613	20,754	1,500	118,350			209,962
Deposits from the public	3,308,647	47,674	8,865	12,638	3,949			3,381,772
Debt securities issued		166,605	281,589	10,000	1,136,308			1,603,957
Derivative instruments		4,705	434		2,991	3,935		12,065
Other liabilities								60,846
Subordinated liabilities			8,603		8,439		19,058	36,100
Equity capital and appropriations								281,652
Total	3,363,392	233,597	320,244	24,138	1,270,036	3,935	19,058	351,953
								5,586,355

P31. Claims on Group companies	2020	2019
Lending to the public	1,114	0
Other assets	424	591
Accrued income and prepayments	4,820	9,601
Total	6,359	10,192

P32. Liabilities to Group companies	2020	2019
Deposits from the public	12,844	13,718
Other liabilities	1,029	1,989
Accrued expenses and prepaid income	3,315	4,076
Total	17,188	19,783

Notes concerning staff, Board of Directors and Executive Team

P33. Salaries/fees paid to the Board of Directors and Executive Team	2020	2019
Lampi, Nils	62	58
Taxell, Christoffer	49	44
Ceder, Åsa	50	47
Karlsson, Anders Å	50	47
Persson, Göran ¹		11
Valassi, Ulrika	53	49
Wiklöf, Anders	40	40
Board members	304	296
Managing Director	450	504
Other members of the Executive Team	1,559	1,791

The amount includes the value of fringe benefits. There are no pension obligations to the members of the Board of Directors. The pension benefits of the Managing Director are based on customary terms of employment.

¹ Resigned as Board member of his own volition on April 29, 2019. The 2020 Annual General Meeting fixed the number of Board members at six.

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

See the Board of Directors and Executive Team sections.

P35. Financial transactions with related parties

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

Notes concerning assets pledged and contingent liabilities

P36. Assets pledged	2020	2019
Assets pledged for own liabilities		
Lending to credit institutions	13,689	10,242
Government securities and bonds	279,199	140,862
Lending to the public	1,547,808	1,583,625
Other	3,510	2,795
Total assets pledged for own liabilities	1,844,206	1,737,524

Assets pledged in the form of government securities and bonds were mainly provided as collateral to central banks. "Lending to the public" that was provided as collateral consisted of the registered collateral pool on behalf of holders of covered bonds. "Other assets pledged for own liabilities" refers mainly to endowment insurance.

Other assets pledged		
Government securities and bonds	19,446	33,977
Other	711	25,363
Total other assets pledged	20,157	59,340

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

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

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

P37. Off-balance sheet obligations	2020	2019
Guarantees	44,032	10,555
Unutilised overdraft limits	283,018	247,409
Unutilised credit card limits	85,559	79,274
Unutilised credit lines	315,059	92,425
Other commitments	31,967	22,546
Total	759,636	452,209
<i>Provision for expected loss</i>	409	39
Guarantees for subsidiaries	2,257	1,993
Unutilised overdraft limits for subsidiaries	6,623	8,066
Unutilised credit facilities for subsidiaries	0	0

P38. Rental obligations	2020	2019
Rental payments due		
Under 1 year	2,882	2,297
More than 1 and less than 5 years	7,920	1,398
More than 5 years	1,662	
Total	12,464	3,695

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

Other notes

P39. Subsidiaries and associated companies	2020		
	Registered office	Ownership, %	Carrying amount
Subsidiaries			
Crosskey Banking Solutions Ab Ltd	Mariehamn	100	2,505
<i>Model IT Oy</i>	Helsinki	100	
<i>S-Crosskey Ab</i>	Mariehamn	60	
Ålandsbanken Fondbolag Ab	Mariehamn	100	841
<i>Ålandsbanken Fonder Ab</i>	Mariehamn	100	
<i>Ålandsbanken Fonder II Ab</i>	Mariehamn	100	
<i>Ålandsbanken Fonder III Ab</i>	Mariehamn	100	
Kiinteistö Oy Espoon Koivurinne	Espoo	100	112
Total			3,458
Associated companies			
Mäklarhuset Åland Ab	Mariehamn	29	20
IISÅ Holdco AB	Stockholm	25	1,257
<i>Borgo AB</i>	Stockholm	100	
Åland Index Solutions AB	Stockholm	50	2
Total			1,280
Housing and real estate companies			
Properties for the Group's own use			
<i>FAB Godby Center</i>	Godby	11	100
Total			100
Investment properties			
FAB Horsklint	Kökar	20	12
FAB Nymars	Sottunga	30	30
FAB Västernäs City	Mariehamn	50	300
Total			342

P40. Distributable profit	2020	2019
Retained earnings	38,592	20,398
Dividend paid in January 2021	-15,586	
Unrestricted equity capital fund	27,807	27,595
Capitalised development expenditures	-728	-927
Total	50,085	47,066

Proposed allocation of profit

According to the financial statements, distributable profit – after subtracting capitalised development expenses – including the unrestricted equity capital fund is EUR 65,671,063.44, of which the profit for the financial year is EUR 18,193,792.38. During 2021, a dividend of EUR 15,586,054.00 for 2019 was distributed. No other significant changes in the financial position of the Company have occurred since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable profit of the Bank of Åland Plc, EUR 50,085,009.44 be allocated as follows:

For Series A and Series B shares outstanding, a dividend of EUR 1.00 per share from retained earnings,

totalling	15,586,054.00
To be carried forward as retained earnings	34,498,955.44

Mariehamn, February 26, 2021

Nils Lampi,
Chairman

Christoffer Taxell,
Deputy Chairman

Åsa Ceder

Anders Å Karlsson

Ulrika Valassi

Anders Wiklöf

Peter Wiklöf,
Managing Director

Auditors' note

A report on the audit performed has been issued today.

Helsinki, February 26, 2021

Marcus Tötterman
KHT

Fredrik Westerholm
KHT

Jessica Björkgren
KHT

Auditors' Report

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

Opinion

We have audited the financial statements of Bank of Åland Plc (business identity code 0145019-3) for the year ended December 31, 2020. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of changes in equity capital, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

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

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice, are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the Group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and understanding, the non-audit services that we have provided to the parent company and Group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note G 12 to the consolidated financial statements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably

be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

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

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

Key audit matters

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

- Lending to the public amounted to EUR 4,378 M as at December 31, 2020. This comprises approximately 73 per cent of the Bank of Åland's total assets.
- IFRS 9 Financial Instruments standard is applied in the calculation of expected credit losses. Calculation of expected credit losses involves assumptions, estimates and management judgment. For example, in respect of the probability and amount of the expected credit losses as well as determining the significant increases in credit risk.
- In the financial year 2020, the coronavirus pandemic has impacted the operating environment, credit risk level and components of accounting for expected credit losses of Bank of Åland.
- Due to the significance of the carrying amount involved, complexity of the accounting methods used for measurement purposes and management judgement involved, lending to the public is addressed as a key audit matter.
- We have reviewed and assessed the principles and controls applied for lending regarding approval, recognition and monitoring of loans and receivables. In addition, we have assessed the credit risk monitoring and impairment recognition principles applied. We utilised data analysis in our audit focusing on the lending process and loans.
- We assessed the models and the key assumptions for calculating expected credit losses as well as tested the controls related to the calculation process for expected credit losses. Our audit procedures included an analysis of the most significant individual impairments recognised during the financial period.

- We considered the impacts of the COVID-19 pandemic on the credit risk position and the accounting for expected credit losses. The main areas were parameters for macroeconomic assumptions as well as changes in repayment terms.
- Our IFRS and financial instruments specialists were involved in the audit.
- Furthermore, we considered the appropriateness of the notes provided by the Bank of Åland in respect of loans and other receivables and expected credit losses.

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

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

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

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

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the Group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using

the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the parent company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were appointed as auditors by the Annual General Meeting in 2013, and our appointment represents a total period of uninterrupted engagement of 8 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report. We have obtained the report of the Board of Directors and the Annual Report prior to the date of this auditors' report. Our opinion on the financial statements does not cover the other information.

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

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

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

Helsinki, February 26, 2021

Marcus Tötterman
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3 A
00100 Helsinki

Fredrik Westerholm
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3 A
00100 Helsinki

Jessica Björkgren
Authorised Public Accountant, KHT

KPMG Oy Ab
Töölönlahdenkatu 3 A
00100 Helsinki

Corporate Governance Statement



Corporate Governance Statement

The Corporate Governance Statement is being issued in conjunction with the Report of the Directors for 2020.

Finnish Corporate Governance Code

The Finnish Corporate Governance Code ("the Code"), which is available on the website www.cgfinland.fi, is intended to be followed by companies listed on the Nasdaq OMX Helsinki ("Helsinki Stock Exchange"). The current Code went into effect on January 1, 2020 and replaced the previous Finnish Corporate Governance Code from 2015. The Code is applied according to the "comply or explain" principle, which means that departures from its recommendations must be disclosed and explained. A company is regarded as complying with the Code even if it departs from an individual recommendation, provided that it discloses and explains the departure.

The Bank of Åland Plc ("the Bank"), which is listed on the Helsinki Stock Exchange, is a public company domiciled in Mariehamn, Finland. The Bank is subject to the Finnish Companies Act and the Bank's Articles of Association as well as applying the Code. The Corporate Governance Statement has been prepared in compliance with the Code's reporting instructions and according to the Finnish Securities Market Act, Chapter 7, Section 7. In applying the Code, the Bank departs from Recommendation 15, "Appointment of members to committees", since the Bank's Compensation Committee includes one co-opted member who is not a member of the Bank's Board of Directors. The co-opted member is also Chairman of the Committee. The purpose of this departure is to broaden the Compensation Committee's experience and expertise base on compensation matters. The need for outside expertise is assessed separately before each appointment date.

Board of Directors

COMPOSITION OF THE BOARD

The members of the Board of Directors are elected by the shareholders at the Annual General Meeting (AGM). The Board's term of office ends at the closing of the next AGM after the election. The Board shall consist of at least five and at most eight members. During 2020, the Board consisted of six members. The Managing Director may not be a member of the Board.

PRESENTATION OF BOARD MEMBERS AND THEIR SHAREHOLDINGS IN THE BANK

Composition of the Board, 2020

Name, main occupation and education	Year of birth Board members since what year Place of residence	Board members' shareholdings in the Bank on December 31, 2020 (direct ownership or via companies which the Board member controls). There are no shareholdings in other Bank of Åland Group companies.
Nils Lampi, Chairman CEO, Wiklöf Holding Ab Bachelor of Economic Sciences	Born 1948 Member since 2013 Mariehamn, Åland	Series A shares: 567 Series B shares: 5,543
Christoffer Taxell, Deputy Chairman Master of Laws	Born 1948 Member since 2013 Turku, Finland	Series A shares: 0 Series B shares: 1,833
Åsa Ceder Business owner Master of Science in Economics Actuary	Born 1965 Member since 2016 Mariehamn, Åland	Series A shares: 0 Series B shares: 0
Anders Å Karlsson Business owner Bachelor of Commerce	Born 1959 Member since 2012 Lemland, Åland	Series A shares: 3,000 Series B shares: 1,500
Ulrika Valassi Business owner Master of Business Administration	Born 1967 Member since 2015 Stockholm, Sweden	Series A shares: 0 Series B shares: 0
Anders Wiklöf Business owner Doctor of Economics (honorary) Commercial Counsellor	Born 1946 Member since 2006 Mariehamn, Åland	Series A shares: 1,993,534 Series B shares: 1,332,961

THE BOARD'S ASSESSMENT OF THE INDEPENDENCE OF ITS MEMBERS IN RELATION TO THE BANK AND MAJOR SHAREHOLDERS

In the assessment of the Board of Directors, the Chairman of the Board and all other Board members are independent of the Bank.

Christoffer Taxell, Anders Å Karlsson and Ulrika Valassi are also independent in relation to major shareholders. Nils Lampi, Chairman of the Board, is deemed to be dependent in relation to a major shareholder since he is CEO of Wiklöf Holding, which is a major shareholder in the Bank. Anders Wiklöf is regarded as dependent in relation to a major shareholder due to his direct and indirect shareholding in the Bank.

THE WORK OF THE BOARD

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

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

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

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

EVALUATION OF THE WORK OF THE BOARD

The Board of Directors conducts a yearly internal evaluation of its performance and its work. The evaluation includes a questionnaire in which each Board member assesses the work of the Board during the year. The Chairman of the Board also has individual conversations with each Board member. Led by the Chairman of the Board, the evaluation is also discussed and dealt with at a subsequent Board meeting, and decisions are made on actions to be taken as a result of the evaluation.

BOARD MEETINGS

During 2020, the Board held 21 (19) meetings. The Board members' average attendance was 98 (97) per cent. During 2020, each Board member attended Board and committee meetings as follows:

Attendance at Board meetings, 2020

Board member	Board meetings
	Total number: 21
Nils Lampi	20/21
Christoffer Taxell	21/21
Åsa Ceder	21/21
Anders Å Karlsson	21/21
Ulrika Valassi	21/21
Anders Wiklöf	20/21

DIVERSITY PRINCIPLES

The Bank of Åland seeks a good balance in the allocation of Board members, with an equal allocation between the genders. Both genders shall thus be represented in the proposal that is presented on the occasion of each nomination as a new Board member.

The committees of the Board

NOMINATION COMMITTEE

The main duty of the Nomination Committee is to prepare proposals before the AGM regarding the election of Board members as well as proposals concerning fees to the Chairman and other Board members.

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

The Nomination Committee consists of Nils Lampi, Chairman of the Board; Board member Anders Wiklöf, by virtue of direct and indirect personal shareholdings; Stefan Björkman, representing the insurance company Alandia Försäkring; and Georg Ehrnrooth, representing Fennogens Investments S.A. Anders Wiklöf is Chairman of the Nomination Committee.

During 2020 the Nomination Committee met 2 (2) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Nomination Committee meetings, 2020

Member	Nomination Committee meetings Total number: 2
Anders Wiklöf, Chairman of the Committee	2/2
Nils Lampi	2/2
Stefan Björkman	2/2
Georg Ehrnrooth	2/2

AUDIT COMMITTEE

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

The Audit Committee consists of Nils Lampi, Chairman of the Board; and Board members Åsa Ceder, Anders Å Karlsson and Ulrika Valassi, Chairman of the Audit Committee. During 2020 the Audit Committee met 11 (9) times.

The average attendance of Committee members was 100 (100) per cent.

Attendance at Audit Committee meetings, 2020

Member	Audit Committee meetings Total number: 11
Ulrika Valassi, Chairman of the Committee	11/11
Åsa Ceder	11/11
Anders Å Karlsson	11/11
Nils Lampi	11/11

COMPENSATION COMMITTEE

The duties of the Compensation Committee are to prepare key compensation-related decisions and evaluate the Bank's compensation policy and the principles for variable compensation. The Compensation Committee decides on measures for monitoring the application of the principles for the compensation system and assesses its suitability and effect on the Group's risks and risk management.

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

During 2020 the Compensation Committee met 6 (3) times. The average attendance of Committee members was 100 (100) per cent.

Attendance at Compensation Committee meetings, 2020

Member	Audit Committee meetings Total number: 6
Agneta Karlsson, Chairman of the Committee	6/6
Nils Lampi	6/6
Christoffer Taxell	6/6

Managing Director

The Managing Director of the Bank is Peter Wiklöf, Master of Laws (born 1966). The Managing Director's shareholdings in the Bank can be seen in the table to the right.

Among other things, the Managing Director is responsible for the day-to-day administration of the Bank and for ensuring that this is managed in compliance with law, the Articles of Association, other regulations and the instructions and directions of the Board. In addition, the Managing Director is responsible for ensuring that the decisions of the Board are implemented.

The Managing Director reports regularly to the Board. The Managing Director is appointed and dismissed by the Board of Directors. His employment conditions are established in a written contract that is approved by the Board.

The Group's Executive Team – other members

The Board appoints the other members of the Group-wide Executive Team. The other members of the Executive Team advise the Managing Director, and the Executive Team deals with all major Bank-wide issues. The Executive Team consists of the heads of the Bank's business areas and corporate units.

Their shareholdings in the Bank can be seen in the table to the right.

During 2020 the Executive Team met on 12 (11) occasions.

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

The Group-wide Executive Team, 2020

Composition of the Executive Team and its members' areas of responsibility	Education Year of birth Executive Team member since what year	Shareholdings in the Bank on December 31, 2020 (direct ownership or via companies which the person controls). There are no shareholdings in other Bank of Åland Group companies.
Peter Wiklöf Managing Director, Chief Executive Chairman of the Executive Team	Master of Laws Born 1966 Member since 2008	Series A shares: 500 Series B shares: 31,227
Jan-Gunnar Eurell Chief Financial Officer Deputy Managing Director	Bachelor of Science (Economics) Master of Business Administration Born 1959 Member since 2011	Series A shares: 0 Series B shares: 31,426
Tove Erikslund Chief Administrative Officer	Master of Business Administration Born 1967 Member since 2006	Series A shares: 0 Series B shares: 6,073
Magnus Johansson Director, Sweden Business Area	Bachelor of Science (Economics) Born 1972 Member since 2017	Series A shares: 0 Series B shares: 11,740
Mikael Mörn Director, Åland Business Area	Associate of Arts in Commerce Born 1965 Member since 2017	Series A shares: 0 Series B shares: 5,000
Juhana Rauthovi Chief Risk & Compliance Officer	Licentiate in Laws, M.Sc. (Econ.), M.Sc. (Tech.) Master in International Management Born 1975 Member since 2012	Series A shares: 0 Series B shares: 12,104
Anne-Maria Salenius Director, Finnish Mainland Business Area	Master of Laws Attorney at Law Born 1964 Member since 2010	Series A shares: 0 Series B shares: 7,553

EVALUATION OF THE WORK OF THE MANAGING DIRECTOR AND THE EXECUTIVE TEAM

The Board of Directors, led by the Chairman of the Board, evaluates the work of the Managing Director and the rest of the Executive Team yearly. The Managing Director and other members of the Executive Team do not attend this evaluation.

Internal controls and risk management systems related to the financial reporting process

GENERAL

Internal controls and risk management in the financial reporting process are an integral element of operational systems and daily routines. To achieve this integration, the Group employs clear and easily accessible internal instructions. In developing new systems, products, services and/or routines, internal controls are taken into account. The organisation has clearly defined responsibilities and powers as well as clear reporting mechanisms.

FINANCIAL REPORTING PROCESS

The fundamental principles of internal controls in the financial reporting process are a clear allocation of roles as well as instructions and an understanding of how financial results are achieved.

The Group's reporting is compiled centrally by Group Finance. This department is responsible for the consolidated accounts and the consolidated financial statements, accounting principles, policy documents and instructions, financial control systems, tax analysis, reporting to regulatory authorities and publication of financial information. The respective subsidiaries are responsible for ensuring that their accounts meet the Group's standards, and they report monthly to their company's management and Group Finance.

The Internal Auditing Department assists the external auditors with the examination of financial information in accordance with an audit plan drawn up in advance. Internal Auditing is an independent unit and works on behalf of the Board of Directors.

External auditors examine the Group's interim reports, half-year financial report, Annual Report and Corporate Governance Statement and submit an auditors' report to the Audit Committee and to the Group's Board of Directors.

The Group's Executive Team deals with the Group's internal financial reporting every month and with the interim reports, half-year financial report or the Annual Report every quarter.

The Audit Committee assists the Board in its continuous monitoring work by examining the quarterly financial reports, the half-year financial report and the annual financial statements, as well as dealing with the observations of the external and internal auditors.

The Board of Directors deals with quarterly reports, the half-year financial report and the year-end report and receives the Group's internal financial reporting every month. The Board also examines the auditors' reports, audit plans and conclusions of the external auditors concerning interim reports, the half-year financial report and the Annual Report. The Board meets with the external auditors at least quarterly.

RISK MANAGEMENT

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

The Group is exposed to credit risk, counterparty risk, market risk, liquidity risk, operational risk and business risk. The latter is a consequence of the Group's strategy, competitiveness, ability to adapt to customer expectations, unfavourable business decisions and the environment and market the Group works in. Business risk is managed in conjunction with strategic planning. Credit risk, which is the Group's most significant risk, encompasses receivables from private individuals, companies, institutions and the public sector. These receivables mainly consist of loans, overdraft facilities and guarantees issued by the Bank.

The Board of Directors has overall responsibility for governance and monitoring, that is, for ensuring that risk management is sufficient and for establishing systems and regulations for monitoring and limiting the Bank's risk exposure. The Audit Committee assists the Board in handling these oversight tasks in internal control systems, risk management and reporting. The Managing Director oversees and supervises business operations in accordance with

the Board's instructions, is responsible for day-to-day administration and for ensuring that the members of the Board receive sufficient information regularly about the Group's risk positions and the regulations that affect its operations.

The Bank works according to an allocation of responsibility in which each part of its business operations bears responsibility for its business and for managing its risks. The Risk Office Corporate Unit is responsible for independent risk monitoring (financial risks) and operational risks (among other things compliance with regulations). This includes identifying, measuring, analysing and reporting all of the Group's significant risks as well as examining the loan matters presented to the Credit Committee of the Executive Team. The Risk Office is also responsible for informational and corporate security in the Group. The corporate unit also ensures that risks and risk management live up to the Bank's risk appetite and risk tolerance and that the management of the Bank regularly receives reports and analyses on the current situation. The Risk Office is audited by the Internal Auditing Department, which evaluates risk management both in terms of sufficiency and compliance. In addition to the regulations and instructions of the Finnish Financial Supervisory Authority and legislation, the main foundations of the Group's risk management are numerous directives and regulations at the European Union level. For more detailed information on the Group's risk management, capital management and capital adequacy, see the "Capital and risk management report" for 2020.

LENDING STRUCTURE

At the Bank, the Private Banking and Premium Banking units in Åland, on the Finnish mainland and in Sweden bear responsibility for lending via mandates. Those employees who work with lending have personal loan granting limits for the customers that they are responsible for. In Åland there is also a corporate lending unit. Customer and loan responsibility rests with the management of each respective unit along with those responsible for customers according to the above-mentioned structure. If decisions

regarding larger loans are needed, there is a Credit Committee for operations in Finland and one for operations in Sweden. In addition, there is a Credit Committee of the Executive Team for credit matters that cannot be decided by the country-specific units due to their size. The largest commitments are decided by the Bank's Board of Directors. The Bank's pool of home mortgage loans in Sweden will grow further via business partnerships that comply with carefully defined credit quality criteria.

COMPLIANCE

Monitoring and assessment of the Bank's compliance with regulations is managed by the Group's Compliance department, with a focus on customer protection, behaviour in the market, combating money laundering and the financing of terrorism as well as permitting and regulatory matters. The Compliance department regularly reports its observations to the Bank's Executive Team and Board of Directors.

Internal Auditing

The Internal Auditing department is an independent department that reports directly to the Board of Directors.

The purpose of internal auditing work is to provide the Board and the Executive Team with objective and independent assessments of operational activities, operational business and management processes and the Group's risk management, governance and controls. Internal Auditing reports regularly to the Board, the Audit Committee and the Executive Team. The Board adopts a yearly plan for internal auditing work.

Special decision making procedure concerning related party transactions

Decisions on loans to related parties who are entitled to the employee interest rate are made by the Bank's Board of Directors.

Insider administration

In their capacities as an investment firm and a fund management company, respectively, the Bank of Åland and its subsidiary Ålands-

banken Fondbolag maintain insider registers in compliance with the Act on Investment Services or the Act on Mutual Funds.

In its capacity as a listed company, the Bank only maintains project-specific insider lists. These project-specific insider lists are established immediately when information that the Bank deems insider information arises. Persons included on project-specific insider lists are prohibited from trading in the Bank's financial instruments as long as they are included on such a list.

The Bank does not maintain any permanent insider list, or any list of persons who participate in the preparation of interim reports and annual accounts. Persons discharging managerial responsibilities at the Bank and persons closely associated with them are obligated to immediately report their transactions in the Bank's financial instruments. The Bank publishes stock exchange releases on these transactions.

In accordance with the EU's Market Abuse Regulation and the insider regulations of the Nasdaq Helsinki Oy (the Helsinki Stock Exchange), the Bank of Åland Group has introduced a trading restriction, under which persons in management positions as well as all Group employees may not trade in the Bank's financial instruments during a 30-day period before and including the publication date of the Bank's financial reports. The trading restriction also includes minors for whom persons in management positions or Group employees are guardians, as well as organisations in which people in management positions or Group employees have a controlling influence.

The Bank observes a silent period of at least 14 days prior to the publication of an interim report, half-year financial report or year-end report.

For employees who participate in providing investment services, the Bank also applies Group-wide trading restrictions that are based on the trading rules established by such professional organisations as Finance Finland, the Swedish Securities Dealers Association and the Swedish Investment Fund Association.

The Bank's Legal Affairs department regularly monitors information reported to the insider register and insider lists,

as well as information about people in management positions and their related parties. The Bank's Compliance department regularly monitors employee compliance with the trade restrictions in force.

Regulations for related party transactions

The Bank has established internal regulations for identification and decision making concerning transactions with related parties. The internal regulations govern such matters as identification, reporting and oversight of related party transactions as well as the decision making process and management of conflicts of interest.

Auditors

According to its Articles of Association, the Bank shall have at least three auditors and the necessary number of deputies for them. An auditor is appointed yearly at the Annual General Meeting (AGM) for the period up to the end of the next Annual General Meeting.

The latest AGM in 2020 elected Marcus Tötterman, Fredrik Westerholm and Jessica Björkgren. The CGR-affiliated firm of KPMG Oy Ab was re-elected as deputy auditor.

During 2020, Group companies paid a total of EUR 379,936 (406,839) including value-added tax for auditing fees. In addition, they paid EUR 149,758 (109,428) including VAT for consulting assignments performed by KPMG Oy Ab.

Compensation to the Board, Managing Director and other Executive Team members

The Bank's compensation statement, including its compensation report for 2020, has been published in Swedish and Finnish on the Bank's website, www.alandsbanken.fi

Board of Directors



Nils Lampi

CHAIRMAN

CEO, Wiklöf Holding Ab
Bachelor of Economic Sciences
Born 1948
Chairman of the Board since 2013
Board member since 2013



Christoffer Taxell

DEPUTY CHAIRMAN

Master of Laws
Born 1948
Deputy Chairman of the Board since 2013
Board member since 2013



Åsa Ceder

Business owner
Master of Science in Economics
Actuary
Born 1965
Board member since 2016



Anders Å Karlsson

Business owner
Bachelor of Commerce
Born 1959
Board member since 2012



Ulrika Valassi

Business owner
Master of Business Administration
Born 1967
Board member since 2015



Anders Wiklöf

Business owner
Doctor of Economics (honorary), Commercial Counsellor
Born 1946
Board member since 2006

Further information in Swedish and Finnish about the members of the Board can be found on the Bank's website www.alandsbanken.fi

Executive Team



Peter Wiklöf

Managing Director, Chief Executive
Master of Laws
Born 1966
Chairman and member of the Executive Team since 2008



Jan-Gunnar Eurell

Chief Financial Officer, Deputy Managing Director
Master of Business Administration, Bachelor of Science (Economics)
Born 1959
Member of the Executive Team since 2011



Tove Erikslund

Chief Administrative Officer
Master of Business Administration
Born 1967
Member of the Executive Team since 2006



Magnus Johansson

Director, Sweden Business Area
Bachelor of Science (Economics)
Born 1972
Member of the Executive Team since 2017



Mikael Mörn

Director, Åland Business Area
Associate of Arts in Commerce
Born 1965
Member of the Executive Team since 2017



Juhana Rauthovi

Chief Risk & Compliance Officer
Licentiate in Laws, MSc (Econ), MSc (Tech),
Master in International Management
Born 1975
Member of the Executive Team since 2012



Anne-Maria Salenius

Director, Finnish Mainland Business Area
Attorney at Law, Master of Laws
Born 1964
Member of the Executive Team since 2010

Further information in Swedish and Finnish about the members of the Executive Team can be found on the Bank's website www.alandsbanken.fi

Definitions

ACTIVELY MANAGED ASSETS

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

CAPITAL COVER RATIO

Own funds divided by risk exposure amount.

COMMON EQUITY TIER 1 (CET1) CAPITAL

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

COMMON EQUITY TIER 1 (CET1) CAPITAL RATIO

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

CORE FUNDING RATIO

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

EARNINGS PER SHARE

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

EQUITY/ASSETS RATIO

Equity capital as a percentage of balance sheet total.

EQUITY CAPITAL PER SHARE

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

EXPECTED CREDIT LOSS (ECL)

The present value of expected future credit (loan) losses on financial assets. ECL is a product of PD, LGD and exposure at default.

EXPENSE/INCOME RATIO

Total expenses divided by total income.

GROSS EQUITY/ASSETS RATIO

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

GROSS LENDING TO THE PUBLIC IN STAGE 3, %

Gross lending to the public in Stage 3, divided by lending to the public before provisions for impairment losses.

INVESTMENT MARGIN

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

LEVEL OF PROVISIONS FOR LENDING TO THE PUBLIC IN STAGE 3

Provisions for impairment losses in Stage 3 as a percentage of gross lending to the public in Stage 3.

LIQUIDITY COVERAGE RATIO (LCR)

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

LOAN/DEPOSIT RATIO

Lending to the public divided by deposits from the public.

LOAN LOSS LEVEL

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

LOSS GIVEN DEFAULT (LGD)

LGD specifies the percentage of loss in an exposure, in the event of a default.

NET STABLE FUNDING RATIO (NSFR)

Available stable funding as a percentage of necessary stable funding.

OWN FUNDS (REPLACES CAPITAL BASE CONCEPT)

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

PAYOUT RATIO

Dividend per share as a percentage of earnings per share.

PROBABILITY OF DEFAULT (PD)

The probability that a counterparty or a contract will default within 12 months.

RETURN ON EQUITY AFTER TAXES (ROE)

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

RISK EXPOSURE AMOUNT

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

TIER 1 CAPITAL

Common equity Tier 1 (CET1) capital including certain loss-absorbing subordinated debentures ("additional Tier 1 capital").

TIER 2 (SUPPLEMENTARY) CAPITAL

Mainly subordinated debentures that do not meet requirements to be included as additional Tier 1 capital.

* Average of 13 end-of-month figures.

Stock exchange releases, 2020

JANUARY

January 2, 2020 Managers' Transactions (Wiklöf Holding Ab)

FEBRUARY

February 7, 2020 Year-end Report for the period January–December 2019

February 27, 2020 The 2019 Annual Report of the Bank of Åland Plc

February 28, 2020 Bank of Åland Plc's targeted share issues for implementation of the share savings programme for employees and the variable compensation system for members of the Executive Team and key individuals

February 28, 2020 Notice to convene the Annual General Meeting

MARCH

March 5, 2020 Managers' Transactions (Rauthovi)

March 6, 2020 Managers' Transactions (Eurell)

March 6, 2020 Managers' Transactions (Wiklöf)

March 6, 2020 Managers' Transactions (Mörn)

March 9, 2020 Managers' Transactions (Salonius)

March 9, 2020 Managers' Transactions (Johansson)

March 9, 2020 Managers' Transactions (Erikslund)

March 30, 2020 Managers' Transactions (Johansson)

March 31, 2020 Managers' Transactions (Eurell)

March 31, 2020 Managers' Transactions (Rauthovi)

March 31, 2020 Managers' Transactions (Wiklöf)

APRIL

April 1, 2020 The Board of the Bank of Åland Plc proposes that the decision on the dividend be postponed

April 1, 2020 Managers' Transactions (Salonius)

April 2, 2020 Decisions at the 2020 Annual General Meeting of the Bank of Åland Plc

April 7, 2020 The Bank of Åland's preliminary net operating profit for Q1 and revision of the earnings forecast for 2020 in light of the market situation

April 24, 2020 Bank of Åland Plc: Interim Report for the period January–March 2020

MAY

May 12, 2020 Notification of an application for the admission of a security to trading in a regulated market

JULY

July 17, 2020 Bank of Åland Plc: Half-Year Financial Report for the period January–June 2020

July 17, 2020 Bank of Åland Plc: Financial information and Annual General Meeting, 2021

OCTOBER

October 8, 2020 Bank of Åland's net operating profit for 2020 better or significantly better than 2019, plus preliminary results for Q3

October 22, 2020 On January 1, 2021, the Board of Directors intends to approve a dividend

October 22, 2020 Bank of Åland Plc: Interim Report for the period January–September 2020

October 29, 2020 Managers' Transactions (Lampi)

NOVEMBER

November 24, 2020 Managers' Transactions (Lampi)

DECEMBER

December 14, 2020 Managers' Transactions (Lampi)

December 17, 2020 Sofie Holmström new Executive Team member at Bank of Åland Plc

Address list

Bank of Åland Plc

Mariehamn

HEAD OFFICE

Street address: Nygatan 2

Postal address: PB 3

AX-22100 Mariehamn

Åland, Finland

Telephone +358 204 29 011

city@alandsbanken.ax

Finström

Von Knorringsvägen 1

AX-22410 Finström

Åland, Finland

Telephone +358 204 291 660

godby@alandsbanken.ax

Kumlinge

– cooperation with Åland Post

Kumlingeby

AX-22820 Kumlingeby

Åland, Finland

Telephone +358 18 636 772

aland@alandsbanken.ax

Kökar

– cooperation with Åland Post

Karlby

AX-22730 Karlby

Åland, Finland

Telephone +358 18 636 773

aland@alandsbanken.ax

info@alandsbanken.ax

www.alandsbanken.ax

Helsinki

Bulevardi 3

FI-00120 Helsinki, Finland

Telephone +358 204 293 600

bulevarden@alandsbanken.fi

PRIVATE BANKING

Yrjönkatu 9 A, 3rd floor

FI-00120 Helsinki, Finland

Telephone +358 204 293 600

private.banking@alandsbanken.fi

Tampere

Hämeenkatu 8

FI-33100 Tampere, Finland

Telephone +358 204 293 200

tammerfors@alandsbanken.fi

Vaasa

Hovioikeudenpuistikko 11

FI-65100 Vaasa, Finland

Telephone +358 204 293 300

vasa@alandsbanken.fi

Turku

Hansakortteli

Eerikinkatu 17

FI-20100 Turku, Finland

Telephone +358 204 293 100

abo@alandsbanken.fi

Parainen

Kauppiaskatu 24

FI-21600 Parainen, Finland

Telephone +358 204 293 150

pargas@alandsbanken.fi

Oulu

Kirkkokatu 17B, 16th floor

FI-90100 Oulu, Finland

Telephone +358 204 29 011

uleaborg@alandsbanken.fi

info@alandsbanken.fi

www.alandsbanken.fi

Stockholm

Stureplan 19

SE-107 81 Stockholm, Sweden

Telephone +46 8 791 48 00

bankkontoret@alandsbanken.se

Gothenburg

Kungssportsavenyen 1

SE-411 36 Gothenburg, Sweden

Telephone +46 31 333 45 00

goteborg@alandsbanken.se

Malmö

Carlskgatan 3

SE-211 20 Malmö, Sweden

Telephone +46 40 600 21 00

malmo@alandsbanken.se

info@alandsbanken.se

www.alandsbanken.se

ÅLANDSBANKEN FONDBOLAG AB

Mariehamn

PB 3

AX-22101 Mariehamn

Åland, Finland

Telephone +358 204 29 088

fond@alandsbanken.fi

CROSSKEY BANKING SOLUTIONS AB LTD

Mariehamn

HEAD OFFICE

Elverkskgatan 10

AX-22100 Mariehamn

Åland, Finland

Telephone +358 204 29 022

Helsinki

Gate8 Business Park – Piano

Äyritie 12A

FI-01510 Vantaa, Finland

Telephone +358 204 29 022

Turku

Lemminkäisenkatu 32

FI-20520 Turku, Finland

Telephone +358 204 29 022

information@crosskey.fi

www.crosskey.fi

Stockholm

Rådmansgatan 40

SE-113 58 Stockholm, Sweden

Telephone +46 8 791 49 00

information@crosskey.se

www.crosskey.se

